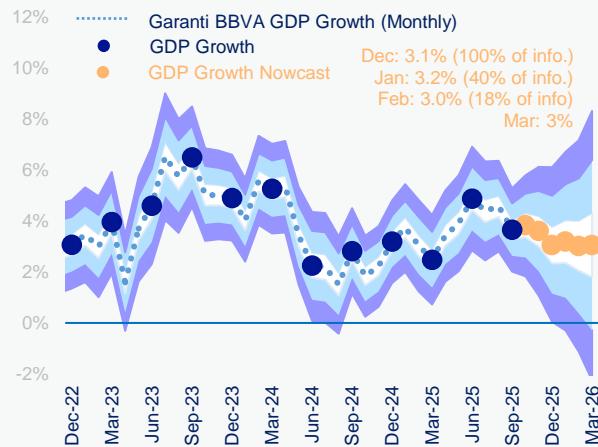


Türkiye | 2025 GDP growth could be 3.5%

Ali Batuhan Barlas / Adem Ileri / Ates Gursoy / Berfin Kardaslar

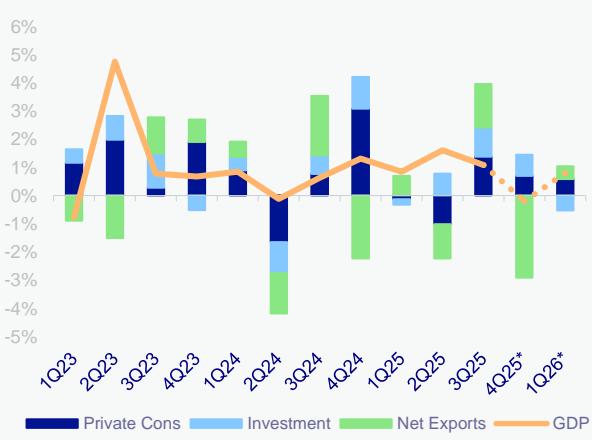
- Incoming hard data point to a weak outlook in industry and services in 4Q25, while construction sector also appears to lose momentum. Our monthly GDP indicator estimates an annual growth of around 3% for 4Q25, implying a limited contraction on a quarterly basis.
- Leading indicators, in line with our expectations, signal no clear trend in industry but some recovery in services and construction sectors for 1Q26.
- Data on demand in December confirms that domestic demand remained strong in 4Q25, while external demand made a negative contribution to growth. Leading indicators for 1Q26, however, suggest some moderation in domestic demand from particularly investment expenditures.
- The supply-demand balance remains less aligned than the Central Bank's expectation so far. Indeed, output gap estimates were revised upward again in the latest Inflation Report. In this context, it will be important to monitor the demand impact of the recent restrictive macroprudential measures on overdraft facilities (KMH) and credit cards. The fiscal stance, meanwhile, does not signal additional upside risk to demand conditions for 1Q26.
- GDP growth in 2025 could have been at around 3.5%, slightly below our 3.7% forecast. Assuming resilience in foreign demand, looser external financial conditions, further ease in domestic financial conditions and a neutral fiscal stance, we evaluate risks on our 2026 GDP growth forecast of 4% might turn upside, as signaled by our growth-at-risk model (Figure 4).

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



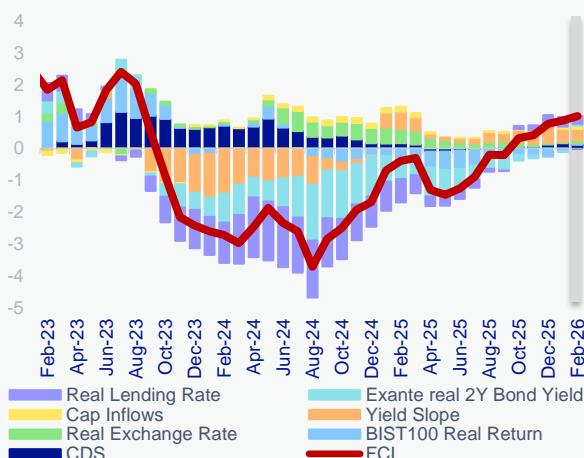
Source: Garanti BBVA Research, TURKSTAT

Figure 2. GDP Demand Decomposition* (pp contribution, quarterly)



Source: Garanti BBVA Research, TURKSTAT *based on our nowcast results for 4Q25 and 1Q26, contributions are based on traditional method.

