Türkiye | The economy grew by 4.5% in 2023

Adem Ileri / Tugce Tatoglu / Gul Yucel

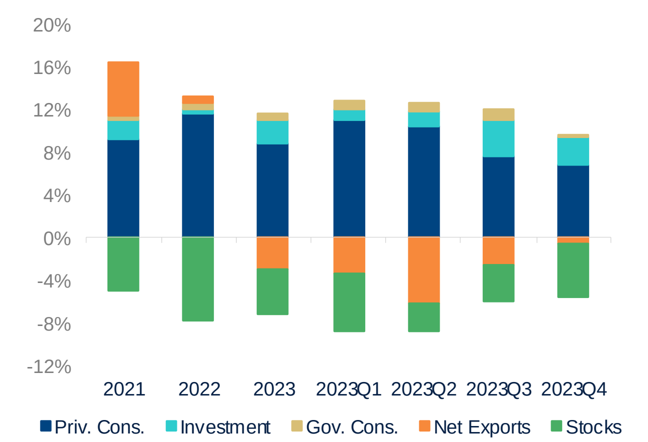
29 February 2024

Turkish economy grew by 4.0% y/y in 4Q23 above both our expectation and market consensus (3.6%), leading to an overall GDP growth of 4.5% in 2023. Seasonal and calendar adjusted GDP growth accelerated to 1.0% from 0.3% in 3Q23; yet its composition was unevenly distributed since construction value-added was the main contributor while the industrial output contracted. Private consumption continued to boost domestic demand, slowing down the needed rebalancing in the economy. Nonetheless, the negative impact from net exports kept gradually weakening. Our monthly GDP indicator nowcasts an annual growth rate of 5.1% in March 2024, led by favorable base effects, continuing fiscal impulse and inadequate tightness of financial conditions to suppress still solid private consumption. We maintain our 2024 GDP growth forecast of 3.5%, for which we envisage pre-election fiscal impulse and expected capital inflows will be supportive.

Robust demand in 2023 but gradual rebalancing composition in favor of net exports

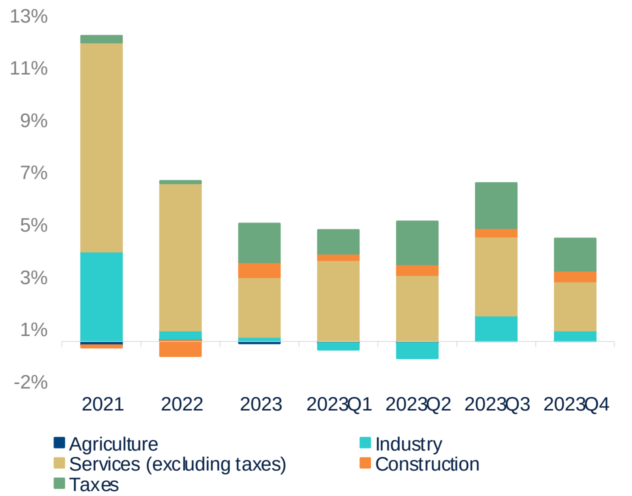
On the expenditures side, the contribution of domestic demand continued to decelerate in 4Q23, while the negative impact from net exports weakened. The domestic demand (excluding stocks) contributed 9.6 percentage points (pp) to annual growth in 4Q23, led by the private consumption (6.7pp) and investment (2.6pp). Private consumption accelerated by 3.6% q/q after contracting by 1.7% in 3Q23, which resulted in an annual growth of 9.3% despite strong base effects. However, investment contracted by 0.8% q/q (vs. +4.9% qoq in 3Q) but still rose by 10.7% y/y on top of both construction (7.5% yoy) and machinery (14% yoy). Following the strong performance recorded until the last quarter of 2023, mainly supported by the expansionary policies before the elections and earthquake spending, the government expenditures lost momentum significantly by contraction 4.3% q/q in 4Q23, which led its annual growth to materialize as 1.7%. The good news is that net exports contribution to GDP recovered from -2.6pp in 3Q23 to -0.6pp in 4Q23 thanks to the higher quarterly contraction in imports (-3.9% q/q) after the increase in the last consecutive 6 quarters on the back of the gradual deceleration in domestic demand. Since the aggregate demand remained stronger than supply, the negative contribution of stocks (-5pp in 4Q23) was maintained in the last 13 quarters.

