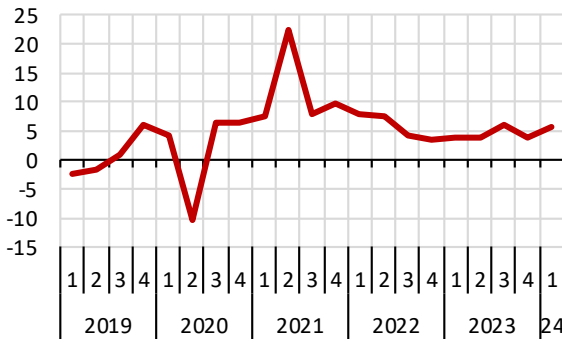


Macro: Both domestic demand and net exports drove growth in Q1

Gross domestic product (GDP) increased by 5.7% in the first quarter, in line with our expectations and those of the market. Quarter-on-quarter growth was strong at 2.4%. After this strong quarterly performance, the question is whether the recent tightening steps will lead to a slowdown in the second quarter. Based on the high frequency indicators released so far, we estimate that annual growth in Q2 will be around 4.0%. This implies a flat economic activity on a quarterly basis. Therefore, we can conclude that there has been a significant slowdown, although not as much as the CBRT forecasts, which predicted a contraction. In order to test the effectiveness of the current policy, it will be important whether this slowdown will continue in the second half of the year. Our forecast is that the slowdown will continue and that growth rate will be between 3.5 and 4% in 2024.

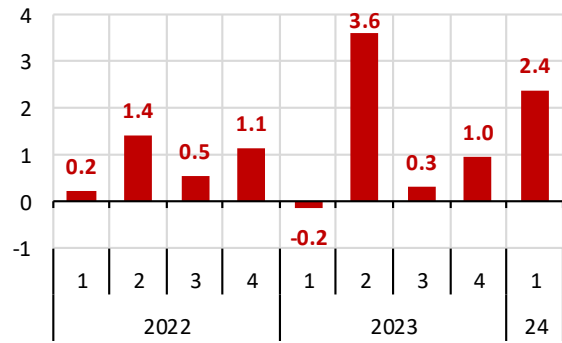
Gross domestic product (GDP) grew by 5.7% in the first quarter, in line with our expectations ($\approx 5.5\%$) and market expectations (Foreks: 5.5%, Bloomberg: 5.8%) (Chart 1). Calendar adjusted annual growth came in at 5.8%. Quarterly growth remained strong at 2.4% in seasonally and calendar-adjusted terms.

Chart 1. GDP (y-o-y, %)



Source: TURKSTAT

Chart 2. GDP (seasonally adjusted, q-o-q, %)



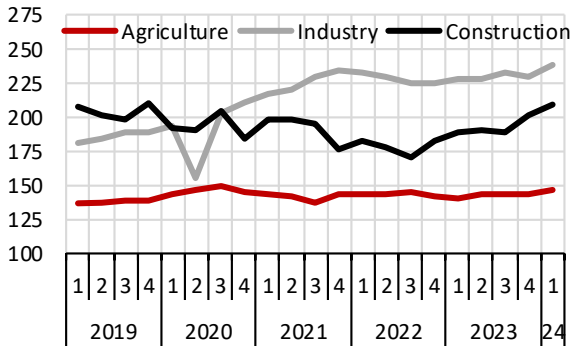
Source: TURKSTAT

Production Side:

All main sectors made positive contributions to annual growth in the first quarter (Tables 1 and 2). As in 2023-Q4, construction value added recorded the strongest increase (11.0%). The increase in industrial value added was 4.9%, slightly below the growth of industrial production (5.3%). The annual increase in agricultural value added (4.6%) was the strongest since 2020-Q4. We calculate the annual growth rate of total services to be 3.7%. Core services, consisting of wholesale and retail trade, transportation and storage, accommodation and food services, and information and communication services increased by 4.3% and 5.5%, respectively, pushing services value added growth up. On the other hand, the strong upward trend in the net taxes item continued in the quarter: 10.4%.

