

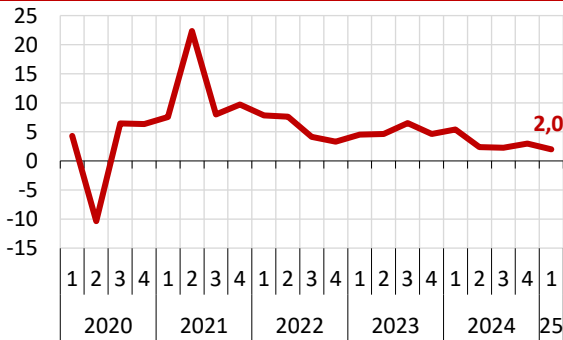
Macro: Economic activity is set to slow down in Q2, following an increase in Q1

In the first quarter of 2025, GDP grew by 2.0% y-o-y and by 1.0% q-o-q in seasonally and calendar-adjusted (s.a.) terms. This was in line with our forecast, but slightly below market expectations. Annual growth was driven by domestic demand, while quarterly growth was driven by net exports. Taking into account the public stance, wage increases and the credit impulse, the fact that private consumption and thus domestic demand was not the main driver quarterly growth was not consistent with the leading indicators. On the other hand, both production and expenditure data indicate that construction activity in the earthquake zone continued to contribute to growth.

Our various indicators suggest that the output gap may be at inflationary levels, which is slightly higher than the figure reported by the CBRT in its latest Inflation Report. However, data from the second quarter indicates a slowdown in economic activity (under-potential quarterly growth) due to financial tightening, as anticipated by the CBRT. According to the output gap path in the CBRT Inflation Report, the year-end inflation forecast of 24% is consistent with moderate under-potential growth of around 2.5–3.0%.

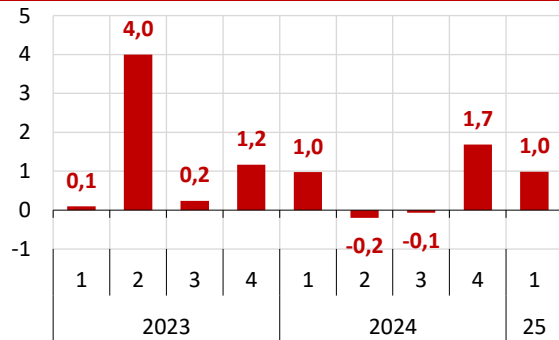
In the first quarter of 2025, Gross Domestic Product (GDP) grew in line with our forecast at 2.0% y-o-y, below the average market expectation of 2.5% (Chart 1). Calendar-adjusted annual growth was higher at 2.7%. In seasonally and calendar-adjusted (s.a.) terms, GDP grew at a more moderate pace of 1% in Q1, following a strong quarterly increase (1.7%) in the last quarter of 2024 (Chart 2).

Chart 1. GDP (y-o-y, %)



Source: TURKSTAT

Chart 2. GDP (seasonally adjusted, q-o-q, %)



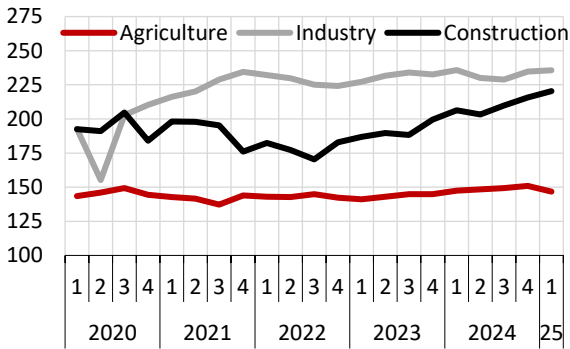
Source: TURKSTAT

Production Side:

