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Türkiye | 2Q24 GDP shows a clearer rebalancing

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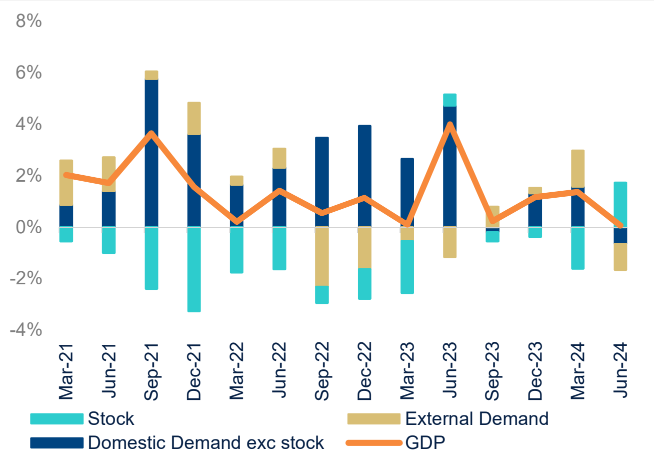
Turkish economy grew by 0.1% q/q and 2.5% y/y in 2Q24. Significant revisions in both 2023 and 1Q24 resulted in a moderation of the quarterly growth path with 0.1% growth in 2Q24 after 1.4% in 1Q24 (vs. 2.4% before revision) in contrast with our previous expectation of a mild contraction. The rebalancing in the economic activity has become clearer with a negative quarterly contribution from domestic demand excluding inventories, on the back of lackluster growth in private consumption and considerable worsening in investment. Looking ahead, our monthly GDP indicator nowcasts an annual growth rate of 2.6% in July and 2.4% in August, which overall points to a quarterly GDP contraction of nearly 0.4% q/q as of August. Considering the revised GDP path and continuing tighter financial conditions, we evaluate risks slightly to the downside for our 2024 GDP forecast of 3.5%. The New Medium Term Plan (MTP) to be released later this week will be key to see the Government growth targets on the pace of adjustment.

A clearer correction in domestic demand seen in 2Q24

There were notable revisions in both 2023 and 1Q24 GDP data: 2023 annual GDP growth was revised from 4.5% to 5.1%, driven largely by upward revisions in private consumption (+0.9pp) and downward revisions in public consumption (-2.8pp). On the other hand, 1Q24 GDP growth was revised downward to 5.3% y/y from 5.7% y/y, on the back of the downward revisions in private consumption (-0.5pp) and investment (-1.0pp) and upward revisions in public expenditures (1.6pp). Accordingly, the revised quarterly seasonal and calendar adjusted data showed a moderation of the quarterly growth path with 0.1% in 2Q24 after 1.4% in 1Q24 (vs. 2.4% before revision).

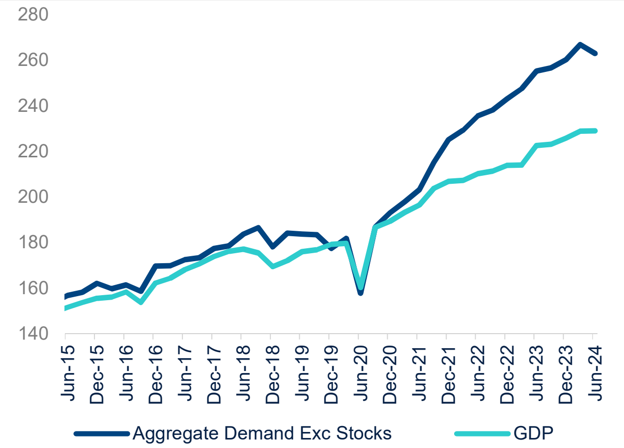
On the demand side, there was a negative quarterly contribution from domestic demand excluding inventories on the back of lackluster growth in private consumption and considerable worsening in investment (Figure 1). In quarterly terms, according to our calculations, investment expenditures pinned down quarterly GDP growth by 1pp (-4.1% q/q); while the external demand posted a negative contribution with around 1pp, led by weak export performance. Meanwhile, positive contribution from private consumption continued to weaken and stocks have been accumulated for the first time after 2019. Considering the contributions to the annual growth, the support from domestic demand including stocks declined significantly (1.2 pp vs. 3.7pp previously), while the support from external demand slightly moderated (1.3pp vs. 1.6pp prev.). Consequently, the positive gap between aggregate demand and supply has almost closed on annual GDP, leading to a mild negative contribution from inventories (-0.2pp in 2Q24 vs. -4.4pp previously).

