BBVA Research

Türkiye | Soft Landing in Progress

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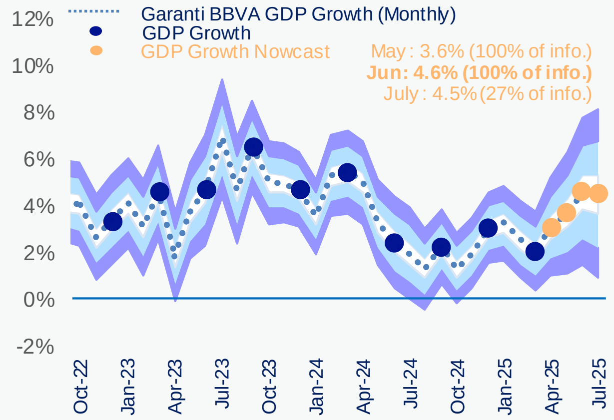
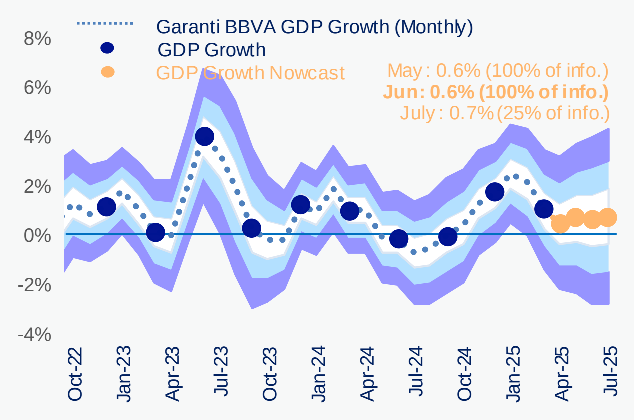
- Hard data has confirmed, amid weakening domestic demand, production decelerated in 2Q25, driven particularly by services and industrial sectors. Leading indicators suggest that this weakness in output is likely to persist at the beginning of 3Q25.
- Our monthly GDP indicator nowcasts an annual growth of around 4.5%, being boosted by favorable calendar effects; while quarterly GDP growth might decelerate towards 0.5% (vs. 1.0% of 1Q25). However, high volatility in data introduces significant uncertainty into our nowcasts. 2Q25 GDP data will be released on Sep 1st.
- Tight monetary policy and restrictive financial conditions put downward pressure on domestic demand, and foreign demand remains benign. Hard data on demand has confirmed the weakening seen in prior survey-based demand indicators. While the slowdown in goods consumption has been relatively modest, services consumption has been more significantly impacted. Aggregate demand may remain weaker than supply, potentially leading to a further widening of the negative output gap. This could strengthen the support for disinflation.
- Expected gradual monetary easing, lower than targeted fiscal consolidation and recent decline in global trade uncertainty could be supportive going forward. We maintain our 2025 GDP growth forecast of 3.5% GDP, with risks slightly to the downside depending on the pace of recovery.
- The Central Bank (CBRT) has revised its framework for medium-term forecast communication. More pronounced gap between inflation forecasts and interim targets suggest that the CBRT could act more aggressively, yet, with inconsistencies on the growth forecasts of around 3% in 2025 and 4% in 2026, based on our calculations using their output gap projections. Hence, the sacrifice ratio still appears to be low. The Medium Term Program (MTP), to be released in early September, will shed light on the political preferences on near term growth outlook.

