BBVA Research

Türkiye | Smooth landing signals so far

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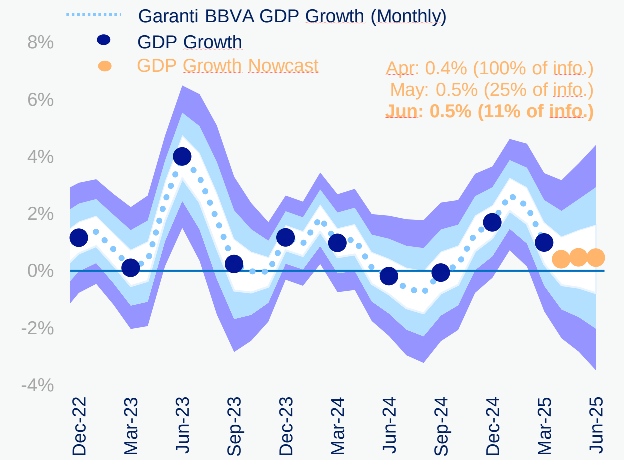
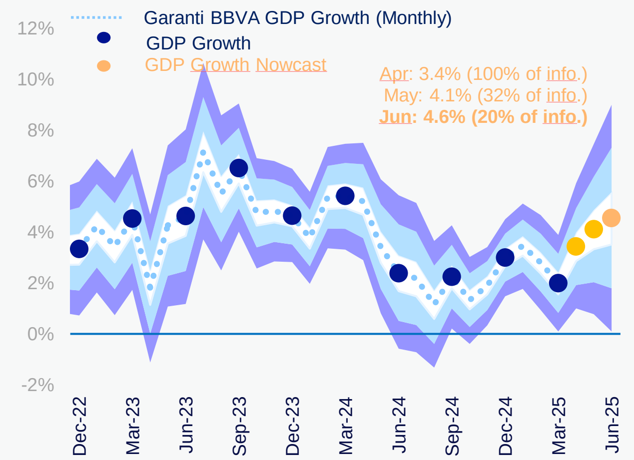
- GDP growth has slowed down further in 2Q25 driven by the ongoing correction in domestic demand amid tightening financial conditions, and weak external demand. Hard data realizations in April confirmed a broad-based deterioration across sectors, while leading indicators - particularly confidence indices- for May and June suggest that the slowdown would become more pronounced in 2Q25. The output gap could have deepened further into negative territory in 2Q25, supporting the disinflation outlook also implied by the CBRT in the latest MPC decision.
- On the domestic demand side, private consumption stays weak and we observe a recovery in investment expenditures, with leading indicators generally pointing to a continued correction. The weak external demand conditions have caused exports to remain subdued in 2Q25 while imports continue to normalize on weaker domestic demand. However, net exports may have still contributed negatively to growth on a quarterly basis.
- Our monthly GDP indicator nowcasts a quarter on quarter growth of 0-0.5% in 2Q25, while annual growth could accelerate to around 4.5% thanks to favorable calendar day impact.
- Tighter financial conditions, ongoing geopolitical tension, and uncertainty on global protectionist policies pose downside risks to near term growth outlook. On the other hand, expected support for growth in EU through defense and infrastructure spending, likelihood of additional quasi-fiscal policies such as the extension of Credit Guarantee Fund (CGF) limits, and the expected monetary easing in 2H25 may serve as supportive factors. Therefore, we maintain our 2025 growth forecast at 3.5%, while acknowledging the presence of downside risks.

