TÜRKİYE'S FIRST SECURITIES COMPANY

Macro Focus: Economic Growth

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Erol Gürcan
erol.gurcan@yf.com.tr
+90 (212) 334 98 37

Türkiye Has Entered Technical Recession in 3Q24

Turkish economy grew by 2.1% YoY, but contracted by 0.2% QoQ in3Q24. Consensus was 2.4% YoY (YF: +3.1%, +3.1%, 2Q24: +2.4%, 3Q23: +6.5%). On the other hand, no change was expected on QoQ basis (YF: +0.5%, 2Q24: -0.2%). Thus, it can be stated that Turkish economy entered a technical recession on a quarterly basis as of 3Q24. The last time Turkish economy was in technical recession was in 4Q18. According to our calculations, YoY economic growth figures were 3.2% in 9M24 and 3.6% in the last 4-quarter. We estimate Turkey's gross domestic product (GDP) as TRY39.2trl (USD 1.3trl and GDP per capita as TRY457,325 (USD 14,636).

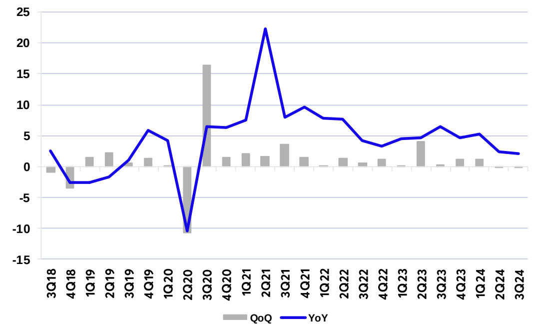
Net exports and consumption were drivers of the growth. In 3Q24, domestic demand and net exports contributed positively to growth by 2.2pps each. Thus, the uninterrupted positive contribution to growth from consumption and net exports reached 17th and 3rd consecutive quarters, respectively. In 3Q24, exports increased by 0.8% YoY while imports contracted by 9.6% YoY. On the other hand, the highest negative contribution came from inventory change with 2.0pps, while government spending and investments made a negative contribution of 0.1pps and 0.2pps, respectively. In the sub-details of investment expenditures, construction made a positive contribution for the 8th consecutive quarter, while machinery-equipment investments made a negative contribution for the 2nd consecutive quarter.

While services sector continued to lead the growth, industrial sector contracted for the 2nd consecutive quarter. According to production method, services (wholesale/retail trade & finance/insurance +0.3pps each) made the highest contribution with +1.0pps in 3Q24. Industrial sector made a negative contribution of -0.4pps in 3Q23 for the 2nd consecutive year (manufacturing: -0.4pps). Agriculture made a strong positive contribution of +0.5pps for the 5th time in a row. Construction sector made a positive contribution of +0.4pps for the 8th time in a row. Total gross value added of sectors was +1.8pps, while the contribution of tax excluding subsidies was +0.3pps.

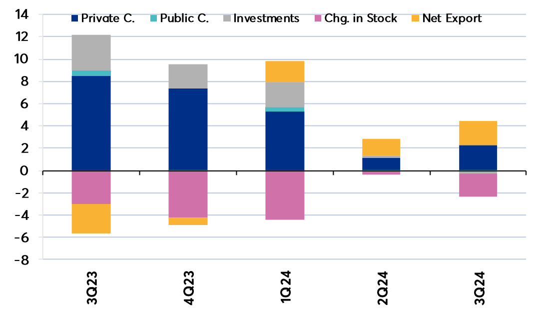
The share of corporate profits declined but still accounted for the largest share of growth. According to the income method, the share of labor payments in GVA increased from 31.9% in 3Q23 to 36.4% in 3Q24, while the share of net operating surplus/mixed income declined from 47.8% in 3Q23 to 45.1% in 3Q24. The share of fixed capital consumption also declined from 21.2% in 3Q23 to 20.5% in 3Q24.

Slowdown is likely to continue. Leading indicators and high-frequency data for 4Q24 suggest that growth continues to lose momentum. The normalization of the demand effect that was brought forward before the local elections, the tightness in financial conditions and the fact that the minimum wage was not raised in the middle of the year can be considered as the main reasons for this situation. We believe that the slowdown in growth will be more noticeable especially in 4Q24. The gradual easing in global financial conditions may also lead to a limited contribution from external demand. In the first half of 2025, we expect growth to remain relatively weak; however, a recovery may be observed in the second half due to expected wage increases, possible interest rate cuts by the CBRT and a gradual increase in the contribution of external demand. Our growth forecasts for 2024 and 2025 are 3.0% and 3.5%, respectively (MTP Target: +4.0%, CBRT November PKA - 2024: +3.1%, 2025: +3.2%). 2024 growth data will be released on February 28.

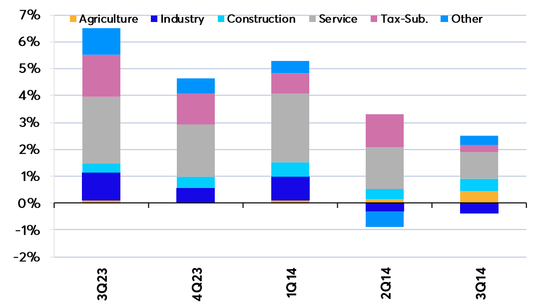
Economic Growth (QoQ & YoY, %)



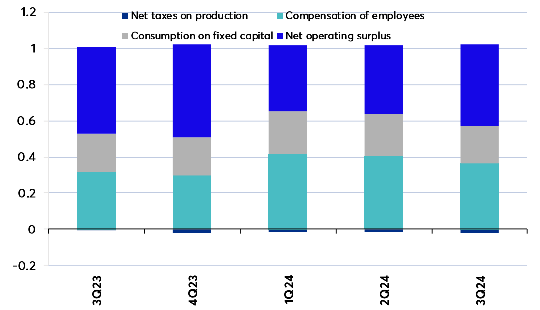
Contributions by Expenditure Method, pps



Contributions by Production Method, pps



Shares of Components of Income Approach in Gross Value Added (%)



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Meclis - i Mebusan Caddesi No: 81 Fındıklı
Beyoğlu / İstanbul 34427
TURKEY

FOCUS ECONOMICS
ANALYST FORECAST AWARDS 2024
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Yatirim Finansman

Tel: 0850 723 59 59
Fax: +90 (212) 282 15 50 - 51
Bloomberg: YATF
www.yf.com.tr

Levent Durusoy	Executive Vice President	levent.durusoy@yf.com.tr	+90 (212) 334 98 33
Institutional Sales			
Burak Demircioğlu	Head of Sales & Trading	burak.demircioglu@yf.com.tr	+90 (212) 334 98 42
Nil Tola	Sales Trader	nil.tola@yf.com.tr	+90 (212) 334 98 51
İlkay Demirci	Sales Trader	ilkay.demirci@yf.com.tr	+90 (212) 334 98 45
Mehmet Ali Sukuşu	Senior Settlements Officer	mehmetali.sukusu@yf.com.tr	+90 (212) 317 68 42
Equity Research			
Serhat Kaya	Research Manager	serhat.kaya@yf.com.tr	+90 (212) 334 98 36
Emre Duman	Research Analyst	emre.duman@yf.com.tr	+90 (212) 334 98 58
M.Kemal Karaköse	Research Analyst	mkemal.karakose@yf.com.tr	+90 (212) 317 69 00
Alp Derya	Research Analyst	alp.derya@yf.com.tr	+90 (212) 334 98 64
Macroeconomic Research			
Erol Gürcan	Chief Economist	erol.gurcan@yf.com.tr	+90 (212) 317 98 37

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