Creating Opportunities

Research

**Activity Pulse**

# Türkiye | Strong buffer from 1Q25 GDP growth

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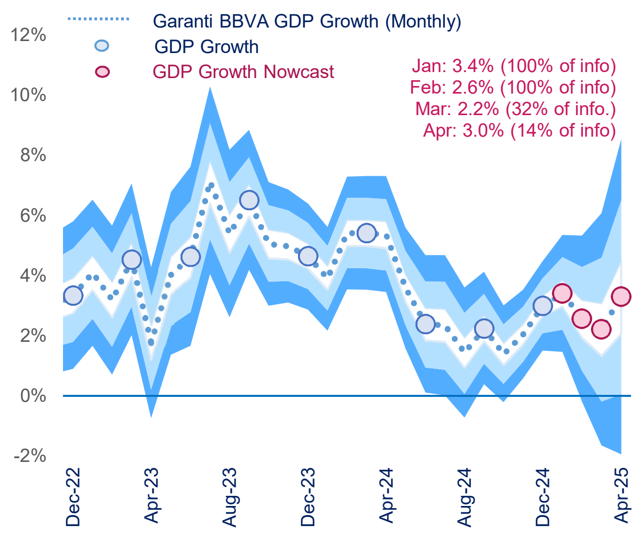
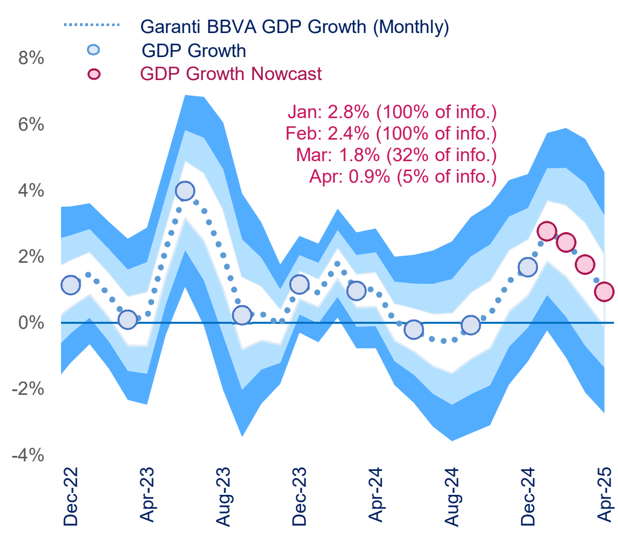
- **The data realizations for 1Q25 GDP growth point that a similar quarterly growth to 4Q24 is likely to have been preserved** with the support from domestic demand, while production indicators maintained a weaker outlook led by the industrial activity. Accordingly, our monthly GDP indicator nowcasts point to 1.8% q/q growth in March, slightly above our previous expectations, implying 2.2% annual GDP growth (Figures 1 & 2). The expectations for the next 3 months in terms of orders, particularly in services and retail, deteriorated pointing to more challenging conditions in 2Q25, where the impact of recent shocks might have not been fully included yet. We nowcast quarterly GDP growth decelerating below 1.0% q/q in 2Q25 as of April with the limited available information.
- **Despite a slight slowdown, domestic demand excluding stocks continued to support the GDP growth in 1Q25,** while the contribution from net exports is likely to have turned into positive on a quarterly basis. The ease in financial conditions and the acceleration in loan growth until mid-March, and the ongoing supportive fiscal policy resulted in demand staying robust in 1Q25. Hence, contrary to Central Bank's expectations, the imbalance between demand and supply persisted since the output gap might have switched to positive territory in 1Q25 (Figure 3), pointing to weaker-than-expected support to fight against inflation.
- **Although high frequency data for 1Q25 signaled a strong momentum, the outlook 2Q25 onwards points to worsening in activity.** The financial conditions, which became supportive in 1Q25, now demonstrates a clearer tightening (Figure 4). Furthermore, the monetary policy is likely to remain more restrictive in order to absorb the impact of the recent internal and external shocks. The recent upsurge in uncertainty surrounded by global trade wars could dampen global economic activity. On the other hand, fiscal policy might not be able to be tightened as previously expected to contain the pressures on the employment outlook. Therefore, we eliminate our previous upward bias on our 2025 GDP growth forecast and maintain 3.5% for the time being. If global uncertainties persist and weigh to the downside on global growth, we attain a downward bias on our 2026 GDP growth forecast of 4%. The effectiveness of the policy mix and the countermeasures will remain as the key determinants.