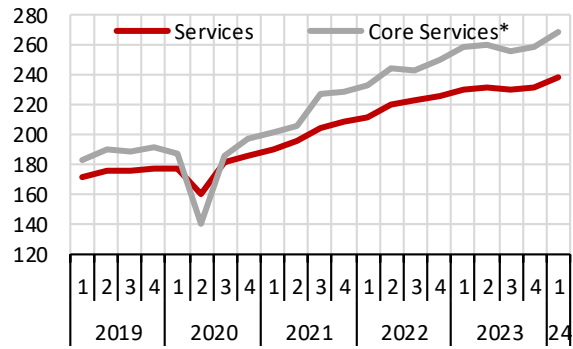
According to seasonally adjusted data, quarterly growth was also spread across sectors and was relatively balanced. As with annual growth, the strongest quarterly increase in value added was in construction (3.7%) (Chart 3, Table 3), most likely due to the public expenditure on reconstruction in the earthquake-affected areas. We calculate that value added in the services sector grew by 2.9% quarter-on-quarter. Core services, information and communication services, and professional, administrative and support services increased more than other items in the services value added, while the flat course of the real estate sector limited the increase in the services value added (Chart 4, Table 1). On the other hand, industrial value added rose by 3.5%, the strongest quarterly increase since 2021-Q3. Agricultural value added rose by 2.3% (Chart 3).

**Chart 3. Value Added by Sectors
(seasonally adjusted, 2009=100)**



Source: TURKSTAT

**Chart 4. Value Added by Sectors
(seasonally adjusted, 2009=100)**



* The sum of retail and wholesale trade, transport and storage, accommodation and catering services
Source: TURKSTAT

Table 1. The Growth of GDP and Sub-Items from the Production Side (%)

	Annual Growth				Quarterly Growth (seas. adj.)			
	2023-Q2	2023-Q3	2023-Q4	2024-Q1	2023-Q2	2023-Q3	2023-Q4	2024-Q1
GDP	3.9	6.1	4.0	5.7	3.6	0.3	1.0	2.4
Agriculture	-0.8	0.3	0.5	4.6	1.1	0.8	0.1	2.3
Industry	-3.0	5.5	1.9	4.9	0.0	1.8	-0.8	3.5
Manufacturing	-2.2	5.9	1.8	4.7	-0.4	1.3	-0.9	4.1
Construction	7.2	7.8	10.8	11.1	0.5	-0.8	6.5	3.7
Services	5.4	3.5	2.2	3.7	0.3	-0.3	0.6	2.9
Core Services*	7.1	4.6	3.0	4.3	0.3	-1.5	1.1	3.9
Information and Communication	1.5	1.1	-3.0	5.5	-2.0	-0.2	-1.2	5.5
Financial and Insurance Activities	8.7	5.1	7.4	2.0	0.9	0.6	1.2	1.1
Real Estate Activities	3.2	2.7	2.8	2.5	1.3	0.7	1.0	0.2
Profes., Adm. and Support Services	-0.1	-2.1	-1.5	5.0	-2.9	0.5	0.2	5.7
Public Administration**	5.2	4.8	1.9	3.3	1.4	1.4	-0.5	1.5
Other Services	7.3	2.2	2.2	2.8	1.2	-0.2	1.0	0.9
Net Taxes (Tax - Subsidies)	16.4	16.4	11.0	10.4	6.3	0.2	0.8	2.6

* Retail-Wholesale Trade, Transport-Storage, Accommodation-Catering

** Public Administration, Education, Human Health and Social Work Activities

Source: TURKSTAT, Akbank

Due to the chain indexing used in the national accounts, the quarterly and annual growth rates derived from the sum of the sectors are not the same as the quarterly and annual growth rates published for GDP. The quarter-on-quarter growth from the sum of sectors is 3.0%, higher than the published quarterly growth (2.4%). The contributions of agriculture, industry, construction, services and net taxes to the indirect quarterly growth were 0.1, 0.7, 0.2, 1.7 and 0.3 percentage points, respectively (Table 2). Using a similar bottom-up approach, annual growth is calculated to be 5.2% instead of 5.7%. In this framework, agriculture, industry, construction, services and net taxes contributed 0.1, 1.0, 0.5, 2.4, and 1.1 percentage points to annual growth, respectively (Table 2).

