BBVA Research

Türkiye | Post-2Q25 surprise: signs of a slow-down

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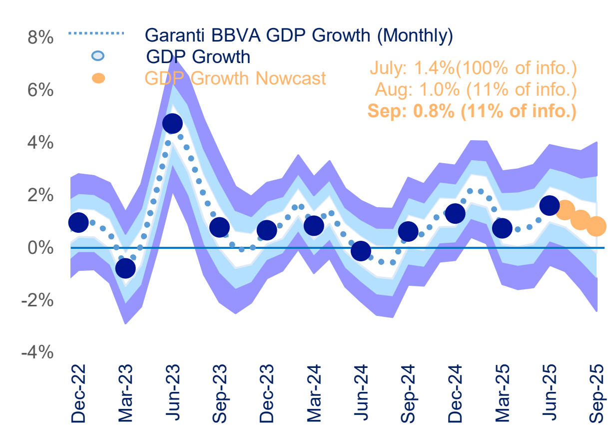
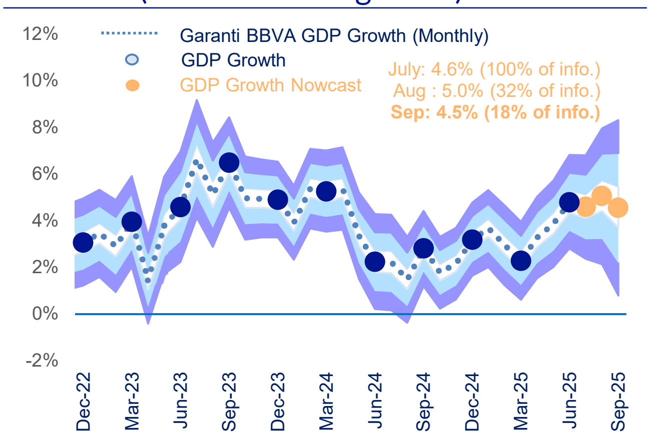
- Contrary to high-frequency signals, 2Q25 GDP growth surprised to the upside; which could reverse with weaker demand conditions in 3Q25. Leading indicators point to a deterioration, led by industry and services sectors; whereas construction may stay supportive.
- Our monthly GDP indicator nowcasts 0.5-1% q/q, implying a slowdown on a quarterly basis in 3Q25, which could still generate 4-4.5% y/y growth.
- Confidence surveys show demand remains weak, though firms anticipate some improvement in the upcoming months due to the expected easing in financial conditions. Hard data suggest further contraction in private consumption and public spending, while investment and net exports could contribute positively in 3Q25 on a quarterly basis- so inventories may be run down.
- After the upside surprise of the 2Q25 GDP growth (1.6% q/q vs. 0.5-1% expected), the output gap remained above the CBRT's latest projections in 2Q25, which we expect to become more negative as of 3Q25, yet still signaling the support from demand conditions to disinflation likely appears weaker than the CBRT envisages.
- The CBRT has already started rate cuts, implying more supportive financial conditions going ahead. On fiscal stance, as shown in the Medium Term Program (MTP), the negative fiscal impulse of this year since April, might become neutral in 2026. After the carry-over impact of the first half of the year, 2025 GDP growth might reach in 3.5–4%. We remain prudent and keep our previous 2026 GDP growth forecast of 4%, given the uncertainty over global tariff wars, geopolitical risks and domestic unknowns.