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



Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

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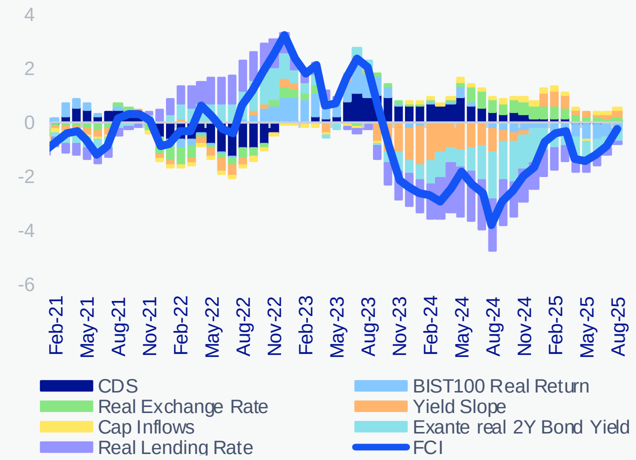
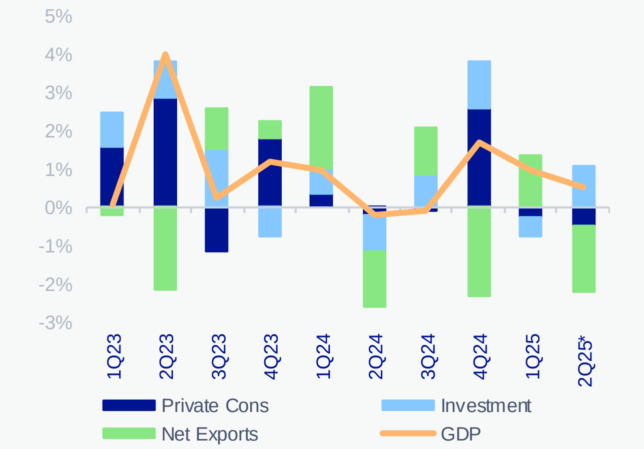
Figure 3. Garanti BBVA Financial Conditions (FCI) Index (standardized, + easing, - tightening)



Source: Garanti BBVA Research, CBRT, Bloomberg, TURKSTAT

Figure 4. GDP Demand Sub-Components (contribution to quarterly GDP, pp)



Source: Garanti BBVA Research, TURKSTAT

Slowdown has been modest in 2Q25

Industrial production (IP) increased by 0.7% m/m in June, pointing to a loss of momentum after the 3.2% monthly increase recorded in the previous month. Excluding volatile sectors, the IP contracted by 0.7% m/m in June, on top the 0.9% m/m decline in the previous month, driven by the negative contribution from consumption goods (-0.6pp) and energy sector (-0.1pp). Services sector production declined by 0.5% m/m in June (vs. +1.3% prev.), whereas the construction sector output increased by 3.2% m/m (vs. 4.95% prev.).

Considering the quarterly trends, economic activity has slowed down on the back of widespread deceleration across sectors, except for the trade sector: industrial production excluding volatile sectors and bridge day effects grew by 0.6% q/q in 2Q25 (down from +2.1% in 1Q25), while services growth stagnated (down from +3.1% in 1Q25) and construction growth considerably slowed down with 0.8% q/q (down from +11.2% in 1Q25). Trading activity remained solid with an acceleration to 5.1% q/q growth after an average of nearly 4% q/q in the previous three quarters (Figure 5).

Leading survey-based indicators signal challenging conditions for activity in 3Q25 in the presence of weak demand, with retail sales, total orders and demand over the past 3 months or expectations over the next 3 months (except orders in real sector) all pointing to ongoing worsening (Figure 6-7). The slight recovery in total orders expectations over the next 3 months in manufacturing could be the result of the easing cycle expectations and the diminishing uncertainty on geopolitical and global trade dispute. On the other hand, manufacturing PMI continued to deteriorate in July with 45.9 (vs. 46.7 in June and 47.1 in 2Q25), still referring to an ongoing weakness in the manufacturing sector. Meanwhile, capacity utilization rate hit another low level with 74.1%, the lowest since September 2020, a period marked by the downward impact of the pandemic (Figure 8).