In the first quarter of 2025, agriculture and industry sectors contracted year-on-year, while construction and services sectors continued to contribute positively to annual GDP growth (Tables 1 and 2). **Construction value added**, which has been growing stronger than other sectors for the last two years due to the reconstruction efforts in the earthquake zone, had the highest annual growth rate of 7.3% in the first quarter. The value added of the total **services sector**, as we calculate, recorded the lowest annual growth rate since the pandemic with 1.9% in this period. Among services items, the **core services** (the sum of wholesale-retail trade, transportation-storage, accommodation-food services) increased at a lower rate of 1.3%, indicating that the slowdown in the services sector came from these sectors. “Information and communication services”, “real estate activities”, “professional, administrative and support services activities” and “other service activities” grew at relatively higher rates. **Industrial sector** value added contracted by 1.8% y-o-y, which was lower than the industrial production index, which contracted by 2.7% y-o-y in the same period. ([Macro: Industrial Production – March 2025](#)). The fact that there were 2.5 fewer working days this year than in the same period last year also played a decisive role in the annual contraction of the industrial sector. According to calendar adjusted data, annual growth in industrial value added was recorded at 0%. The annual increase in the net taxes item slowed to 1.8%.

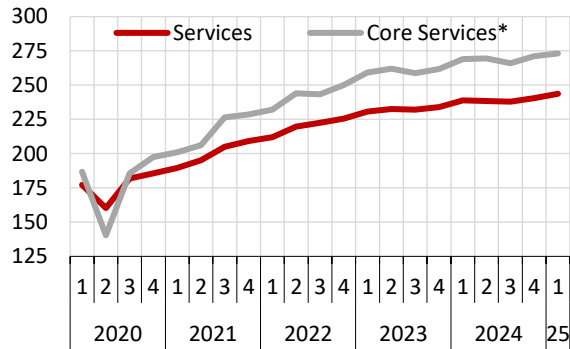
On a quarterly basis (s.a.), the value added of agriculture contracted, while that of other sectors recorded positive growth (Table 1). Construction and total services value added (s.a.) stood out with increases of 2.2% and 1.3%, respectively, while the increase in industrial value added remained relatively weak at 0.4%. The quarterly change in the net taxes item (s.a.) was realized as -2.1%. Among services sub-items, core services posted a weaker increase of 0.8%, while finance and insurance, which contracted by 0.4% in the previous quarter, posted a partial correction (0.5%). Among services, information and communication services posted the strongest performance.

Chart 3. Value Added by Sectors
(seasonally adjusted, 2009=100)



Source: TURKSTAT

Chart 4. Value Added by Sectors
(seasonally adjusted, 2009=100)



* The sum of retail and wholesale trade, transport and storage, accommodation and catering services
Source: TURKSTAT

Due to the chain indexation method used in the calculation of national income, the quarterly and annual growth rates obtained from the sum of sectors are not the same as the quarterly and annual growth rates announced for GDP. The annual and quarterly growth rates of 1.3% and 0.6%, respectively, were lower than the announced changes.

Table 1. The Growth of GDP and Sub-Items from the Production Side (%)

	Annual Growth				Quarterly Growth (seas. adj.)			
	2024-Q2	2024-Q3	2024-Q4	2025-Q1	2024-Q2	2024-Q3	2024-Q4	2025-Q1
GDP	2.4	2.2	3.0	2.0	-0.2	-0.1	1.7	1.0
Agriculture	3.7	3.7	4.7	-2.0	0.7	0.7	1.0	-2.8
Industry	-1.5	-2.1	1.4	-1.8	-2.4	-0.5	2.6	0.4
Manufacturing	-2.8	-2.9	1.4	-2.4	-3.1	-0.4	2.9	0.1
Construction	6.3	11.1	8.7	7.3	-1.4	3.2	2.8	2.2
Services	2.5	2.0	2.4	1.9	-0.2	-0.2	1.1	1.3
Core Services*	3.5	1.7	3.2	1.3	0.2	-1.3	1.9	0.8
Information and Communication	3.9	2.2	3.2	6.1	0.3	-0.5	0.7	4.7
Financial and Insurance Activities	1.4	8.5	3.3	0.5	0.2	2.1	-0.4	0.5
Real Estate Activities	3.7	2.5	1.3	2.4	1.1	0.2	0.3	0.8
Profes.. Adm. and Support Services	0.6	-0.3	0.2	4.0	-4.4	0.0	0.4	6.2
Public Administration**	0.4	1.1	1.3	0.3	-0.6	1.1	0.6	0.1
Other Services	1.2	-2.2	3.6	4.7	0.8	-0.1	2.3	1.2
Net Taxes (Tax - Subsidies)	10.8	2.6	10.4	1.8	5.0	-2.2	4.9	-2.1

