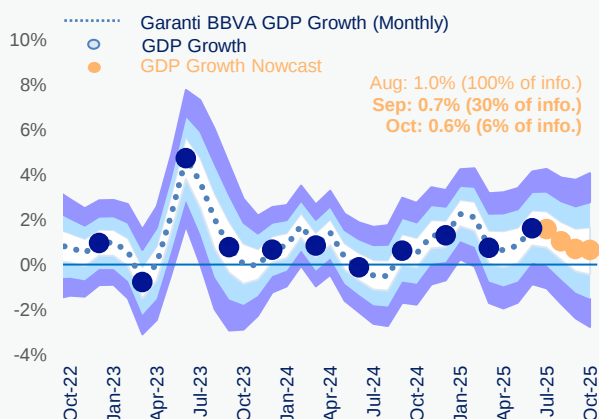


Türkiye | From slowdown in 3Q to a limited recovery expectation for 4Q

Ali Batuhan Barlas / Adem Ileri / Ateş Gürsoy / Berfin Kardaslar

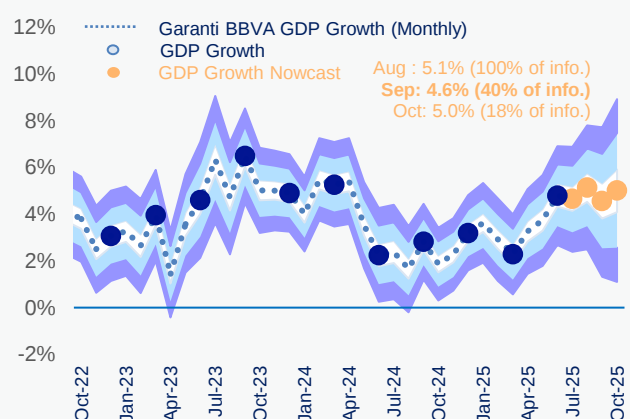
- On the supply side, the trend in industry and services production remains weak; whereas construction remains supportive. Our monthly GDP indicator nowcasts a slowdown to around 0.7% q/q growth (vs 1.6% q/q in 2Q25), implying around 4.5% y/y growth in 3Q25.
- On the demand side, the softening seems to stem from private consumption and external demand, while investment supports aggregate demand. Despite subdued external demand, fall in imports may lead net exports' contribution to be positive on a quarterly basis. The change in demand composition evolved in the desired direction, and we expect cooling demand to support disinflation; but high inflation expectations, distorted pricing behavior, and potentially increasing wealth effects due to the rise in gold prices could be negative factors.
- Leading indicators suggest that, with the expected easing in financial conditions, firms anticipate a recovery in demand and production in 4Q25; and household expectation surveys signal a pickup in spending. That said, as of October, our big data indicators point to a steady consumption.
- The challenges on inflation require the CBRT to be prudent and deliver limited rate cuts. As financial conditions continue to ease, the increasing need to deliver a more cautious monetary stance might result in a slower easing path than our previous expectations. On fiscal policy, the negative impulse seen over the past two quarters may reverse in 4Q25.
- Despite tariff-war uncertainty, global growth remains resilient; expected EU defense/infrastructure expenditures and expansionary policy measures in some other countries could dampen negative tariff effects. Overall, we view risks on our GDP growth forecasts as balanced and keep our forecasts at 3.7% and 4% for 2025 and 2026, respectively.

