

Türkiye | 1Q25 q/q growth: Slower, yet closer to potential

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- The Turkish economy grew by 1.0% q/q in 1Q25 (vs. 1.7% in 4Q24), leading to an annual growth of 2.0%, down from 3.0% in 4Q24.
- After its strong support in 4Q24, domestic demand weakened with quarterly contractions in private consumption (-0.4% q/q) and investment (-1.4% q/q).
- On the production side, the sectors grew by 1.4% q/q with a much higher contribution from services. A more balanced picture evolved between demand and supply, as stocks' contribution was nearly close to zero on a quarterly basis.
- Our monthly GDP indicator nowcasts a deceleration to a quarterly growth of nearing 0% in 2Q25, which is yet to be confirmed by hard data realizations.
- Given the slightly alleviated tariff-induced risks on the global side, coupled with the selective support from quasi fiscal policies and monetary easing cycle starting from 3Q25, we maintain our 2025 GDP growth forecast of 3.5% y/y but evaluate the balance of risks tilted to the downside.

A moderation towards a supply - demand balance in 1Q25

The economy grew by 1.0% q/q in 1Q25, decelerating from 1.7% q/q in 4Q24, which had followed two quarters of mild contractions, and posted a 2.0% y/y growth in 1Q25. Tight financial conditions and strong carry impact from the previous quarter seem to have dragged down domestic demand in 1Q25. Private consumption contracted by 0.4% q/q (vs. +4.3% q/q in 4Q24) and investment expenditures fell by 1.4% q/q (vs. +3.9% q/q in 4Q24). Meanwhile, government expenditures supported GDP growth by increasing 2.1% q/q in 1Q25, indicating a lack of fiscal consolidation at the beginning of the year.

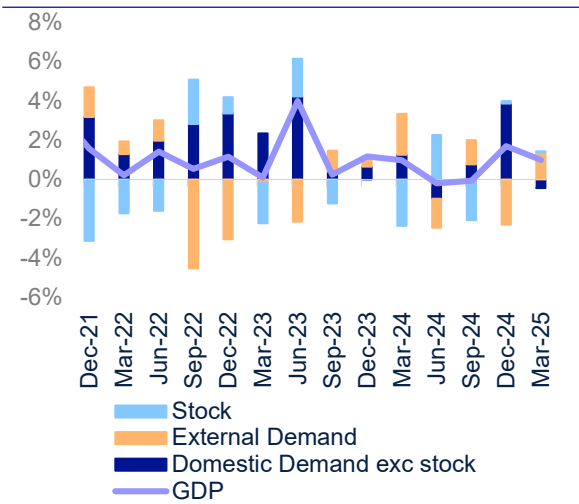
The contribution of net exports to quarterly GDP growth turned positive, supported by improving external demand and a retreat in import demand. Exports expanded by 3.9% q/q in 1Q25, rebounding from a contraction of 3.3% in 4Q24, potentially also driven by a global trend of front-loading in anticipation of potential future tariff increases. On the other hand, imports declined by 1.1% (vs. 5.2% q/q in 4Q24), suggesting a clearer rebalancing on top of the moderation in domestic demand.

Overall, external demand contributed 1.4pp to the 1.0% q/q GDP increase, while domestic demand including stocks subtracted 0.4pp, according to our calculations. Although financial conditions had started to ease in 1Q25, shrinking real disposable income, improving inflation expectations and a stable currency trend appear to have supported the monetary transmission mechanism. In addition,

strong carry impact from the previous quarter – due to a potentially front-loaded private consumption driven by campaigns at that time and fears of higher price adjustments at the start of the year – dampened consumption growth in 2Q25.

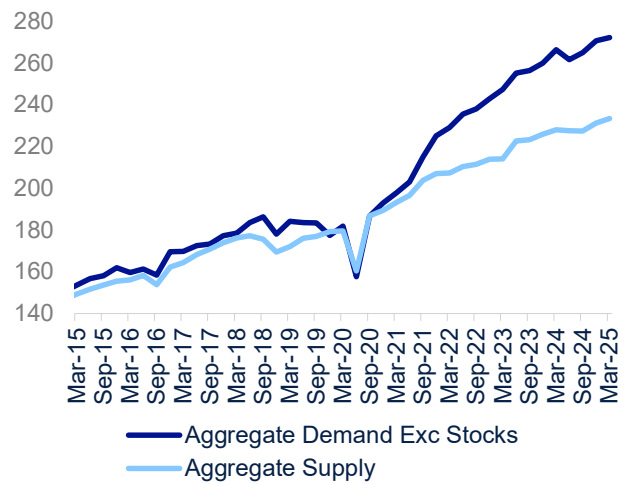
As a result, on a quarterly basis, expenditure components of GDP that are sensitive to monetary policy contributed negatively to GDP growth: private consumption by -0.3pp, private investment by -0.5pp, and imports by -0.4pp. All had contributed positively in the previous quarter with respective contributions of 2.6pp, 1.2pp, and 1.4pp, according to our calculations.

