

## Turkish GDP beats expectations on strengthening domestic demand

Headline growth came in stronger than expected in the fourth quarter, and sequential growth also saw a significant pick-up. This suggests that economic activity gained momentum, driven primarily by domestic demand, while the contribution of net exports turned negative again



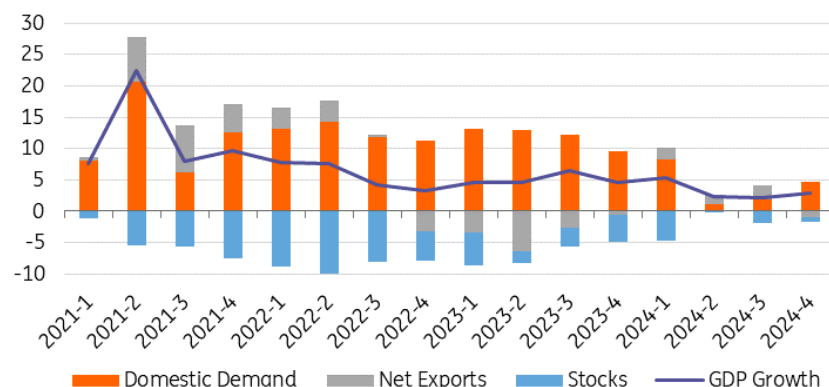
Turkey's current backdrop suggests increasing upside risks to our 2.6% GDP growth forecast for this year

Turkey's GDP growth came in at 3.0% year-on-year for the fourth quarter of 2024, surpassing the market consensus of 2.6%. This improvement was driven by a rebound in private consumption and robust investments. For the entire year of 2024, GDP growth was 3.2% YoY, dropping to its lowest level since 2020 due to a weak performance in the second and third quarters. TurkStat, however, revised the third quarter GDP expansion to 2.2% YoY from 2.1% YoY.

Fourth quarter GDP translates into a quarter-on-quarter growth rate of 1.7% after seasonal adjustments, showing a strong increase in momentum and marking the highest quarterly reading since the second quarter of 2023. The upward trend here can be attributed to a turnaround in household consumption – which turned positive after a negative reading in the previous quarter – and rising investments despite negative contributions from inventory build-up and net exports.

The data implies that Turkey, which found itself in a technical recession as of the third quarter of 2024 with two sequential contractions, returned to positive quarterly GDP growth in last year's final quarter.

## GDP Growth (% YoY)



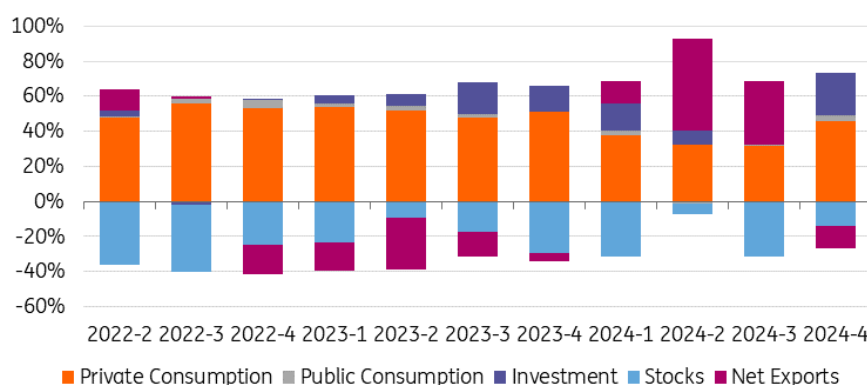
Source: TurkStat, ING

When we look at the breakdown on expenditures, we'd note the following:

- Private consumption gained momentum with 3.9% YoY growth, lifting the headline GDP rate by 3.0 percentage points despite a continuation of tight financial conditions.
- Investment appetite strengthened with 6.1% YoY growth, contributing 1.5ppt to GDP expansion. This growth is mainly due to a continued rise in construction investments (9.7% YoY) while machinery equipment investments turned positive after two consecutive quarters of contraction, supporting fourth-quarter investment growth.
- Public consumption positively contributed to the headline GDP with a 1.6% YoY increase, adding a mere 0.2ppt to the fourth quarter growth figure.
- Inventory build-up shaved 0.9ppt off growth.
- Net exports pulled the headline rate down by 0.8ppt after positive contributions in the first three quarters of 2024, due to decelerating exports vs positive import growth.

In the sectoral breakdown, construction emerged as the biggest contributor, followed by industry and agriculture. The recovery in the construction sector and higher contributions to headline GDP in recent quarters are likely attributable to rebuilding efforts in the earthquake-affected regions.

## Drivers of the growth (ppt contribution)



Source: TurkStat, ING

Overall, the fourth quarter GDP data shows a recovery in domestic demand despite a restrictive monetary policy stance. The growth trend, based on sequential GDP change, picked up significantly as private consumption reached a new historical peak after contractions in the second and third quarters, while the contribution of net external demand turned negative again.

Leading indicators point to a further recovery in GDP growth in the first quarter of this year, as evidenced by Turkey's higher PMI in January compared to the fourth quarter average, as well as increases in sectoral confidence and consumer confidence indicators. This backdrop signals increasing upside risks to our 2.6% GDP growth forecast for this year.

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