* Retail-Wholesale Trade. Transport-Storage. Accommodation-Catering

** Public Administration. Education. Human Health and Social Work Activities

Source: TURKSTAT. Akbank

Table 2. Contribution to GDP Growth from the Production Side (Percentage Point)

	Annual Growth				Quarterly Growth (seas. adj.)			
	2024-Q2	2024-Q3	2024-Q4	2025-Q1	2024-Q2	2024-Q3	2024-Q4	2025-Q1
GDP	2.4	2.2	3.0	2.0	-0.2	-0.1	1.7	1.0
Agriculture	0.1	0.4	0.2	0.0	0.0	0.0	0.1	-0.1
Industry	-0.3	-0.4	0.3	-0.4	-0.5	-0.1	0.5	0.1
Manufacturing	-0.5	-0.4	0.2	-0.4	-0.5	-0.1	0.5	0.0
Construction	0.3	0.5	0.4	0.4	-0.1	0.2	0.1	0.1
Services	1.6	1.1	1.5	1.2	-0.1	-0.1	0.7	0.8
Core Services*	0.9	0.4	0.8	0.3	0.1	-0.4	0.5	0.2
Information and Communication	0.1	0.1	0.1	0.2	0.0	0.0	0.0	0.2
Financial and Insurance Activities	0.1	0.4	0.1	0.0	0.0	0.1	0.0	0.0
Real Estate Activities	0.3	0.2	0.1	0.2	0.1	0.0	0.0	0.1
Profes. Adm. and Support Services	0.0	0.0	0.0	0.2	-0.2	0.0	0.0	0.3
Public Administration**	0.0	0.1	0.1	0.0	-0.1	0.1	0.1	0.0
Other Services	0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.0
Net Taxes (Tax - Subsidies)	1.2	0.3	1.2	0.2	0.6	-0.3	0.6	-0.2

* Retail-Wholesale Trade. Transport-Storage. Accommodation-Catering

** Public Administration. Education. Human Health and Social Work Activities

Note: Totals may not sum up to GDP growth due to chain index method.

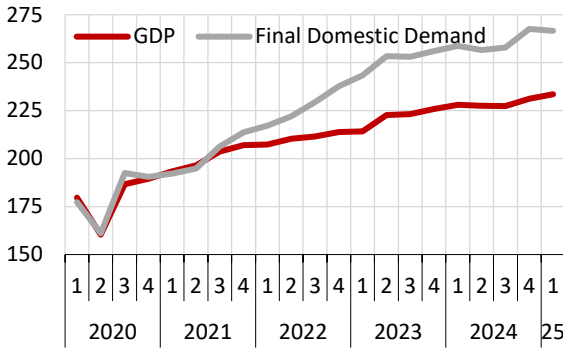
Source: TURKSTAT, Akbank

Expenditure Side:

In the first quarter of 2025, annual growth was driven by domestic demand, while quarterly growth was driven by net exports (Tables 3 and 4 and Chart 5). Domestic demand and net exports contributed 2.6 and 0.6 points to annual growth, respectively. Domestic demand was driven by private consumption expenditure, while investment expenditure was led by the construction sector. The negative contribution of net exports was driven by the rise in imports (Table 4). Quantity indices also indicated this trend.

