Creating Opportunities

Research

Activity Pulse

Türkiye | Hard landing or not?

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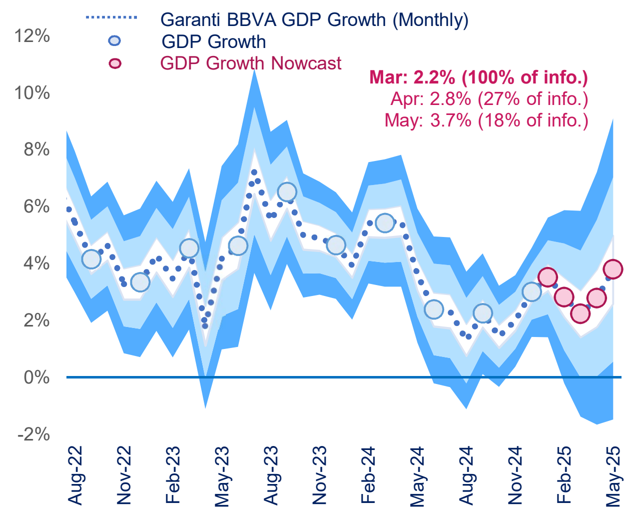
16 May 2025

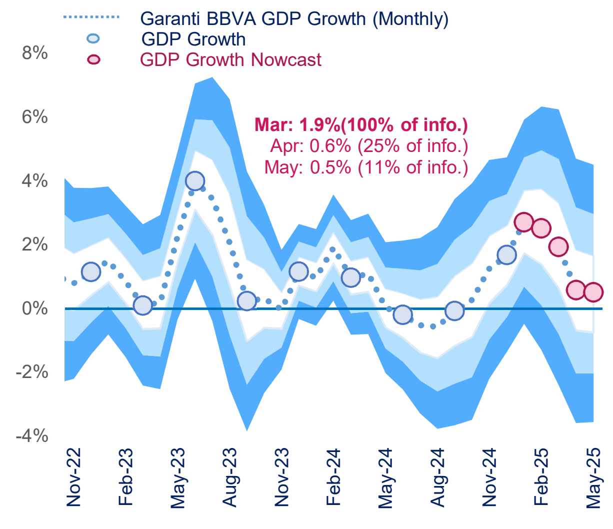
- Hard data realizations so far confirm a robust quarterly GDP growth for 1Q25, similar to the previous quarter, driven by domestic demand. However, production data for March revealed a weakening across all sectors. The rapid worsening in April confidence indicators, stemming from the growing uncertainty due to the domestic turmoil by mid-March and the tariff shock as of April, point to the likelihood of a sharp adjustment in economic activity, which is yet to be confirmed by hard data. Additionally, the recent more restrictive monetary stance could dampen domestic demand after a strong rebound in 1Q25. The data so far in 2Q25 signals some slowdown in domestic demand on a quarterly basis, where consumption could remain steady and investment expenditures could contract slightly; while net exports contribution could stay negative.
- Our monthly GDP indicator nowcasts 1.9% quarterly growth in 1Q25 and a deceleration to below 1% quarterly growth in early 2Q25; while annual GDP growth accelerates to above 3% as of May, supported by positive calendar day impact (Figure 1 & 2). The worsening in general situation and the expectations of both domestic and external orders in confidence indicators signaled a much faster downside adjustment in activity, which should be evaluated with caution due to the lack of sufficient hard data yet.
- Following the Central Bank's latest tightening measures, real loan interest rates have climbed up to their highest levels in the past 20-25 years, leading to a renewed tightening of financial conditions. In the coming months, we may begin to see the contractionary effects on economic activity; however, the latest tightening has not yet fully translated into real credit growth figures (Figure 3 & 5). On the global front, uncertainty remains elevated despite some de-escalation in trade wars. On the fiscal side, the weakening in non-interest expenditures in April with a growth rate below inflation may be an early signal of fiscal consolidation, but we will continue to monitor this closely. All in all, we maintain our 2025 GDP growth forecast of 3.5% for the time being but with a bias tilted to increasingly downside. In the months ahead, the degree of monetary tightening, developments in tariff wars and the extent of fiscal discipline will ultimately shape the growth outlook.

