

Türkiye | A mild recession as of 3Q24

Ali Batuhan Barlas / Adem Ileri / Berfin Kardaşlar / Gül Yücel
29 November 2024

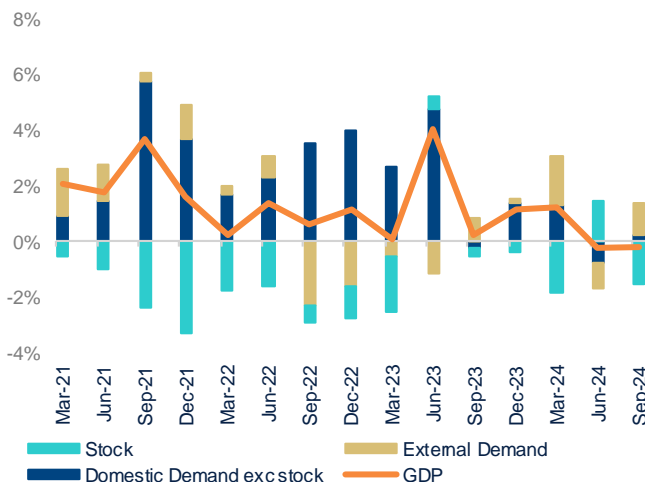
The Turkish economy entered a mild recession as of 3Q24 after contracting 0.2% q/q for two consecutive quarters. GDP grew by 2.1% y/y in 3Q24, resulting in a year-to-date annual growth of 3.2%. On the supply side, industry and services sectors contracted, while the construction and agriculture sectors grew on a quarterly basis. Meanwhile, despite the limited quarterly retreat in private consumption, the change in demand composition in favor of investment and net exports could be considered as a positive development. Nevertheless, aggregate demand, excluding stocks, still remained stronger than supply. Leading indicators suggest a slight recovery in 4Q24, as our monthly GDP indicator points to an annual growth of around 2.3% as of November, signaling a weak positive quarterly growth. Based on the current momentum, we expect GDP growth to reach nearly 3% in 2024. Yet, the rise in geopolitical risks and potential protectionist policies could weigh on near term growth on the downside. While the expected easing cycle of the monetary policy could be supportive, the fiscal policy may need to be calibrated, not only to combat inflation but also to address potential external risks. In our revised November baseline, we have slightly revised our 2025 GDP growth forecast to 2.5% from 2.7%.

Supply conditions remained weaker than demand conditions

Tight financial conditions on top of restrictive monetary policy and credit growth caps continue to put downward pressure on the production, while the desired rebalancing on the demand side has yet to materialize. Even though the Turkish economy entered a mild recession by contracting by 0.2% q/q in 3Q24, following a similar decline of 0.2% q/q in 2Q24 (vs. 0.1% prior to the revision), demand conditions remained relatively strong.

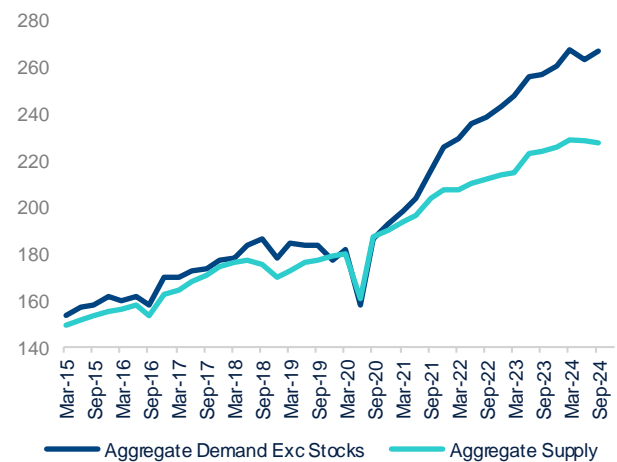
Private consumption and government consumption contracted by only 0.3% q/q and 0.4% q/q respectively, contrary to our expectations of a deeper decline; while investment expenditures grew by 2% q/q. Exports increased by 3.6% q/q despite weak external demand, whereas imports contracted by 1.6% on the back of subdued domestic demand. On annual basis, private consumption remained notably resilient compared to the previous year, contributing a substantial 2.2 pp to the annual GDP growth. In the presence of still robust private consumption, the imbalance between demand and supply remains in 3Q24, in contrast with our previous expectations of a slight narrowing down. As a result, the stocks continue to be depleted in 3Q24 with a negative contribution of 2pp to annual 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)