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



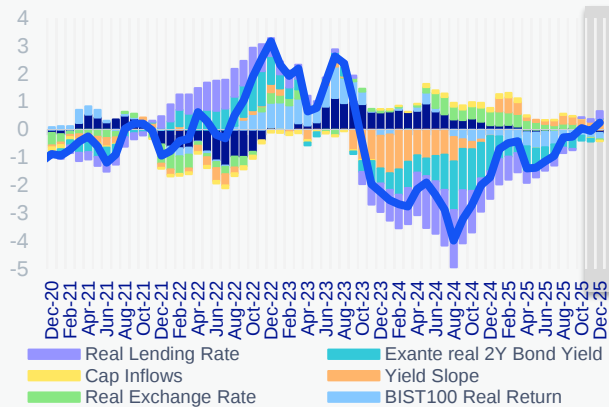
Source: Garanti BBVA Research, TURKSTAT

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



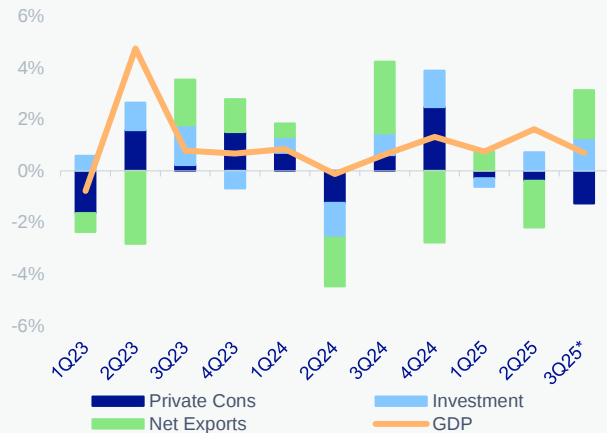
Source: Garanti BBVA Research, TURKSTAT

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)



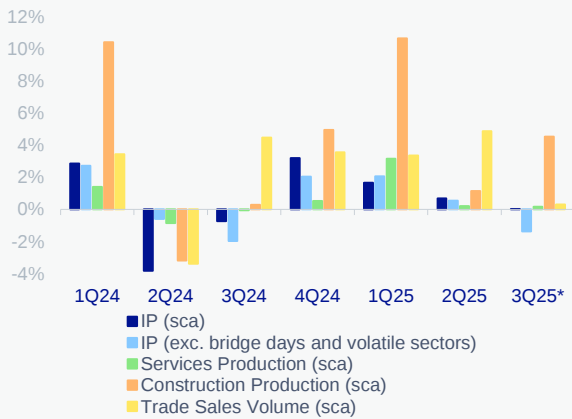
Source: Garanti BBVA Research, TURKSTAT; 3Q25* Based on Our Nowcasting Results

A modest slow-down in 3Q25

Industrial production (IP, sca) rose by 0.4% m/m in Aug25 (vs. -1.7% m/m in Jul25), driven by non-durable consumer and intermediate goods, while other segments continued to weigh down on overall growth. Excluding volatile sectors, IP recovered after two consecutive months of contraction, posting 1.1% m/m growth in Aug25 (vs. -1.2% and -0.7% previously). August data continued to indicate weak demand conditions: durable consumer goods production declined further, and non-durable goods grew only modestly from a low base.

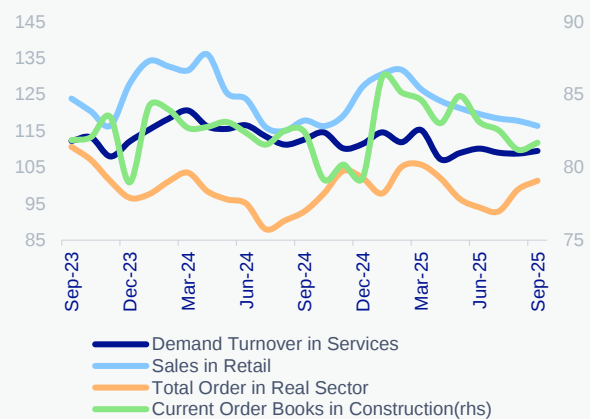
Comparing the Jul-Aug average with 2Q25, IP showed no growth (vs. 0.7% q/q in 2Q25), indicating a slowdown in 3Q25 amid weaker demand. Durable (-3.0% q/q vs. -1.6% q/q in 2Q25) and non-durable goods (-2.9% q/q vs. -1.9% q/q in 2Q25) continued to drag down the index, while capital goods maintained a positive contribution despite a deceleration (3.3% q/q vs. 4.6% q/q in 2Q25). Leading indicators suggest the recovery expected for 4Q25 may have started in September: manufacturing capacity utilization rate edged up (+0.2pp m/m), real sector confidence improved on current orders (2.1% m/m) and investment expenditures (3.8% m/m). Firms also reported stock reductions in September, signaling a potential rebound in 4Q25 as inventories deplete and new orders materialize. However, assessments of general conditions weakened, likely reflecting weak external demand and deteriorating expectations for near-term financial easing amid sticky inflation. Overall, early 3Q25 data imply that the anticipated 4Q25 recovery may have begun in September, limiting further deceleration in industrial activity, though the rebound may be weaker than previously expected.