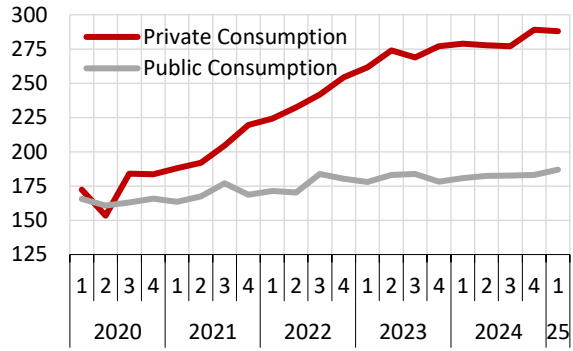
We estimate that domestic demand fell by 0.1% qoq, but increased by 2.7% yoy in the first quarter (Table 3 and Chart 9). The contraction in domestic demand was driven by private consumption and investment, while strong public spending limited the extent of the contraction. **Private consumption** expenditure decreased by 0.4% qoq and by 2% yoy (Chart 6), similar to GDP growth. **Investment** expenditure decreased by 1.4% qoq and grew by 2.1% yoy, in line with consumption expenditure. Construction and machinery and equipment investment showed diverging quarterly and annual changes. As with value added, the strong uptrend in expenditure continued to be driven by earthquake-related spending (Table 3, Chart 7). **Public consumption** posted a strong qoq increase of 2.1%, while the annual rate of increase was 1.2% (Chart 6). This confirms our previous assessment that public spending continues to support growth. **Stock change** contributed positively to both annual and quarterly growth, at 0.3 points (the first positive contribution to annual growth since the pandemic). However, it is not possible to interpret this data economically due to statistical errors and a persistent negative trend.

**Chart 5. GDP ve Final Domestic Demand
(Seasonally adjusted. 2009=100)**



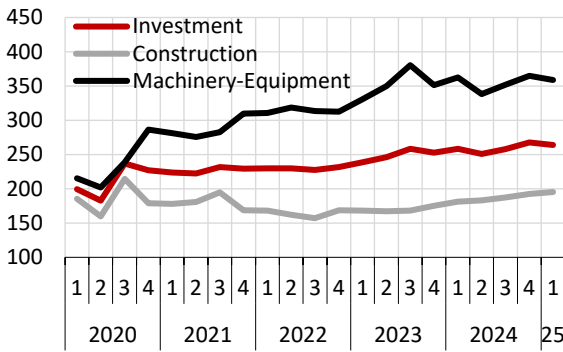
Source: TURKSTAT, Akbank

**Chart 6. Consumption Expenditures
(Seasonally adjusted. 2009=100)**



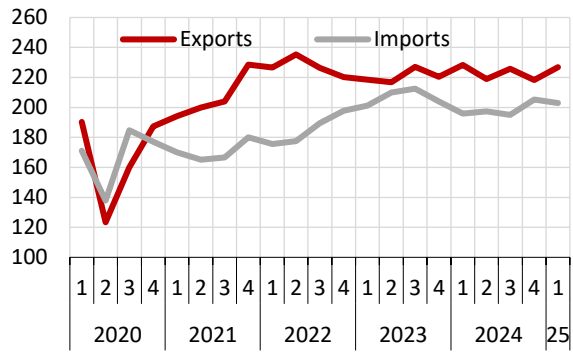
Source: TURKSTAT, Akbank

**Chart 7. Investment Expenditures
(Seasonally adjusted. 2009=100)**



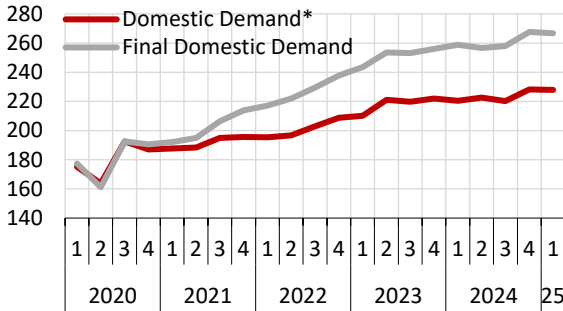
Source: TURKSTAT, Akbank

**Chart 8. Goods and Services Exports and Imports
(Seasonally adjusted. 2009=100)**



Source: TURKSTAT

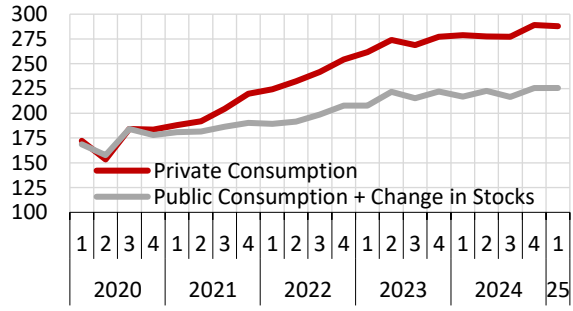
**Chart 9. Domestic demand
(Seasonally adjusted. 2009=100)**



* Domestic demand is the sum of final domestic demand and change in stocks.

