Domestic demand drives Turkey’s economic growth

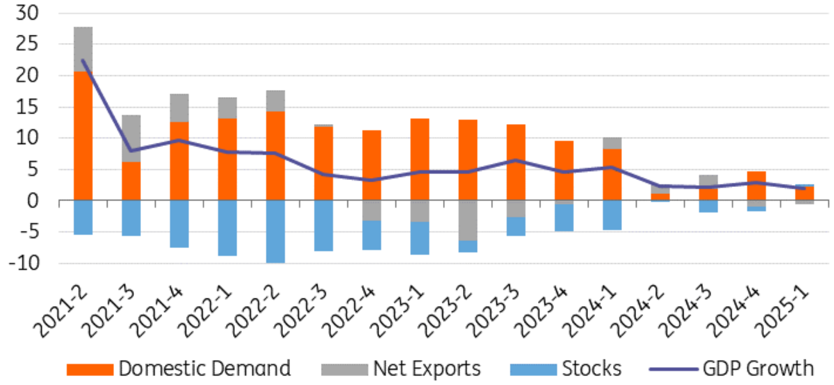
While headline growth came in lower than expected at 2.0% YoY in the first quarter, sequential growth remained robust at 1.0% QoQ. This indicates a respectable performance over the same period of last year driven by domestic demand, while the contribution of net exports remained negative

Istanbul, Turkey

In the first quarter of 2025, Turkey's GDP growth was 2.0% year-on-year, falling short of the market consensus of 2.3% (and our call of 2.1%). Despite showing a moderation compared to previous quarters, this performance was mainly driven by both private consumption and investments.

1Q25 GDP translates into a quarter-on-quarter (QoQ) growth rate of 1.0% after seasonal adjustments, showing a momentum loss in comparison to the last quarter of 2024. However, it still marks a healthy reading given the technical recession last year with QoQ contractions in 2Q24 and 3Q24. The sequential performance is attributed to the turn of contributions from net exports and inventory build-up to positive, as well as increasing support from the government consumption despite a drag from both private consumption and investments.

GDP Growth (%, YoY)



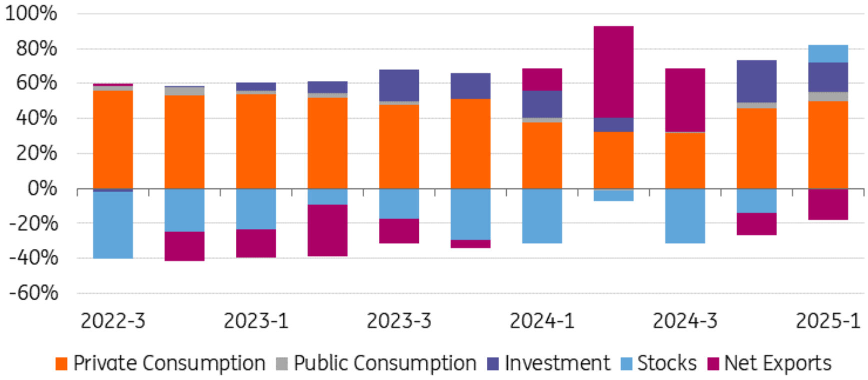
Source: TurkStat, ING

When we look at the breakdown of expenditures:

- Private consumption recorded a 2.0% YoY growth, lifting the headline GDP by 1.6 percentage points (ppt) in an environment of rate cuts and acceleration in bank lending ahead of the March volatility.
- Investment appetite remained resilient with a 2.1% YoY growth, contributing 0.5ppt to GDP expansion. This growth is mainly due to a continued rise in construction investments (6.9% YoY) while machinery equipment investments turned negative, reducing 1Q25 investment growth.
- Public consumption positively contributed to the headline GDP with a 1.2% YoY increase, adding a 0.2ppt to 1Q growth. This reflects a relatively supportive fiscal stance with the budget deficit remaining well above the target set in the medium-term plan.
- Inventory build-up added 0.2ppt to the growth.
- Net exports pulled the headline growth down by 0.6ppt after a negative contribution in the 4Q24, due to accelerating imports.

In the sectoral breakdown, construction emerged as the biggest contributor, followed by services. Industry, on the other hand, was weak with a negative contribution as evidenced by early indicators such as capacity utilisation and PMI.

Drivers of growth (ppt contribution)



Source: TurkStat, ING

Overall, the Turkish economy made a relatively strong start to the year with continuing support from domestic demand. However, the outlook for the remainder of 2025 appears more cautious, as early indicators for the second quarter point to emerging signs of weakness following the volatility experienced in March.

While the market largely expects a resumption in interest rate cuts in the summer, the sharp decline in international reserves may result in a more gradual easing process. This slower adjustment is likely to put pressure on real economic activity.

Additionally, global economic challenges – especially those arising from US tariffs – could negatively affect Turkey's export performance. The anticipated slowdown in economic growth across Europe and the US may create additional headwinds for exports.

Given these factors, we expect Turkey's growth to decelerate from 3.2% in 2024 to 2.8% in 2025. However, the possibility of further economic weakness should not be overlooked.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

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