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



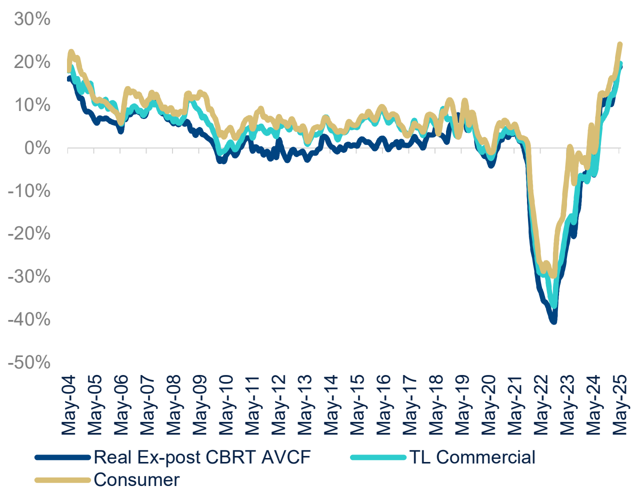
Source: Garanti BBVA Research, GBTRGDPY Index in Bloomberg
*An average of different model results synthesizing high-frequency indicators to proxy monthly GDP

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



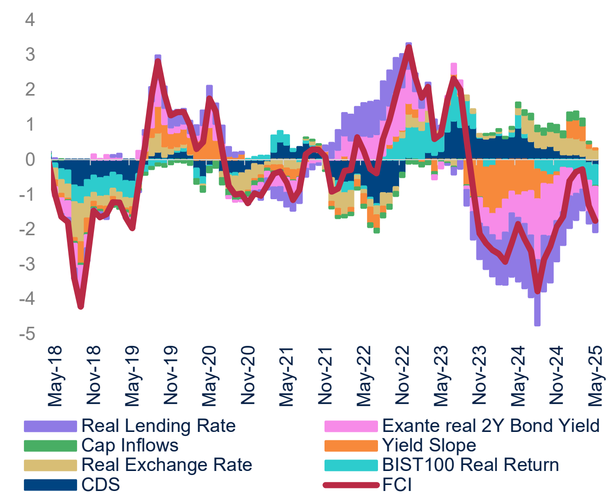
Source: Garanti BBVA Research

Figure 3. **CBRT Average Funding Rate and TL Loan Rates** (%, annual, real, compound)



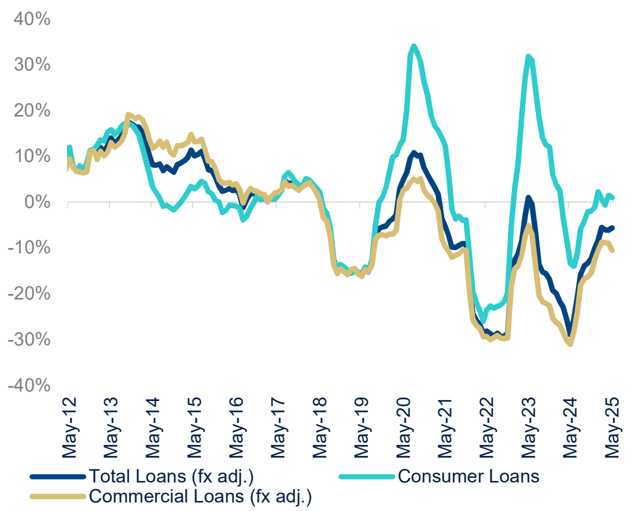
Source: CBRT, BRSA, TURKSTAT, Garanti BBVA Research

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



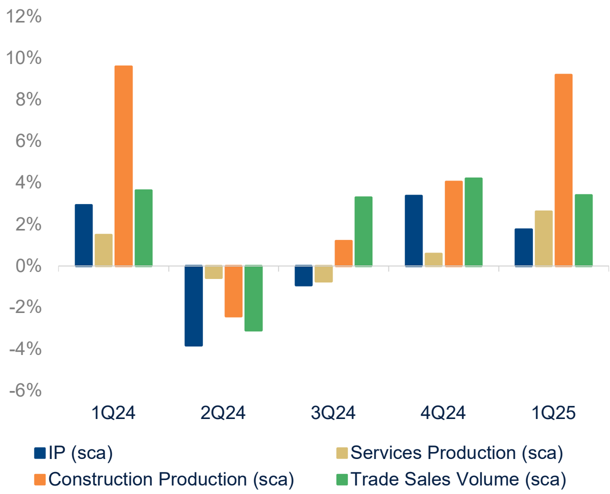
Source: CBRT, Bloomberg, Garanti BBVA Research

Figure 5. **Loan Growth** (real, YoY, %)



Source: BRSA, TURKSTAT, Garanti BBVA Research

Figure 6. **Industrial, Services and Construction Production** (QoQ, seasonal and cal. adj.)