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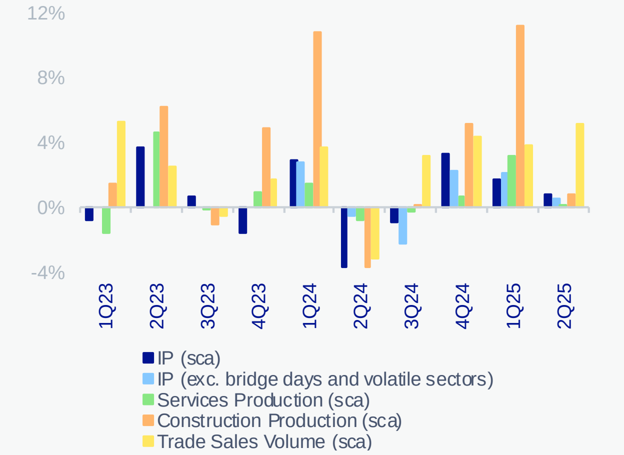
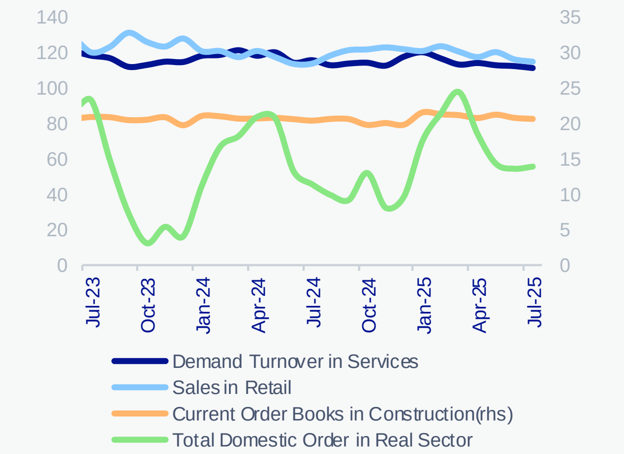
Figure 5. Industrial, Services and Construction Production (QoQ, seasonal and cal. adj.)



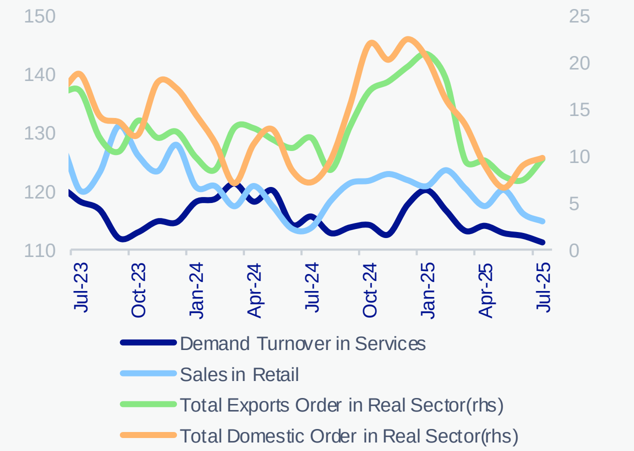
Source: Garanti BBVA Research, TURKSTAT

Figure 6. Demand Conditions over the past 3 months (seasonal adj index, monthly)