Figure 1. Contributions to GDP Growth via Expenditures (Quarterly, pp)



Source: Garanti BBVA Research, TURKSTAT

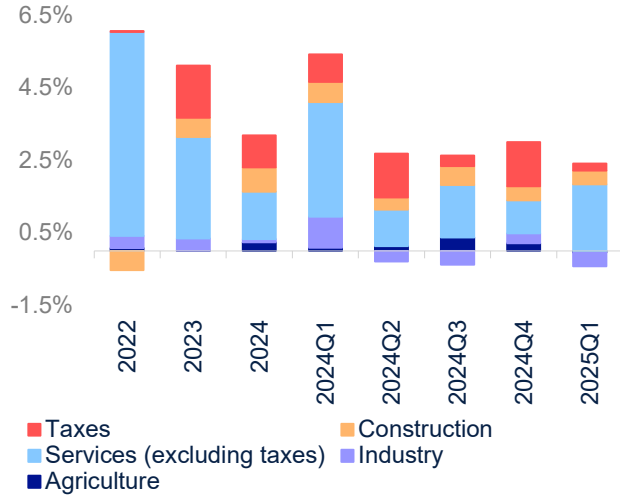
Figure 2. Aggregate Demand vs. Aggregate Supply (Level, seas. & cal. adj., 2009=100)



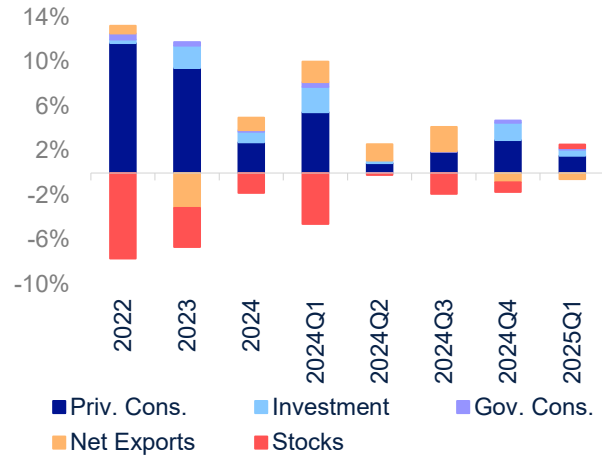
Source: Garanti BBVA Research, TURKSTAT

Regarding investment, the construction sector (6.9% y/y) led the year-over-year growth in total investment of 2.1% y/y in 1Q25 (vs. 6.1% y/y in 4Q24), while machinery&equipment (-1.8% y/y) and other assets (-2.4% y/y) contracted on a y/y basis in 1Q25. In contrast, all components had positive y/y growth in 4Q24, with respective rates of 9.7%, 4.2%, and 3.8%.

On the production front, the industrial sector was severely affected by tight financial conditions and contracted by 1.8% y/y in 1Q25 (vs. 1.4% y/y in 4Q24); within the sector, manufacturing contracted by 2.4 y/y. Reflecting still strong demand conditions, the supply side was supported by the services sector in general, which grew by 2.8% y/y (vs. 2.9% y/y in 4Q24). The construction sector maintained its strong growth trend, expanding by 7.3% y/y in 1Q25 (vs. 8.7% y/y in 4Q24). The agriculture sector contracted by 2.0% y/y (vs. 4.7% y/y in 4Q24), reversing its stable growth trend observed last year. On an annual basis, contributions to the 2.0% y/y GDP growth were as follows: broader definition of services (1.8pp), construction (0.4pp), taxes (0.2pp), agriculture (-0.0pp), and industry (-0.4pp).