Figure 1. **Contributions to GDP Growth via Expenditures** (Quarterly, pp)



Source: Garanti BBVA Research, TURKSTAT

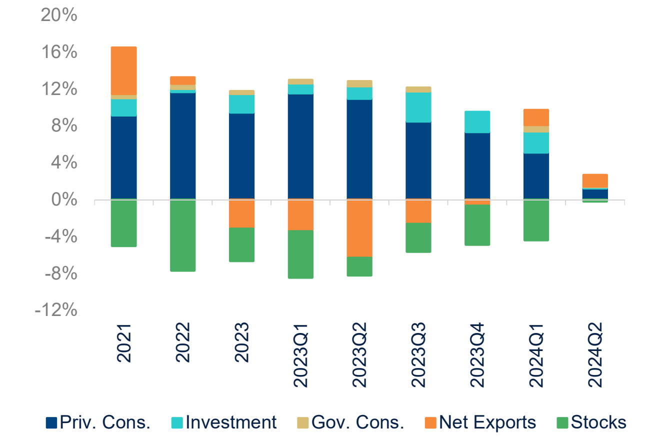
Figure 2. **Aggregate Demand vs. Aggregate Supply** (2009=100)



Source: Garanti BBVA Research, TURKSTAT

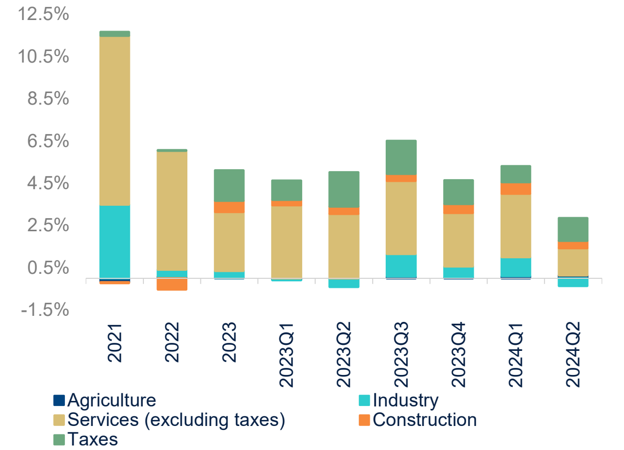
On the sectorial side, broad-based services excluding taxes (1.3pp) was the main contributor to annual growth. Industry (-0.4pp), particularly manufacturing (-0.5pp) pinned down the growth. Overall, sectorial data signaled the ongoing deterioration in production, which is likely to continue and spill over to 3Q24 as confirmed by the leading indicators: Manufacturing capacity utilization rate declined for the fifth time in a row in August with 0.2pp m/m, primarily led by the declining capacity in durable consumption goods and intermediate goods (75.8% in Jul-Aug vs. 76.6% in 2Q24). Manufacturing PMI remained in the contraction area with 47.8 in August (47.5 in Jul-Aug vs. 48.5 in 2Q24). The economic tendency survey shows that both domestic and export orders in the next 3 months continued to decrease, indicating a much challenging demand outlook in 3Q24. Last but not the least, economic confidence indices revealed an across-the-board deterioration on quarterly trends, as of August. On the other hand, construction sector maintained its contribution to growth, led by the recovery process after the last year's earthquakes. Therefore, there was an ongoing support from construction (8.0% y/y) on overall investment activity in 2Q24, while machinery & equipment investment (-5.6% y/y) as well as other investment (-5.1% y/y) contracted.

