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Türkiye | A Challenging 2025, Yet 3.6% GDP Growth

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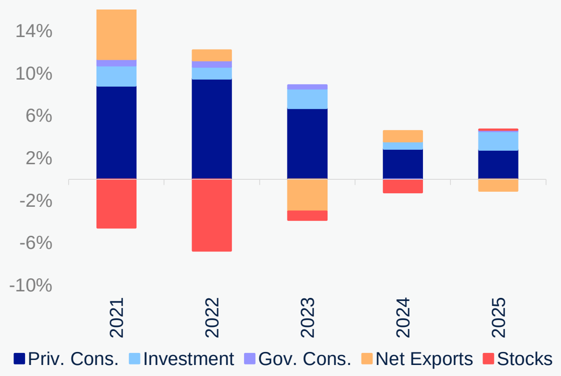
- The Turkish economy grew by 3.4% y/y in 4Q25, bringing full-year 2025 GDP growth to 3.6%, slightly below our 3.7% forecast.
- On the production side, in line with our expectations, industrial activity contracted in 4Q25, services were largely flat, and construction lost significant momentum. Agriculture, after contracting sharply in the first three quarters, posted a technical rebound. For 2025 as a whole, the broad services sector was the main driver of growth, while agriculture made a negative contribution. The positive contributions from construction and industry -at around 1pp- remained relatively modest.
- Contrary to our expectations on the demand side, private consumption accelerated in 4Q25 while investments contracted on a quarterly basis. Over the course of 2025, domestic demand excluding inventories made a significant contribution to growth, whereas external demand weighed negatively. The imbalance between supply and demand persists, with the output gap continuing to hover around neutral levels.
- Our monthly GDP indicator nowcasts 3% y/y growth for 1Q26, based on leading indicators, implying a q/q expansion of around 0.7% following the 0.4% growth recorded in 4Q25.
- The conflict in Iran, and more broadly in the region, entails significant uncertainty regarding its scope and duration, posing downside risks to activity, exerting pressure on trade and the current account balance, and creating upside risks to inflation. However, a well-calibrated policy mix aimed at sustaining moderate growth could help mitigate these geopolitical headwinds, if maintained. We therefore keep our 2026 GDP growth forecast unchanged at 4%, subject to revision in light of further developments.

Private Consumption Rebounds; Supply–Demand Imbalance Persists

The economy grew by 0.4% q/q in 4Q25, moderating from the solid growth rates recorded in the previous two quarters (1.0% in 3Q, 1.3% in 2Q), and posted 3.4% y/y growth. Supportive financial conditions at the beginning of the quarter, amid unanchored inflation expectations, led to an acceleration in private consumption to 4.2% q/q (vs. 1.6% q/q prev.), accounting for the largest y/y contribution to 4Q25 growth. Investment expenditures lost momentum, contracting by 0.3% q/q (vs. 3.7% q/q prev.) due to weakening construction activity. Meanwhile, government expenditures provided a negative impulse, declining by 1.7%, pointing to enhanced fiscal discipline mostly supported by a reduction in earthquake-related spending.

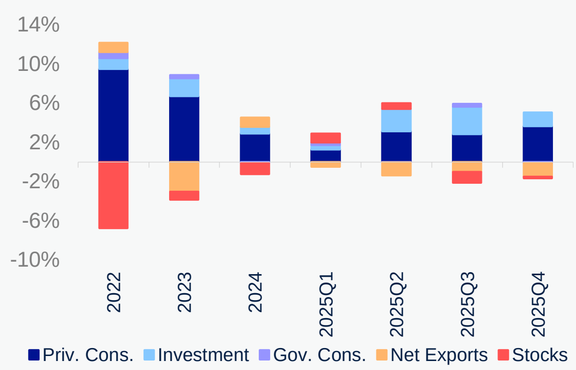
The contribution of net exports to quarterly GDP growth turned negative, driven by subdued external demand and a revival in imports. Exports contracted by 4.5% q/q in 4Q25 (vs. 2.7% q/q prev.), deepening the annual contraction compared to the previous quarter. Imports, on the other hand, expanded by 4.3% q/q (vs. -3.8% q/q prev.), reflecting resilient demand for core goods as well as increased gold imports.