Figure 1. **Garanti BBVA Monthly GDP Nowcast*** (3-month average YoY)



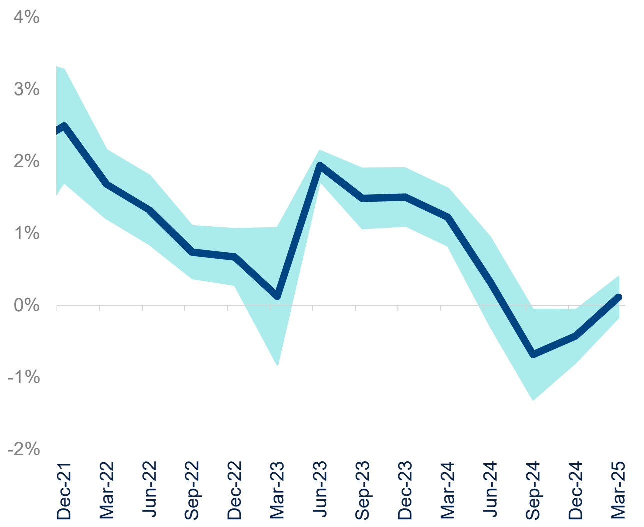

Source: Garanti BBVA Research, GBTRGDPY Index in Bloomberg
*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

Figure 2. **Garanti BBVA Monthly GDP Nowcast*** (3-month average QoQ)



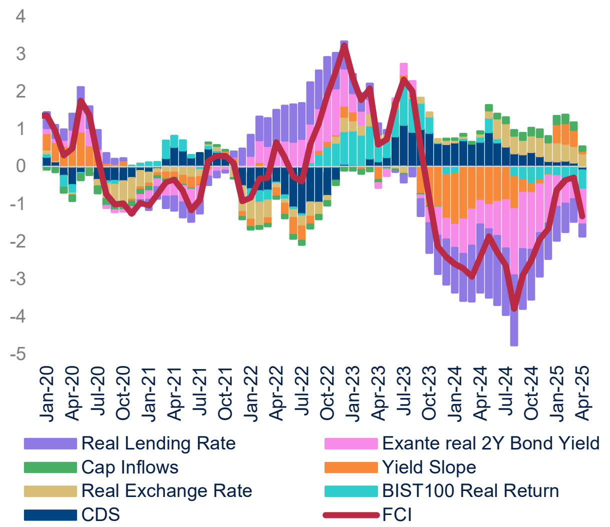

Source: Garanti BBVA Research

Figure 3. **Garanti BBVA Output Gap Estimate** (%, deviation from potential GDP)



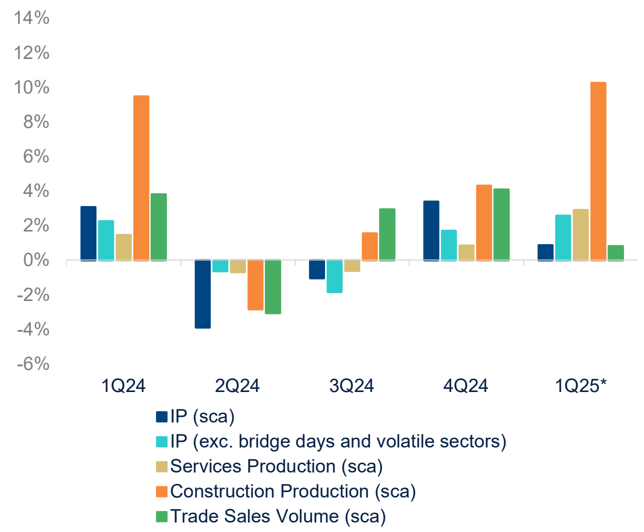

Source: TURKSTAT, Garanti BBVA Research

Figure 4. **Garanti BBVA Financial Conditions Index** (standardized, + easing, - tightening)



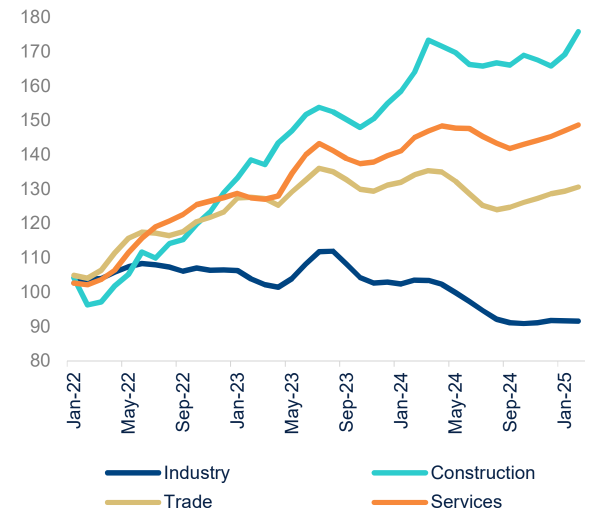

Source: CBRT, Bloomberg, Garanti BBVA Research

Figure 5. **Industrial, Services and Construction Production** (QoQ, seasonal and cal. adj.)