Tablo 2. Contribution to GDP Growth from the Production Side (Percentage Point)

	Annual Growth				Quarterly Growth (seas. adj.)			
	2023-Q2	2023-Q3	2023-Q4	2024-Q1	2023-Q2	2023-Q3	2023-Q4	2024-Q1
GDP	3.9	6.1	4.0	5.7	3.6	0.3	1.0	2.4
Agriculture	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Industry	-0.6	1.0	0.4	1.0	0.0	0.3	-0.2	0.7
Manufacturing	-0.4	0.9	0.3	0.9	-0.1	0.2	-0.2	0.7
Construction	0.4	0.4	0.5	0.5	0.0	0.0	0.3	0.2
Services	3.3	2.0	1.3	2.4	0.2	-0.2	0.4	1.7
Core Services*	1.8	1.2	0.8	1.1	0.1	-0.4	0.3	1.0
Information and Communication	0.1	0.0	-0.1	0.2	-0.1	0.0	0.0	0.2
Financial and Insurance Activities	0.5	0.2	0.3	0.1	0.0	0.0	0.1	0.1
Real Estate Activities	0.3	0.2	0.2	0.2	0.1	0.0	0.1	0.0
Profes., Adm. and Support Services	0.0	-0.1	-0.1	0.3	-0.2	0.0	0.0	0.3
Public Administration**	0.5	0.5	0.2	0.4	0.1	0.1	-0.1	0.1
Other Services	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Net Taxes (Tax - Subsidies)	1.7	1.7	1.2	1.1	0.7	0.0	0.1	0.3

* Retail-Wholesale Trade, Transport-Storage, Accommodation-Catering

** Public Administration, Education, Human Health and Social Work Activities

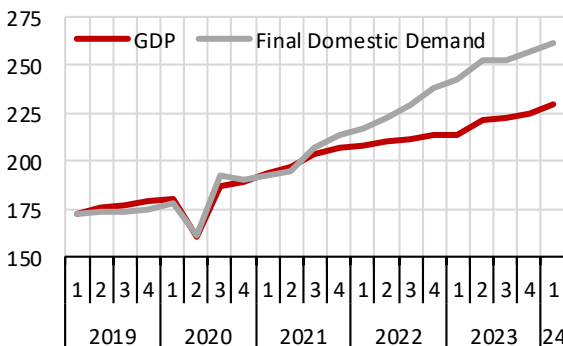
Note: Totals may not sum up to GDP growth due to chain index method.

Source: TURKSTAT, Akbank

Expenditure Side:

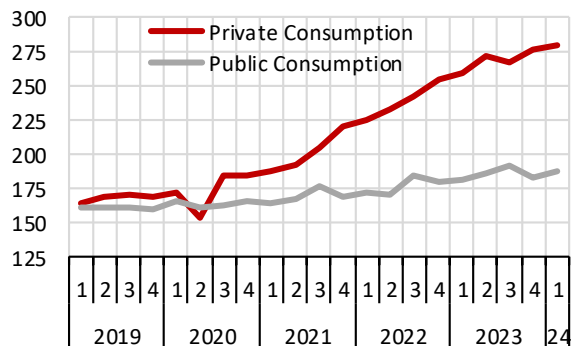
Domestic demand was the main driver of annual growth in the first quarter (Tables 3 and 4). However, for the first time since 2022-Q3, net exports (goods and services combined) also made a positive contribution (1.6 points) to annual growth. The decomposition of this contribution is that 0.9 points came from the increase in exports and 0.6 points from the decrease in imports. On the quarterly growth side, net exports contributed 1.5 points, which was higher than the contribution from domestic demand (Table 4). Of this contribution, 0.9 points came from the fall in imports (Chart 8). In assessing the improvement in the contribution of net exports to annual and quarterly growth, the role of base effects on exports, due to the earthquake, and on imports due to high gold imports, should be noted. In fact, the contribution of net exports is much weaker if we exclude gold imports, which have no impact on overall growth because they are netted out by change in stocks.

Chart 5. GDP ve Final Domestic Demand (Seasonally adjusted, 2009=100)



Source: TURKSTAT, Akbank

Chart 6. Consumption Expenditures (Seasonally adjusted, 2009=100)