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



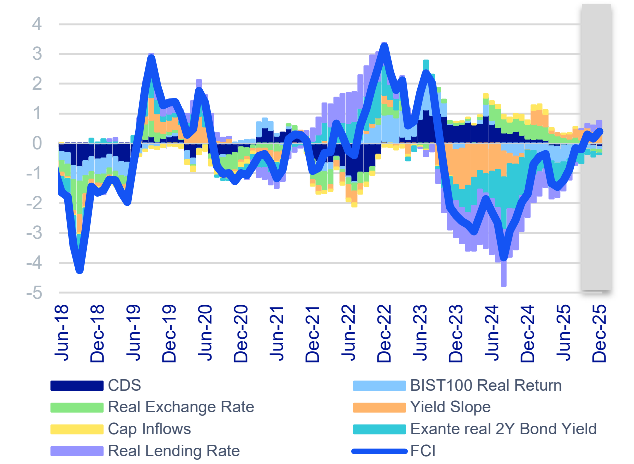
Source: Garanti BBVA Research, TURKSTAT

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



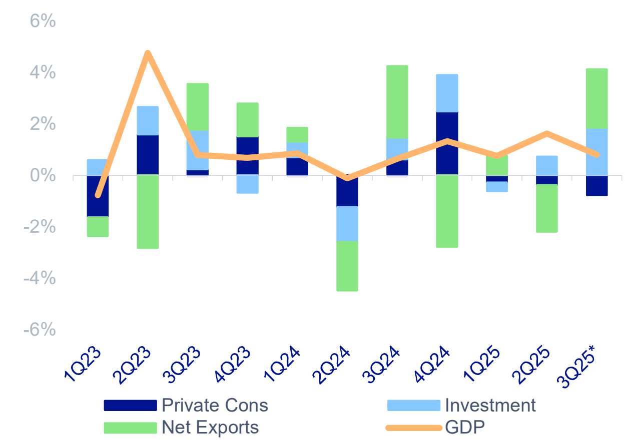
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, CBRT, Bloomberg, TURKSTAT; *Grey area displayed forecasts for 4Q25 based on our expectations

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



Source: Garanti BBVA Research, TURKSTAT; 3Q25* Based on Our Nowcasting Results

Slow-down remains modest in 3Q25

Industrial production (IP) contracted by 1.8% m/m in Jul25 (vs. +0.8% in Jun25), driven by declines across all main categories except energy (up 2.3% m/m vs. -1.2% m/m prev.). The exclusion of volatile sectors revealed two consecutive months of contraction (-1.4% m/m vs. -0.6% m/m). Weak demand conditions continue to weigh on durable (-1.2% m/m vs. -4.2% m/m prev.) and non-durable consumer goods (-3.4% m/m vs. -1.6% m/m prev.) production. Capital goods production, which supported strong GDP growth in 2Q25 via the investment component, declined (-2.3% m/m) after two months of robust expansion (5.0% m/m in Jun25 and 8.9% in May25). Intermediate goods production also fell (-1.8% m/m vs. +0.9% prev.), consistent with expectations of a further slowdown in 3Q25 as firms appear to be meeting demand from inventories accumulated in 2Q25, with intermediate goods imports correlating the front-loading in 2Q25 and declining in 3Q25.

Comparing Jul25 with the 2Q25 average, IP points to a quarterly contraction of -0.3% (vs. +0.7% q/q in 2Q25), led by intermediate (-0.7% q/q vs. +0.3% q/q), durable (-2.6% q/q vs. -1.5% q/q), and non-durable (-4.0% q/q vs. -1.9% q/q) consumer goods. In contrast, energy (+1.7% q/q vs. +0.8% q/q) and capital goods (+3.6% q/q vs. +4.7% q/q) contributed positively to quarterly IP growth so far in 3Q25. Leading indicators for Aug25 suggest weakness: capacity utilization fell (-0.5pp vs. Jul25), PMI remained below the 50 threshold (47.3 vs. 45.9 in Jul25), and real sector surveys point to declines in current orders and production volume amid rising inventories. Nevertheless, real sector confidence improved in 3Q25, supported by higher total orders over the past three months in Aug25, stronger export orders for the next three months, and a better assessment of general conditions, likely reflecting easing financial conditions. Early 3Q25 data suggest a deeper quarterly contraction in IP than indicated by the Jul25 vs. 2Q25 comparison, but also signal a potential rebound in 4Q25 as firms deplete stocks and improved orders materialize.