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



Source: Garanti BBVA Research, TURKSTAT, 3Q25* refers to Jul-Aug

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

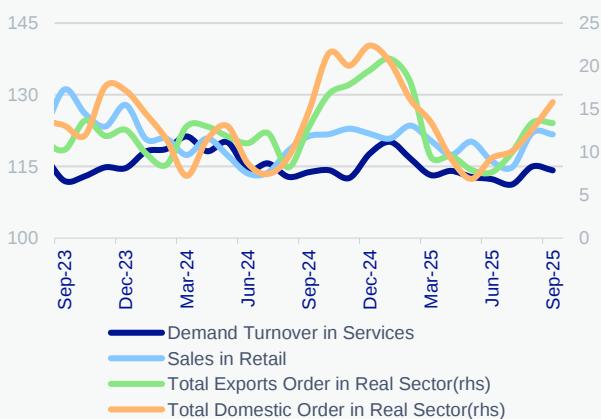


Source: Garanti BBVA Research, CBRT

Services production rose by 0.4% m/m in Aug25 (vs. -0.3% in Jul25) but the recovery was not broad based. On a quarterly basis, services production was nearly flat, maintaining 0.2% q/q growth, similar to 2Q25. However, compositional changes point to weaker demand in 3Q25: transportation & storage contracted and accommodation & food services slowed sharply. Confidence indicators suggest a stable outlook for Sep25, likely keeping 3Q25 services output at nearly Jul-Aug levels, while expectations for the next three months have recently weakened on households' deteriorating financial conditions and potentially more gradual than expected monetary easing.

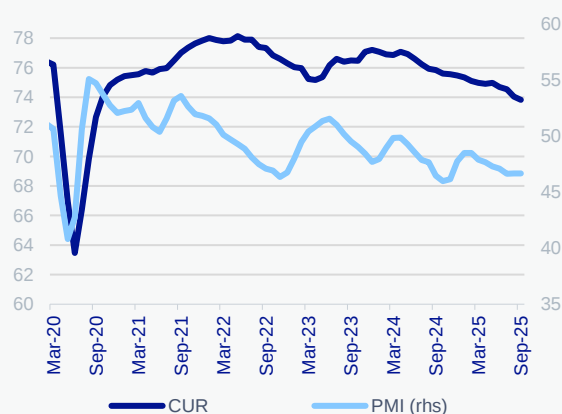
Construction activity fell slightly in Aug25 after 3 months of robust gains, but remained strong, posting to 5.1% q/q growth in Jul-Aug vs. 1.1% q/q in 2Q25. Construction confidence shows somewhat a stability in Sep25, implying an ongoing solid contribution to growth and sustained momentum into early 4Q25.

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



Source: Garanti BBVA Research, TURKSTAT, CBRT

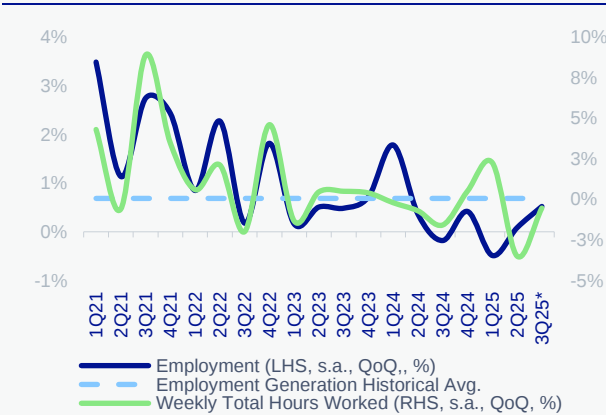
Figure 8. Manufacturing CUR vs. PMI Index (Monthly, seasonally adj., Level)