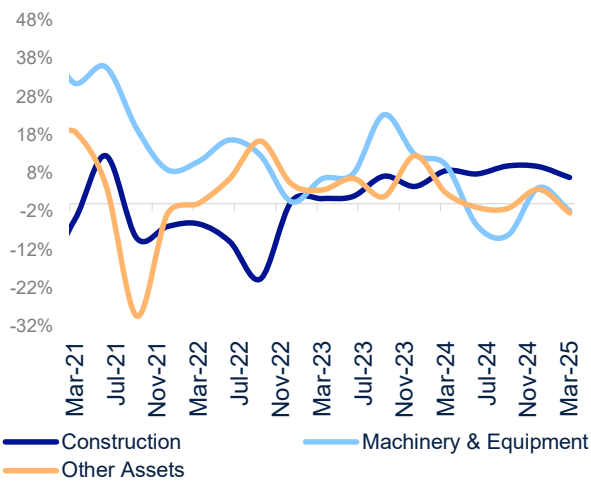
Figure 3. Contributions to GDP Growth via Sectors (Annual, pp)


Source: Garanti BBVA Research, TURKSTAT

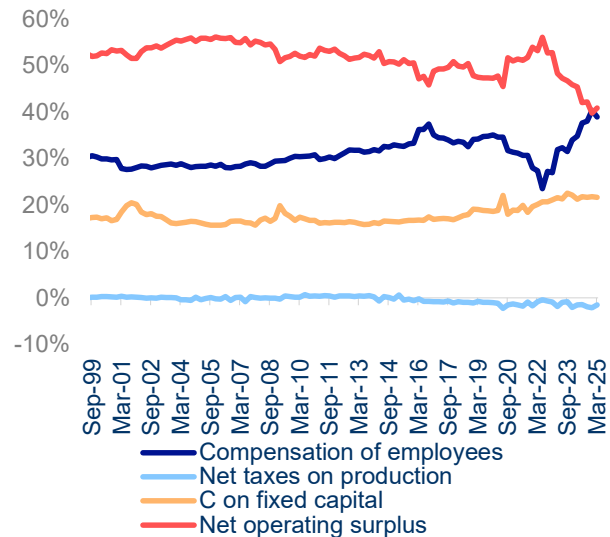
Figure 4. Contributions to GDP Growth via Demand Subcomponents (Annual, pp)


Source: Garanti BBVA Research, TURKSTAT

On the income front, the share of wages in value-added decreased to 39.0% in 1Q25 from 40.5% in the previous quarter, reversing the upward trend. Summing the last four quarters, annual GDP reached \$1.37trn, bringing per capita income to \$15,962 in 1Q25 (vs. \$13,665 in 1Q24).

Figure 5. Gross Capital Formation (YoY)


Source: Garanti BBVA Research, TURKSTAT

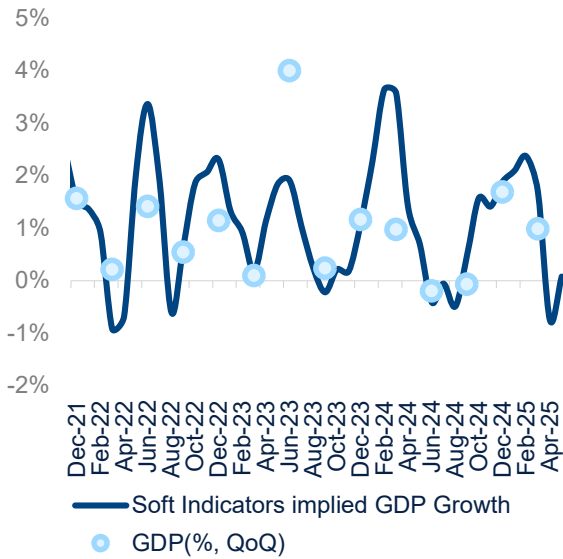
Figure 6. Shares in Gross Value Added (%)