Figure 3. **Contributions to GDP Growth** (Annual, pp)



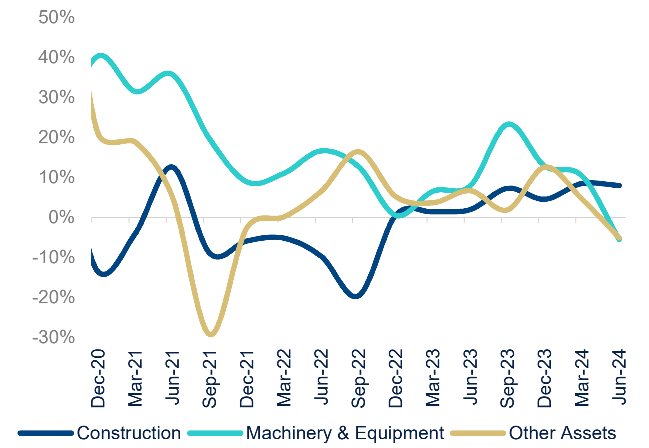
Source: Garanti BBVA Research, TURKSTAT

Figure 4. **Contributions to GDP Growth via Production** (Annual, pp)



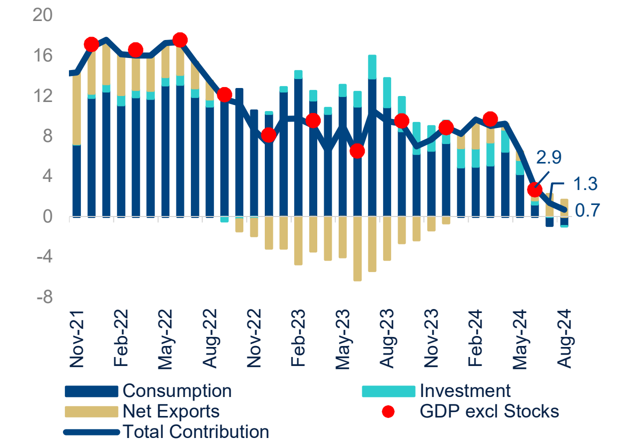
Source: Garanti BBVA Research, TURKSTAT

Figure 5. **Gross Capital Formation** (YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 6. **Garanti BBVA Monthly GDP Contribution** (Annual, pp, excluding public consumption)