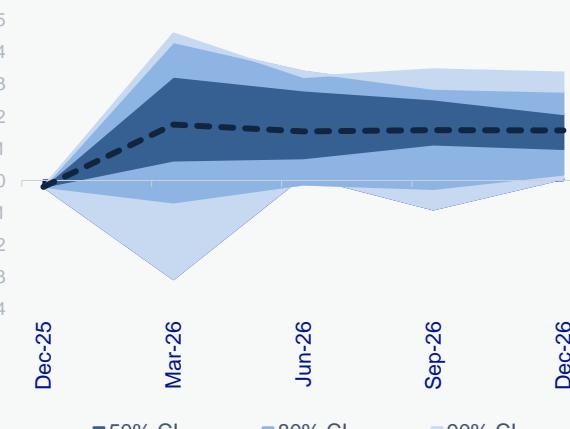
Figure 3. Garanti BBVA Financial Conditions (FCI) Index (standardized, + easing, - tightening)



Source: Garanti BBVA Research, CBRT, Bloomberg, TURKSTAT

*Grey area displayed forecasts for 1Q26 based on our expectations

Figure 4. Balance of Risks on GDP Growth Forecasts (ytd average QoQ growth in 2026, wrt different confidence intervals)

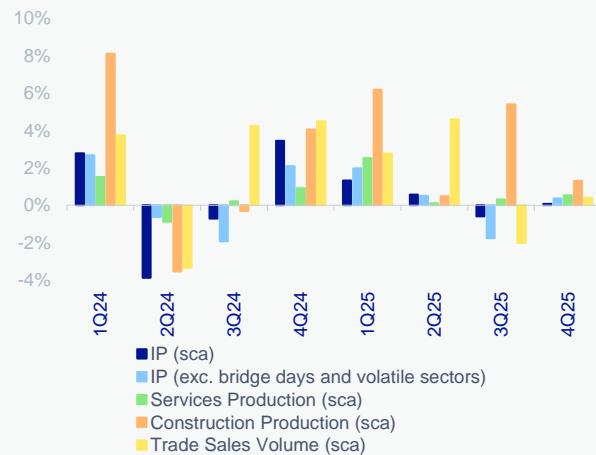


Source: Garanti BBVA Research, TURKSTAT

Faster deceleration in 4Q25 but some recovery signals for 1Q26

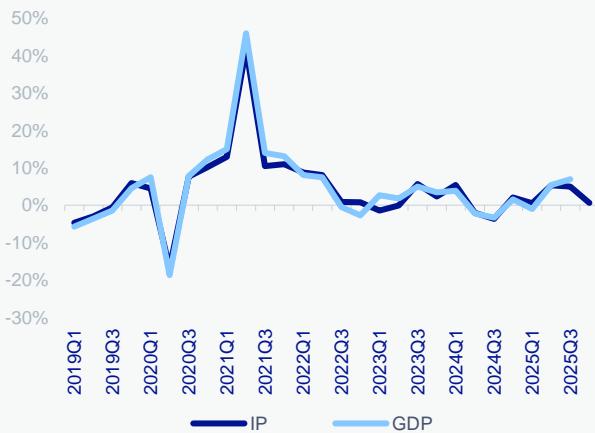
Upon rebounding in Nov25 (2.5% m/m), industrial production continued its recovery (1.2% m/m) in Dec25, driven primarily by the increase in the production of intermediate goods (1.6% m/m, +0.6 pps) and capital goods (2.4% m/m, +0.6 pps). All the main sub-groups improved except for the non-durable consumer goods (-2.2% m/m). Moreover, excluding volatile sectors (electronics and other transportation production mostly defense related sectors), IP grew by 1.4% m/m in Dec25 (vs 1.3% m/m in Nov25). On a quarterly basis, IP stayed flat (0.07% q/q) due to a broad-based contraction across all product groups except for the intermediate goods.