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



Source: Garanti BBVA Research, TURKSTAT

Figure 2. **Contributions to GDP Growth via Production** (Annual, pp)

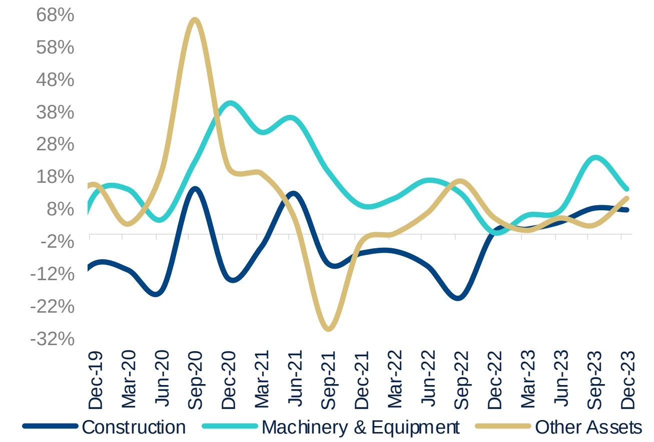


Source: Garanti BBVA Research, TURKSTAT

On the sectorial side, all sectors contributed positively to production on annual basis in 4Q23 as broad services sector (1.9pp) and taxes minus subsidies (1.2pp) took the lead, while contribution from construction and industry were 0.5pp and 0.4pp, respectively. On the other hand, the contribution of the agricultural sector remained very limited (0.02pp). Despite the quarterly acceleration by 1% (vs. 0.3% q/q in 3Q), sectorial data signaled a worsening outlook in production decomposition as the support came from mainly taxes/subsidies and construction (6.5% q/q). There was a limited contribution from the services sector while the industry contracted (-0.9% q/q) and agriculture (0.1% q/q) remained only stable.

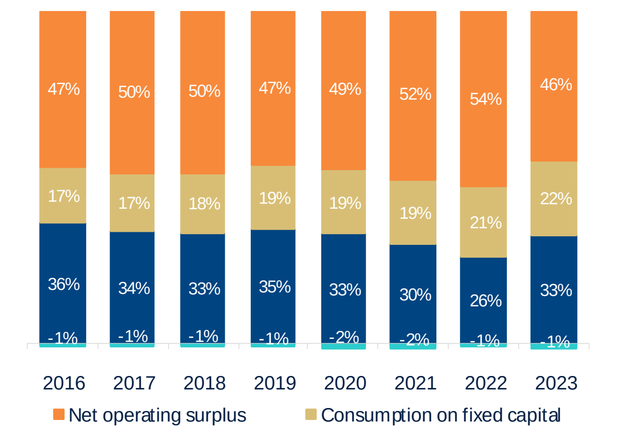
Considering the yearly performance of the economy, domestic demand supported the growth with 7.6pp contribution on the back of mainly strong private consumption (8.8pp vs. 11.7pp in 2022), followed by investment expenditures (2.2pp) and government consumption (0.7pp). The details of gross fixed capital formation showed an increase in investment in both machinery-equipment (12.9% y/y vs. 9.6% y/y in 2022) and construction (5.3% y/y vs. -9.1% y/y in 2022). The contribution from the external demand switched to the negative territory in 2023 (-3.1pp), since exports contracted (-2.7% y/y vs. 9.9% y/y in 2022) on the back of weak foreign demand and imports accelerated (11.7% y/y vs. 8.6% y/y in 2022) due to the stong domestic demand. Overall, the economy continued to grow above its potential in 2023 with 4.5%, led by expansionary policies and low cost of borrowing in 1H23 favoring mostly private consumption. As a result of aggregate demand being stronger than aggregate supply, the inventories continued their depletion (-4.1 pp), though not as much as they did in 2022 (-7.7pp, the historically highest depletion).