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



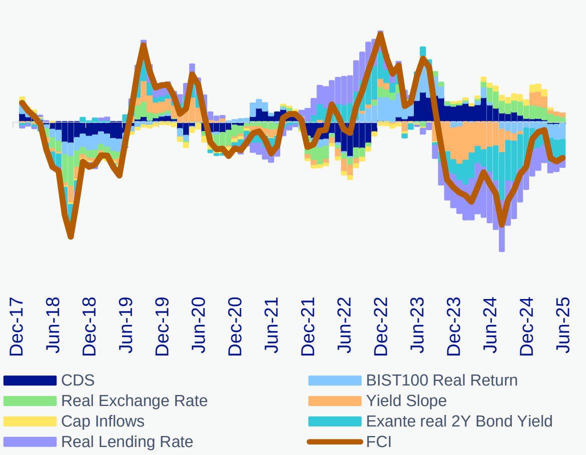
Source: Garanti BBVA Research, TURKSTAT

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



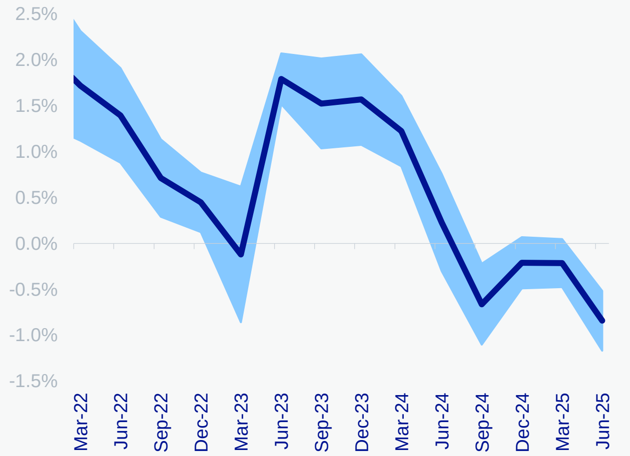
Source: Garanti BBVA Research, TURKSTAT

Figure 3. Garanti BBVA Financial Conditions (FCI) Index (standardized, + easing, - tightening)



Source: Garanti BBVA Research, CBRT, Bloomberg, TURKSTAT

Figure 4. Garanti BBVA Output Gap Estimate (%, deviation from potential GDP)

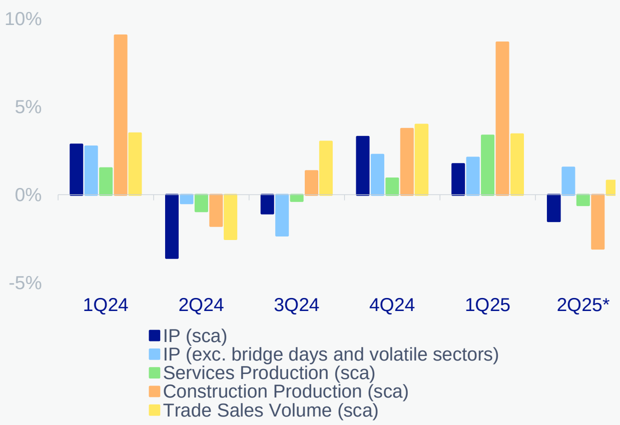


Source: Garanti BBVA Research, TURKSTAT

Weak demand conditions led to a slowdown in activity across the sectors

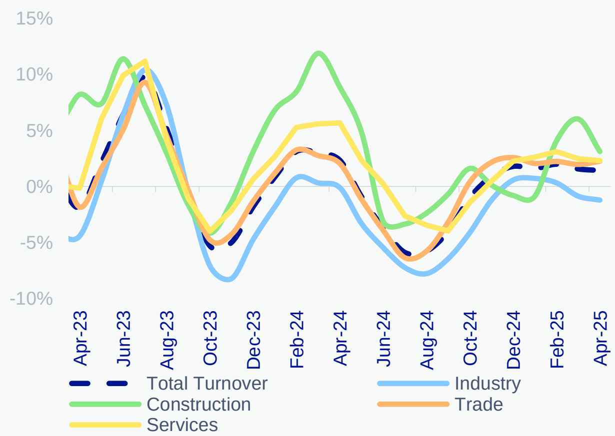
On the supply side, all sectors contracted in April on a m/m basis. Industrial production declined by 3.1% m/m, following a rebound of 3.4% in March after the contractions in Jan–Feb. The services sector contracted by 0.6% m/m (vs. +0.8% in March), while the construction sector declined by 1.6% m/m, marking a third consecutive month of contraction. Comparing April data with 1Q25 averages, early 2Q25 figures point to a broad-based deterioration in output: industrial production contracted by 1.5% q/q (down from +1.7% in 1Q25), services by 0.6% q/q (down from +3.4% in 1Q25), and construction - a key growth driver over the past three quarters - contracted sharply by 3.1% q/q (down from +8.7% in 1Q25).