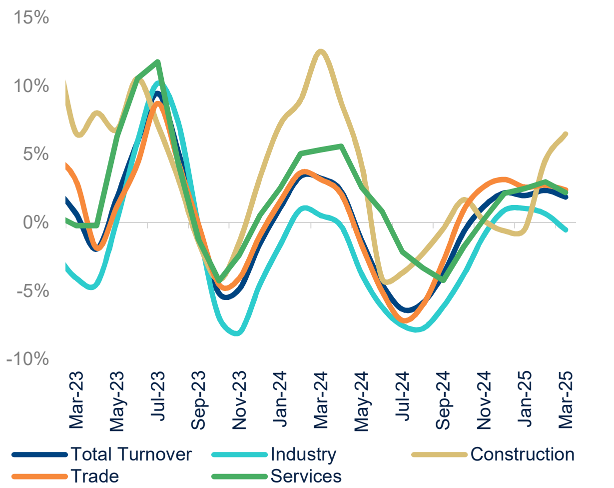


Source: TURKSTAT, Garanti BBVA Research

- The supply side indicators demonstrate differing trends on monthly and quarterly terms across sectors (Figure 6). Industrial production (IP) increased by 3.4% m/m in March, following two consecutive contractions in January and February. As a result, IP growth slowed down in 1Q25 on quarterly terms (1.8% q/q vs. 3.4% q/q in 4Q24). The growth in services sector was lackluster with 0.1% m/m (vs. -1.8% prev.), while the construction sector output declined by 2.5% m/m (vs. -0.4% m/m) in March. Nevertheless, on quarterly trends the growth in both services and construction accelerated in 1Q25, led by a broad-based strong growth at the beginning of the quarter, with 2.6% q/q (vs. 0.6% in 4Q) and 9.2% q/q (vs. 4.0% in 4Q), respectively.
- Sectorial details revealed that the monthly growth in industrial production in March was driven by largely capital goods with 2.7pp contribution, on the back of 80.5% m/m growth in “other transport equipment”. Excluding the sectors with volatile output, the IP growth was much more limited with 0.9% m/m. Considering quarterly growth, largest contribution came from the intermediate goods (1.9% q/q), followed by energy (4.0% q/q) and non-durable goods (1.7% q/q). Still, the slowdown in intermediate, consumption and capital goods production, overall confirmed a slower pace of industry growth in 1Q25, compared to the previous quarter.

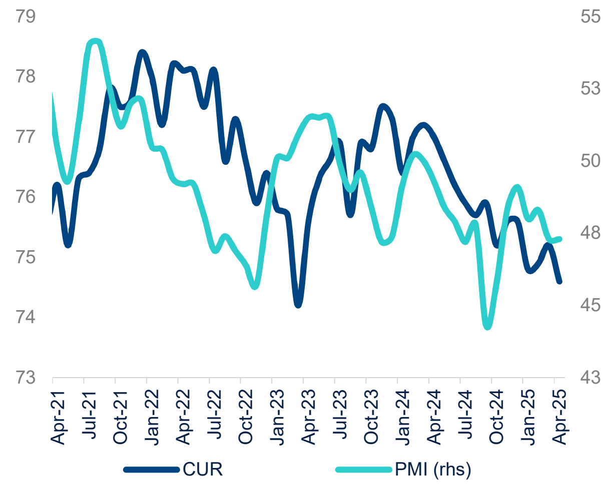
- The real turnover index adjusted by CPI, a composite measure of industry, construction, trade and services, increased by 1.9% q/q in 1Q25, pointing to only a slight slowdown compared to 4Q24 (Figure 7). Industrial turnover declined by 0.5% q/q (vs. +0.9% q/q in 4Q24) and the trade turnover growth decelerated to 2.4% q/q (3.2% q/q in 4Q24). Meanwhile, the construction sector turnover picked up considerably with 6.5% q/q (vs. -0.6% q/q in 4Q24), while services turnover remained resilient with 2.2% q/q, the same as in 4Q24.