Source: TURKSTAT, Garanti BBVA Research
* Jan-Feb 2025 average

Figure 6. **Sectorial Turnover Indices** (real, 3MA, seasonal and cal. adj., Jan22=100)

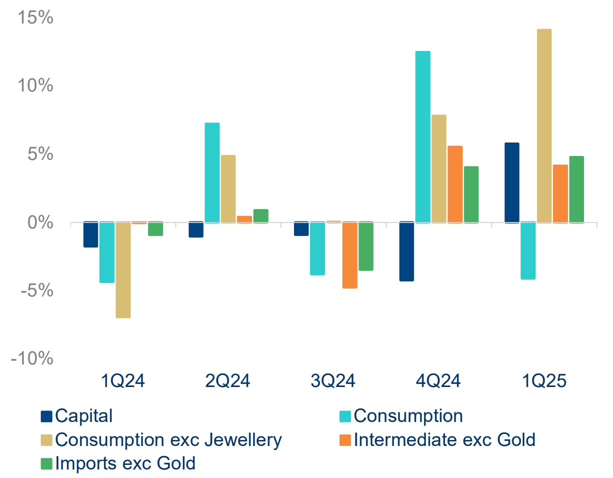



Source: TURKSTAT, Garanti BBVA Research

- On the supply side, the production in all sectors contracted m/m in February. Industrial production (IP) declined by 1.6% m/m, following a sharper contraction of 2.6% in January, but still generated 0.9% growth in Jan-Feb compared to 4Q24. The services and construction sectors also contracted, mainly due to high base effects in January, with respective monthly declines of 2.0% and 0.3% in February. On a quarterly basis, comparing Jan-Feb 2025 production with 4Q24, the construction and services sectors supported overall activity in 1Q25 so far, while IP remained relatively weaker (Figure 5). Construction activity accelerated, registering a growth of 10.3% q/q, and services production posted a 2.9% q/q increase. Within the services sector, accommodation & food services contracted slightly by 0.2% q/q, while other sub-categories expanded. Real estate (7.3% q/q) and information & communication (6.0% q/q) activities provided significant support to overall services production, posting robust growth rates. In contrast, transportation & storage weighed moderately with a relatively modest growth of 1.3% q/q.

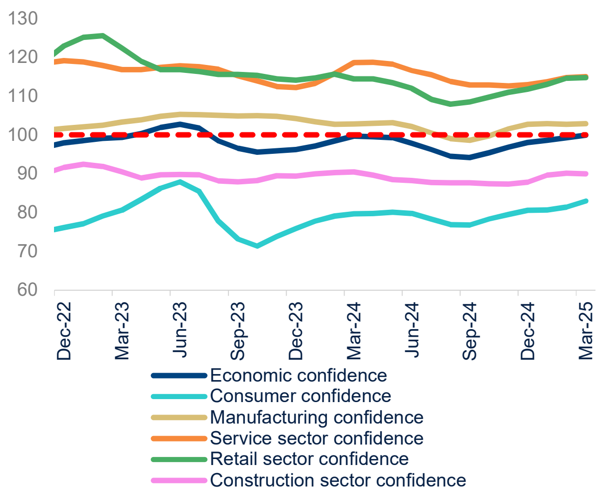
- If volatile sectors are excluded, IP growth was relatively stronger with 2.6% q/q in Jan-Feb compared to 4Q24 (Figure 5). Within the volatile sectors, the "other transport equipment" segment contributed -2.1pp to the quarterly growth difference, following a significant surge in 4Q24. Similarly, the "manufacture of motor vehicles" sector also contributed -2.1pp due to weak production performance so far. Export-oriented sectors broadly contracted, dragging down overall IP. In contrast, domestic-oriented production, excluding volatile sectors, registered a slightly stronger growth rate compared to 4Q24. By subcategory, capital goods production -including "other transport equipment" sector- contributed negatively to IP, declining by 3.5% q/q. In contrast, intermediate goods (2.1% q/q), durable goods (2.8% q/q), and energy (4.0% q/q) gained pace and contributed positively. Nondurable goods also had a positive contribution with 1.2% q/q growth, albeit at a slower pace compared to the previous quarter.
- The real turnover index adjusted by CPI, a composite measure of industry, construction, trade and services, increased by 1.0% q/q in 1Q25 as of February (Figure 6). Construction turnover recorded a strong rebound, rising by 8.8% q/q in Jan-Feb 2025 (vs. -0.2% in 4Q24). Services turnover continued to improve, posting a 3.0% q/q increase (vs. 2.5% in 4Q24). In contrast, trade turnover growth moderated to 0.8% q/q (vs. 3.2% in 4Q24), while industry turnover contracted by 1.5% q/q (vs. 0.8% in 4Q24).