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



Source: Garanti BBVA Research, TURKSTAT, *2Q25 refers to Apr

Figure 6. Sectorial Turnover Indices
(adj by CPI, sea. and cal adj., QoQ growth)

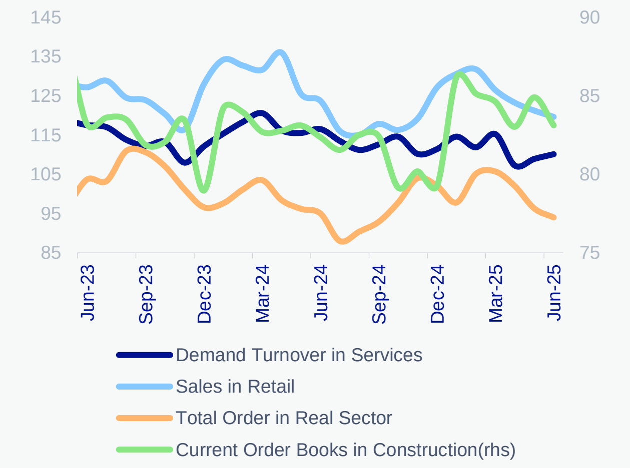


Source: Garanti BBVA Research, TURKSTAT

April industrial production (IP) was weighed down by volatile sectors and the impact of bridge days resulting from the extended Ramadan holidays -an effect not fully being able to be captured by the calendar adjustment. Excluding volatile sectors, IP contracted by 1.7% m/m in April (vs. +1.1% m/m in March), while the q/q growth (Apr25 vs. 1Q25) remained at -1.5%. The drag from volatile sectors is confirmed by the capital goods segment -which includes these sectors- contributing -2.3pp to the overall -3.1% m/m contraction in April IP. Additionally, non-durable consumer goods production subtracted 0.7pp, and intermediate goods subtracted 0.3pp from the IP growth rate. When further adjusting for bridge day effects, IP shows an expansion of 1.3% m/m (vs. +1.1% m/m in Mar25), and the q/q growth slightly decelerated to +1.5% (vs. +2.1% in 1Q25).

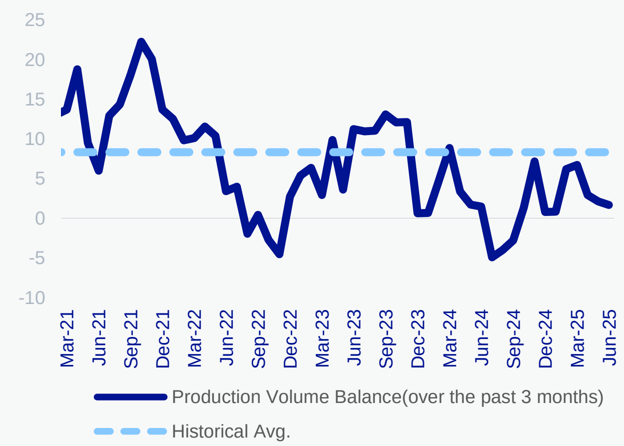
The real turnover index -a CPI-adjusted composite measure of industry, construction, trade, and services- fell by 1.4% m/m in April, following the increases of 1.4% m/m in March and 1.0% m/m in February. This led to a mild decline of 0.15% q/q (Apr25 vs. 1Q25), after improvements of 1.6% in 1Q25 and 1.8% in 4Q24, following the contractions for two consecutive quarters (−5.8% q/q in 2Q24, −4.1% q/q in 1Q24). The monthly contraction in April was broad-based across all sectors except services. Compared to the previous quarter, turnover declined in industry (−2.1% q/q) and construction (−4.8% q/q), while trade (+0.3% q/q) and services (+3.6% q/q) posted gains.