Source: Garanti BBVA Research, CBRT, ICI

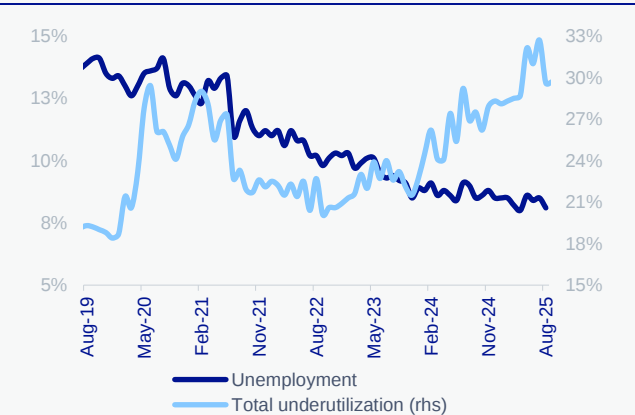
In the labor market, the unemployment rate rose to 8.5% in Aug25 (vs. 8.1% in Jul25; 8.3% avg. in 3Q25), while the underutilization rate remained broadly stable at 29.7% (vs. 29.7% in July-Aug). On a quarterly basis, both indicators improved (down 0.2pp and 2.3pp, respectively). Employment increased by 0.5% q/q in 3Q25 (vs. 0.1% q/q in 2Q25), though total weekly hours worked declined (-0.5% q/q vs. -3.5% q/q in 2Q25), consistent with subdued activity.

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



Source: Garanti BBVA Research, TURKSTAT, 3Q25*: July-Aug

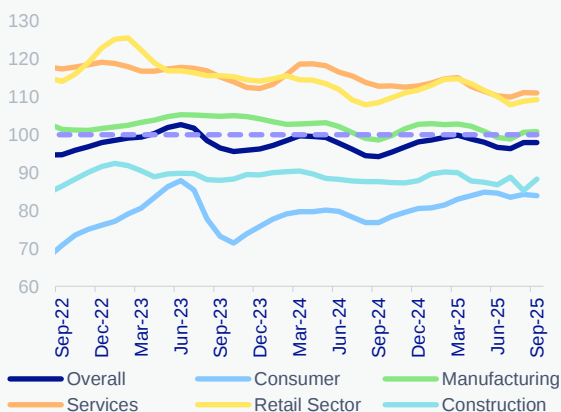
Figure 10. Unemployment Rate (seasonally adjusted)



Source: Garanti BBVA Research, TURKSTAT

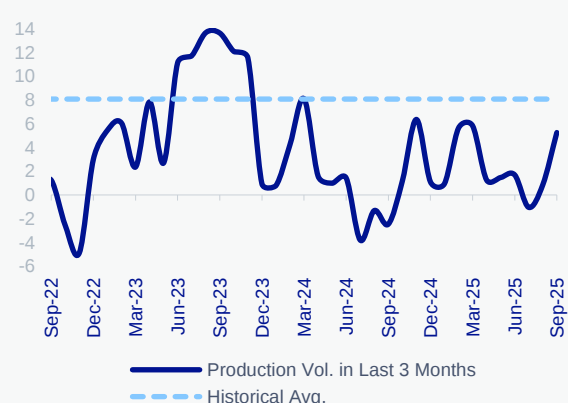
Overall, July–August hard data indicate a slowdown in 3Q25 economic activity amid weakening signals in demand, though remaining in expansionary territory. Industrial growth decelerated, services output stagnated while construction provided solid support to quarterly growth. Looking ahead, soft indicators imply that the expected 4Q25 rebound may have started in September, cushioning the 3Q25 slowdown. However, the pace of the recovery might be contained by slower financial easing due to persistent inflation, alongside household financial strain dampening demand.