Figure 7. **Import Sub-Components Volume** (QoQ, seasonal and cal. adj.)



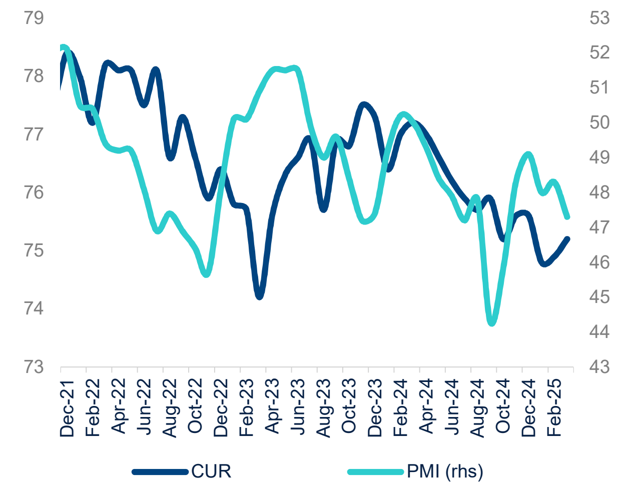

Source: TURKSTAT, Garanti BBVA Research

Figure 8. **Economic Confidence Index** (seasonal and cal. adj., 3MA)



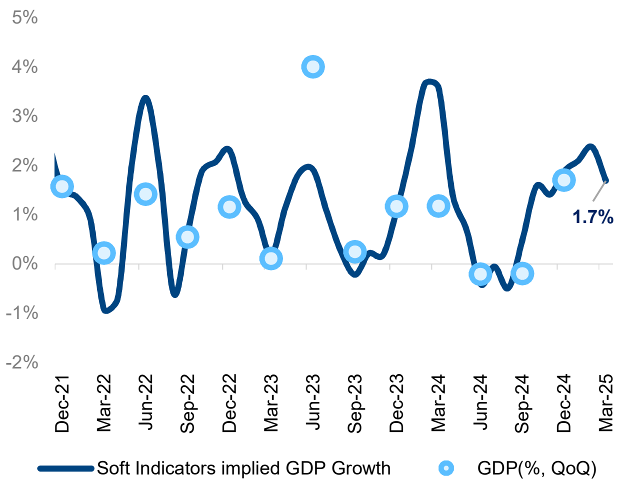

Source: TURKSTAT, Garanti BBVA Research

Figure 9. **Manufacturing Capacity Utilization Rate vs. PMI Index** (Monthly, SA, Level)




Source: TURKSTAT, Garanti BBVA Research

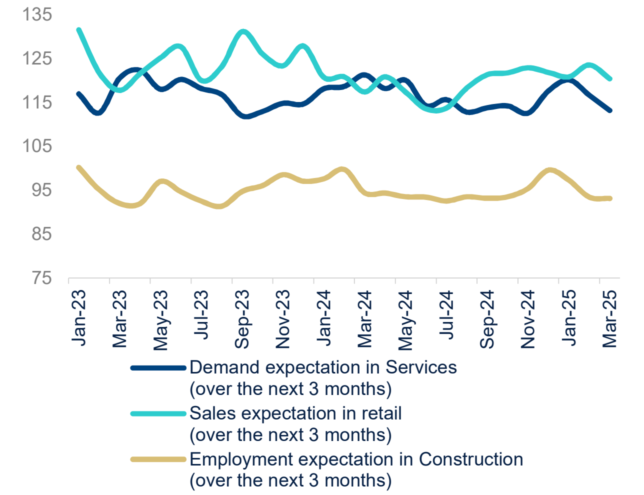
Figure 10. **Soft Indicator Factor Implied Growth vs. GDP Growth**