Figure 5. Sectorial Production (QoQ, seasonal and cal. adj.)



Source: Garanti BBVA Research, TURKSTAT

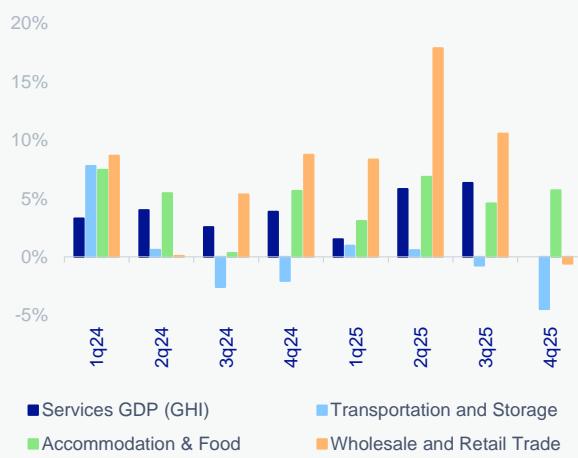
Figure 6. Industrial Activity under GDP vs Industrial Production (Calendar adj., YoY)



Source: Garanti BBVA Research, CBRT

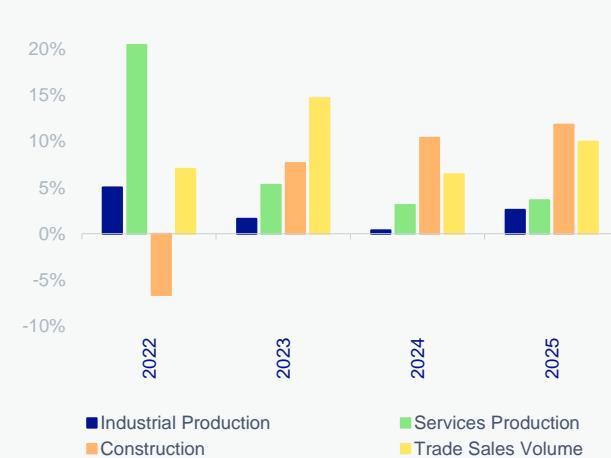
Considering a more consistent annual growth relation between the industrial component of GDP and the high frequency monthly industrial production on calendar adjusted basis (Figure 6), the recent trend in IP signals a quarterly contraction in industrial GDP in 4Q25, following the expansions observed in 2Q25 and 3Q25. On an annual basis, IP rose by 2.6% in 2025, especially supported by defense and construction related sectors, higher than previous two years but still remain below its historical average (Figure 8). Looking ahead, leading indicators for Jan26 point to a marginal pickup on quarterly basis (CUR: +0.3pp q/q, PMI: 48.1 vs. 47.8 in 4Q25, real sector confidence: 0.03% q/q, real intermediate goods imports excluding gold: 0.2% q/q).

Figure 7. Services GDP Growth vs Production in Services Sector Sub-Groups (Calendar adj., YoY)



Source: Garanti BBVA Research, TURKSTAT

Figure 8. Sectorial Production (Annual, YoY)