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

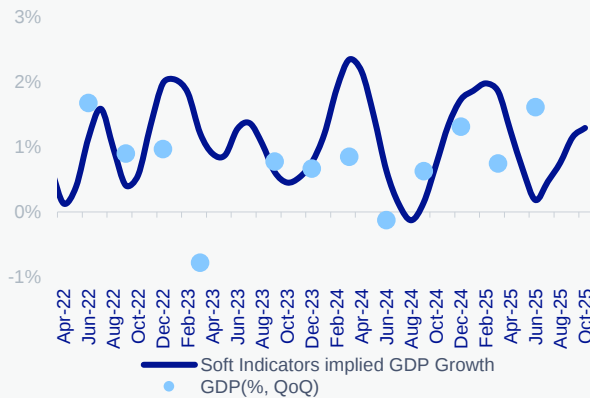


Source: Garanti BBVA Research, TURKSTAT

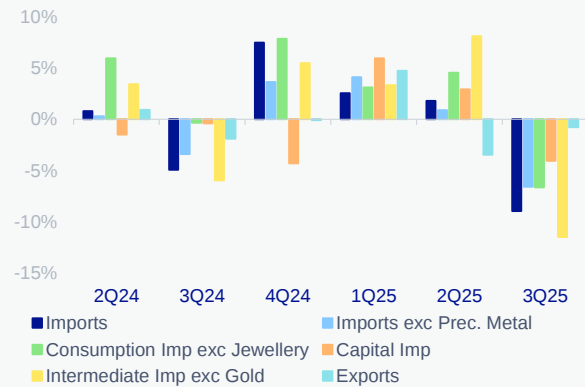
Figure 12. Economic Tendency Production Volume (sea. adj., over the past 3 months)



Source: Garanti BBVA Research, CBRT

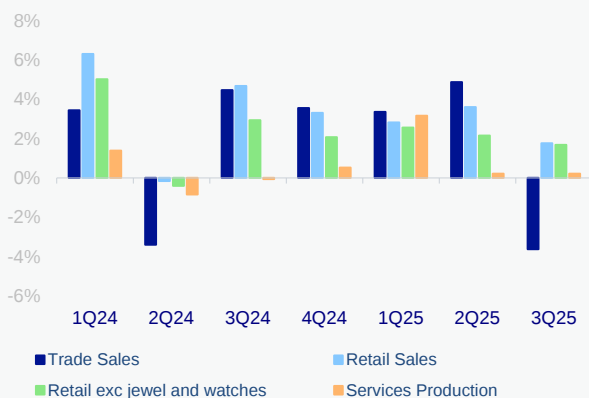
Figure 13. Soft Indicators Factor Implied Growth vs. GDP Growth (%)


Source: Garanti BBVA Research, TURKSTAT, CBRT

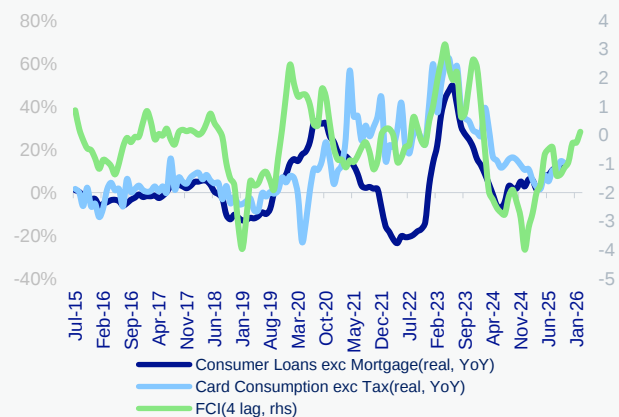
Figure 14. Foreign Trade Components Volume (QoQ, seasonal and cal. adj.)


Source: Garanti BBVA Research, Ministry of Trade, TURKSTAT

On the demand side, hard and leading data indicated that the moderation is being driven by private consumption and subdued external demand, while investment expenditures remained supportive in 3Q25. Looking ahead, firms had expected a recovery in demand conditions on the expected ease in financial conditions, but those expectations deteriorated slightly somewhat in September.