Figure 7. **Sectorial Turnover Indices**
(real adj by CPI, seasonal and cal adj., QoQ growth)



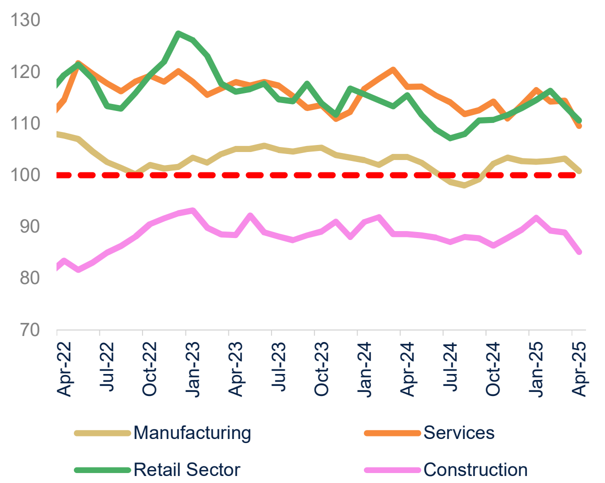
Source: TURKSTAT, Garanti BBVA Research

Figure 8. **Manufacturing Capacity Utilization Rate vs. PMI Index** (Monthly, seasonally adj., Level)



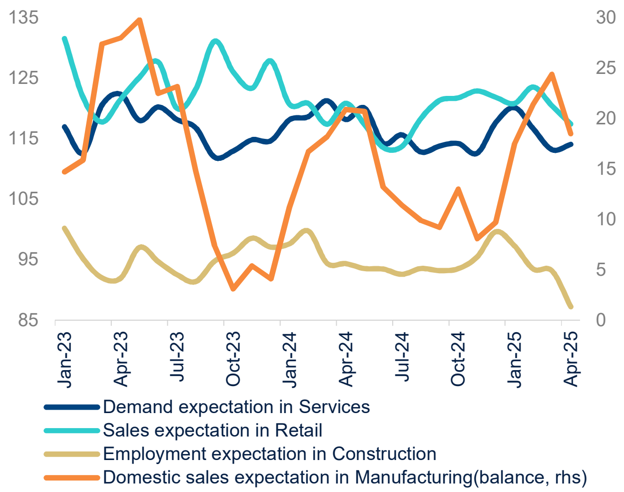
Source: CBRT, İstanbul Chamber of Industry, Garanti BBVA Research

Figure 9. **Economic Confidence Index**
(seasonal and cal. adj.)



Source: TURKSTAT, Garanti BBVA Research

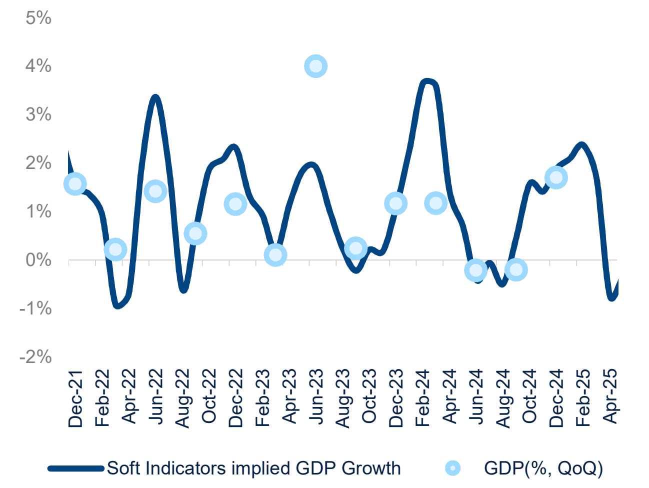
Figure 10. **Expectation Indices over the Next 3 Months**



