Creating Opportunities

Türkiye | The economy grew by 3.2% in 2024

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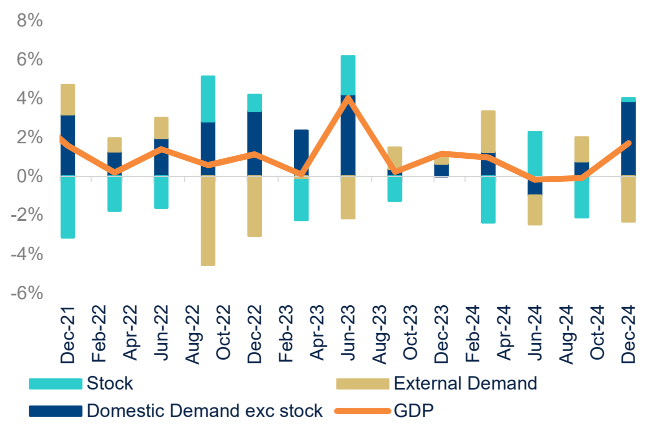
Turkish economy grew by 3.0% y/y in 4Q24 in line with our expectation but slightly higher than the consensus (2.5%), leading to an overall GDP growth of 3.2% in 2024. Seasonal and calendar adjusted quarterly GDP growth accelerated to 1.7% after the limited contractions in the previous two quarters. On production, albeit recovering to a positive contribution, industrial value added remained subdued; construction activity was supportive and most of the contribution came from services and taxes. The contribution of net exports to GDP growth turned to negative in 4Q24, while domestic demand surged driven by mainly consumption. Leading activity indicators show only a limited loss of momentum for 1Q25, with some indicators in industry such as capacity utilization and PMI demonstrate worsening conditions, whereas confidence indicators in other sectors still indicate a recovery. The demand side indicators reflect a further pick-up in the presence of ongoing ease in financial conditions and acceleration in credit growth beyond caps, particularly credit card expenditures. Although the heightening protectionism triggered by trade tariffs could pose downside risk on global growth, current strong momentum, likelihood of lower real rates than we previously expected and delayed fiscal consolidation exert upside risks on 2025 GDP growth, which we will likely upgrade above 3%.

Strong acceleration in growth with ongoing imbalance in demand and supply

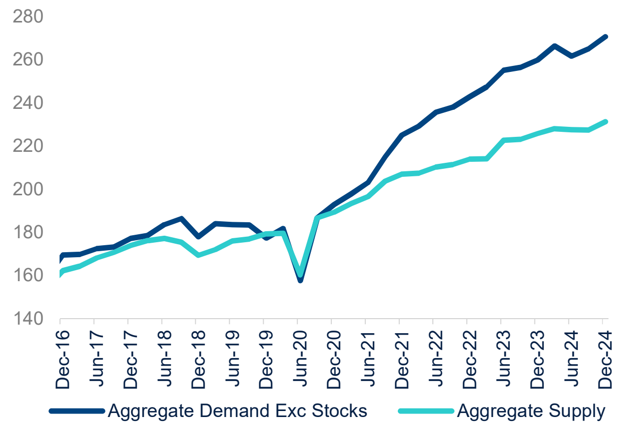
The economy grew by 1.7% q/q in 4Q24, after two consecutive quarters of contraction, and posted a 3.2% growth in 2024 (5.1% y/y in 2023). If 2024 is considered as a whole, thanks to the return to orthodox economic policies, the contribution of domestic demand excluding stocks declined to 3.9pp from 11.8pp in 2023, while the contribution of net exports increased to 1.1pp from -3.1pp. Private consumption grew by 3.7% and investment expenditures rose by 3.9% y/y in 2024, mainly led by construction (9.0% y/y); however, machinery and equipment investment remained in contractionary territory, decreasing by 0.3% y/y. Government consumption moderately grew by 1.2% in 2024, resulting in 2.1pp contribution from domestic demand with 1.8pp subtraction of stocks from growth.