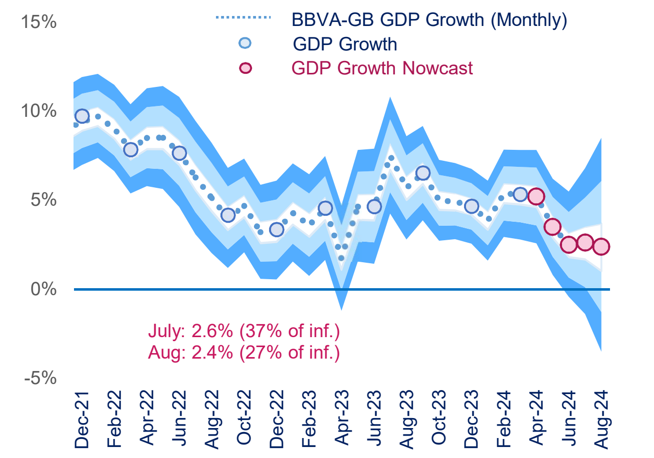


Source: Garanti BBVA Research, TURKSTAT

The beginning of the long and winding road to rebalancing

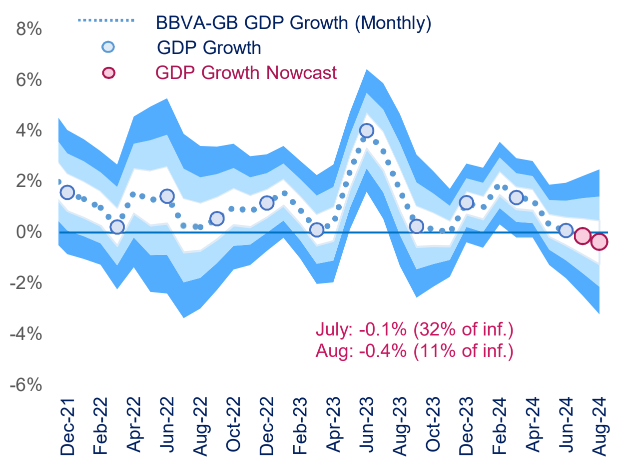
The rebalancing in economic growth turned out to be clearer in 2Q24 and we expect the adjustment to become deeper in 3Q24. Our monthly GDP indicator nowcasts an annual growth rate of 2.6% in July (37% of information) and 2.4% in August (27% of information), which overall points to a quarterly GDP contraction of nearly -0.4% q/q as of August. In addition to the leading indicators pointing to a continued correction in economic activity in 3Q24, we expect tighter financial conditions coupled with restrictive monetary policy to maintain the rebalancing in favor of exports, as also confirmed by our GDP demand subcomponents. Considering the revised GDP path and continuing tighter financial conditions, we evaluate risks slightly to the downside for our 2024 GDP forecast of 3.5%. New Medium Term Plan (MTP) to be released later this week will be key to see the Government growth targets on the pace of adjustment. The magnitude of the expected fiscal consolidation will be decisive about the medium term outlook and the disinflation process.

Figure 7. **Garanti BBVA Monthly GDP Nowcast** (3-month average, YoY)



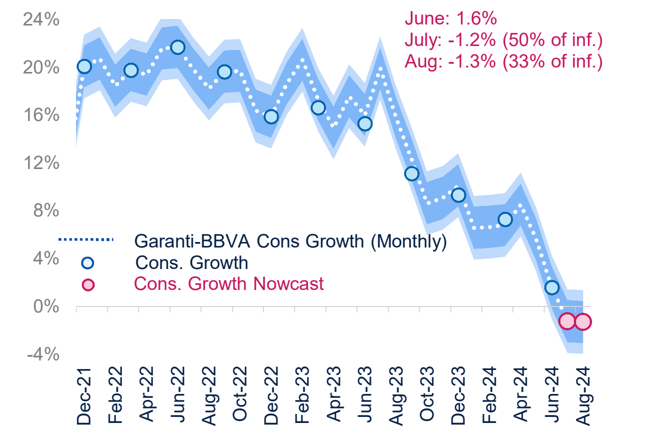
Source: Garanti BBVA Research, GBTRGDPY Index in BBG

Figure 8. **Garanti BBVA Monthly GDP Nowcast** (3-month average, QoQ)



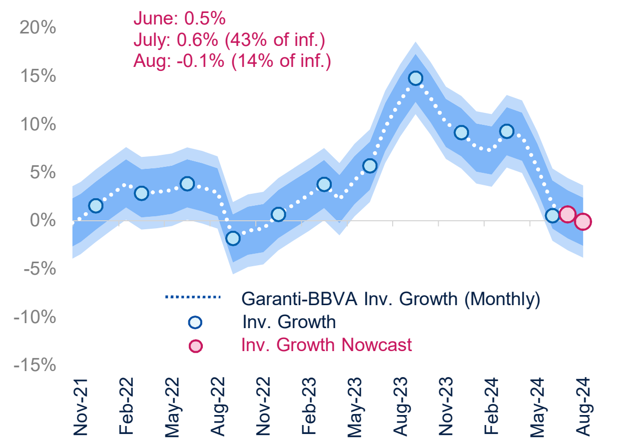
Source: Garanti BBVA Research, TURKSTAT

Figure 9. **Garanti BBVA Monthly Consumption GDP Nowcast** (3-month average, YoY)



Source: TURKSTAT, Garanti BBVA Research, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 10. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average, QoQ)



Source: TURKSTAT, Garanti BBVA Research, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

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