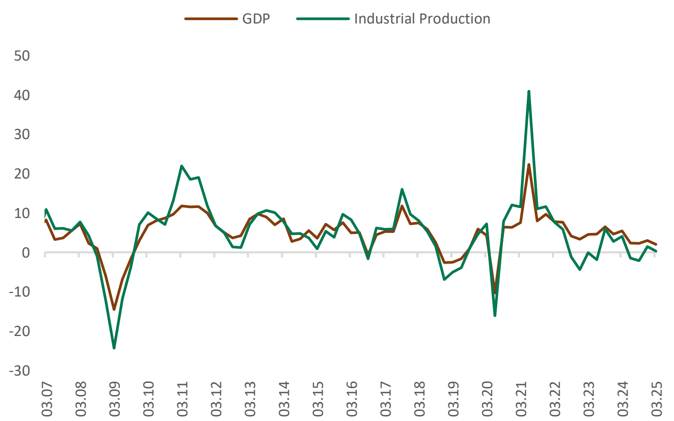
Macro note – 2025 1st Quarter GDP Growth

The Turkish economy grows by 2% annually and 1% quarterly in the first quarter of 2025, performing below expectations. Domestic consumption makes the strongest contribution to growth, while industry and agriculture contract and services continues to perform strongly.

Abdulkadir DOGAN
Chief Economist
adogan@sekeryatirim.com.tr
(+90) 212 334 33 33/313

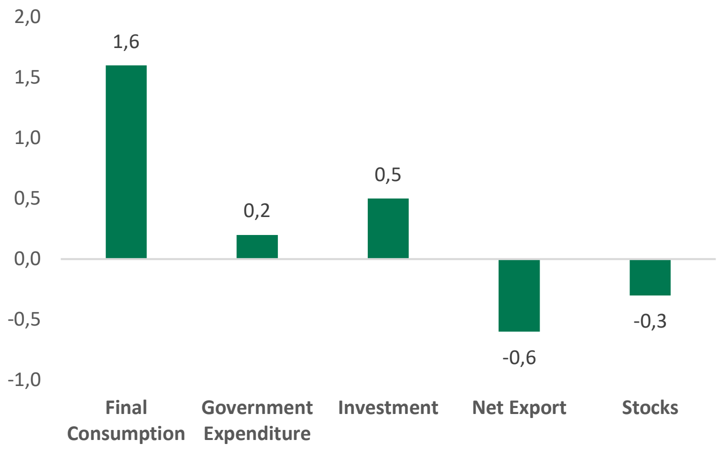
According to the growth data released by Turkstat, the Turkish economy grew by 3% yoy in the last quarter of 2024 (Market Expectation 2.8% and Seker Investment expectation 3.1%). The seasonally- and calendar-adjusted GDP chained volume index increased by 1.7% qoq. The calendar adjusted GDP chained volume 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 long-standing medium-term goal of monetary policy has been to cool economic activity and establish a disinflationary process. In this context, measures were taken to restrict consumption activities in particular, while cost channels were also actively utilized. Although disinflation has not been achieved at the anticipated pace, significant progress has been made. In our baseline scenario at the beginning of the year, we anticipated that sectors with high interest rate sensitivity, such as industry and agriculture, would make a significant contribution to growth in the second half of the year. However, political uncertainties experienced domestically in March and globally in April necessitated some updates to this scenario. During this period of additional monetary tightening, we believe that our baseline scenario will materialize with a one-quarter delay. The situation that is relatively worsening the growth picture is the much more rigid price dynamics despite the slowing growth. While tight monetary policy is slowing down production and growth, we can say that it has failed to bring inflation down at the same rate. Here, we see the importance of inertia and expectations. In particular, the inflation outlook, which has risen well above its ten-year average in recent periods, is limiting downward movements in both consumption and investment decisions. This outlook, which is expected to persist until the end of the year, indicates that we will conclude 2025 with relatively high inflation and more subdued growth.

Graph 2: Growth and Contribution (%)



Source: TURKSTAT

When we look at the subcomponents of growth, we see that final consumption expenditures contributed 1.6 points to growth. Considering the normal course of consumption expenditures, approximately 80% of output is consumption-driven. The contribution of government expenditures to growth is 0.2 points. When compared to the same period of the previous year in terms of fiscal policy, the supportive trend in monetary policy is noteworthy. The fact that the contribution of investments to growth is at the 0.5 level indicates that consumption-based growth is dominant and that the share of investments remains low. The contribution to growth from net exports in this period is -0.6 points. The significant positive contribution of net exports in the previous year is declining this year. We will see the impact of this on the current account balance over time. The decline in inventories is one of the most obvious indicators of the slowdown in production in the economy. Its inflationary effect will continue until the end of the year.

In summary, the Turkish economy grew by 2% year-on-year and 1% quarter-on-quarter in the first quarter. The slowdown in the economy is beyond expectations. We believe that the slowdown in economic activity will eventually be reflected in inflation figures. While production is weakening, the strong performance of the services sector continues to increase cost inflation. We would like to emphasize that any new data or policies that are announced will lead to updates in our forecasts. Due to production dynamics that are below expectations, we maintain our 2025 GDP growth forecast at 2.9%.

ŞEKER INVEST RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
Buyukdere Cad. No: 171 Metrocity
A Blok Kat 4-5 34330 SİSLİ /IST
TURKEY

TEL: +90 (212) 334 33 33
Fax: +90 (212) 334 33 34
E-mail: research@sekeryatirim.com
Web: http://www.sekeryatirim.com/english/index.aspx

For additional information, please contact:

Research

Kadir Tezeller	Head	+90 (212) 334 33 81	ktezeller@sekeryatirim.com
Burak Demirbilek	Utilities, Defense Industry	+90 (212) 334 33 33-128	bdemirbilek@sekeryatirim.com
Engin Değirmenci	Cement	+90 (212) 334 33 33-201	edegirmenci@sekeryatirim.com
A. Can Tuğlu	Food & Bev., Retail, Auto, Aviation, Oil&Gas	+90 (212) 334 33 33-334	atuglu@sekeryatirim.com
Esra Uzun Özbaskın	Telcos, Iron & Steel, Cons. Dur.	+90 (212) 334 33 33-245	euzun@sekeryatirim.com
Başak Kamber	Glass	+90 (212) 334 33 33-251	bkamber@sekeryatirim.com

Economy & Politics

Abdulkadir Doğan	Chief Economist	+90 (212) 334 91 04	adogan@sekeryatirim.com

Institutional Sales

Batuhan Alpman	Head	+90 (212) 334 33 70	balpman@sekeryatirim.com
Deniz Keskin	Trader	+90 (212) 334 33 36	dkeskin@sekeryatirim.com
M.Kerim Culum	Trader	+90 (212) 334 33 33-316	kculum@sekeryatirim.com.tr

DISCLAIMER

I, Abdulkadir Dogan, hereby certify that the views expressed in this research accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

This report has been prepared by Şeker Yatırım Menkul Değerler A.Ş. (Şeker Invest, Inc.). The information and opinions contained herein have been obtained from and are based upon public sources that Şeker Invest considers to be reliable. No representation or warranty, express or implied, is made that such information is accurate or complete and should not be relied upon, as such. All estimates and opinions included in this report constitute our judgments as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors as they believe necessary. Şeker Invest may, from time to time, have a long or short position in the securities mentioned in this report and may solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) for any company referred to in this report and may, to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis upon which it is based, before its publication. This report is for the use of intended recipients and may not be reproduced in whole or in part or delivered or transmitted to any other person without the prior written consent of Şeker Invest. By accepting this document you agree to be bound by the foregoing limitations.