Figure 7. Demand Conditions over the past 3 months (seasonal adj index, monthly)



Source: Garanti BBVA Research, TURKSTAT

Figure 8. Economic Tendency Survey Production Volume (seasonal adj., over the past 3 months)



Source: Garanti BBVA Research, CBRT

Looking ahead, sales, order or demand over the past 3 months (Figure 7) has retreated in all sectors, signaling the slowdown in activity stemming from the weakening demand conditions. The leading indicators also confirm this trend. Real sector (manufacturing industry) confidence remained subdued in June and production volume over the past 3 months (Figure 8) showed a deterioration in real sector activity in 2Q25. The manufacturing capacity utilization rate declined to 74.4% in June, marking a two-year low. As a result, the 2Q25 average fell further below the 1Q25 average, at 74.3% compared to 75.0%, and remained substantially below the historical average of 76.7%. The manufacturing PMI stood at 47.2 in June (vs. 47.3 in May), remaining in contractionary territory for the 14th consecutive month (Figure 9). The Apr-May average (47.3) remained below the 1Q25

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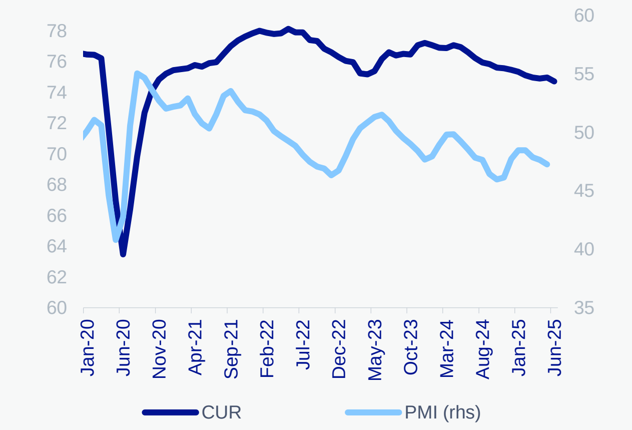
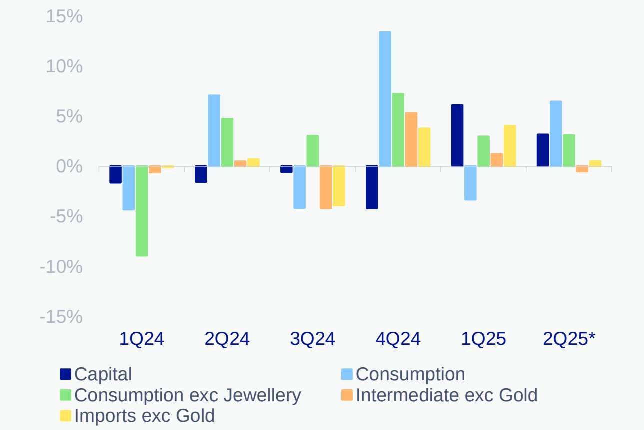
average (47.9). Also, intermediate goods imports excluding gold (Figure 10) contracted in 2Q25 as of May after the positive q/q figures in the previous two quarters. Sectoral confidence indices also signaled the deterioration could be broad based across sectors in 2Q25 with the sharpest drops in services and retail trade (both -4.1% q/q). As a result, our composite factor derived from confidence indicators -which has a strong correlation with GDP- points to around %0 q/q in 2Q25 which should be proved by the incoming hard data (Figure 12). Also, expectations over the next three months deteriorated across employment, production volume, export orders, and investment expenditures. This suggests that manufacturing performance for the next term are weakening. Similarly, expectations for 3Q25 deteriorated in the services, construction, and trade sectors.