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



Source: Garanti BBVA Research, TURKSTAT

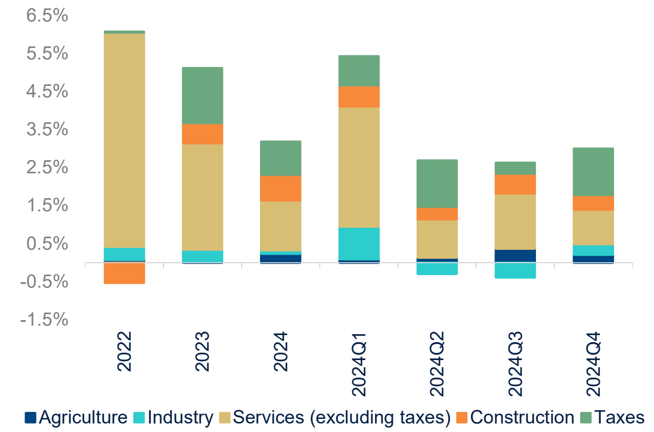
Figure 2. **Aggregate Demand vs. Aggregate Supply** (Level, seas. & cal. adj., 2009=100)



Source: Garanti BBVA Research, TURKSTAT

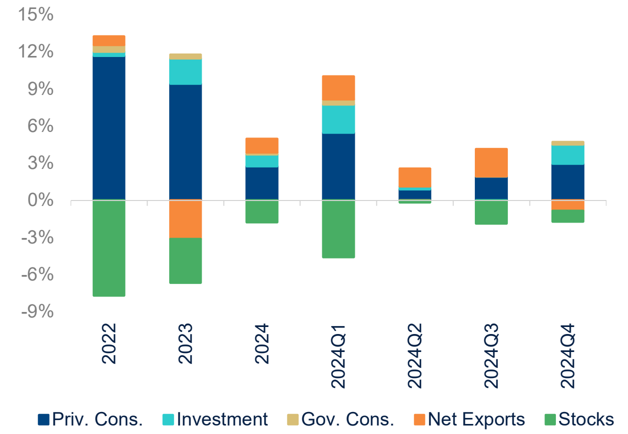
On the other hand, the trend in favor of net exports has reversed in 4Q24. The imbalance between aggregate demand and supply deepened, as the leading role of the monetary policy with macroprudential policies such as credit growth caps proved insufficient under strong real appreciation and unanchored inflation expectations to exert enough pressure on private consumption, which gained pace and remained relatively strong. On quarterly basis, aggregate demand improved, driven by domestic demand (3.9pp); while external demand contributed negatively to quarterly GDP growth (-2.3pp). Private consumption grew by 4.3% q/q after two consecutive quarters of contraction, while investment expenditures increased by 3.9% q/q. On investment, particularly, construction continued its ongoing year-over-year growth, while machinery & equipment investments and other assets gained momentum and returned to positive growth in 4Q24 after two quarters of annual contraction. In contrast to the previous quarter, net exports contributed negatively to GDP, as the exports declined significantly (-3.3 q/q) on weak foreign demand and ongoing real appreciation, while imports increased (5.2% q/q) due to the recovery in domestic demand and the rise in demand for golds and jewellery.