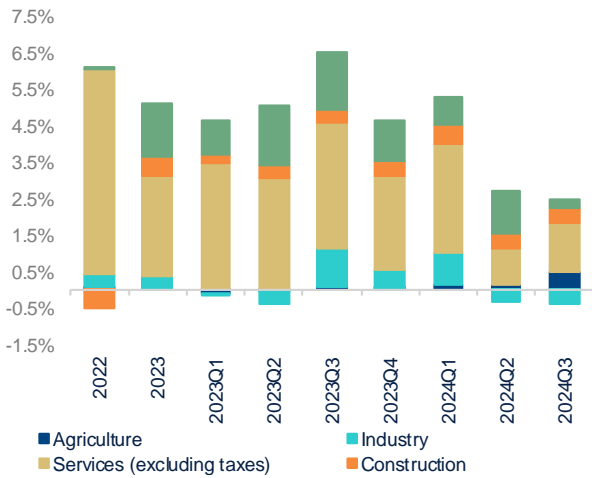
Source: Garanti BBVA Research, TURKSTAT

On the investment side, we observe that the ongoing growth in construction (9.4% y/y) supports the gross fixed capital formation, while machinery & equipment (-8.6% y/y) and other assets (-5.5% y/y) demonstrate a sharp downturn.

On the sectorial front, industry (-0.8% q/q) and broad-based services (-0.2% q/q) contributed negatively to growth in 3Q24. Meanwhile, positive contributions from construction (1.5% q/q) and agriculture (0.8% q/q) sectors prevented a deeper downturn on quarterly trends. Similarly, agriculture (+0.46 pp) and construction (+0.43 pp) were the key contributors to the annual growth, expanding by 4.6% y/y and 9.2% y/y, respectively. On the contrary, the industrial sector contracted by 2.2% y/y, pulling GDP growth down by 0.4pp. The services sector including trade, transportation and accommodation experienced a slowdown with 1.4% y/y growth but still contributed 0.3 pp to annual growth. On the other hand, the broad-based services sector excluding taxes accounted for a full 1.3 pp of GDP growth (up 2.1% y/y) in 3Q24.

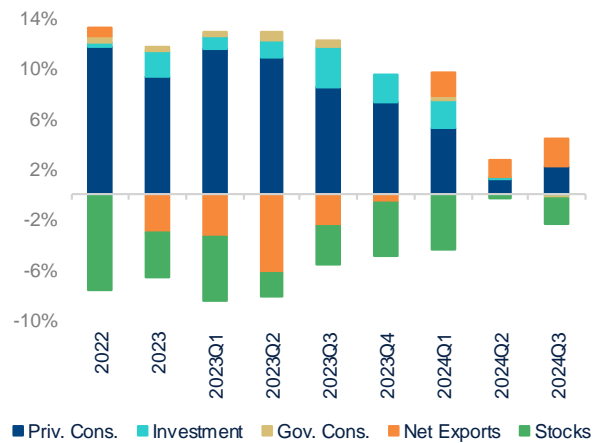
Finally, the share of wages in value added rose further to 37.6% showing a very limited improvement in favor of employees compared to 2Q24.