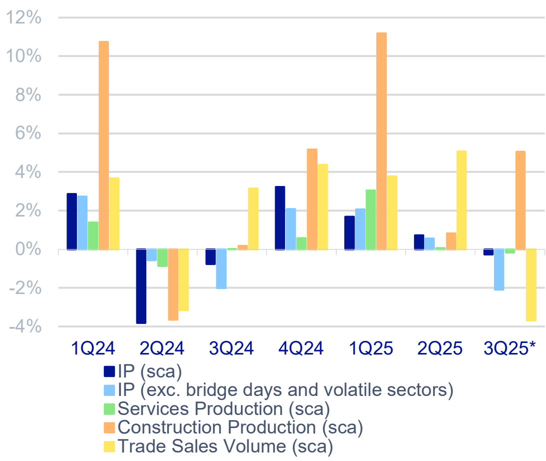
Services production edged down by 0.4% m/m in Jul25 (vs. -0.3% in Jun25). The decline was not broad-based, concentrated in transportation & storage (-1.7% m/m vs. -0.8% prev.) and administrative & support services (-1.4% m/m vs. -0.8% prev.). On a quarterly basis, services contracted slightly (-0.2% vs. +0.1% q/q in 2Q25), marking a notable slowdown from the strong 3.0% q/q growth in 1Q25. This is consistent with weaker demand, reflected in declining real services turnover (-2.7% m/m in Jul25 vs. -1.7% in Jun25, deflated by the services price index). Confidence indicators point to further deceleration in demand and turnover during 3Q25. However, improved demand expectations for Sep25 and higher price expectations for the next three months may prevent further weakening in services output.

Construction activity continued to expand in Jul25, though at a slower pace (+1.8% m/m vs. +2.8% in Jun25), resulting in a strong +5.3% growth compared to 2Q25 (vs. +0.6% q/q in 2Q25). Confidence indicators, however, suggest activity could decelerate from Aug25, limiting its contribution for 3Q25 q/q growth.

On employment, both the headline unemployment and the broad-based underutilization rates declined in Jul25 to 8.0% and 29.6%, respectively, compared to 2Q25 averages of 8.4% and 31.9%. Employment rose by 0.2% in Jul25 relative to the 2Q25 average (vs. flat q/q in 2Q25); however, total weekly hours worked continued to decline (-0.3% vs. -3.4% q/q in 2Q25), consistent with weakening economic activity. Leading indicators suggest that employment expectations are not showing a significant improvement in 3Q25.

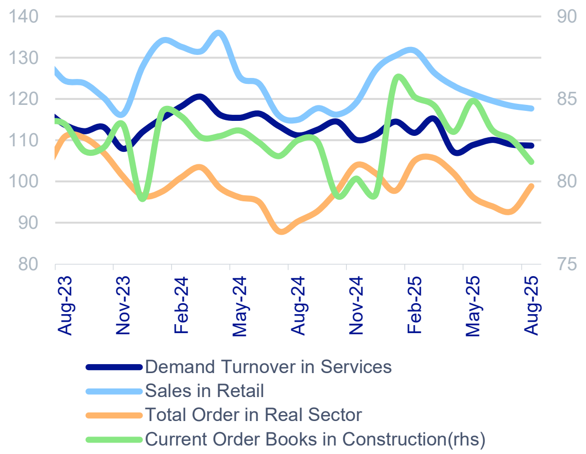
Overall, hard data from Jul25 indicate a slowdown in economic activity in 3Q25 on a quarterly basis, though still staying in expansionary territory. Industry and services contributed negatively to quarterly growth, while construction supported the positive momentum. On the other hand, looking ahead, soft indicators suggest further softening in activity through the remainder of 3Q25, with a potential recovery in 4Q25, as also signaled by our soft indicators factor implied growth.

