

## Macro note – 2024 3<sup>rd</sup> Quarter GDP Growth

**Turkish economy grows by 2.1% yoy in the third quarter, while the quarterly contraction is realized as 0.2%. After two consecutive quarters of contraction, the economy is technically in the recession zone.**

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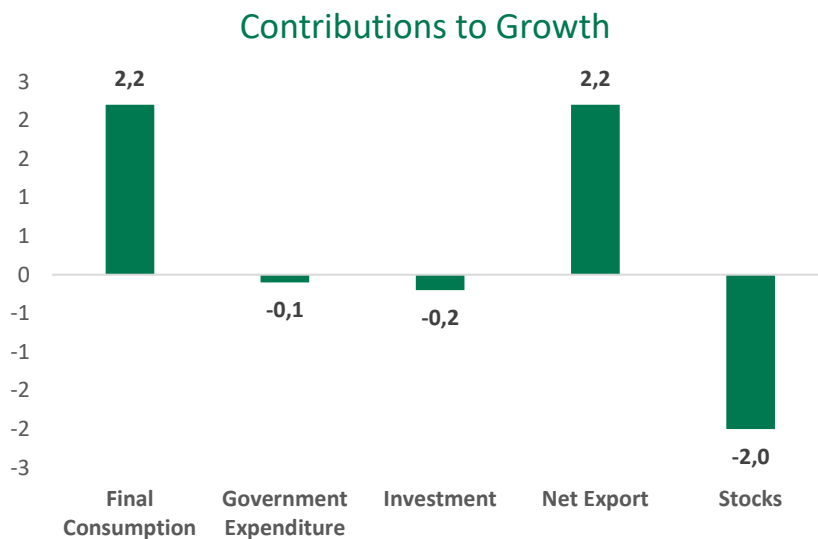
According to the growth data released by Turkstat, the Turkish economy grew by 2.1% yoy in the third quarter of the year (Market Expectation 2.4% and Seker Investment expectation 2.6%). The seasonally- and calendar-adjusted GDP chained volume index decreased by 0.2% compared to the previous quarter. The calendar-adjusted GDP chained volume index increased by 1.9% in the third quarter of 2024 compared to the same quarter of the previous year. In the third quarter of 2024, GDP at current prices increased by 53.3% compared to the same quarter of the previous year and reached 11 trillion 893 billion 252 million TL. The third quarter value of GDP was realized as 357 billion 989 million in USD terms at current prices. Labor payments increased by 76.3% in the third quarter of 2024 compared to the same quarter of the previous year. Net operating surplus/mixed income increased by 45.7%. While the share of labor payments in Gross Value Added at current prices was 31.9% in the third quarter of last year, this ratio was 36.4% in 2024. The share of net operating surplus/mixed income decreased from 47.8% to 45.1%. Analyzing the activities that make up GDP, in the third quarter of 2024 compared to the previous year as a chained volume index; construction increased by 9.2%, financial and insurance activities by 6.2%, the agriculture sector by 4.6%, real estate activities by 2.5%, taxes on products minus subsidies by 2.3%, information and communication activities by 2.2%, public administration, education, human health and social work activities by 1.9% and services by 1.4%. Other service activities decreased by 2.4%, the industrial sector by 2.2%, and professional, administrative and support service activities by 0.3%. Despite the tight monetary policy, the significant acceleration in the construction sector signals a turnaround from the trough. Despite the high interest rate environment, we think that recovery in the construction sector is a post-earthquake effect. On the other hand, the economy has shifted from manufacturing and industry-based growth to growth led by services and the financial sector. Due to the slowdown on the supply side, the pullback in prices remains limited. This is the main reason for the high inflation while growth is slowing down. Expectations that the tight monetary policy stance will continue even if interest rate cuts are initiated will also pull down growth forecasts.

**Graph 1: Growth and Industrial Production (YoY %)**



The lagged effects of the tight monetary policy are particularly evident in production indicators. The downward revision in the second quarter growth figures shows that the realizations are beyond the forecasts. Having contracted for the last two quarters in a row, the economy has technically entered a recession. We estimate that annualized growth will converge to zero in the first half of 2025. What makes the growth picture even worse are price dynamics, which are much more rigid despite slowing growth. While tight monetary policy has slowed production and growth, it has failed to bring inflation down at the same rate. Here we see the importance of inertia and the expectations channel. The inflation outlook, which has recently risen well above its ten-year average, limits downward movements in both consumption and investment decisions. As predicted in previous monetary policy decisions and forecasts, the output gap remained in negative territory with -2.3 in September, following -0.79 in June. From this point of view, we can say that demand-side inflation has retreated significantly. In particular, the marked improvement in the net export outlook is also a result of the tight monetary policy. While import demand is curbed by the credit policy, exports continue to recover thanks to market diversification. In order to see a healthy, sustainable and welfare-generating effect of growth, improvement is needed especially on the investment side. As the slowdown in machinery-equipment investments continues, the employment effect of growth remains limited.

**Graph 2: Growth and Contribution (%)**



Source: TURKSTAT

When we look at the sub-components of growth, we see that final consumption expenditures contributed 2.2 points to growth. Considering the normal course of consumption expenditures, we can say that this contribution was well below the average. Under normal conditions, the driving force of growth would come from consumption figures. Government expenditures contributed -0.1 points to growth. Compared to the same period of the previous year, fiscal policy has been more supportive of monetary policy. The negative contribution of investments to growth (-0.2) indicates that the welfare and employment impact of growth remained limited. The contribution of net exports to growth has improved significantly in this period. We expect this effect to continue in the first half of 2025. Net exports, the main item affecting the outlook in the current account balance, point to the slowdown in import demand and relatively buoyant external demand. The decline in inventories is one of the most prominent indicators of the cooling of production in the economy.

In sum, the Turkish economy grew by 2.1% yoy in the third quarter of the year while continuing to contract on a quarterly basis. The slowdown in the economy is beyond expectations. We believe that the slowdown will be reflected in inflation figures over time. While production is weakening, the strong course of the services sector continues to increase cost inflation. We would like to underline that any new data and policies to be announced will prompt an update to our forecasts. We reduce our GDP growth forecast for 2024 to 3.2% due to lower-than-expected production dynamics.

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