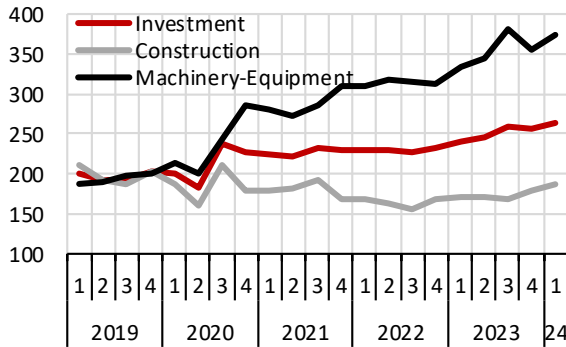


Source: TURKSTAT, Akbank

In the first quarter, consumption expenditure continued to rise in both the private and public sectors (Chart 6, Table 3). Wage increases, the strong credit impulse, the loose fiscal stance and the demand brought forward in anticipation of a depreciation in the second quarter supported consumption spending in this period. On the other hand, investment expenditure rose strongly by 2.9% qoq, driven by both construction and machinery and equipment (Chart 7). The increase in machinery and

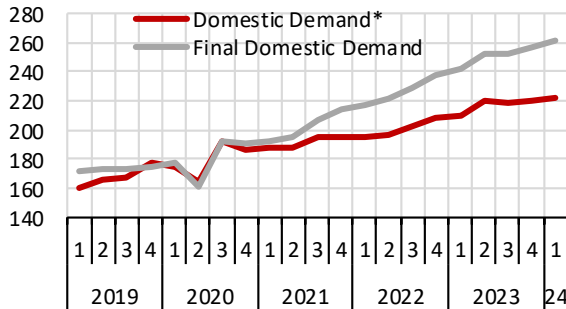
equipment could not offset the decline in the previous quarter. On the other hand, the strong increase in construction spending for the second consecutive quarter reflects the impact of construction activity in the earthquake zone.

**Chart 7. Investment Expenditures
(Seasonally adjusted, 2009=100)**



Source: TURKSTAT, Akbank

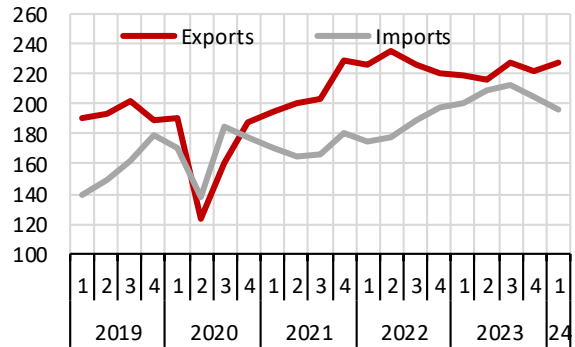
**Chart 9. Domestic demand
(Seasonally adjusted, 2009=100)**



* Domestic demand is the sum of final domestic demand and change in stocks.

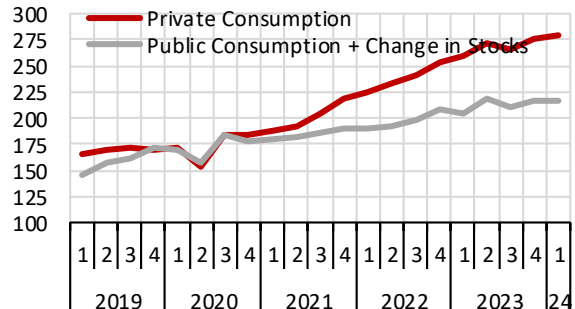
Source: TURKSTAT, Akbank

**Chart 8. Goods and Services Exports and Imports
(Seasonally adjusted, 2009=100)**



Source: TURKSTAT

**Chart 10. Private Consumption
(Seasonally adjusted, 2009=100)**



Source: TURKSTAT, Akbank

Table 3. The Growth of GDP and Sub-Items from the Expenditures Side (%)

	Annual Growth				Quarterly Growth (seas. adj.)			
	2023-Q2	2023-Q3	2023-Q4	2024-Q1	2023-Q2	2023-Q3	2023-Q4	2024-Q1
GDP	3.9	6.1	4.0	5.7	3.6	0.3	1.0	2.4
Total Consumption	13.9	10.6	8.1	6.7	4.3	-1.1	2.4	1.3
Private Consumption	15.3	11.1	9.3	7.2	4.6	-1.7	3.6	1.1
Public Consumption	6.4	7.6	1.7	3.9	2.7	2.6	-4.3	2.2
Investment	5.7	14.8	10.7	10.3	2.7	4.9	-0.8	2.9
Construction	3.8	8.0	7.5	9.6	0.6	-2.3	6.9	3.9
Machinery and Equipment	7.3	23.6	14.0	11.9	3.6	10.6	-6.5	4.8
Other Assets	5.0	2.7	11.0	2.6	5.9	2.4	3.4	-8.2
Exports	-9.4	1.2	0.2	4.0	-1.6	5.2	-2.5	2.9
Imports	19.7	14.5	2.7	-3.1	4.3	1.6	-3.9	-4.0
Domestic Demand	11.0	9.1	4.6	4.3	5.1	-0.5	0.7	0.9
Final Domestic Demand	12.0	11.5	8.6	7.5	4.0	0.2	1.7	1.6