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


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

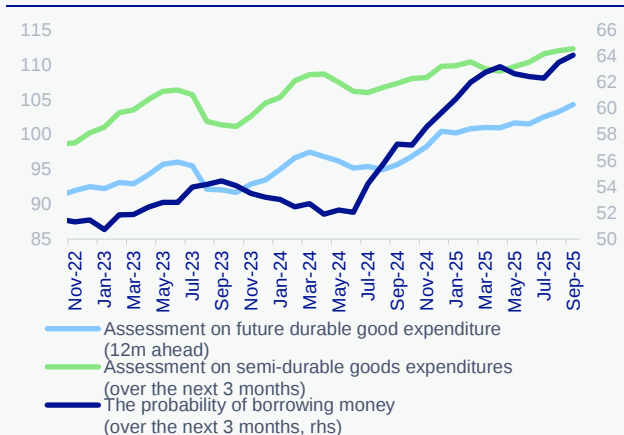
Figure 16. Consumer Loans, Card Consumption & Financial Conditions (Real, YoY; standardized, + easing, - tightening)


Source: Garanti BBVA Research, TURKSTAT, BRSA, Bloomberg, CBRT

The weakness in private consumption still appears concentrated in services, while goods consumption has moderated further. Retail sales rose 0.9% m/m in August after contracting in July, but the July–August performance shows only a slight deceleration versus 2Q25. The services production index, proxy for services consumption, rebounded slightly in August, yet remains broadly flat in Q3.

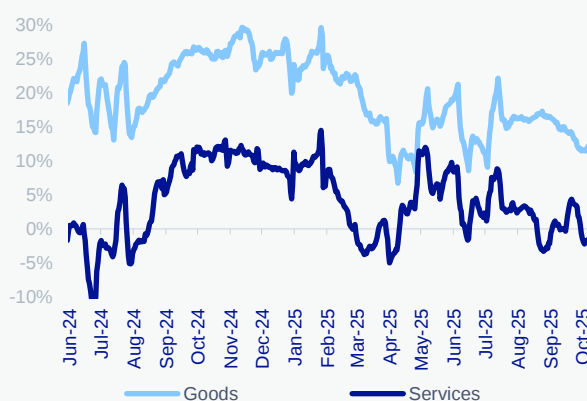
According to our calculations, consumer-goods imports excluding jewelry rose a modest 1.3% m/m in September, but this will not offset the contractions in July and August. As a result, consumer-goods imports could have contracted on a quarterly basis in 3Q25. Looking ahead, the ease in financial conditions so far points to a potential increase in card spending and non-mortgage consumer loans (including credit cards) in the upcoming period, which could support consumption. However, the ongoing monthly growth caps on general purpose and auto loans may remain restrictive. In line with this expectation, according to the consumer confidence survey, assessment on spending money on both semi-durable and durable goods for the coming period has improved; while the probability of borrowing money to afford consumption over the next three months reached the highest the level in 2025, despite its retreat in September. However, our high-frequency big-data indicator signals that, as of early October, goods consumption remained broadly flat, while services consumption continued to be weak. Consistently, our monthly private consumption GDP indicator nowcasts 1.3% y/y growth as of September, implying a quarterly contraction of around 2% in 3Q25 and an ongoing weakness in October.

Figure 17. Consumer Confidence Indices (3M Avg, Index)



Source: Garanti BBVA Research, TURKSTAT

Figure 18. Garanti BBVA Big Data Consumption Indicators (28-day sum, YoY, adjusted by CPI)

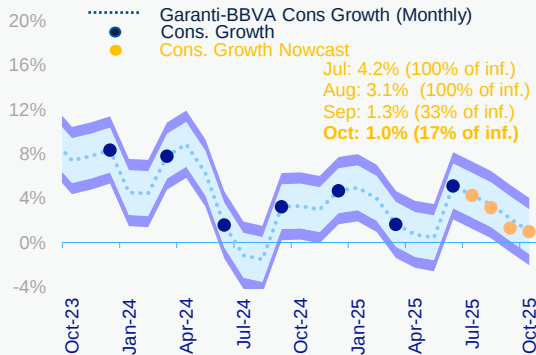


Source: Garanti BBVA Research, TURKSTAT

Investment expenditures continue to support aggregate demand, driven by the construction investment. Although construction output showed a slight contraction in August, it accelerated in 3Q25 compared with 2Q25. Machinery and equipment investment, on the other hand, remains weaker as capital goods production contracted again in August following the decline in July, losing momentum on a quarterly basis. Also, despite a strong monthly increase in capital goods imports in September, it declined on a quarterly basis in 3Q25. Meanwhile, manufacturing firms' investment expenditures tendency rose slightly in September but remained flat on a quarterly basis. Our monthly investment GDP indicator nowcasts 10.4% y/y growth, pointing to 4% q/q growth as of September.