Source: TURKSTAT, Garanti BBVA Research

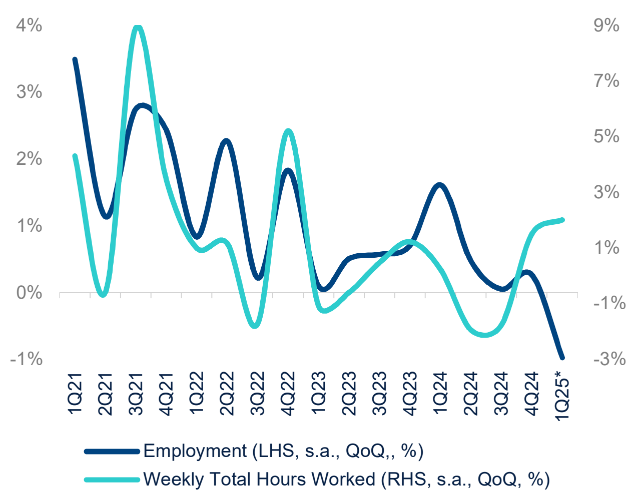
- Leading indicators suggest that overall production likely continued to recover in March. Imports of intermediate goods excluding gold rose by 0.9% m/m in March, bringing the quarterly increase to 4.2% in 1Q25 (vs. 5.5% in 4Q24, Figure 7). Sectoral confidence indices for manufacturing, services, and construction improved in March, reflecting more positive assessments of current conditions compared to February, while retail sector confidence deteriorated due to weaker sentiment (Figure 8). The capacity utilization rate (CUR) in manufacturing rose to 75.2% in March, up from 74.9% in February; however, the average CUR in 1Q25 stood at 75.0%, slightly below the 75.5% average recorded in 4Q24. Manufacturing PMI also retreated to 47.3 in March, signaling weakening in manufacturing sector (Figure 9). Our composite factor derived from confidence indicators -which has a strong correlation with GDP- suggests some recovery in March but it is not enough to compensate the deterioration in February, so the implied growth has decelerated further at the end of 1Q25 (Figure 10). Looking ahead, manufacturing confidence remains resilient, although weakening export orders continue to weigh on sentiment. In contrast, the worsening expectations for the next 3 months in terms of demand in services, the fall in sales expectations over the next 3 months in retail sector and the employment expectation over the next 3 months in construction signaled more challenging conditions in 2Q25, where the impact of recent shocks might have not been fully included yet (Figure 11). In line with our nowcasts and survey-based indicators, we expect a deceleration in overall economic activity in 2Q25, pointing to a loss of momentum.

Figure 11. **Expectation Indices over the Next 3 Months**




Source: CBRT, Garanti BBVA Research

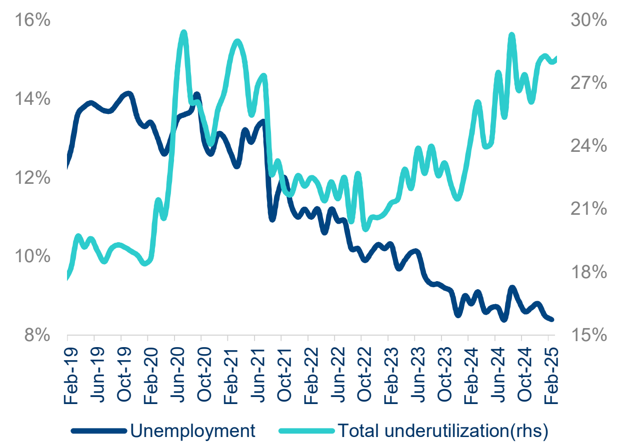
Figure 12. **Employment & Total Hours Worked (QoQ, %, seasonal adj.)**




Source: TURKSTAT, Garanti BBVA Research
*Jan-Feb Data for 1Q25

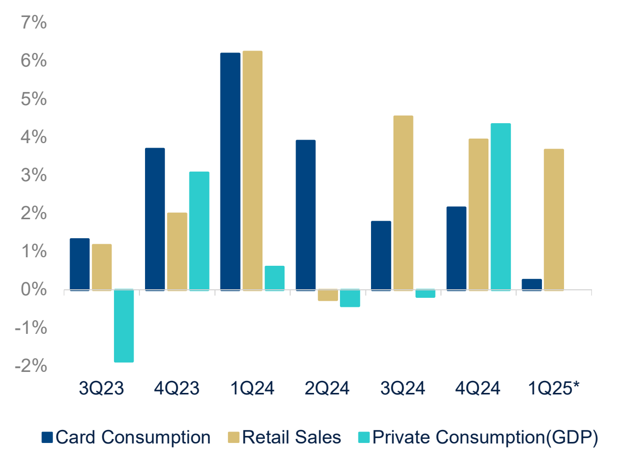
- Employment generation turned negative in Jan-Feb 2025 compared to 4Q24, with employment contracting by 1.0% q/q, marking the fourth consecutive quarter of below-average employment growth. On the other hand, the weekly total hours worked increased in 1Q25 on a quarterly basis as of February, confirming the strong momentum in economic activity (Figure 12). Despite the worsening in employment, the average unemployment rate declined to 8.3% in Jan-Feb, down from 8.6% in 4Q24, due to a decrease in labor force participation over the same period. However, the total underutilization rate -broader measure of labor market slack- deteriorated further, rising to 28.3% on average in Jan-Feb, up from 28.1% in 4Q24 (Figure 13). We expect unemployment rate to increase gradually in the near future on the back of the lagged impact of expected deceleration in economic activity.
- The demand side indicators signaled still robust domestic demand despite some moderation, while net exports contribution to GDP may have returned to positive on a quarterly basis. Nevertheless, it seems domestic demand continued to be the main driver of GDP growth in 1Q25.