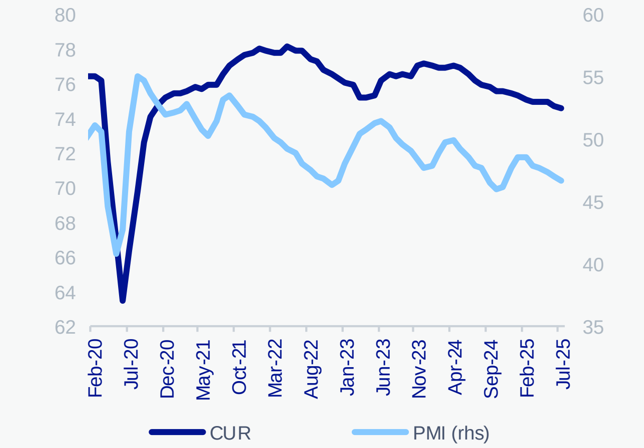
Source: Garanti BBVA Research, CBRT

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



Source: Garanti BBVA Research, TURKSTAT, CBRT

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

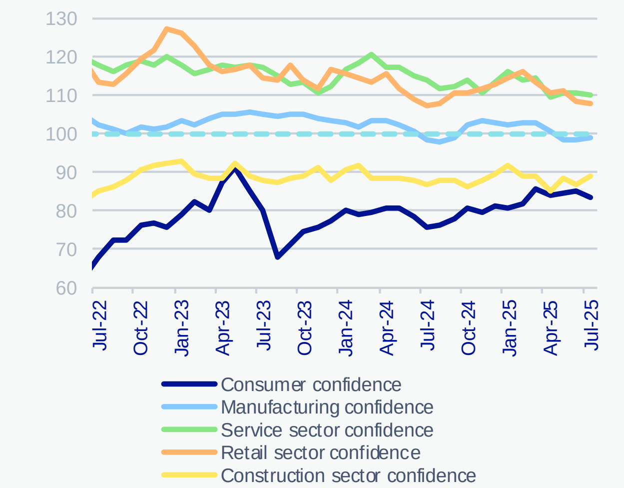


Source: Garanti BBVA Research, CBRT, ICI

Economic confidence index showed a broad-based deterioration across the sectors in 2Q25 (-3.2% q/q in 2Q, -0.4% q/q in July compared to 2Q25, Figure 9). Furthermore, production volume in the last 3 months reported by the businesses fell further below its historical average (Figure 10). 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 is improved only very limitedly as of July (Figure 11).

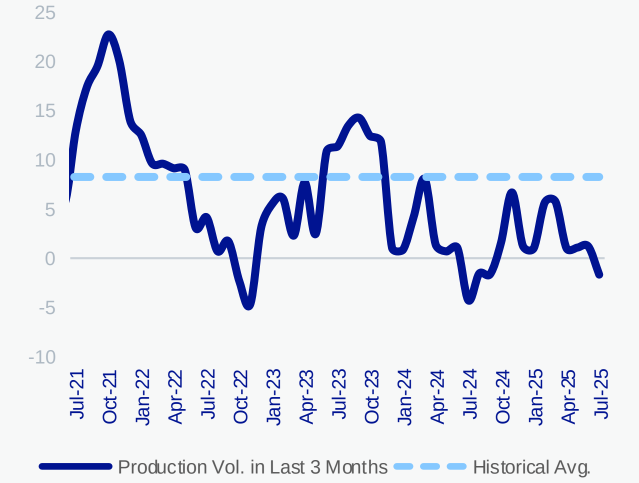
Intermediate goods imports excluding gold (Figure 12) showed a marked improvement in 2Q25, but dropped sharply in July. On average, the two quarters together yielded a growth closer to zero, reflecting a weak overall performance. This reversal may largely stem from front-loaded imports during the second quarter, which created an artificial spike followed by a subsequent decline.

Figure 9. Economic Confidence Index (seasonal and cal. adj., 3M Mov. Avg.)



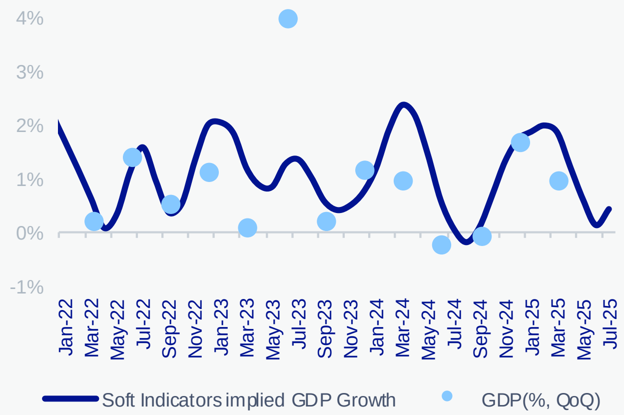
Source: Garanti BBVA Research, TURKSTAT

Figure 10. Economic Tendency Survey Production Volume (seasonal adj., over the past 3 months)