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



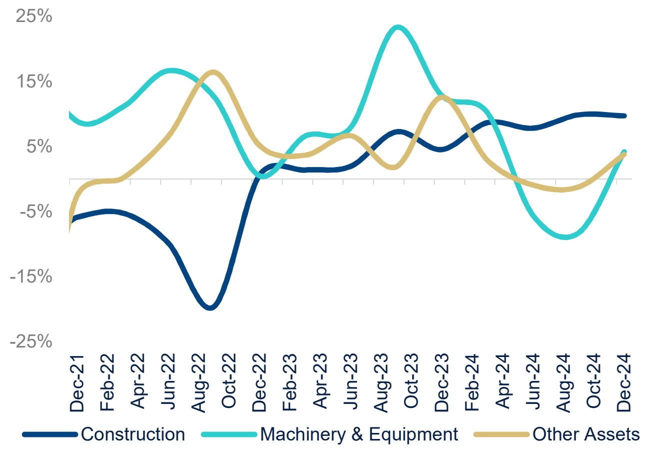
Source: Garanti BBVA Research, TURKSTAT

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



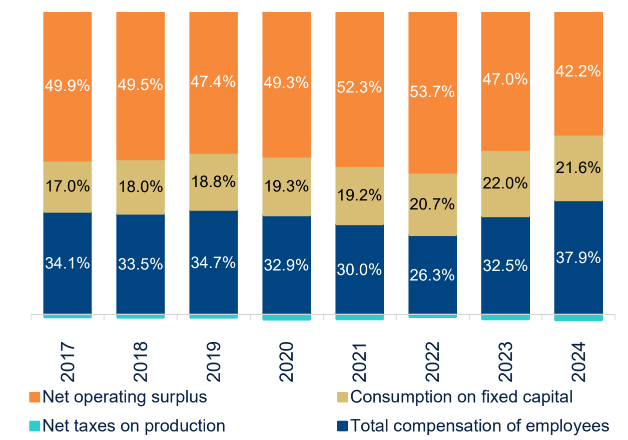
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

Figure 6. **Shares in Gross Value Added** (%)



Source: Garanti BBVA Research, TURKSTAT

On production front, the recovery in domestic demand on top of some loosening in financial conditions led supply to recover across all sectors. On a quarterly basis, construction, industry, services and agriculture sectors grew by 2.8%, 2.6%, 1.1%, and 1%, respectively. On annual basis, industry (0.3pp) contributed positively to annual growth in 4Q24 after two consecutive quarters of contraction; while services (0.9pp), construction (0.4pp) and agriculture (0.2pp) continued to make positive contributions together with taxes (1.2pp). For the whole of 2024, the total contribution of industry and agriculture to growth remained very low (0.3pp), while services and constructions sectors contributed 1.3pp and 0.7pp, respectively. The support from taxes was again high with 0.9pp in 2024.

On income front, the share of wages in value-added continued to rise in 2024, having gradually improved in each quarter of the year and reached 37.9%. The nominal GDP has risen to above $US1.3trn also fueled by the real appreciation, which brought per capita income to $US15,450 in 2024 (with 61% increase with respect to 2021).

Activity outlook in 2025 becomes stronger than we previously expected

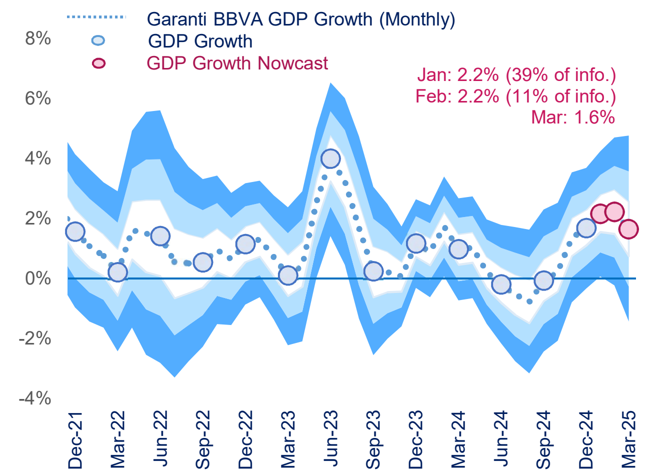
4Q24 growth realization confirmed our expectations of recovery in activity. Easing financial conditions, accelerating credit growth trend on top of credit cards and exceptions beyond the monthly loan growth caps, continuing fiscal impulse in cash deficit indicate that demand-driven growth may continue in 1Q25. Our monthly GDP indicator nowcasts point to a further recovery in growth with 2.2% q/q in February, implying 3.4% annual GDP growth (Figure 7 & 8). However, noting the limited availability of data for 1Q25 and the strong carry impact of December, our nowcast results should be taken into account with caution. Depending on the upcoming data in March, quarterly GDP growth might be milder at nearly 1-1.5% q/q in 1Q25.