Source: Garanti BBVA Research, TURKSTAT

Economic activity is likely to decelerate further in 2Q25

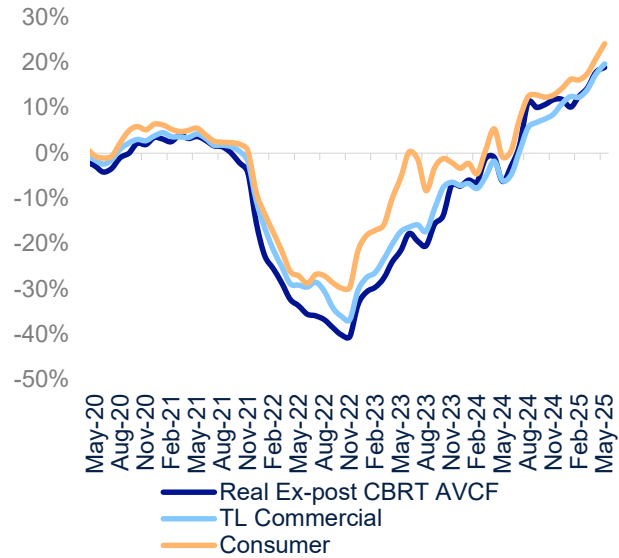
Leading indicators show a fast deterioration on the production side with declining manufacturing capacity, PMI remaining in the contractionary zone and the sentiment regarding current conditions and expectations worsening. As a result, our composite factor derived from confidence indicators – which has a strong correlation with GDP- sharply deteriorated in April, which has improved in May only slightly (Figure 8). Furthermore, consumption indicators confirm the ongoing slowdown in the face of the recent tightening measures, also evident by the increase in real loan rates (Figure 9). In line with these realizations, our monthly GDP indicator nowcasts a considerable deceleration with quarterly growth nearing 0% in 2Q25 (Figure 10), which is yet to be confirmed by hard data realizations. Nevertheless, positive calendar day effects might boost the annual GDP growth to above 3% in 2Q25 (Figure 11).

Figure 8. Soft Indicators Common Factor vs. GDP Growth



Source: CBRT, TURKSTAT, Garanti BBVA Research

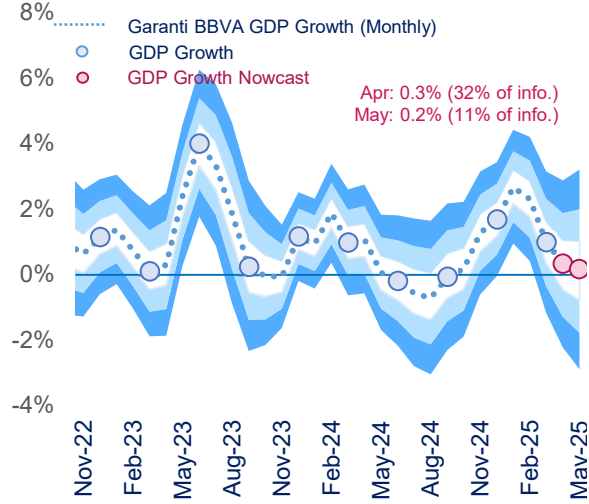
Figure 9. Loan Interest Rates (compound, real, adjusted by CPI)



Source: CBRT, TURKSTAT, Garanti BBVA Research

All in all, considering slightly alleviated tariff-induced risks on the global side, coupled with the selective supportive stance on the fiscal side and monetary easing cycle starting from 3Q25, we maintain our 2025 GDP growth forecast of 3.5% y/y but evaluate the balance of risks tilted to the downside.

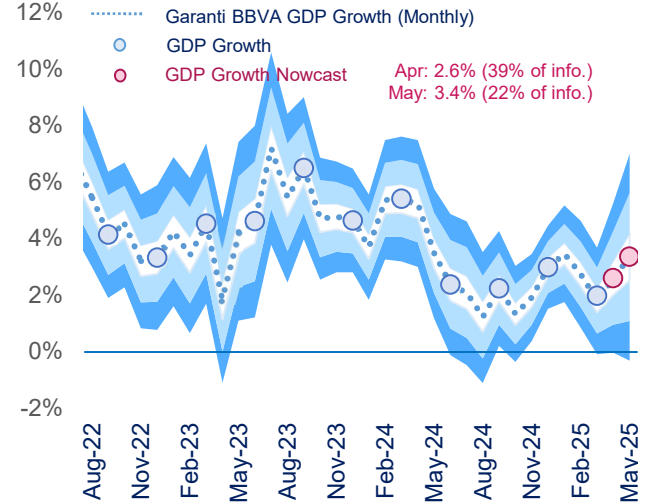
Figure 10. Garanti BBVA Monthly GDP Nowcast* (3-month average QoQ)



Source: Garanti BBVA Research, GBTRGDY Index in Bloomberg

*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

Figure 11. Garanti BBVA Monthly GDP Nowcast* (3-month average YoY)



Source: Garanti BBVA Research, GBTRGDY Index in Bloomberg

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