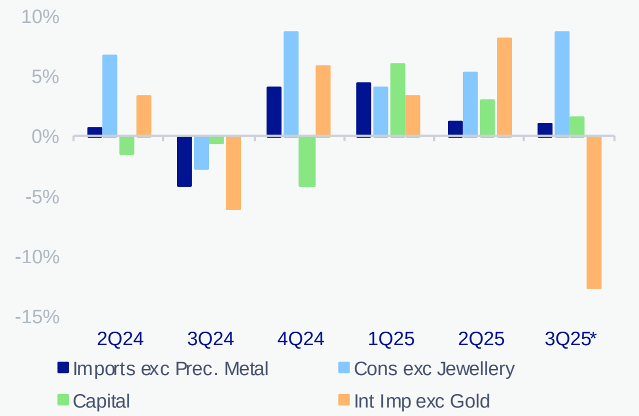
Source: Garanti BBVA Research, CBRT

Figure 11. Soft Indicator Factor Implied Growth vs. GDP Growth (%)



Source: Garanti BBVA Research, TURKSTAT, CBRT

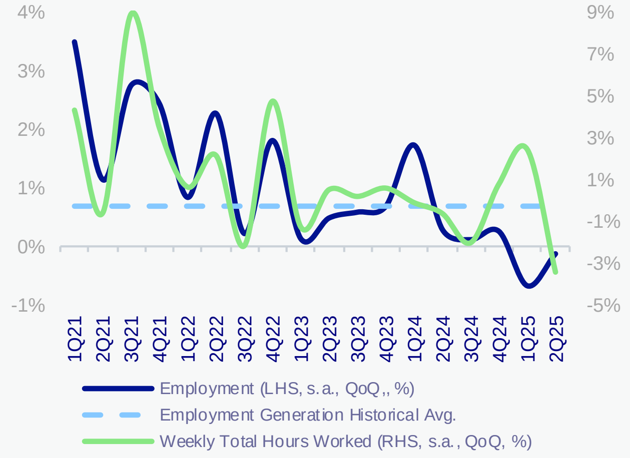
Figure 12. Import Sub-Components Volume (QoQ, seasonal and cal. adj.)



Source: Garanti BBVA Research, Ministry of Trade, TURKSTAT, 3Q25 refers to July

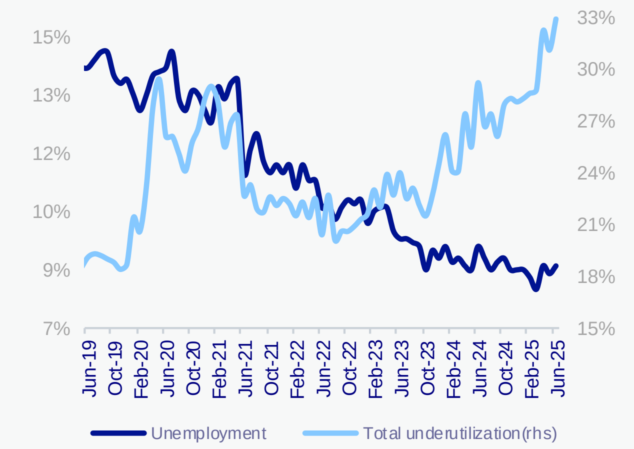
The latest employment data proves that employment conditions are not as tight as it is implied by the historically low unemployment rate figures (8.6% as of June). The recent study of the CBRT in the third inflation report of 2025 revealed that composite labor market index, which has high correlation with activity, continued to remain weak since 1Q24. While employment continued to deteriorate in 2Q25 (-0.13% q/q vs. -0.67% in 1Q), the hours worked presented a stark decline with -3.43% q/q decline compared to 2.44% in 1Q25 (Figure 13). The slowdown in activity led the underutilization rate to reach an all-time high of 32.9% in June (Figure 14).