Leading activity indicators show only a limited loss of momentum for 1Q25, with some indicators in industry such as capacity utilization and PMI demonstrate worsening conditions, whereas confidence indicators in other sectors still indicate a recovery. The manufacturing capacity utilization rate (at 74.9% in February) remained below its long term average and its quarterly trend fell below the level in 4Q24. Meanwhile, the manufacturing PMI declined further to 48.0 in Jan25 (vs. 49.1 prev.), remaining in the contractionary area. On the other hand, sectorial confidence indices as of February signaled an additional improvement in quarterly trends. Our common factor derived from the confidence indicators, exhibiting a high correlation with GDP, point to the ongoing pick-up in activity in 1Q25 but with a possible deceleration in March since the positive impact of December data will fade away (Figure 9). Furthermore, intermediate goods imports excluding gold rose by 3.1% in 1Q25 (vs. 5.3% q/q in 4Q24), confirming the recovery with some loss of momentum in supply side (Figure 11).

The demand side indicators reflect a further pick-up in the presence of ongoing ease in financial conditions and acceleration in credit growth beyond caps, particularly credit card expenditures. Consumption indicators suggest that private consumption growth could accelerate further in 1Q25, which is also confirmed by our big data indicators on consumption picking up pace in both goods and services. Also, consumption goods imports excluding jewellery confirming this trend, rose by 5.5% q/q in January. Strong domestic demand maintain the import growth, while weak foreign demand on top of real currency appreciation leads exports to remain subdued. As a result, the negative contribution from net exports to GDP growth recorded in 4Q24, could deepen further in 1Q25. Overall, we estimate increasing positive contribution from consumption (3.9pp) and investment (2.6pp) to annual GDP growth in 1Q25, while net exports could pull down the GDP growth by 1.6pp (Figures 15-18).

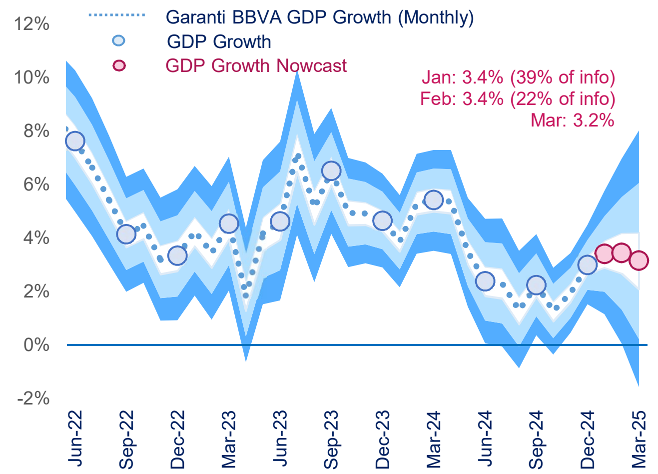
Current developments unfortunately indicate that the imbalance between demand and supply persists. According to our calculations, the output gap is no longer deepening further, instead recovering and approaching zero (Figure 12). This contrasts with the output gap projections of the Central Bank (CBRT) and suggests that the demand conditions started to pose upward risks to the disinflation path.

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



Source: Garanti BBVA Research, GBTRGDPY Index in Bloomberg
*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

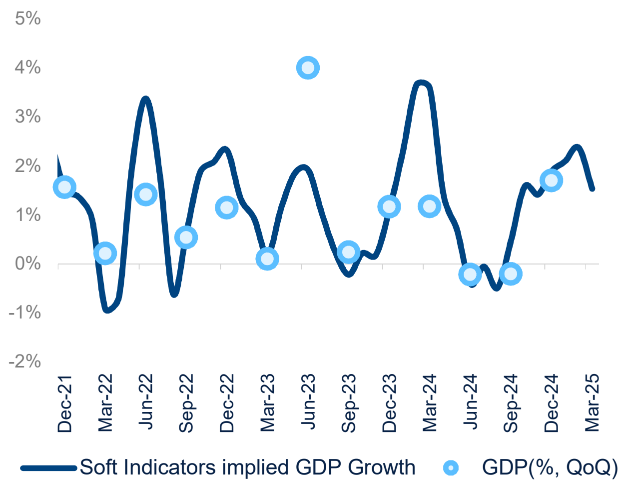
Figure 8. **Garanti BBVA Monthly GDP Nowcast*** (3-month average YoY)