Figure 9. Manufacturing Capacity Utilization Rate vs. PMI Index (Monthly, seasonally adj., Level)



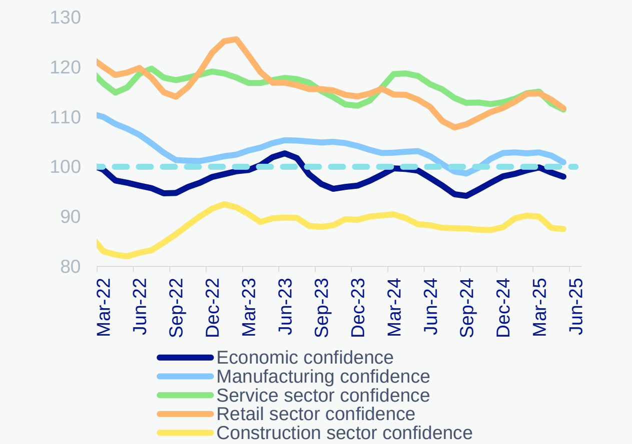
Source: Garanti BBVA Research, TURKSTAT, ICI

Figure 10. Import Sub-Components Volume (QoQ, seasonal and cal. adj.)



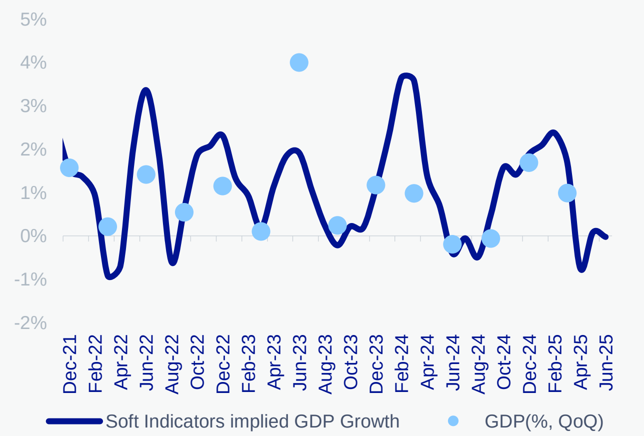
Source: Garanti BBVA Research, Trade Ministry, TURKSTAT, 2Q25* refers to Apr-May

Figure 11. Economic Confidence Index (seasonal and cal. adj., 3M Mov. Avg.)



Source: Garanti BBVA Research, TURKSTAT

Figure 12. Soft Indicator Factor Implied Growth vs. GDP Growth (%)



Source: Garanti BBVA Research, TURKSTAT, ICI

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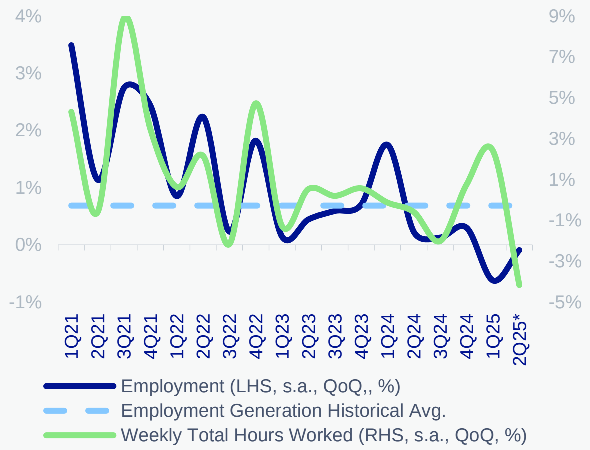
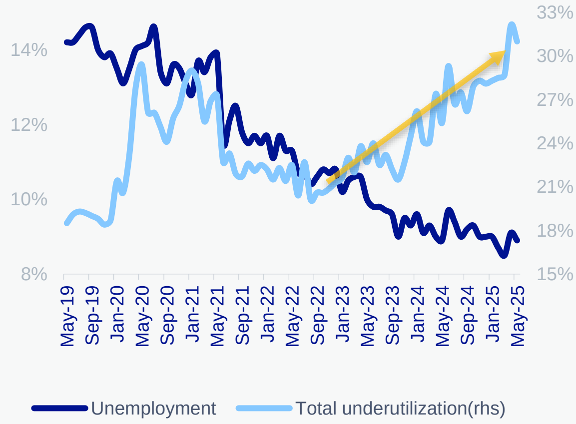
Figure 13. Employment & Total Hours Worked (QoQ, %, seasonal adj.)