Source: TURKSTAT, Akbank

Table 4. Contribution to GDP Growth from the Expenditures Side (Percentage Point)

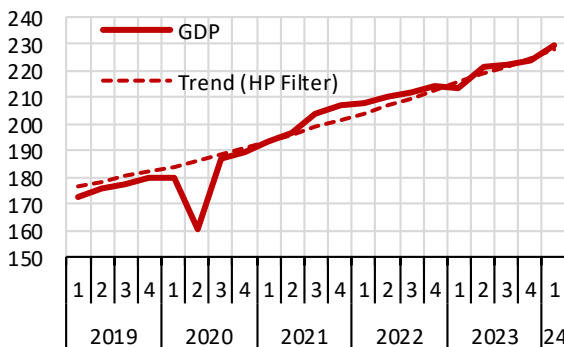
	Annual Growth				Quarterly Growth (seas. adj.)			
	2023-Q2	2023-Q3	2023-Q4	2024-Q1	2023-Q2	2023-Q3	2023-Q4	2024-Q1
GDP	3.9	6.1	4.0	5.7	3.6	0.3	1.0	2.4
Total Consumption	11.3	8.6	7.0	6.0	3.8	-0.9	2.1	1.1
Private Consumption	10.5	7.7	6.7	5.5	3.4	-1.3	2.7	0.8
Public Consumption	0.8	1.0	0.2	0.5	0.4	0.3	-0.6	0.3
Investment	1.4	3.4	2.6	2.6	0.7	1.2	-0.2	0.7
Construction	0.4	0.7	0.6	0.9	0.1	-0.2	0.6	0.4
Machinery and Equipment	0.9	2.7	1.7	1.5	0.5	1.3	-0.9	0.6
Other Assets	0.1	0.1	0.4	0.1	0.2	0.1	0.1	-0.3
Changes in Stocks	-2.5	-3.4	-5.0	-4.4	0.5	-0.8	-1.2	-1.0
Net Exports	-6.3	-2.6	-0.6	1.6	-1.3	0.8	0.3	1.5
Exports	-2.5	0.3	0.1	0.9	-0.4	1.2	-0.6	0.7
Imports	-3.8	-2.9	-0.6	0.6	-1.0	-0.3	0.9	0.9
Domestic Demand	10.2	8.6	4.6	4.1	5.0	-0.5	0.7	0.9
Final Domestic Demand	12.7	12.0	9.6	8.5	4.5	0.3	1.9	1.9

Source: TURKSTAT, Akbank

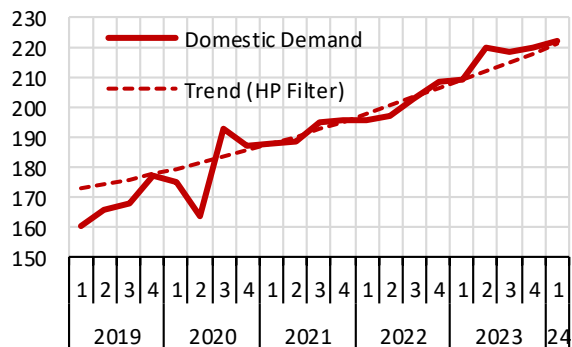
Output Gap:

Analysis of GDP and expenditure components and their trends provides important information about the boom and bust phases of the economy. Accordingly (Charts 11 -14):

- GDP remains above its long-term trend.
- Although domestic demand is close to its long-term trend, it still points to inflationary levels. However, the shift in the composition of domestic demand in favor of investment also suggests that pressures from private consumption have eased.
- Exports of goods and services are below trend, reflecting weak external demand.
- In sum, as of the first quarter, there is no rebalancing between domestic and external demand components in line with the disinflation process.