Source: Garanti BBVA Research, GBTRGDPY Index in Bloomberg

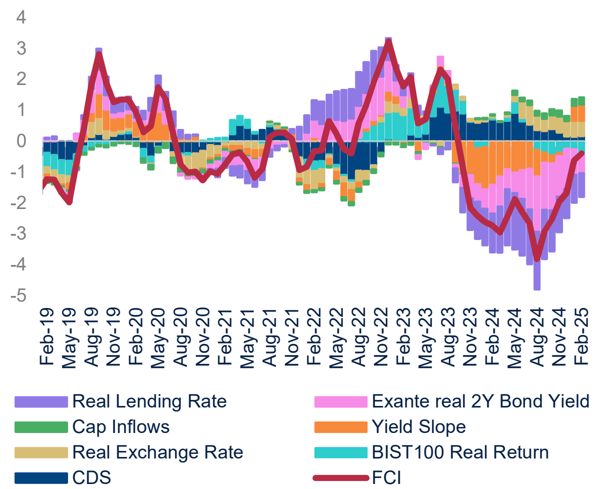
Overall, GDP growth dynamics could remain strong, fueled by the revival in private consumption on top of high inflation expectations, easing financial conditions and spending availability. The CBRT is likely to continue rate cuts in a data-dependent manner, resulting in real interest rates at lower levels than our earlier expectations. Finally, the cash fiscal deficit is likely to keep fiscal impulse in early 2025, as signaled by high accrual-basis deficit recorded in December. Therefore, the expected fiscal consolidation may not be observed clearly until 2H25. Although the heightening protectionism triggered by trade tariffs could pose downside risk on global growth, current strong momentum, likelihood of lower real rates than previously expected and delayed fiscal consolidation may exert upside risk on GDP growth, which we will likely upgrade above 3% for 2025. Last but not the least, with increasing upside risks on growth, inflation outlook could become even more challenging, considering high inflation expectations. In particular, if the monetary policy easing cycle continues, credit growth caps may remain in place for longer with the possibility of tighter credit growth caps except for SMEs. Also, we do not rule out that the CBRT may rely on even stronger real appreciation to contain inflationary pressures under the current circumstances.

Figure 9. **Soft Indicators Common Factor vs. GDP Growth**



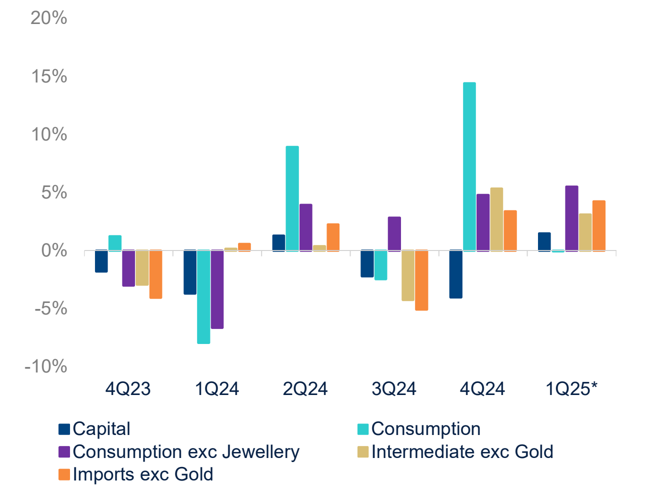
Source: TURKSTAT, Garanti BBVA Research

Figure 10. **Garanti BBVA Financial Conditions Index** (standardized, + easing, - tightening)