Source: Garanti BBVA Research, TURKSTAT, 2Q25* refers to Apr-May

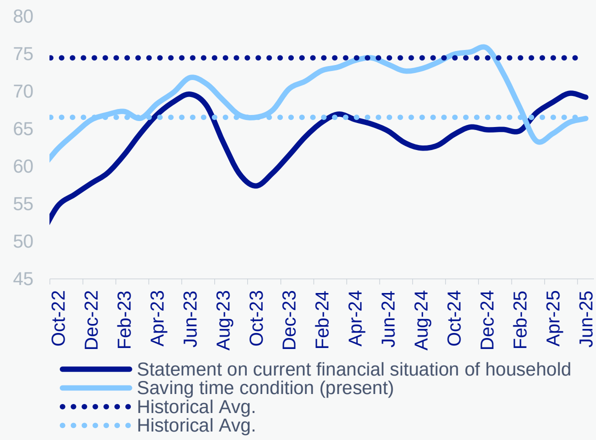
Figure 14. Unemployment Rate (seasonally adjusted)



Source: Garanti BBVA Research, TURKSTAT

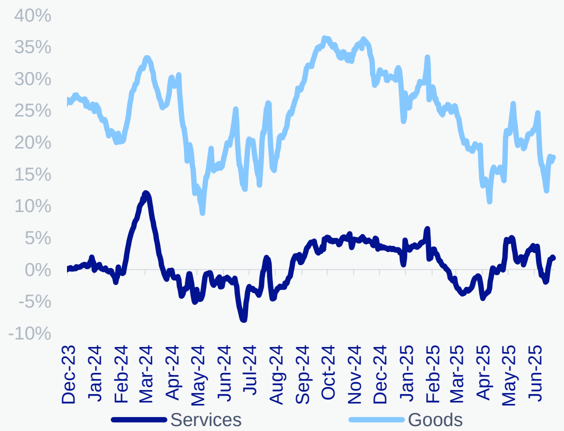
The economic slowdown has also started to result in a deterioration in the labor market. The recovery in employment and total hours worked in May could not compensate the sharp decline in April so total weekly hours worked contracted on a quarterly basis as of May; while employment remained in contraction zone, far below its historical average growth rate (Figure 13). As a result, the seasonally adjusted unemployment rate rose by 0.6pp to 8.6% in April but edged down slightly to 8.4% as in May. Meanwhile, the broad based unemployment rate marginally declined to 31.0% in May, after reaching 32.2% in April, marking the highest level in the series since 2014 (Figure 14). All in all, unemployment rate increased to 8.5% in 2Q from 8.2% in 1Q25.

Figure 15. Consumer Financial Condition and Saving Perception (present, 3M Avg.)