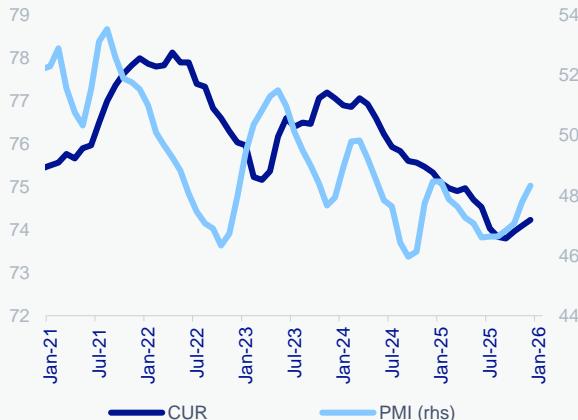


Source: Garanti BBVA Research, TURKSTAT

Like the industrial production, services production maintained its rebound in Dec25 (1.0% m/m) after its performance in Nov25 (0.4% m/m). On a quarterly basis, demand-sensitive sectors contributed positively, particularly accommodation and food services (1.1% q/q) and transportation and storage (2.0% q/q), whereas the remaining sectors posted declines, notably information and communication (-1.2% q/q), real estate activities (-1.8% q/q), professional activities (-1.6% q/q), and administrative and support services (-0.6% q/q). As a result, services production grew modestly by 0.5% q/q in 4q25. Compared to 3q25, all segments recorded a weaker growth, with the exception of transportation and storage services which accelerated considerably. Overall, services activity maintains its weak quarterly momentum, similar to that observed in 2Q25 and 3Q25. On the other hand, confidence in the sector rose in Jan26 (1.3% m/m, 1.9% q/q) and approached the levels observed in 1Q25 when services growth was significantly stronger, supported by more favorable demand conditions and business situation along with improved demand expectations.

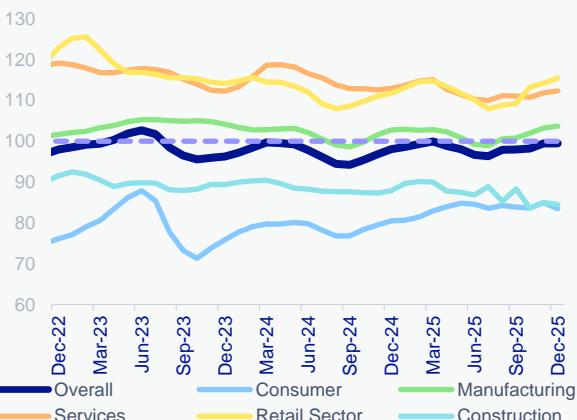
Construction activity picked up by 1.0% m/m in Dec25 following the two consecutive months of weakening, which implies a quarterly growth rate of 1.3% q/q in 4Q25. Even though construction activity stays strong with its strongest level being reached since 2Q18, data shows a marked deceleration in 4Q25 compared to 3Q25 (5.4% q/q). However, construction confidence, which strengthened in Jan26 (1.5% m/m, 1.6% q/q), points out to a potential upturn in 1Q26 as firms reported better activity and current orders.

Figure 9. Manufacturing CUR vs. PMI Index (3-MA, seasonally adj., Level)



Source: Garanti BBVA Research, TURKSTAT, CBRT

Figure 10. Economic Confidence Index (seasonal and cal. adj., 3M Mov. Avg.)

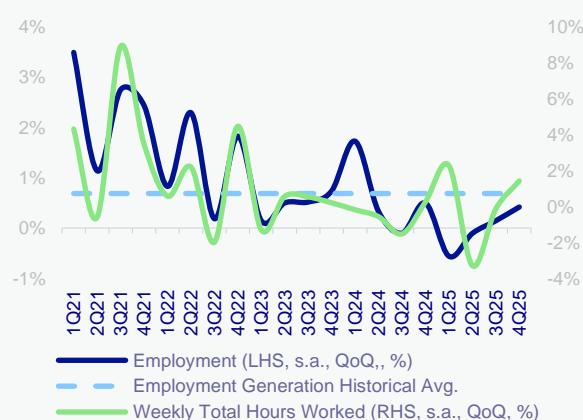


Source: Garanti BBVA Research, CBRT, ICI

On labor, the headline unemployment rate fell to 7.7% in Dec25 (vs. 8.5% in Nov25 and 8.4% 3Q25) reaching a record low, while the underutilization rate dropped to 28.6% (vs. 28.9% in Nov25). On a quarterly basis, underutilization rate still remained high and employment growth remained weak at 0.4% q/q in 4Q25, confirming subdued economic activity. On the other hand, sectoral confidence indices suggest likelihood of favorable labor market conditions in the next three months, supported by the improvement in employment expectations in services, construction, retail trade, and industry but they still remain below their historical averages.

To sum up, hard data for 4Q25 indicate a faster adjustment in economic activity on a potential quarterly contraction in industry, weak momentum in services and significant slow-down in construction sector. Despite the ease in financial conditions which started to be seen in 4Q25 (fig 3.), overall activity seems to stay stagnant in the last quarter of 2025. Going forward, soft indicators suggest that activity may strengthen in 1Q26 especially on construction and services sectors.