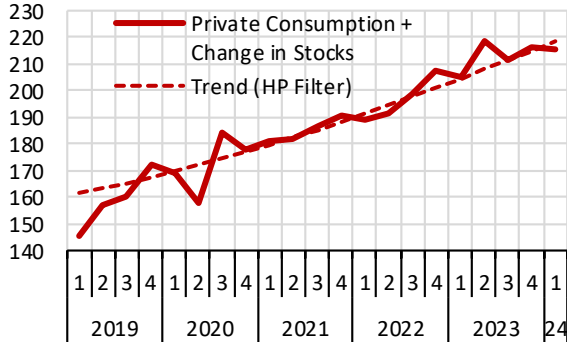
Chart 11. GDP Trend
(Seasonally adjusted, 2009=100)

Source: TURKSTAT, Akbank

Chart 12. Domestic Demand Trend
(Seasonally adjusted, 2009=100)

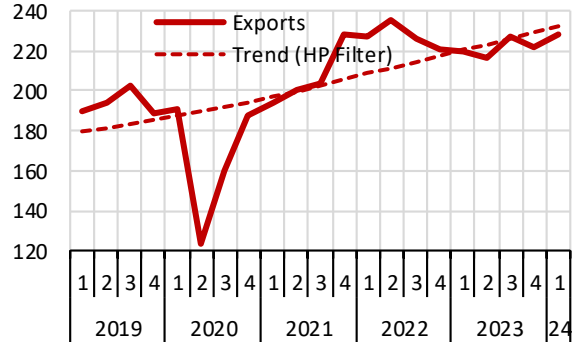
Source: TURKSTAT, Akbank

Chart 13. Private Consumption Trend
(Seasonally adjusted, 2009=100)



Source: TURKSTAT, Akbank

Chart 14. Exports of Goods and Services Trend
(Seasonally adjusted, 2009=100)



Source: TURKSTAT, Akbank

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağrı Sarıkaya– Chief Economist

Cagri.Sarikaya@akbank.com

Çağlar Yüncüler

Caglar.Yunculer@akbank.com

M. Sibel Yapıcı

Sibel.Yapici@akbank.com

Alp Nasır

Alp.Nasir@akbank.com

DISCLAIMER STATEMENT: The text, information and graphs in this report and comments has been prepared from the primary accessible systemic sources on a bona fide basis, and without consideration to establishing any guarantee and assurance for establishing a basis for any informed decision under any name or form, in terms of their accuracy, validity and effectiveness, and thus it has only been gathered for information purposes. Akbank TAŞ, Ak Yatırım AŞ and their employees will not be held responsible for any damages resulting from the comments included in this report such as lack of information and/or updates. Akbank TAŞ and Ak Yatırım AŞ may modify and/or remove the above information and recommendations at any time, without having to serve any prior notice and/or warning in any way, manner or form. Since this report and comments, the comprehensive information and recommendations which have been prepared in the form of general investment suggestions for the purpose of providing general information do not include any commitment by Akbank TAŞ and Ak Yatırım AŞ, the consequences of any decisions taken, conclusions reached, transactions made and any risks caused by any private and/or legal person based on such information will therefore rest with such persons. For this reason, Akbank T.A.Ş., Ak Yatırım A.Ş. and their employees shall not by any means or in any manner be liable for any material and moral damages, loss of profits, or any direct and/or indirect damages, whatsoever, incurred by the persons concerned or 3rd parties, as a result of the decisions taken, conclusions reached, or transactions performed by private and/or legal persons due to reliance on the information contained in this report, the comments and recommendations herein, and the persons concerned understand and accept that they are not entitled to claim any indemnity, whatsoever, from Akbank TAŞ, Ak Yatırım AŞ and their employees for any damages suffered/to be suffered. The information given in this report, and the comments and recommendations contained herein do not constitute an "investment consultancy" service and/or activity, but fall within the scope of a general investment consultancy activity, and individuals and entities willing to receive an investment consultancy service must contact entities and institutions that are authorized to provide such service and obtain such service under a service agreement pursuant to the legislations of CMB. Investment consultancy services are offered under an investment consultancy agreement to be signed between brokerage houses, portfolio management companies, banks that do not admit deposits and the clients. The comments and recommendations contained herein depend upon the personal opinions of the persons who make the comments and recommendations. Since such opinions have been arranged in the scope of a general investment consultancy activity they do not contain reports, comments and recommendations specific to a person, and may therefore not suit your financial status, risk and return preferences. Thus, making investment decisions solely based on the information contained herein might not bring an outcome that meets your expectations.