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



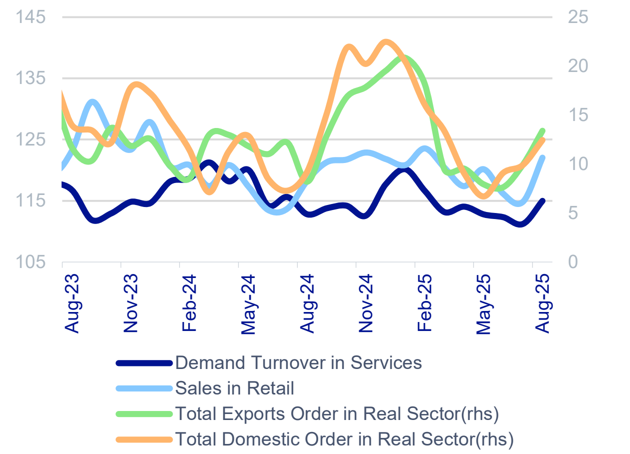
Source: Garanti BBVA Research, TURKSTAT

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



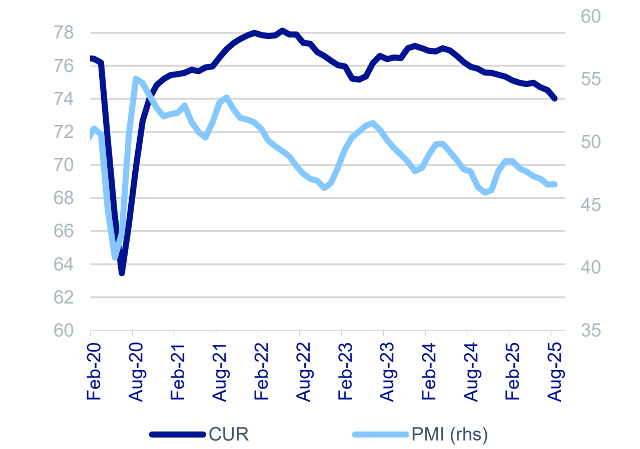
Source: Garanti BBVA Research, CBRT

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



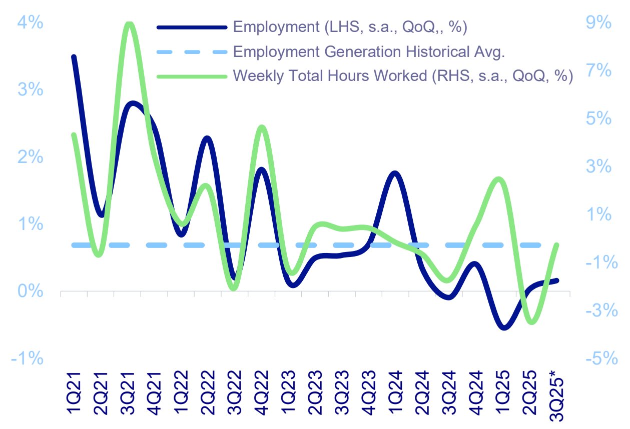
Source: Garanti BBVA Research, TURKSTAT, CBRT

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



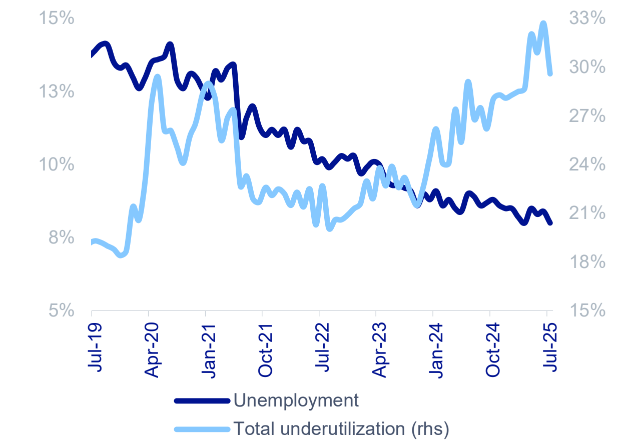
Source: Garanti BBVA Research, CBRT, ICI

Figure 9. Employment & Total Hours Worked (QoQ, %, seasonal adj.)



Source: Garanti BBVA Research, TURKSTAT, 3Q25* refers to July

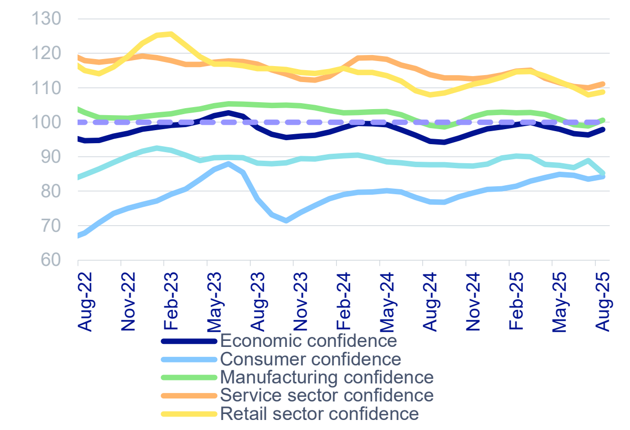
Figure 10. Unemployment Rate (seasonally adjusted)