Figure 11. Employment & Total Hours Worked (QoQ, %, seasonal adj.)



Source: Garanti BBVA Research, TURKSTAT

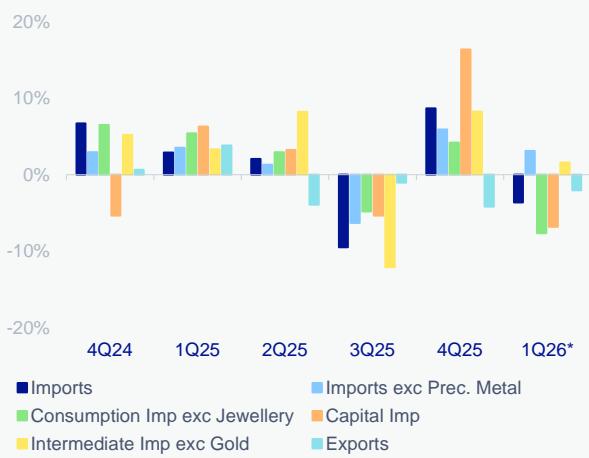
Figure 12. Unemployment Rate (seasonally adjusted)



Source: Garanti BBVA Research, TURKSTAT

On the demand side, data point to relatively strong domestic demand conditions in 4Q25, amid weak external demand. Unanchored inflation expectations and front-loading ahead of the new-year price hikes might have supported demand; coupled with supportive financial conditions starting in Oct25 after two years in tightening territory, consumer card spending accelerating, with annual card consumption growth and annual consumer loan growth reaching local peaks in 4Q25. Likewise, real imports increased in annual terms, with investment goods as the key driver, while on a quarterly basis 4Q25 marked a revival in consumption goods. For 1Q26, data so far indicate an initial retreat in demand at the start of the year as a carry-over effect of front-loading; however, elevated inflation expectations and a further easing in financial conditions are likely to keep domestic demand firm - also confirmed by our big data indicators-, preventing it from becoming sufficiently disinflationary; considering that wealth effects continue to play a significant role in supporting consumption, the impact of recent regulations on overdraft loans and credit cards aimed at limiting credit growth, and thus curbing demand, would be monitored to understand final impact.

Figure 13. Foreign Trade Components
Volume (QoQ, seasonal and cal. adj.)



Source: Garanti BBVA Research, TURKSTAT

Figure 14. Demand Conditions over the past 3 months
(seasonal adj index, monthly)



Source: Garanti BBVA Research, Ministry of Trade, TURKSTAT

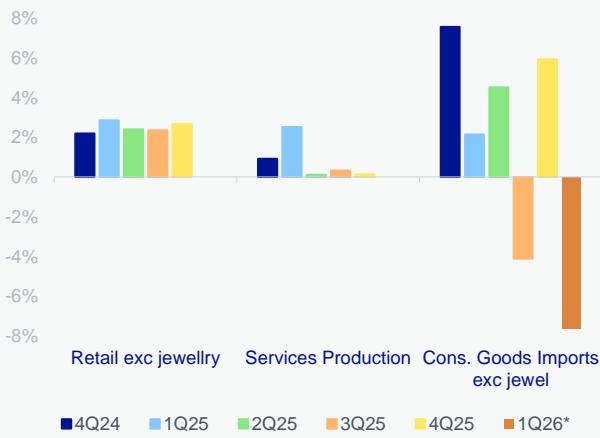
Regarding private consumption, 4Q25 the data show an acceleration in goods consumption, while services consumption remained relatively weak, reflecting the front-loading behavior being valid for goods. Retail sales excluding watches and jewelry accelerated (2.7% q/q in 4Q25 vs. 2.3% in 3Q25), supported by durable goods purchases, while non-durable goods such as textiles and food acted as a drag. So far for 1Q26, although January data on imports excluding jewelry indicate a retreat in demand conditions, our big data indicators point to renewed strength in demand conditions following the initial front-loading-related correction. Our monthly private consumption indicator nowcasts 1.4% y/y growth in 4Q25, implying some slowdown on a quarterly basis, while the trend remained steady in 1Q26 so far.