Figure 13. **Unemployment Rate** (seasonal adjusted)




Source: TURKSTAT, Garanti BBVA Research

Figure 14. **Card Consumption, Retail Sales and Private Consumption** (QoQ, %, seasonal and cal. adj.)



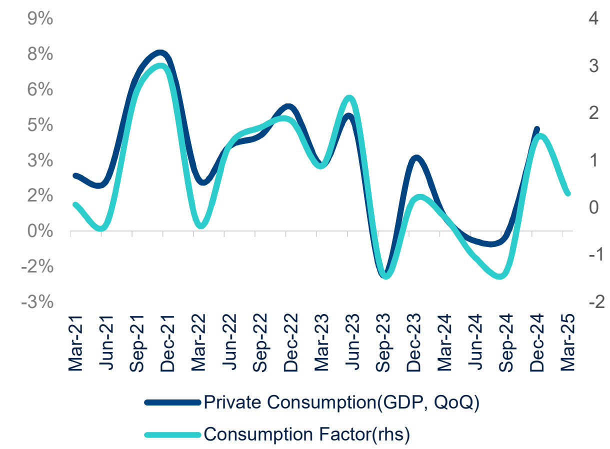

Source: TURKSTAT, CBRT, Garanti BBVA Research
*Retail Sales as of Jan-Feb

- Consumption indicators suggest that private consumption could have continued to support GDP growth in 1Q25, despite a slight deceleration compared to 4Q24, which is also seen in card consumption trend (Figure 14). The relatively weaker wage adjustment and the declining household disposable income on debt service seem to lead to some moderation. The released data so far signals that goods consumption might have remained stronger than services. Retail sales growth slowed down to 1.1% m/m in February (vs. 2.0% prev.) on the back of the declining sales in certain non-food items, such as textiles, apparel, audio & video equipment and fuels, while food and drinks sales slightly picked up with 1.6% m/m (vs. 1.4% m/m). On quarterly trends, retail sales growth remained resilient with 3.7% q/q in 1Q25 (vs. 3.9% prev.). According to our calculations, the consumption goods imports excluding jewelry accelerated in 1Q25. Our big data indicators also confirm that services consumption remain weaker than goods consumption but the later has also started to decelerate more clearly since mid-March. To sum up, our private consumption common factor and the heatmap showing the evolution of consumption related data show a deceleration trend in private consumption in 1Q25 (Figures 15-17). Accordingly, our monthly consumption GDP indicator nowcasts 0.9% y/y growth in 1Q25 with negative calendar day effects (Figure 18). The recent tighter financial conditions and the expected increase in the unemployment rate due to the deceleration in activity could result in further moderation in private consumption in the upcoming period.

Figure 15. **Garanti BBVA Big Data Consumption Indicators** (28-day sum, YoY, adjusted by CPI)


Source: TURKSTAT, Garanti BBVA Research

Figure 16. **Private Consumption vs Consumption Factor** (QoQ, seasonal and cal. adj.)




Source: Ministry of Treasury, BRSA, TURKSTAT, Garanti BBVA Research

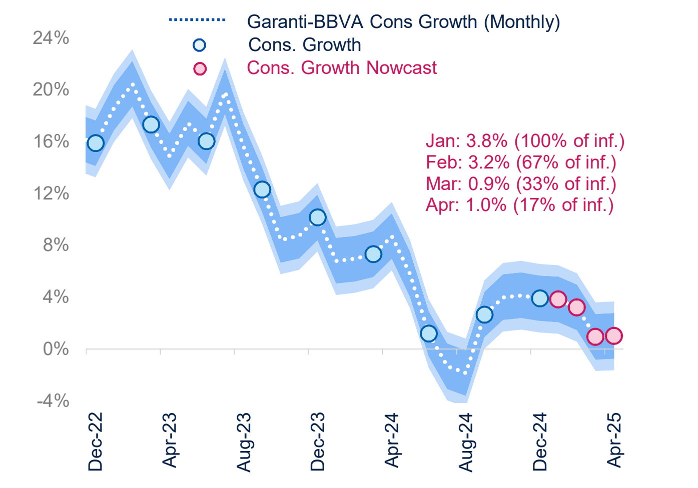
Figure 17. **Consumption Indicators Heat Map** (real, seasonal and cal. adj., QoQ)