Source: TURKSTAT, Garanti BBVA Research

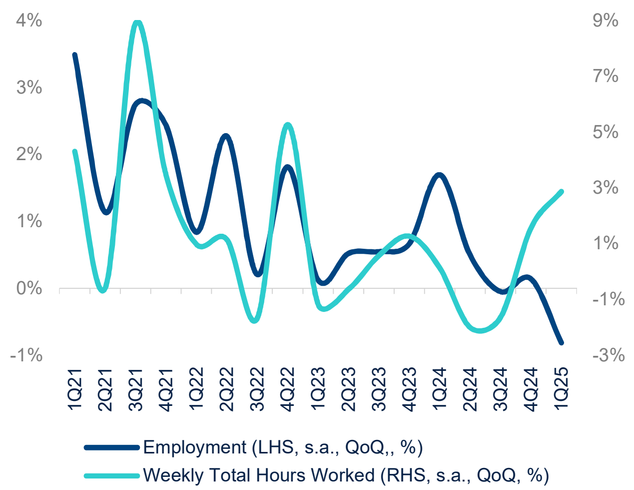
- The domestic turmoil by mid-March and the upsurge in uncertainty regarding global outlook on tariff wars in April led to a fast deterioration in sentiment. The manufacturing capacity utilization rate (CUR) declined further in April to 74.6%, the lowest level in the past 2 years, down from 75.2% in March, and came below the 1Q25 average of 75% (Figure 8). Manufacturing PMI stayed in the contractionary area for the 13th consecutive month, and remained unchanged at 47.3 in April, staying below the 1Q25 average of 47.9. Considering the next 3 months, manufacturing sector's expectations for production volumes considerably worsened, pointing to more challenging conditions in 2Q25. Sectoral confidence deteriorated across the board in April (Figure 9), with worsening assessments on current conditions and expectations. The expectations regarding demand deteriorated in both manufacturing and retail, while employment expectation in construction sector worsened further (Figure 10). As a result, our composite factor derived from confidence indicators -which has a strong correlation with GDP- points to a sharp correction in activity with a negative quarterly growth rate (Figure 11); however, historically, negative shocks tended to cause rapid deterioration in sentiment. Therefore, we should follow hard data realizations incoming months to confirm this trend. To sum up, in line with our nowcasts and survey-based indicators, we expect a deceleration in overall economic activity in the near future considering the recent financial tightening and the rise in global uncertainty.

Figure 11. **Soft Indicator Factor Implied Growth vs. GDP Growth**



Source: CBRT, TURKSTAT, Garanti BBVA Research

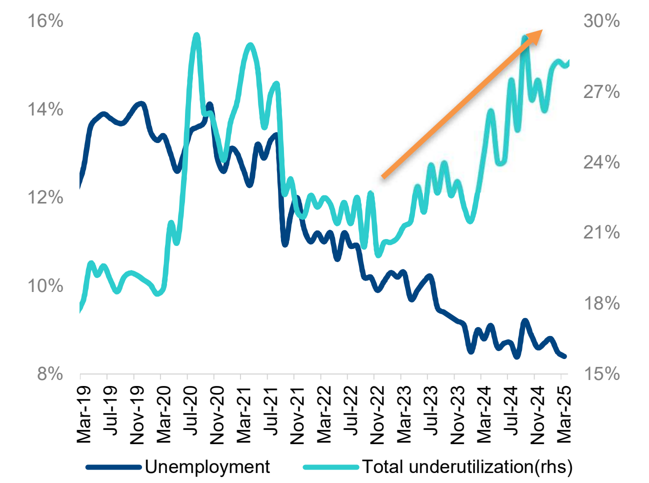
Figure 12. **Employment & Total Hours Worked** (QoQ, %, seasonal adj.)



Source: TURKSTAT, Garanti BBVA Research

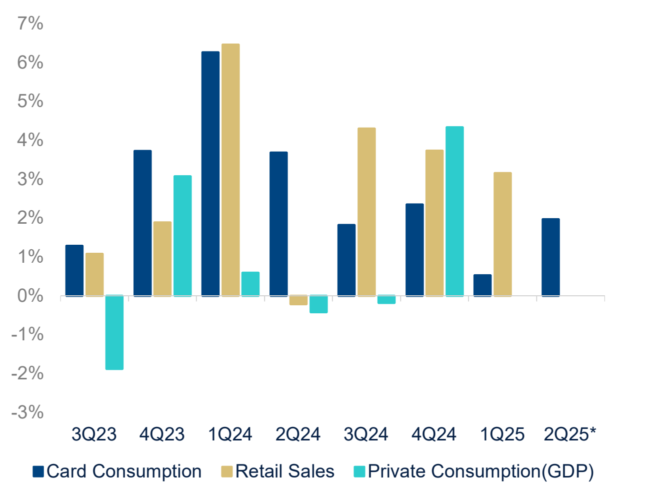
- Employment generation turned into negative in 1Q25 with the number of employed contracting by 1.0% q/q, marking the fourth consecutive quarter of below-average employment growth (Figure 12). On the other hand, the weekly total hours worked increased in 1Q25, confirming that the momentum is likely to be preserved in economic activity in 1Q25 (Figure 13). The unemployment rate declined further in March to 7.9%, lowering the average down to 8.2% in 1Q25. In contrast to much better figures in headline unemployment, the total underutilization rate -broader measure of unemployment, rose to 28.3% on average in 1Q25, slightly worse than the previous quarter, reflecting the worsening in the quality of employment. Overall, the headline unemployment rate remained resilient so far, though a clearer slowdown in activity as of 2Q25 will likely pose upward pressure on the unemployment.