Figure 15. Demand Conditions over the next 3 months (seasonal adj index, monthly)



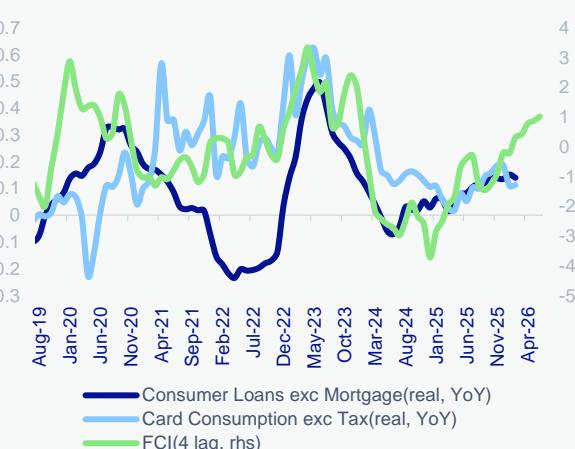
Source: Garanti BBVA Research, TURKSTAT

Figure 17. Consumption Indicators
(3-month average, QoQ, %)



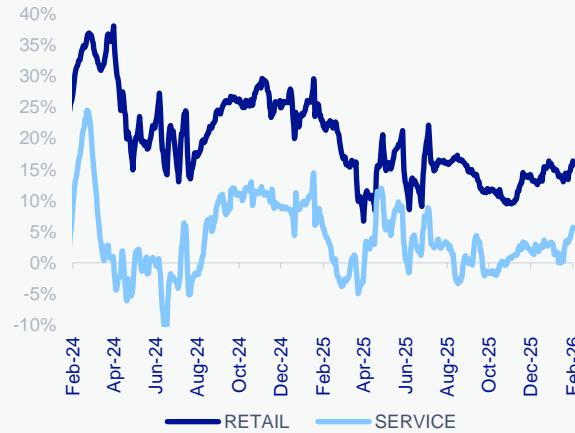
Source: Garanti BBVA Research, TURKSTAT, 1Q26* is Jan26

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



Source: Garanti BBVA Research, Ministry of Trade, TURKSTAT

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

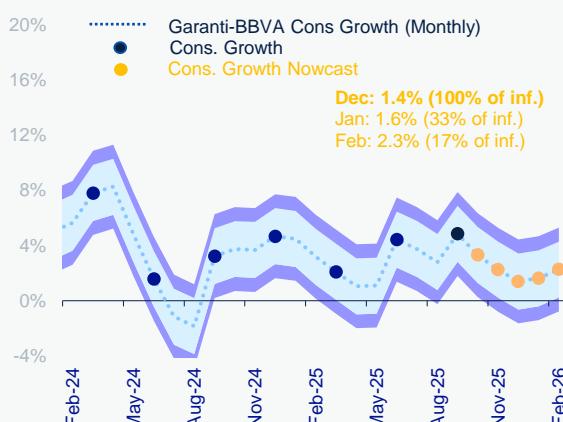


Source: Garanti BBVA Research, TURKSTAT

Investment expenditures remains the main contributor to domestic demand in annual GDP growth, although it has recently lost pace, likely reflecting weakening construction activity partly due to a slowdown in earthquake-affected regions. In 4Q25, capital goods production contracted on a quarterly basis, leading to a marked deceleration in annual growth (4.1% y/y vs. 17.7% y/y in 3Q25); by contrast, capital goods imports accelerated (16 % y/y vs. 3% y/y in 3Q25) potentially signaling front-loading behavior under supportive financial conditions, before contracting again in January. Our monthly investment expenditures indicator nowcasts a deceleration to 10% y/y growth in 4Q25 (vs. 11.3% y/y in 3Q25), with further moderation expected in 1Q26.