Source: Garanti BBVA Research, TURKSTAT

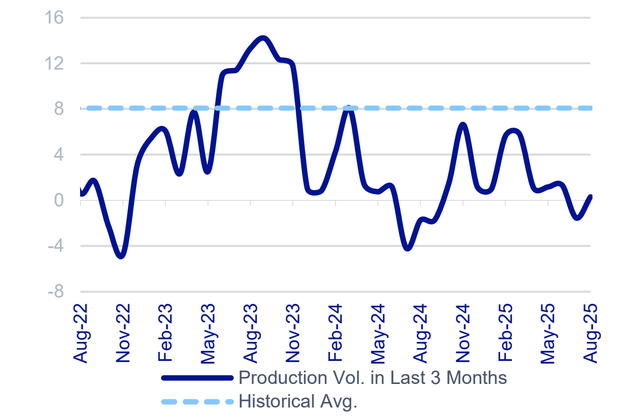
On demand sub-components, both hard and soft data indicate that the weakness in domestic demand conditions is concentrated in private consumption in 3Q25; while investment and net exports -largely thanks to the decline in imports after its front-loaded growth in 2Q25- remain supportive. Relatively low real wage adjustments and tight financial conditions appear to have worsened households' financial situation throughout the year as current financial situation compared to last 12 months, on a three-month average basis, hit the year's low by August—well below its historical average.

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



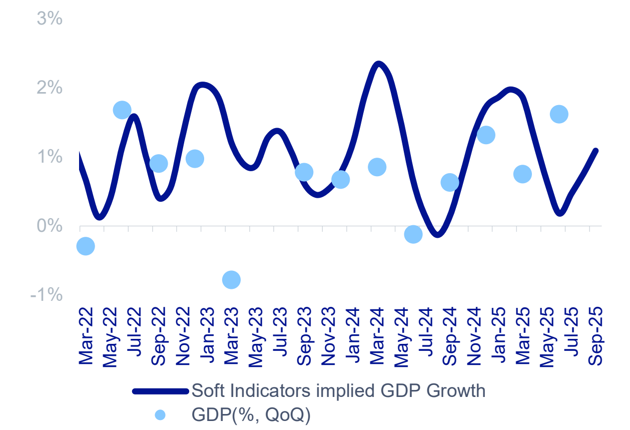
Source: Garanti BBVA Research, TURKSTAT

Figure 12. Economic Tendency Survey Production Volume (seasonal adj., over the past 3 months)



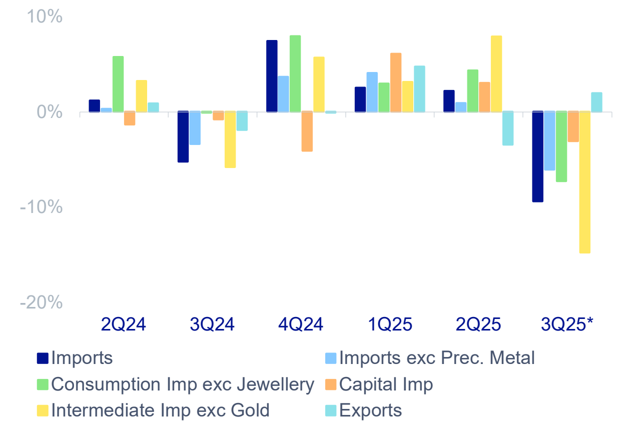
Source: Garanti BBVA Research, CBRT

Figure 13. Soft Indicators Factor Implied Growth vs. GDP Growth (%)



Source: Garanti BBVA Research, TURKSTAT, CBRT

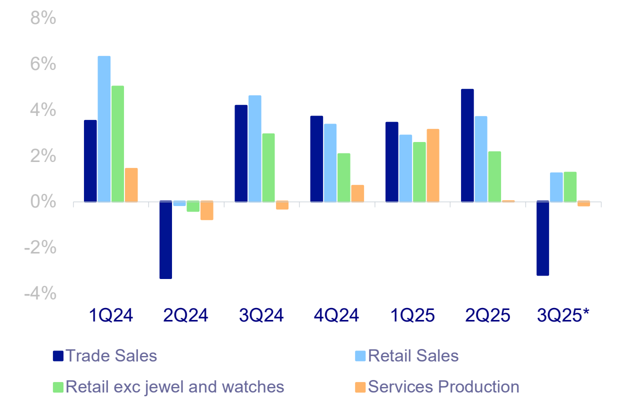
Figure 14. Foreign Trade Components Volume (QoQ, seasonal and cal. adj.)