Figure 13. **Unemployment Rate** (seasonally 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
*2Q25 as of April

- Consumption indicators (Figure 15) suggest that the contribution of private consumption to GDP will decline in 1Q25 compared to 4Q24, in line with the slowdown observed in quarterly card consumption trends during 1Q25 (Figure 14). The relatively modest wage adjustments at the beginning of the year, along with a decline in front-loaded consumption, appear to have contributed to a moderation in consumption in 1Q25. Retail sales growth eased to 3.2% q/q in 1Q25 down from 3.7% in 4Q24, weighed down by a 1.4% m/m contraction in March. Card consumption data for April points to a pickup in consumption activity at the start of 2Q25; however, as this data does not yet reflect the full impact of recent tightening measures, quarterly growth is expected to remain below the currently implied pace. Our big data indicators show a deceleration in both goods and services consumption as of May (Figure 16), reversing the acceleration recorded in April. While goods consumption continues to support annual growth in consumption, services consumption remains subdued. Our private consumption factor indicator (Figure 17) suggests that, following the slowdown in the 1Q25, private consumption might remain steady in 2Q25. Indeed, our monthly private consumption GDP indicator (Figure 18) currently nowcasts a deceleration in annual growth to 0% in 1Q25 on the back of unfavorable calendar impact too, down from 3.9% in 4Q24. For 2Q25, while April data indicates a slowdown, May data shows a recovery on favorable calendar day effects.

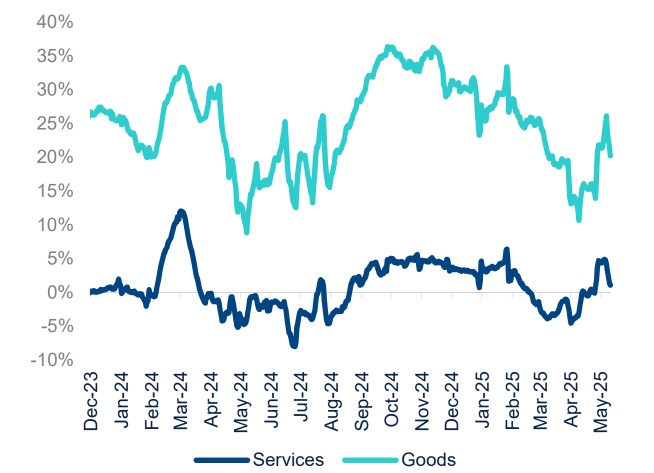
Figure 15. **Consumption Indicators Heat Map** (real, seasonal and cal. adj., QoQ)

		2024												2025				
	Mean	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Non-Durable Goods Cons. Turnover	1.6	-0.5	1.6	2.1	2.4	0.7	-1.5	-4.0	-5.5	-4.9	-2.7	0.0	1.3	1.3	1.5	0.9		
Retail Sales	2.0	4.1	5.5	5.9	4.4	1.2	-0.7	0.2	2.9	5.4	5.6	5.2	3.7	3.7	3.4	3.2		
Cons. Goods Imports exc Jewellery	1.7	-8.3	-7.4	-3.8	11.3	10.6	5.6	-3.1	-5.4	-3.4	2.0	7.8	13.3	9.0	3.4	-2.4	0.2	
Cons. Loans Exc. Mortgage	1.6	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	-1.0	-0.5
SCT & Import VAT	1.8	-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	1.8	3.3	-18.7	-1.1	45.5	60.7	24.2	-26.2	-30.5	-16.3	20.0	34.4	22.1	-2.8	-23.1	-27.0		