Figure 3. **Gross Fixed Capital Formation** (%, y/y)



Source: Garanti BBVA Research, TURKSTAT

Figure 4. **Shares in Gross Value Added** (%)



Source: Garanti BBVA Research, TURKSTAT

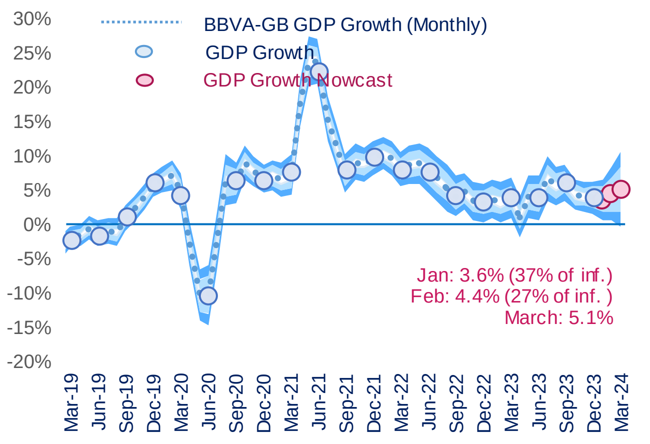
Analyzing the production side, the total contribution from the agricultural sector was almost zero in 2023, while the contribution from the industry declined slightly (0.2pp vs. 0.3pp in 2022). The contribution from the construction sector switched to the positive territory (0.6pp) on the back of the reconstruction efforts in the quake regions. On the other hand, the contribution from the broad-based services sectors decelerated in 2023 (2.3pp vs. 5.6pp in 2022), with the highest loss recorded in trade, transportation and accommodation (1.5pp vs. 2.9pp in 2022). Taxes minus subsidies contributed 1.5pp to growth in 2023.

Last but not the least, the share of wages in value added increased to 33% in 2023 (26% in 2022) after the strong adjustment in wages but still remained below the level between 2015 and 2020, showing limitedly improving conditions in favor of the employees. GDP per capita in US dollars increasing from 10,659 in 2022 to 13,110 in 2023.

We expect GDP growth to materialize as 3.5% in 2024

Despite the upsurge in geopolitical tensions, tighter global financial conditions, slowdown in global economic activity and the negative impact of the quakes, the Turkish economy managed to grow by 4.5% in 2023 on the back of expansionary monetary and fiscal polices, particularly in the first half of 2023. Our monthly GDP Indicator nowcasts an annual growth rate of 3.6% in January (37% of info.), 4.4% in February (27% of info.) and 5.1% in March 2024, most likely led by favorable base effects, the continuing fiscal impulse and inadequate tightness of financial conditions to suppress still solid private consumption. Given our expectation of a strong pre-election fiscal impulse and an acceleration in capital inflows in 2H24, we maintain our GDP growth forecast of 3.5% for 2024. If post-election policies become more restrictive, we will evaluate risks on our short term GDP growth forecasts.

Figure 5. **Garanti BBVA Monthly GDP Nowcast** (3-month average YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 6. **Garanti BBVA Financial Conditions Index** (standardized, + easing, - tightening)

Source: Garanti BBVA Research, TURKSTAT

BBVA Research

Creating Opportunities

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA on its website www.bbvaresearch.com.

ENQUIRIES TO:
Garanti BANKASI A.Ş. Nispetiye Mah. Aytar Cad. No:2 34340 Levent Beşiktaş İstanbul.
Tel.: +90 212 318 18 18 (ext 1064)
bbvaresearch@bbva.com www.bbvaresearch.com