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

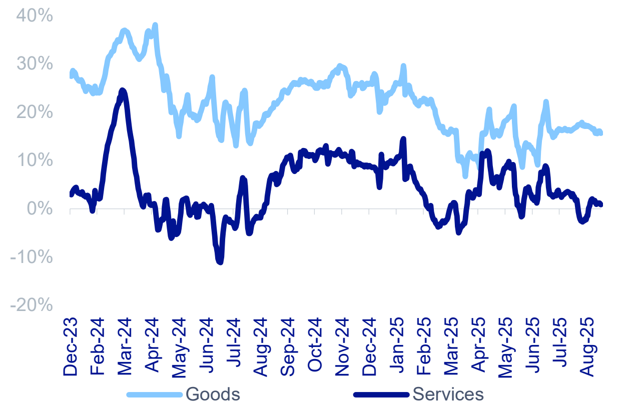
Considering consumption, goods consumption may retreat further while services consumption remains weak: Retail sales fell by 0.2% m/m in July, and q/q growth eased to 1.2% in 3Q25 after 3.7% in 2Q25. Based on our calculations, consumer-goods imports excluding jewelry contracted by 6% in August after its 8.5% fall in July; thus, after +4.3% q/q in 2Q25, generated a decline of 7.3% q/q in July-Aug compared to 2Q25. Reflecting softer consumption, production of both nondurable and durable consumer goods contracted markedly in 3Q25. Services consumption also stays modest: services production contracted by 0.4% m/m in July (vs. -0.3% in June), resulting in a 0.2% decline compared to 2Q25 average (0.1% q/q in 2Q25) and our big-data indicator points to further decline in both August and September. Accordingly, our monthly private consumption GDP indicator nowcasts +2.2% annual growth as of September, implying around –1.5% q/q, a deepening contraction as the CBRT also underlines.

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



Source: Garanti BBVA Research, TURKSTAT, 3Q25* refers to July

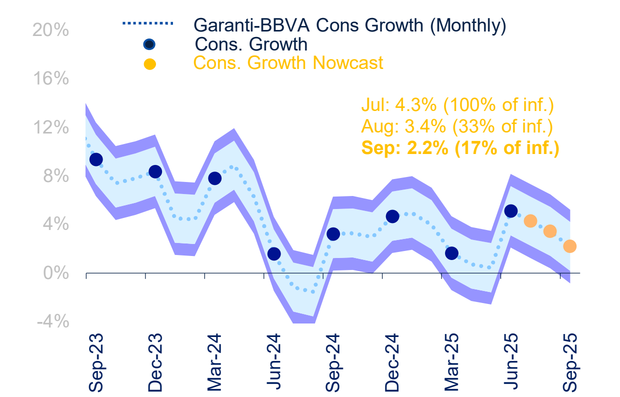
Figure 16. Garanti BBVA Big Data Consumption Indicators (28-day sum, YoY, adjusted by CPI)



Source: Garanti BBVA Research, TURKSTAT

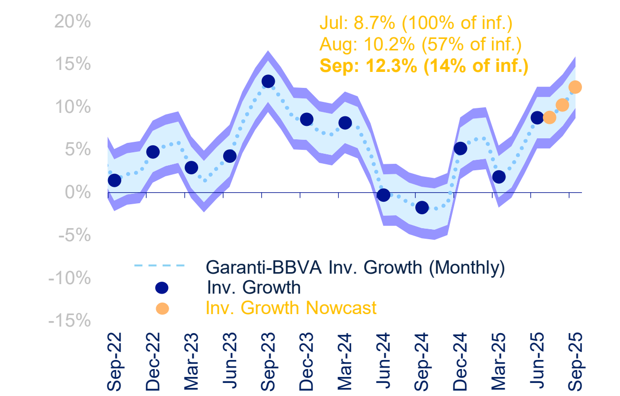
Investment expenditures supported domestic demand in 2Q25, mainly on construction, and it may similarly remain supportive in 3Q25. Capital goods production fell 2.4% m/m in July; and on a quarterly basis it eased to +3.6% q/q (vs +4.7% q/q in 2Q25). Capital goods import volume declined around 10% m/m in August (vs +5.6% m/m in July) and 3.1% q/q in 3Q25 (vs +3% in 2Q25), based on our calculations. On the construction side, construction output rose 3% m/m in July, while other non-metallic mineral products (including inputs like ready-mix concrete) increased 2.1% m/m and 2.3% q/q (vs 2% in 2Q) as of July. All in all, our monthly investment expenditures indicator nowcasts 12.3% y/y and roughly +6% q/q growth as of September.