Contraction | Slow-down | Growth | Boom

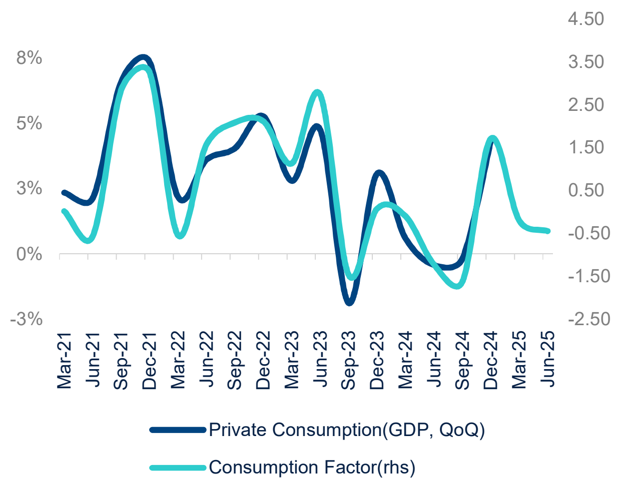
Source: TURKSTAT, Ministry of Treasury, BRSA, Garanti BBVA Research

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



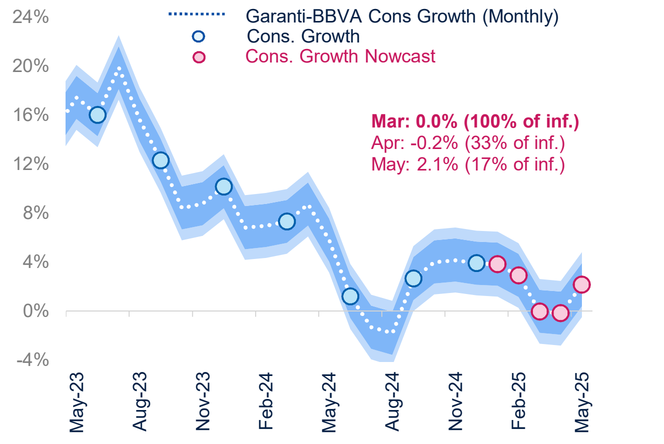
Source: TURKSTAT, Garanti BBVA Research

Figure 17. **Private Consumption vs Consumption Factor** (QoQ, seasonal and cal. adj.)



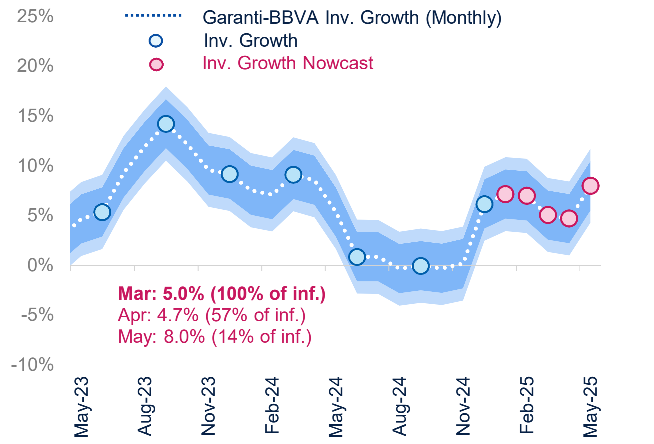
Source: Ministry of Treasury, BRSA, TURKSTAT, Garanti BBVA Research

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



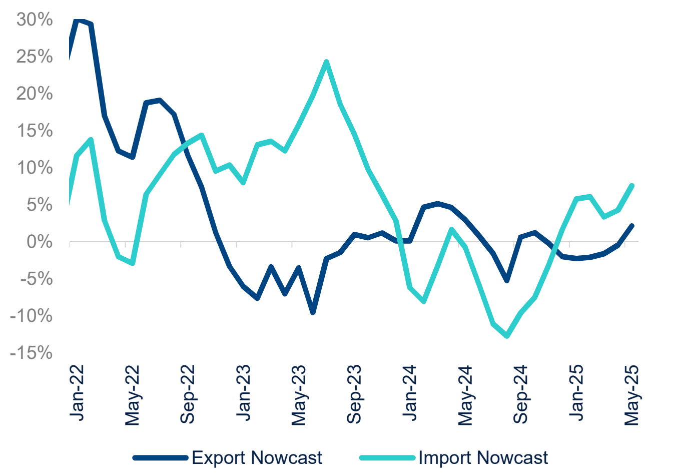
Source: TURKSTAT, Garanti BBVA Research, GBTRCGDPY Index in Bloomberg