| | | 2023 | | | | | | | | | | | | 2024 | | | | | | | | | | | | 2025 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mean | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar |
| Non-Durable Goods Cons. Turnover | 1.6 | 1.6 | -0.1 | -1.9 | -3.7 | 0.1 | 5.3 | 8.4 | 4.3 | -4.0 | -8.8 | -8.3 | -3.8 | -0.4 | 1.7 | 2.0 | 2.2 | 0.4 | -1.5 | -3.9 | -5.4 | -4.9 | -2.6 | 0.1 | 1.4 | 1.5 | 1.7 | |
| Retail Sales | 2.0 | 7.8 | 6.2 | 4.9 | 3.4 | 6.9 | 7.4 | 7.9 | 3.3 | 1.2 | -1.5 | 0.0 | 2.0 | 4.9 | 6.4 | 6.2 | 4.7 | 1.4 | -0.3 | 0.3 | 2.6 | 4.5 | 5.1 | 5.0 | 3.9 | 3.9 | 3.7 | |
| Cons. Goods Imports exc Jewellery | 1.8 | 10.8 | 16.1 | 18.0 | 10.1 | 9.0 | 9.7 | 18.7 | 18.9 | 15.5 | 5.2 | 1.9 | 0.0 | -8.7 | -8.6 | -4.4 | 11.4 | 13.1 | 7.2 | -2.1 | -5.7 | -3.8 | 1.5 | 7.1 | 12.5 | 8.2 | 4.7 | -2.4 |
| Cons. Loans Exc. Mortgage | 1.6 | 13.1 | 14.1 | 12.9 | 13.9 | 15.4 | 11.6 | 8.3 | -0.8 | -6.5 | -9.7 | -6.4 | -0.1 | 2.1 | 2.7 | 1.2 | 0.4 | 1.2 | -2.0 | -1.5 | -0.6 | -0.3 | -0.3 | 0.8 | 2.2 | 5.6 | 2.0 | 0.0 |
| SCT & Import VAT | 1.8 | 0.1 | 2.7 | 4.5 | 4.1 | 7.5 | 12.2 | 17.4 | 16.4 | 12.5 | 5.2 | -0.9 | -5.3 | -5.7 | -4.4 | -2.7 | -1.2 | -1.2 | -3.3 | -6.9 | -9.7 | -7.5 | -4.3 | 0.6 | 2.6 | 3.2 | 3.1 | 1.3 |
| Durable Cons. Goods Imports | 2.3 | 7.6 | 21.3 | 18.3 | 6.0 | 1.0 | -0.9 | 3.7 | -2.1 | -0.1 | 11.3 | 38.6 | 34.7 | 3.5 | -20.1 | -0.8 | 49.8 | 68.4 | 25.2 | -27.5 | -32.9 | -18.1 | 19.2 | 36.9 | 24.4 | -3.3 | | |

Contraction | Slow-down | Growth | Boom

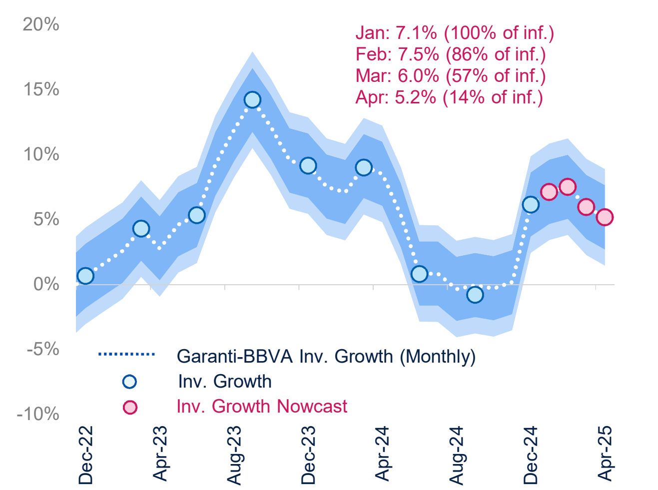
Source: TURKSTAT, Ministry of Treasury, BRSA, Garanti BBVA Research

Figure 18. **Garanti BBVA Monthly Consumption GDP Nowcast** (3-month average YoY)



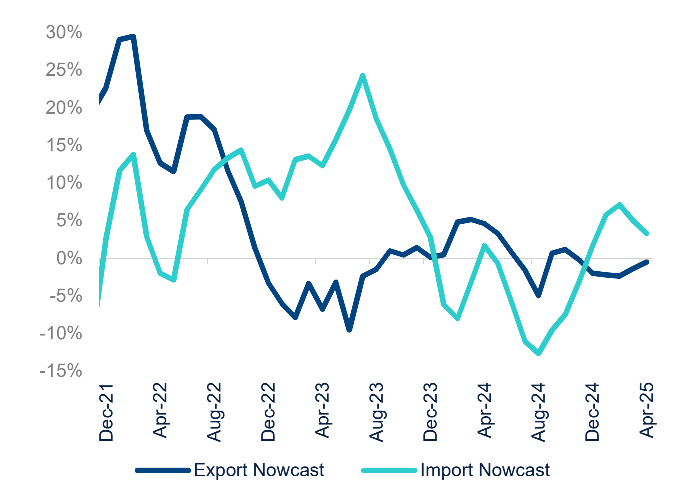

Source: TURKSTAT, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

Figure 19. **Garanti BBVA Monthly Investment GDP Nowcast** (3-month average YoY)