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



Source: Garanti BBVA Research, TURKSTAT

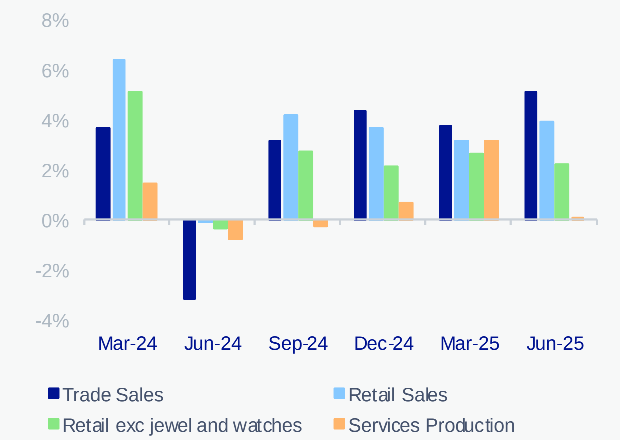
Figure 14. Unemployment Rate (seasonally adjusted)



Source: Garanti BBVA Research, TURKSTAT

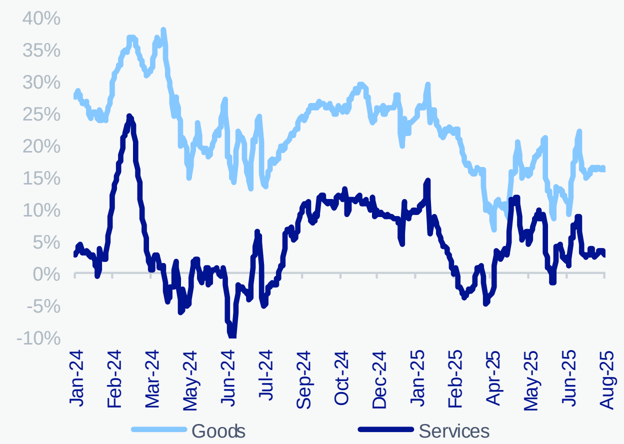
Tight financial conditions put downward pressure on demand, though not as strongly as implied by leading soft indicators. On the private consumption side, the adjustment appears to be more concentrated in services demand, while goods consumption seems to have only partially moderated (Figure 15). Services production -a proxy for services consumption- displayed a significant slowdown in 2Q25. On the goods side, however, retail sales grew by 3.9% in 2Q25 (vs 3.1% in 1Q25), and excluding jewelry and watches, it displayed only a mild deceleration as materialized at 2.2% q/q (vs 2.7% q/q in 1Q). Likewise, consumption goods imports excluding jewelry increased by 5.3% q/q in 2Q25 (vs 4.1% in 1Q25), and according to preliminary July data, rose by another 3.5% m/m (Figure 12).

Figure 15. Consumer Indicators (3M Avg., QoQ, %)



Source: Garanti BBVA Research, TURKSTAT

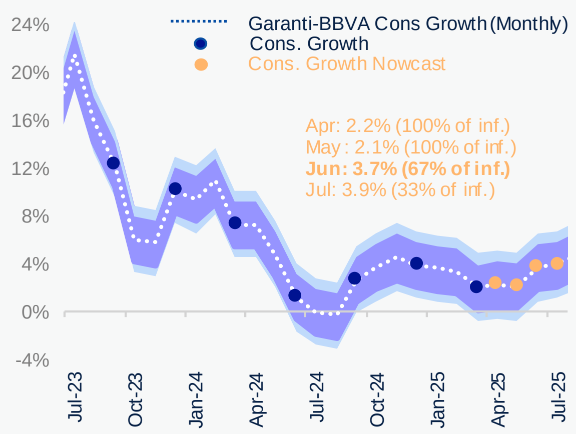
Figure 16. Garanti BBVA Big Data Consumption Indicators (28-day sum, YoY, adjusted by CPI)



Source: Garanti BBVA Research, TURKSTAT

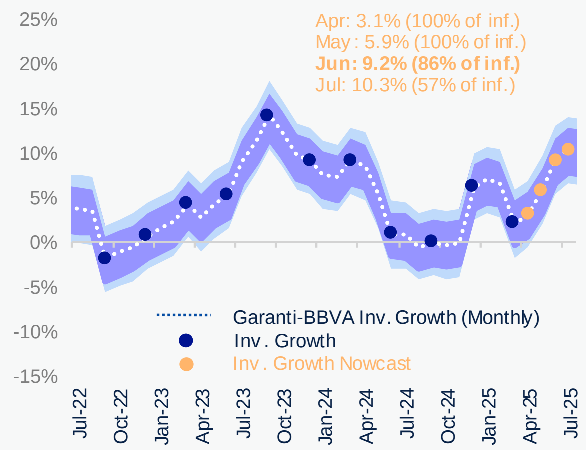
Our big data indicators also suggest that, as of mid-August, both goods and services consumption have stabilized at the levels seen in 2Q25 (Figure 16). To sum up, our monthly private consumption indicator nowcast an annual growth of around 4% y/y in 2Q25 (with %100 of info), supported by favorable calendar effects; which indeed implies weakness on a quarterly basis.