Source: Garanti BBVA Research, TURKSTAT

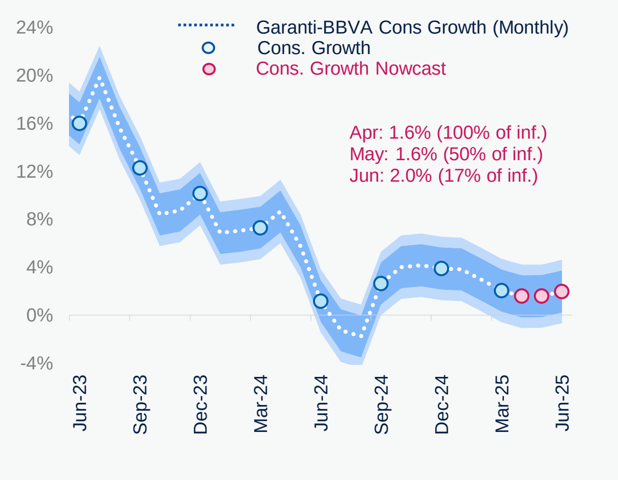
Figure 16. Garanti BBVA Big Data Consumption Indicators (28-day sum, YoY, adjusted by CPI)



Source: Garanti BBVA Research, TURKSTAT

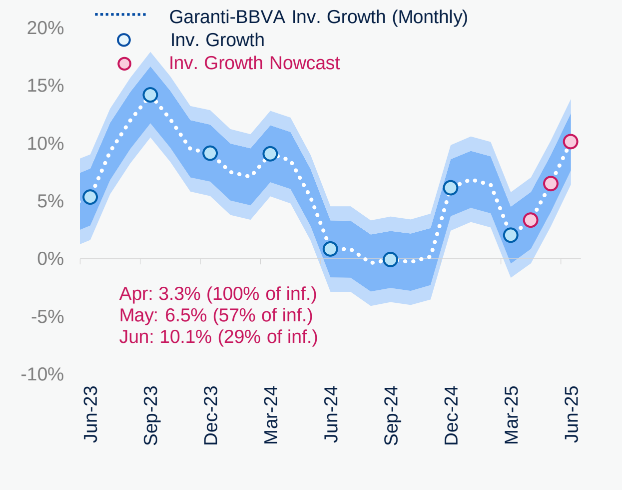
Tight financial conditions, diminishing household disposable income on top of weaker than inflation wage adjustments and recently below-average employment growth are all contributing to a weakening in domestic demand, while global uncertainty continues to weigh on external demand. Households' perception of conditions being suitable for saving deteriorated significantly at the beginning of the year, falling below the historical average, and remained weak throughout the second quarter (Figure 15). In addition, while household financial condition had been recovering for some time, it remained stagnant in 2Q25. Leading indicators point to a worsening in demand conditions in 2Q25, although the slowdown appears to be more gradual in hard data. Retail sales increased (sca) by 2.8% m/m in April (vs. -1.5% prev.) mainly on non-food categories, while the improvement in the retail sales was much more limited excluding watches and jewelry (1.2% m/m). Hence, after the upsurge by 3.6 q/q in 4Q24 and 3% q/q in 1Q25, it decelerated to 2.2% q/q as of April in 2Q25. Consumption goods imports excluding jewelry remained steady in April but contracted by 1.6% m/m in May based on our calculations (Figure 10). Our big data indicators signal somewhat a subdued consumption growth in both goods and services consumption during May and early June (Figure 16), which recovers only slightly by mid-June. In summary, our monthly private consumption GDP indicator (Figure 17) nowcasts signal a subdued annual growth in private consumption even in the presence of positive calendar day effects, with 2% as of June, implying a q/q contraction.

Figure 17. Garanti BBVA Monthly Consumption GDP Nowcast
(3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research

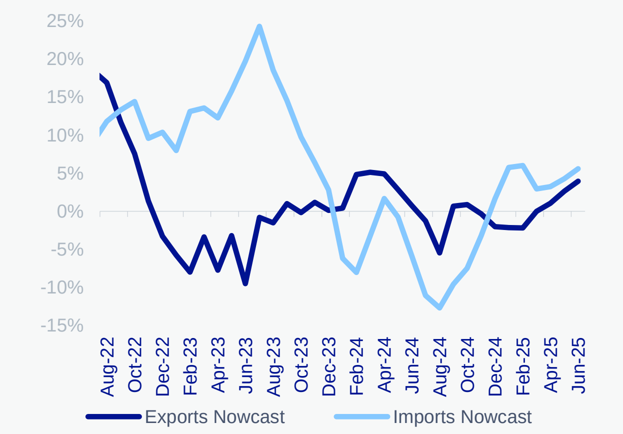
Figure 18. Garanti BBVA Monthly Investment GDP Nowcast
(3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research