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)



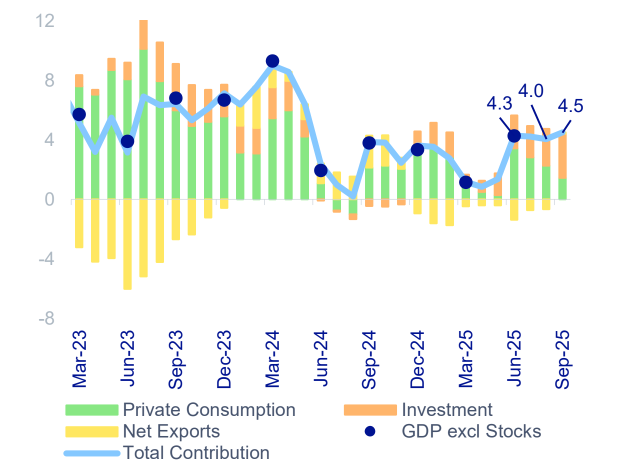
Source: TURKSTAT, Garanti BBVA Research

Despite weak domestic demand, imports were front-loaded in 2Q25 due to domestic and external negative shocks, leaving net exports' contribution to growth as negative on a q/q basis. As those temporary effects fade away, we observe a sharp correction in imports in 3Q25, while resilient global growth —despite downside risks— keeps exports growth at moderate levels. Based on our calculations, alongside softer domestic demand and weak production, goods imports (led by consumer and intermediate goods) contracted about 9% q/q as of August in 3Q25 (vs +2.2% q/q in 2Q25), whereas goods exports might rise roughly 2% q/q (vs –3.5% q/q in Q2). Hence, net exports' q/q contribution could turn substantially into positive on a quarterly basis in 3Q25.

In sum, the combined contribution of private consumption, investment, and net exports could be about 4.5 percentage points (pp) to annual growth and roughly 3.3 pp on a q/q basis. Accordingly, inventories' contribution to growth could turn negative in 3Q25 on a quarterly basis, but might still remain limitedly positive on an annual basis, as also signaled by our supply side nowcasts.

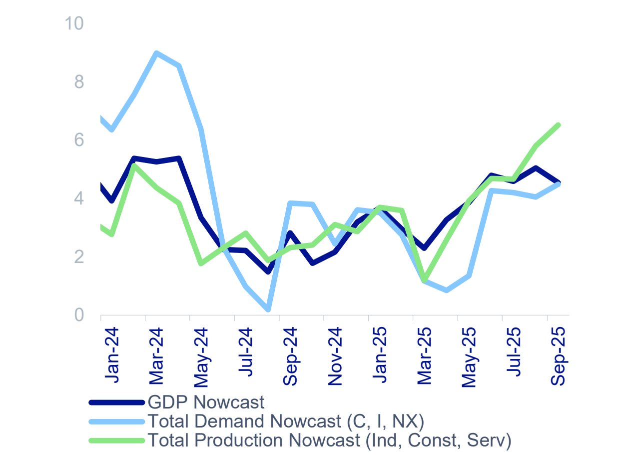
All in all, the contribution of demand conditions to disinflation may be weaker than the CBRT had anticipated. At the same time, rate-cutting cycle that has already begun implies more supportive financial conditions ahead. On the fiscal stance, the cash primary deficit has narrowed by nearly 2pp of GDP since April, reflecting efforts to slow non-interest expenditures in line with the initial targets. That said, the growing difficulty of reducing spending beyond earthquake-related needs—also highlighted in the revised Medium-Term Program -suggests that this year's negative fiscal impulse may turn neutral by 2026. Therefore, to maintain a restrictive stance and sustain the disinflation process, macroprudential measures and liquidity policies are likely to become increasingly important as the rate cuts continue. After the carry-over impact of the first half of the year, 2025 GDP growth might reach in 3.5–4%. We remain prudent and keep our previous 2026 GDP growth forecast of 4%, given the uncertainty over global tariff wars, geopolitical risks and domestic unknowns.

Figure 19. Garanti BBVA Monthly GDP Demand Sub-Components (contribution to annual GDP, pp)



Source: TURKSTAT, Garanti BBVA Research

Figure 20. Garanti BBVA Monthly GDP (3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research

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