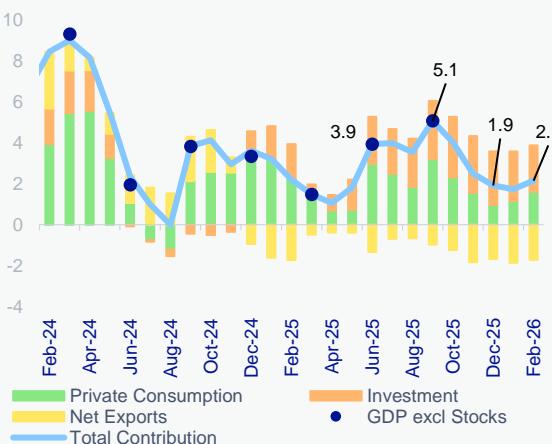
Regarding net exports, 4Q25 was characterized by weak external demand and resilient import demand (partly precious metals demand, mainly gold). We nowcast a contraction of 4% y/y in exports in 4Q25 (vs. -0.7% y/y in 3Q25), with a trend likely to persist as of January. We nowcast imports to grow by 3.5% y/y in 4Q25 (vs. 4.3% y/y in 3Q25), with some moderation expected ahead. Overall, the negative contribution of net exports on annual basis deepened in 4Q25 and is projected to remain elevated at least on a quarterly basis.

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



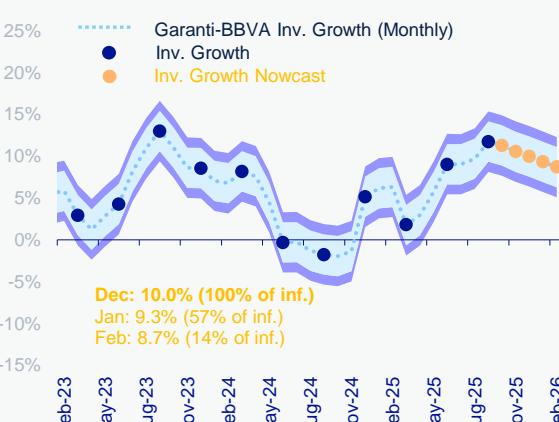
Source: TURKSTAT, Garanti BBVA Research

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



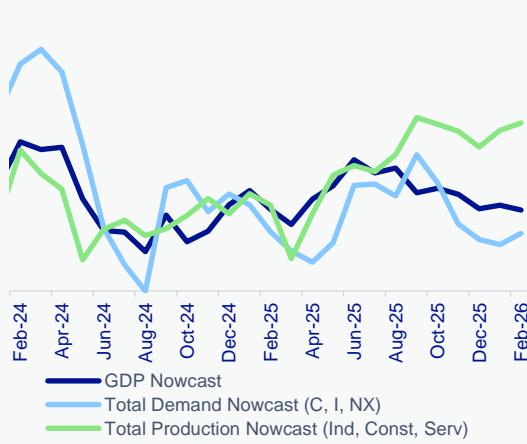
Source: TURKSTAT, Garanti BBVA Research

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



Source: TURKSTAT, Garanti BBVA Research

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



Source: TURKSTAT, Garanti BBVA Research

In sum, domestic demand remained relatively strong in 4Q25, driven mainly by investment, while private consumption proved to be resilient despite macroprudential measures and positive real interest rates aimed at curbing demand. For 2025 as a whole, GDP growth composition indicates that growth was driven by domestic demand, while external demand made a negative contribution, pointing to insufficiently disinflationary conditions. Amid easing financial conditions and limited improvement in inflation expectations, the disinflation process faces risks, as also highlighted by the CBRT. In this manner, the effectiveness of the recently introduced macroprudential measures in curbing demand would be important to support disinflation. Based on our overall GDP and non-farm sectoral GDP nowcasts, agriculture sector appears to have made a negative contribution to growth on annual basis in 4Q25 and 1Q26 so far. This may also pose an additional risk factor to the inflation outlook.

Globally, while geopolitical tensions and tariff related uncertainties pose downside risks, AI-related investments and expansionary policy steps in some countries may support activity. Under our assumptions of continued gradual rate cuts, supportive domestic and external financial conditions, and a neutral fiscal stance, we maintain our 4% growth forecast; meanwhile, current financial conditions suggest that risks to average quarterly growth in 2026 are tilted to the upside, as shown in our growth-at-risk model.

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