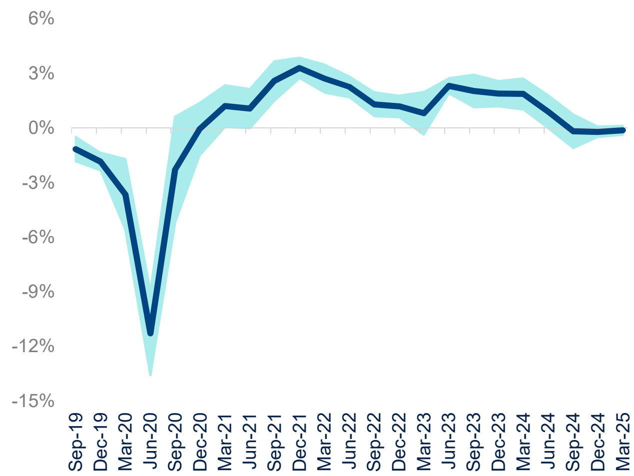
Source: CBRT, Bloomberg, Garanti BBVA Research

Figure 11. **Import Sub-Components Volume** (QoQ, seasonal and cal. adj.)



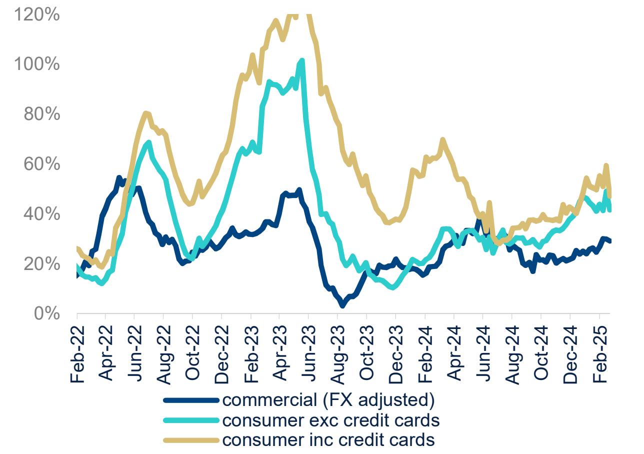
Source: TURKSTAT, Garanti BBVA Research, *1Q25 as of Jan25

Figure 12. **Garanti BBVA Output Gap** (% deviation from potential GDP)



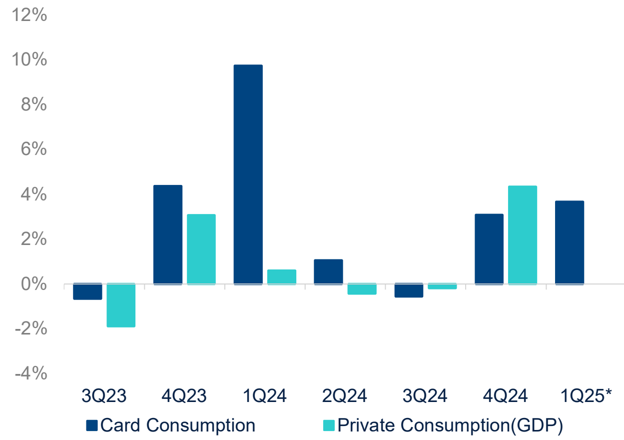
Source: TURKSTAT, Garanti BBVA Research

Figure 13. **Credit Growth by Segments** (13week avg, annualized, %)



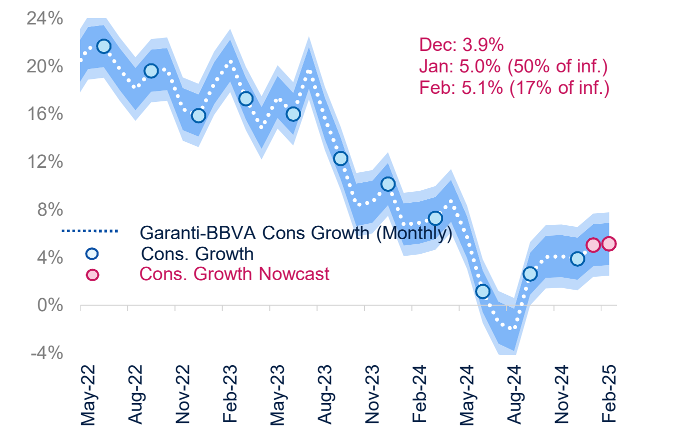
Source: BRSA, Garanti BBVA Research

Figure 14. **Card Consumption vs Private Consumption** (QoQ, %, seasonal and cal. adj.)