Source: TURKSTAT, Akbank

**Chart 10. Private Consumption
(Seasonally adjusted. 2009=100)**



Source: TURKSTAT, Akbank

Table 3. The Growth of GDP and Sub-Items from the Expenditures Side (%)

	Annual Growth				Quarterly Growth (seas. adj.)			
	2024-Q2	2024-Q3	2024-Q4	2025-Q1	2024-Q2	2024-Q3	2024-Q4	2025-Q1
GDP	2.4	2.2	3.0	2.0	-0.2	-0.1	1.7	1.0
Total Consumption	1.0	2.3	3.5	1.9	-0.2	-0.1	3.7	-0.1
Private Consumption	1.2	2.6	3.9	2.0	-0.4	-0.2	4.3	-0.4
Public Consumption	-0.2	0.1	1.6	1.2	1.0	0.1	0.2	2.1
Investment	0.8	-0.1	6.1	2.1	-2.9	2.8	3.9	-1.4
Construction	7.8	9.9	9.7	6.9	1.1	2.1	2.8	1.5
Machinery and Equipment	-5.6	-8.3	4.2	-1.8	-6.7	4.0	3.8	-1.7
Other Assets	-0.9	-1.2	3.8	-2.4	1.4	0.1	7.8	-9.7
Exports	0.8	0.7	-2.0	0.0	-4.1	3.1	-3.3	3.9
Imports	-5.9	-9.6	1.6	3.0	0.8	-1.1	5.2	-1.1
Domestic Demand	0.9	0.1	3.8	2.7	1.0	-1.0	3.6	-0.1
Final Domestic Demand	1.0	1.8	4.1	1.9	-0.8	0.5	3.8	-0.4

Source: TURKSTAT, Akbank

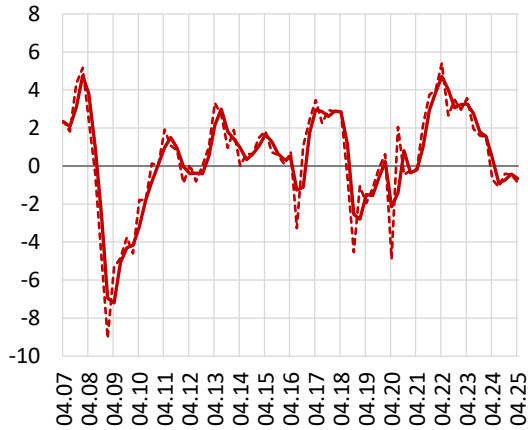
Table 4. Contribution to GDP Growth from the Expenditures Side (Percentage Point)

	Annual Growth				Quarterly Growth (seas. adj.)			
	2024-Q2	2024-Q3	2024-Q4	2025-Q1	2024-Q2	2024-Q3	2024-Q4	2025-Q1
GDP	2.4	2.2	3.0	2.0	-0.2	-0.1	1.7	1.0
Total Consumption	0.9	1.9	3.2	1.7	-0.2	-0.1	3.3	-0.1
Private Consumption	0.9	1.9	3.0	1.6	-0.3	-0.1	3.2	-0.3
Public Consumption	0.0	0.0	0.2	0.2	0.1	0.0	0.0	0.3
Investment	0.2	0.0	1.5	0.5	-0.7	0.7	1.0	-0.4
Construction	0.7	0.8	0.8	0.7	0.1	0.2	0.3	0.1
Machinery and Equipment	-0.7	-1.1	0.5	-0.2	-0.9	0.5	0.5	-0.2
Other Assets	0.0	0.0	0.1	-0.1	0.0	0.0	0.2	-0.3
Changes in Stocks	-0.2	-1.9	-0.9	0.3	1.9	-1.6	-0.7	0.3
Net Exports	1.5	2.2	-0.8	-0.6	-1.1	0.9	-1.8	1.1
Exports	0.2	0.2	-0.5	0.0	-1.0	0.7	-0.8	0.9
Imports	1.3	2.0	-0.4	-0.6	-0.2	0.2	-1.0	0.2
Domestic Demand	0.9	0.1	3.8	2.6	0.9	-1.0	3.5	-0.1
Final Domestic Demand	1.1	1.9	4.7	2.2	-0.9	0.6	4.2	-0.4