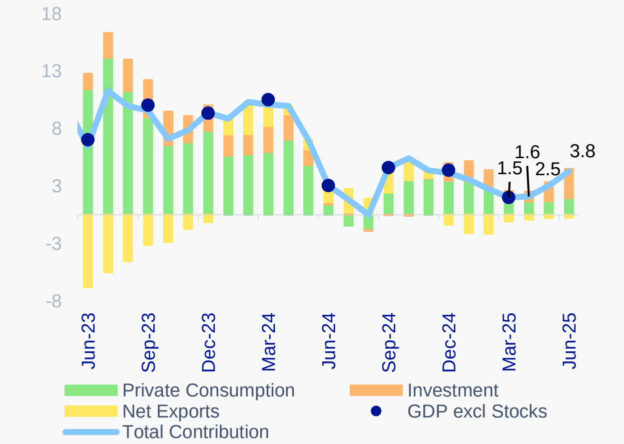
Investment expenditures could remain weak but additional hard data is needed to confirm this. In April, capital goods production -excluding the manufacturing of other transport-contracted by 4.5% m/m and declined by 1.7% q/q compared to 1Q25. Following a sharp increase in March, capital goods imports fell in both April and May, which led to a clear loss of momentum in the trend as it grew by 3.2% q/q as of May in 2Q25 (vs 6.1% q/q in 1Q25). A similar pattern is observed on the construction activity. Construction production contracted by 1.6% in April, marking the third consecutive monthly decline. Additionally, the production of non-metallic minerals, which serves as a leading indicator for construction activity, also contracted in April. Meanwhile, the business expectations for fixed investment over the next 12 months deteriorated in 2Q25 compared to the previous quarter, despite slight improvement in June. Despite the weak momentum in weak investment expenditures, our monthly GDP indicator points to an increasing contribution from investment to growth in 2Q25 thanks to the favorable calendar and base effects (Figure 18).

Figure 19. Garanti BBVA Exports & Imports Monthly GDP Nowcast
(3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research

Figure 20. GDP Demand Sub-Components
(contribution to annual GDP, pp)



Source: Garanti BBVA Research, TURKSTAT

On the external balance, weak foreign demand on global trade uncertainty continues to weigh on exports to the downside, while the normalization in domestic demand has started to put some moderation in imports as of May. Goods exports contracted by 10% in April but rebounded by 13% in May. Although tourism revenues provided some support to exports, the overall outlook remains weak. Accordingly, we nowcast that exports (Figure 19) could grow by 0.3% q/q in 2Q25 but accelerate to 3.9% y/y thanks to favorable calendar effects. Despite the sharp depreciation in the exchange rate in March and tariff-related concerns in April having triggered front-loaded import demand in April, we observe a reversal in May, reflecting the effects of normalization in domestic demand. In fact, excluding precious metals such as gold and jewelry, goods imports declined by 6.7% m/m in May after the rise by 2.7% m/m in April, based on our calculations. Thanks to favorable calendar effects, we nowcast that goods and services imports (Figure 19) will increase by 5.6% y/y in 2Q25. While net exports could make a negative contribution to growth on a quarterly basis in 2Q25, their negative contribution on an annual basis may ease slightly (Figure 20).

Overall, we estimate that the total contribution from consumption, investment and net exports to annual GDP growth could increase from 1.5pp in March to nearly 4pp in June (Figure 20), which would imply a relatively balanced outlook between aggregate demand and supply – with nowcasted 4.5% GDP growth-, and may hint a slow inventory accumulation.

DISCLAIMER