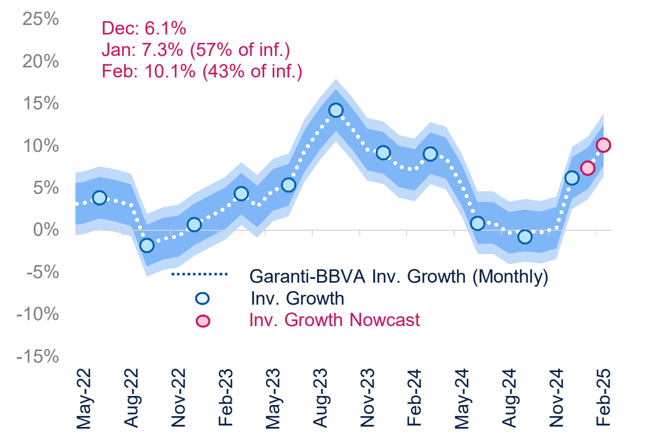
Source: CBRT, Garanti BBVA Research, *1Q25 as of Feb25

Figure 15. **Garanti BBVA Monthly Consumption GDP Nowcast** (3-month average YoY)



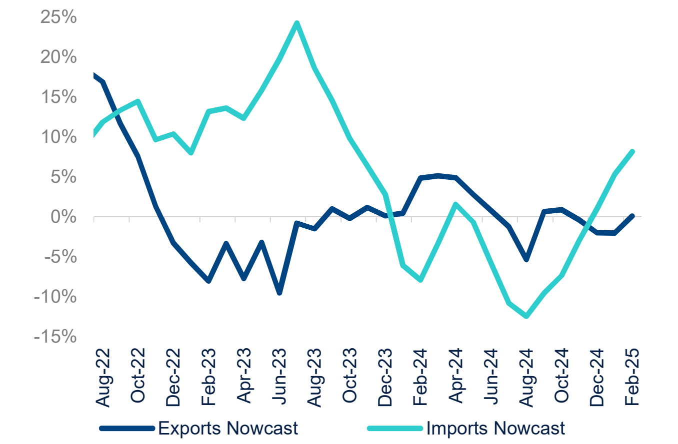
Source: TURKSTAT, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 16. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average YoY)



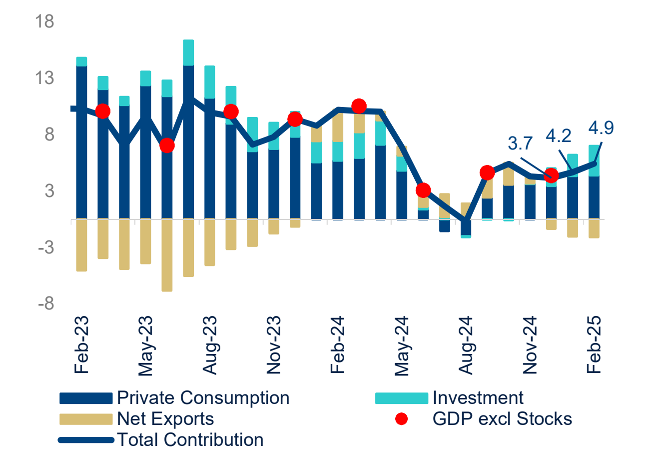
Source: TURKSTAT, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 17. **Garanti BBVA Exports & Imports Monthly GDP Nowcast** (3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

Figure 18. **GDP Demand Sub-Components** (contribution to annual GDP, pp)



Source: TURKSTAT, Garanti BBVA Research

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