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



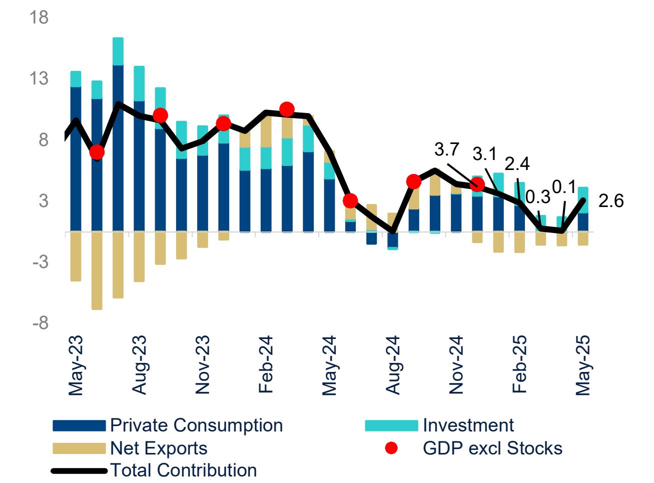
Source: TURKSTAT, Garanti BBVA Research, GBTRIGDPY Index in Bloomberg

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

- Our monthly GDP indicator forecasts a slight slowdown in investment expenditures growth to 5.0% y/y in 1Q25 (Figure 19), down from 6.1% y/y in 4Q24, but with still a quarterly expansion. Although capital goods imports returned to positive growth in 1Q25 after contracting in 4Q24, industrial production of capital goods declined sharply to 0.6% y/y, down from 9.3% in 4Q24. Moreover, business expectations for fixed investment over the next 12 months deteriorated in 1Q25 compared to the previous quarter, and also remained weak as of April. Our investment nowcasting indicator shows some improvement on an annual basis thanks to favorable base effects but implies a mild contraction on a quarterly basis. The recent tighter financial conditions and the rising uncertainties may limit the investment expenditures in the upcoming period.
- On the external balance, our nowcast indicators point to slightly accelerating growth in imports but a stable outlook in exports in 1Q25, resulting in a negative contribution from net exports to GDP growth. Nevertheless, on quarterly basis, the net exports' contribution to GDP could have remained positive in 1Q25 and it could return back to negative in 2Q25. Trade tariffs on the global side and recent currency depreciation on the domestic side might have triggered some "emergency stockpiling" imports as of April while exports could remain sluggish on still weak foreign demand. In this respect, the significant acceleration in April imports could be a one-off increase, while much tighter financial conditions could limit imports in the near future.

- Overall, we estimate that the total contribution from consumption, investment and net exports to annual GDP growth could decline down from 3.7pp in December to 0.3pp in March, and to 0.1pp in April (Figure 21). Meanwhile, the contribution of domestic demand excluding stocks and net exports could switch to negative territory in 2Q25, yet to be confirmed by the hard data realizations.

BOTTOM LINE: Parallel to our previous nowcast results, hard data realizations confirmed that the growth momentum is likely to have been preserved similar to 4Q24 on robust domestic demand in 1Q25, for which the official data will be released on May 30th. Amid both internal and external shocks and the financial tightening thereafter have resulted in considerable worsening in soft data indicators signaling a harsh adjustment in economic activity as of April, which is yet to be confirmed by hard data. Tightening financial conditions, more restrictive monetary policy and heightened global uncertainty triggered by trade tariffs altogether signal challenging conditions for both production and demand going forward. Given the latest additional tightening in monetary policy, real loan interest rates have reached their highest levels in the last 20-25 years. If the tight stance is maintained for longer, we may observe a deeper real contraction in lending in the coming months. On the other hand, the fiscal stance might be preferred to be calibrated less tighter than planned in order to counter balance the adverse effects of these downside factors on the employment outlook. Therefore, the likelihood of a hard landing in the economy will depend on the effectiveness of the policy mix and external developments. We will closely monitor the Central Bank's second inflation report of the year to be presented on May 22nd and focus on its updates on inflation and output gap forecasts, and any clues it may provide about the future monetary stance. We maintain our 2025 GDP growth forecast of 3.5% for the time being but with a bias tilted increasingly to downside. In the months ahead, the degree of monetary tightening, developments in tariff wars and the extent of fiscal discipline will ultimately shape the growth outlook.

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