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

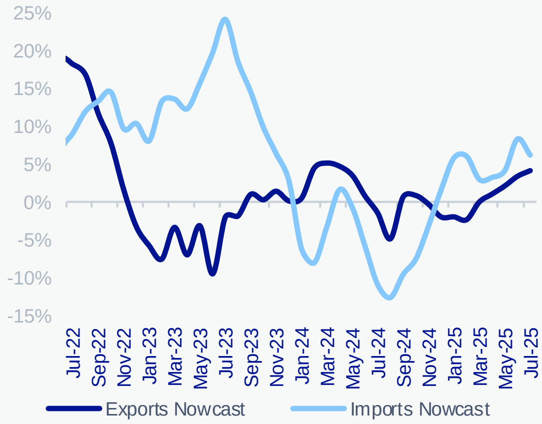
On investment, we observed a recovery in 2Q25 following the contraction in 1Q25. Although firms' investment expenditures expectations declined slightly in 2Q25, capital goods imports rose by 3% q/q in the same period. Meanwhile, capital goods production -particularly driven by defense related sectors- grew by 4.7% q/q in 2Q25. In contrast, construction output and the production of non-metallic minerals lost momentum, indicating that construction investment could remain weak, while the rebound in investment spending may have been supported by manufacturing investment primarily on defense industrial activity. Our monthly investment indicator nowcasts 9% y/y(%100 of info) in 2Q, indicating around 4% q/q recovery.

Despite weak domestic demand outlook, we observed a deterioration in the external balance in 2Q25 due to several temporary factors. On the import side, the domestic shock in the second half of March and the onset of global tariff tensions in early April triggered front-loaded import demand in April while geopolitical risks again triggered in June led to another front loaded imports demand after its May correction. As a result, goods imports increased by 2.4% q/q in 2Q25 but according to our calculation, it declined by around 6% m/m in July, indicating a correction following the calm down in geopolitical risks.

Our monthly import indicator nowcasts 8.3% y/y growth in imports in 2Q25 and a 5.5% q/q rise, while the July nowcast of 6.2% y/y points some correction as of early 3Q25. On the export side, weak external demand continues to weigh on performance, resulting in a steady export trend in 2Q25 (Figure 19). While services exports remained supportive, goods exports contracted by 3.5%

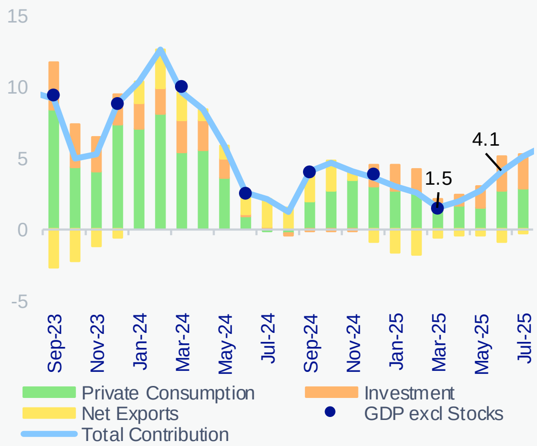
q/q in this period. Therefore, our nowcasts exhibited that net exports contribution to GDP could be negative in 2Q25, both on annual and quarterly basis.

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: TURKSTAT, Garanti BBVA Research

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), but could be around -1pp on a quarterly basis. The gap between aggregate demand and supply could normalize further indicating possible positive contribution of stock to GDP and the support the disinflation outlook.

DISCLAIMER