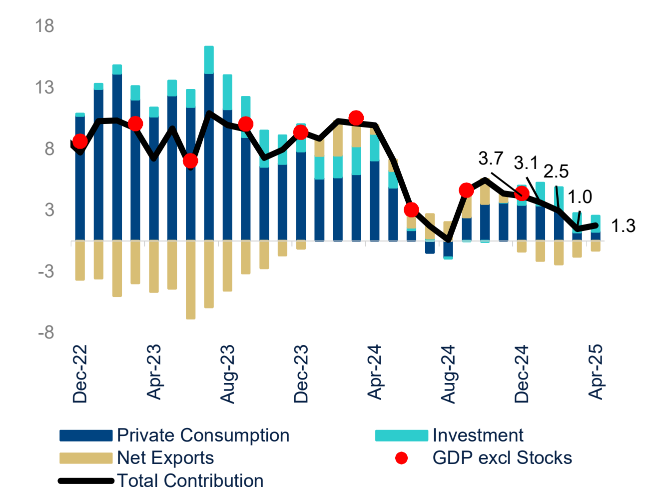

Source: TURKSTAT, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

Figure 20. **Garanti BBVA Exports & Imports Monthly GDP Nowcast** (3-month average YoY)




Source: TURKSTAT, Garanti BBVA Research, GBTRXGDPY and GBTRMGDPY in Bloomberg

Figure 21. **GDP Demand Sub-Components** (contribution to annual GDP, pp)




Source: TURKSTAT, Garanti BBVA Research

- On the investment side, despite the quarterly decline in capital goods production, increasing capital goods imports in 1Q25 portray a positive outlook. On top of that, construction activity on most likely earthquake recovery demonstrated a considerable quarterly acceleration with 10.3% q/q as of February. These hard data realizations altogether reflect that investment could have stayed solid in 1Q25, as also confirmed by our monthly investment GDP nowcasting 6.0% y/y growth in 1Q25 with around 2% q/q (Figure 19). On the other hand, the expectations for fixed investment expenditures in the upcoming 12 months continue to worsen while the tightening financial conditions and the recent upsurge in uncertainties stemming from global and domestic factors could pose downside pressure on investment going forward.
- On the external balance, according to our calculations, goods exports increased by 5.5% q/q in 1Q25, while goods imports rose by 3.8% q/q. Our nowcast indicators for goods and services exports suggest a contraction of 1.4% on annual basis in 1Q25, but implying +3.1% q/q growth. On the other hand, our nowcast for goods and services imports points to %5 y/y with almost %0 q/q growth, reflecting the impact of some moderation in domestic demand (Figure 20). Although net exports contribution to GDP could be negative on an annual basis, our calculations indicate that the contribution may have turned into positive on a quarterly basis. The recently increased tariff rates could be a downside risk on exports because of weaker external demand, however, the expected defense and infrastructure spending in the Eurozone may limit the final impact.
- Overall, we estimate that the total contribution from consumption, investment and net exports to annual GDP growth could decline down from 3.1pp in January to 2.5pp in February, and to 1.0pp in March (Figure 21). However, the contribution of domestic demand excluding stocks and net exports could remain positive on a quarterly basis. Hence, in seasonal and calendar adjusted data, we continue to observe the imbalance between aggregate demand excluding stocks and aggregate supply.

**BOTTOM LINE:** The incoming data reflect that the quarterly growth trend is likely to be preserved with 1.5-2.0% q/q in 1Q25, mainly driven by domestic demand. The momentum in credit growth, supportive financial conditions and expansionary fiscal policy supported the domestic demand in 1Q25. Contrary to the Central Bank's expectations, domestic demand did not provide sufficient support to the disinflation path since the output gap appears to have returned to neutral levels rather than deepening further. Meanwhile, the growing uncertainty on both domestic and external factors may lead to further losses in production, thereby resulting in a further slowdown in GDP growth in the upcoming period. In the meantime, we expect the monetary policy to remain prudent in order to absorb the recent shocks on currency depreciation and tendency for dollarization. On the other hand, fiscal policy might not be able to be tightened as previously expected to contain the pressures on the employment outlook. Therefore, we evaluate that risks are now balanced on our 2025 GDP growth expectation of 3.5%. Despite relatively lower tariff rates imposed on Turkish exports by the US could provide a comparative advantage, the uncertainties on the global economy pose downside risk on our 2026 GDP growth expectation of 4.0%.

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