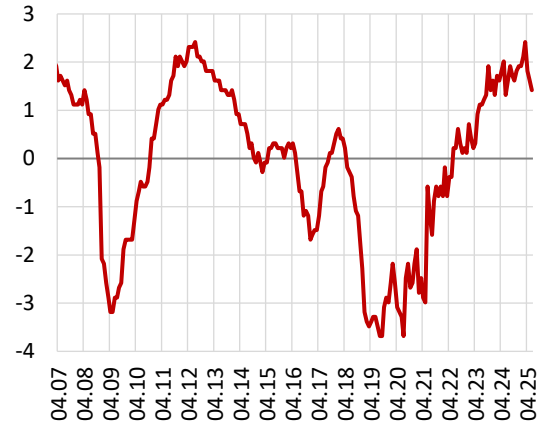
Source: TURKSTAT, Akbank

Output Gap:

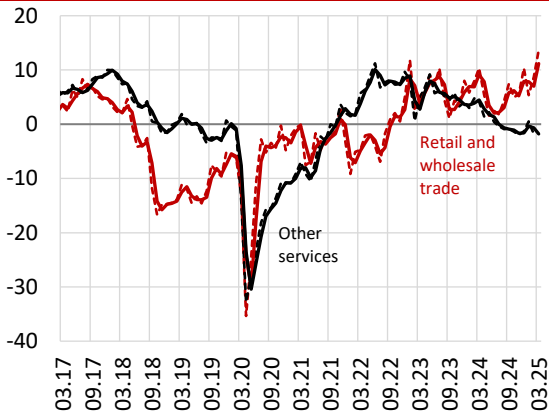
In this period, we believe that defining the output gap as a combination of the goods/services market, the credit market and the labor market provides a more appropriate assessment of aggregate demand conditions. In this context, various indicators suggest that the output gap may be at inflationary levels, slightly higher than the level reported by the CBRT in the latest Inflation Report (Charts 11-14). Nevertheless, the available data for the second quarter signal a slowdown in economic activity (below-potential quarterly growth) due to the financial tightening, as envisaged by the CBRT.

Chart 11. GDP and Credit-Based Output Gap (quarterly, %)

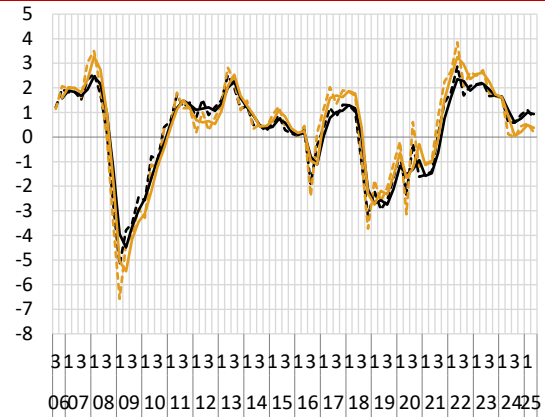
Source: TURKSTAT, Akbank

Chart 12. Unemployment Rate (demeaned and reversed, %)

Source: TURKSTAT, Akbank

Chart 13. Output Gap in Services (monthly, %)

Source: TURKSTAT, Akbank

Chart 14. GDP-Credit-Unemployment Based Output Gap (quarterly, %)

Source: TURKSTAT, Akbank

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