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



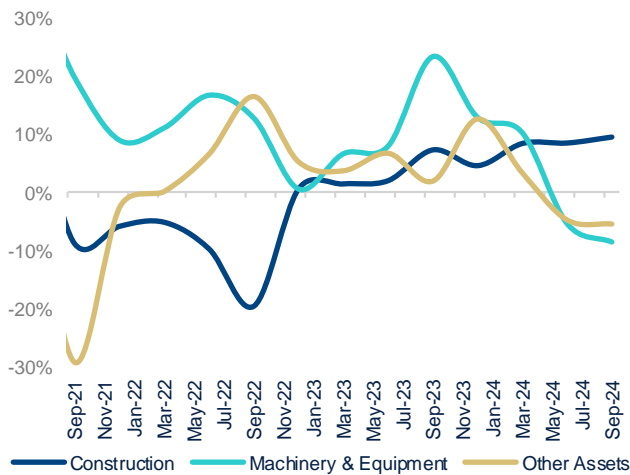
Source: Garanti BBVA Research, TURKSTAT

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



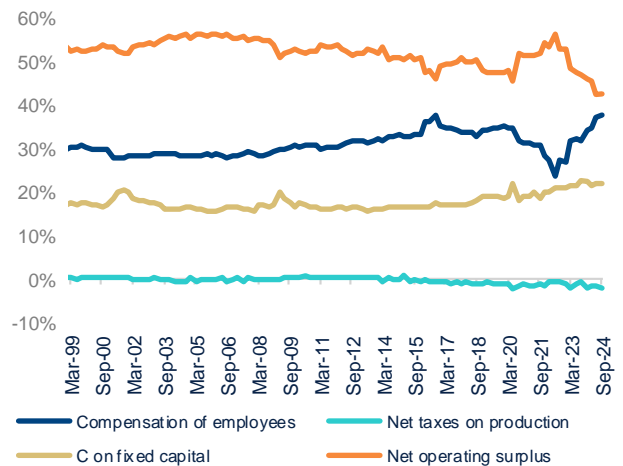
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

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

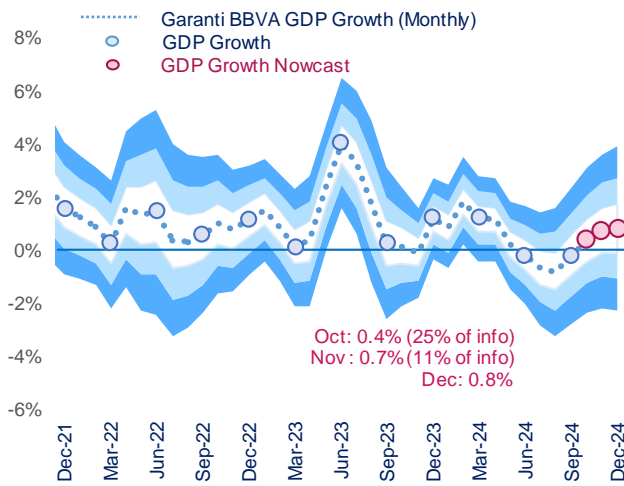


Source: Garanti BBVA Research, TURKSTAT

Increasing external risks would require an effective policy mix

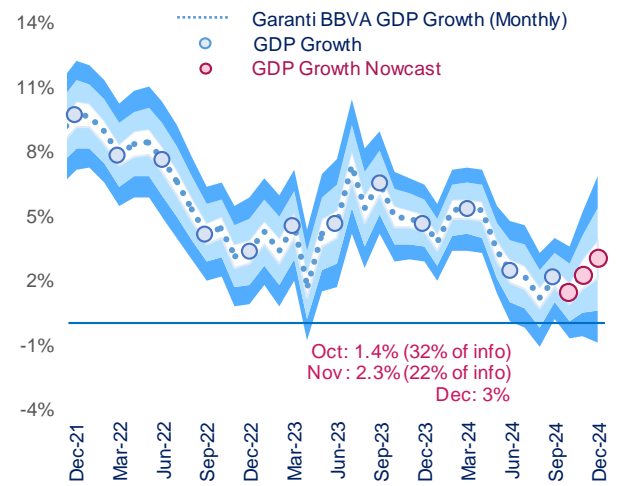
The data confirmed our expectation of the continuation of weak production, mostly driven by industry; while other sectors prevent a further deterioration. Leading indicators point to a slight recovery in 4Q24, but still suggesting that the output gap becomes further negative, helping the disinflation process. On the expenditure side, demand conditions remained stronger than supply in 3Q24, the positive support from investment and net exports reflected a desirable composition for rebalancing. [As noted in our recent activity report](#), demand conditions may continue to outpace supply conditions in the last quarter. Therefore, to maintain the rebalancing in the economy, financial conditions -which have recently eased slightly- need to remain tight. Accordingly, while the easing cycle is expected to begin soon, monetary policy should maintain its tight stance. Additionally, fiscal consolidation will be a decisive factor in combating inflation next year. On the other hand, protectionist policies and rising geopolitical risks are downside risks to growth. Therefore, fiscal policy might be required to be effectively calibrated throughout 2025 in order to not only support disinflation but also to ensure a soft landing for economic activity. Under these assumptions, we have slightly revised our 2025 GDP growth forecast to 2.5% from 2.7%. The effectiveness of the policy mix on demand conditions will be a key determinant for both growth and inflation outlook.

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



Source: Garanti BBVA Research, GBTRGDY Index in Bloomberg

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



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

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.bbva.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

