Macro note – 2024 4th Quarter GDP Growth

Turkish economy grows by 3% in the last quarter and annual growth for 2024 is realized at 3.2%. The cooling in economic activity became evident by the end of 2024...

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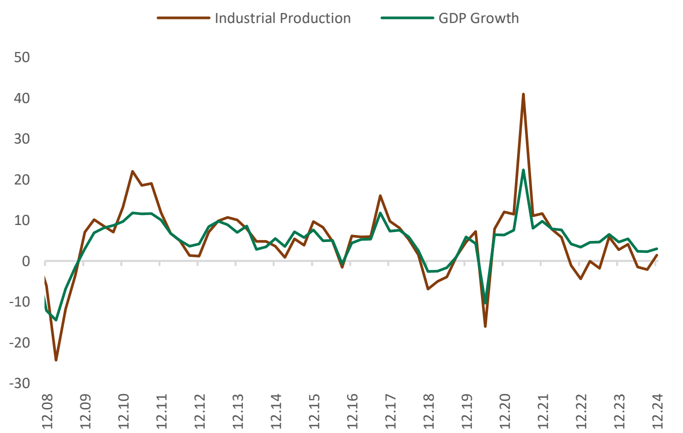
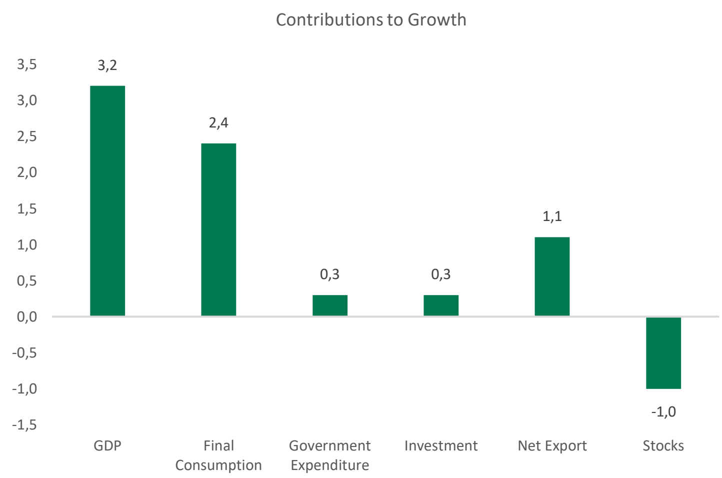
According to the growth data released by Turkstat, the Turkish economy grew by 3% yoy in the last quarter of 2024 (Market Expectation 2.8% and Seker Investment expectation 3.1%). The seasonally- and calendar-adjusted GDP chained volume index increased by 1.7% qoq. The calendar adjusted GDP chained volume index increased by 3.1% in the fourth quarter of 2024 compared to the same quarter of the previous year. According to the production method, GDP at current prices increased by 63.5% in 2024 compared to the previous year to TRY 43 trillion 410 billion 514 million. GDP per capita was calculated as TRY 507 thousand 615 at current prices and 15 thousand 463 in USD terms in 2024. While the share of labor payments in Gross Value Added at current prices was 32.5% last year, this ratio became 37.9% in 2024. The share of net operating surplus/mixed income, at 47%, fell to 42.2%. When the activities that make up GDP are analyzed; in 2024, as a chained volume index compared to the previous year; construction sector total value added increased by 9.3%, taxes on products minus subsidies by 7.7%, financial and insurance activities by 4.9%, agriculture by 3.9%, information and communication activities by 3.4%, services by 3.1%, real estate activities by 2.4%, public administration, education, human health and social work activities by 1.8%, professional, administrative and support service activities by 1.4%, other service activities by 1.2% and industry by 0.5%. Calendar-adjusted data came in at 3.1%, in line with our expectations. Considering the year-end realizations, two points stand out. First, the monetary tightening cooled economic activity and held back growth and inflation. The other important point is that the calm course of the exchange rate pushed dollar-denominated per capita income to a historic high. Despite inflation-driven growth in economic activity and income, the rise in the exchange rate lagged far behind inflation, making a significant positive contribution to purchasing power and per capita income. Despite the buoyancy in sectors such as construction, finance and services, the slowdown in industrial production is a reflection of recent monetary policy actions. The fact that the gap in this decoupling has widened at these levels shows that we are far from the target values.

Graph 1: Growth and Industrial Production (YoY %)



The tight monetary policy that started in mid-2023 cooled the economy gradually, taking the output gap into negative territory and keeping it there. In particular, the slowdown in industrial production data points to a significant retreat in production-side indicators. However, we believe that this cycle reversed as of the last quarter of 2024. Industrial production, which had been in negative territory for two consecutive quarters, moved into positive territory in the last quarter, albeit to a limited extent. Therefore, the improvement in expectations, the success in the fight against inflation and interest rate cuts will positively affect the industry and related sub-sectors throughout the year. What makes the growth picture relatively worse is the 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 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 at -1.93 in September and -1.52 in December, 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 credit policy, exports continue to recover thanks to market diversification. In order to see a healthy, sustainable and welfare-generating effect of growth, we need improvement 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 consider the sub-components of growth, we see that final consumption expenditures contributed 2.4 points to growth. Considering the normal course of consumption expenditures, 75% of growth is still driven by consumption and remains quite high. Government spending contributed 0.3 points to growth. Compared to the same period of last year, and fiscal policy has been supportive of monetary policy. The fact that the contribution of investments to growth is 0.3 points indicates that investment expenditures are the most affected by monetary policy implementations. The contribution of net exports to growth has improved significantly by 1.1 points 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 3% in the last quarter of the year and by 3.2% in 2024. The slowdown in the economy is beyond expectations. We expect this slowdown to be reflected in inflation figures over time. While production is weakening, the strong course of the services sector continues to increase cost inflation. We underline here that any new data and policies to be announced might prompt an update to our forecasts. We lower our GDP growth forecast for 2025 to 3% due to lower-than-expected production dynamics.

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