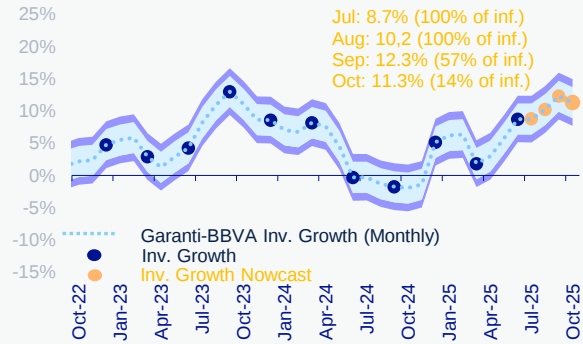
Due to weak external demand, goods exports contracted in 3Q25, while services exports remained supportive. We nowcast that exports of goods and services fell 1.3% y/y but rose 2.8% q/q in Q3. Despite the rebound in September, imports contracted in 3Q25, led by weakening signals in domestic demand and fading impact of temporary shocks in 2Q25.

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



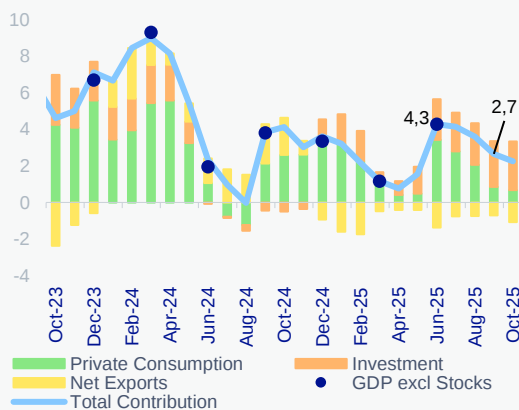
Source: TURKSTAT, Garanti BBVA Research

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



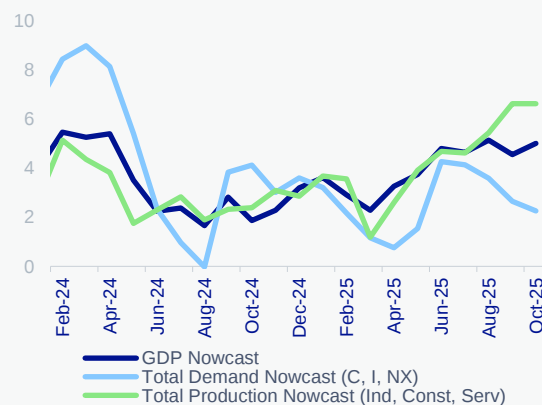
Source: TURKSTAT, Garanti BBVA Research

Figure 21. Garanti BBVA Monthly GDP Demand Sub-Components (contribution to annual GDP, pp)



Source: TURKSTAT, Garanti BBVA Research

Figure 22. Garanti BBVA Monthly GDP (3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research

Overall, aggregate demand on annual basis could remain weaker than supply, indicating an inventory build-up; while on a quarterly basis, positive contributions from investment and net exports may partly offset the negative impact from consumption, leading to a mild decline in inventories.

The further closure of the gap between demand and supply could support disinflation path, though unanchored inflation expectations, distorted pricing behavior, and potentially increasing wealth effects from gold prices may limit the impact. Given the upside risks to inflation outlook, we expect the CBRT to remain cautious, opting for smaller rate cuts going forward while macroprudential polices such as monthly loan growth caps could be used effectively to complement the overall

stance. On the fiscal side, the negative impulse observed over the past two quarters could reverse in 4Q25. Globally, despite the downside risks from trade-war uncertainty, expected investment and defense spending in the European Union and expansionary policies in some other economies could help limit the overall negative effect. We evaluate risks on the growth outlook as balanced for the time being and therefore maintain our GDP growth forecasts at 3.7% and 4%, for 2025 and 2026. The commitment of the economy management to attain 16% inflation target in 2026 aka sacrifice on employment and growth outlook would be a determinant factor on the pace of growth apart from the uncertainty on tariff wars and geopolitical risks.

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