Figure 1. Contributions to GDP Growth via Demand Subcomponents (Annual, pp)



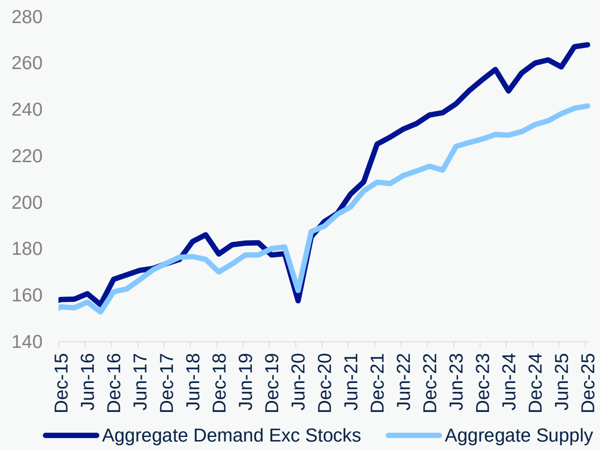
Source: Garanti BBVA Research, TURKSTAT

Figure 2. Contributions to GDP Growth via Demand Subcomponents (Annual, pp, Detailed)



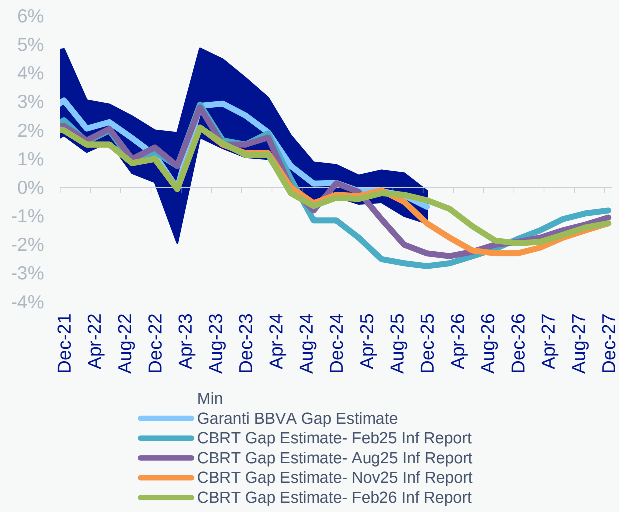
Source: Garanti BBVA Research, TURKSTAT

Figure 3. Aggregate Demand vs. Aggregate Supply (Level, seas. & cal. adj., 2009=100)



Source: TURKSTAT, Garanti BBVA Research

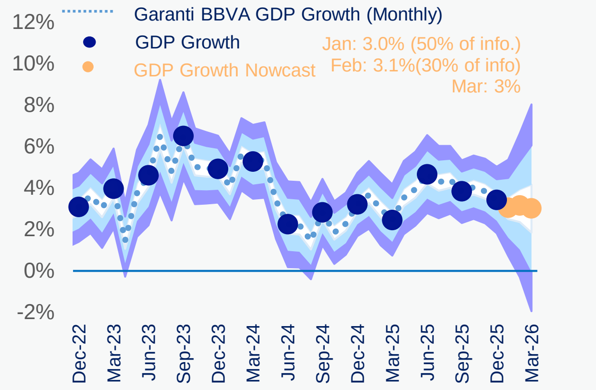
Figure 4. Garanti BBVA Output Gap vs CBRT Estimate (%, deviation from potential GDP)



Source: CBRT, TURKSTAT, Garanti BBVA Research

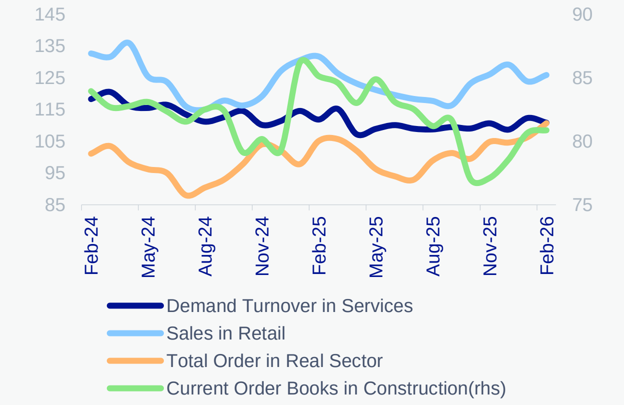
In 2025, similar to the pattern observed in 4Q25, external demand made a negative contribution to GDP (-1.1pp), while domestic demand was the sole driver of GDP growth by having 4.7pp contribution. The largest contribution came from private consumption, despite policy efforts throughout the year, potentially indicating insufficient monetary policy transmission and the limited effectiveness of macroprudential measures in curbing demand in the absence of sufficiently tight real rates amid unanchored inflation expectations and the wealth effects. As a result, the contribution of domestic demand to GDP rose to 4.7pp in 2025 from 2.4pp in 2024, posing a significant challenge to the disinflation process and signaling further risks in the absence of countermeasures, as the gap between aggregate demand and aggregate supply remains wide, with the output gap hovering around natural levels rather than turning negative as envisaged in the CBRT's projections.

Figure 6. Garanti BBVA Monthly GDP Nowcast (3-month average YoY)



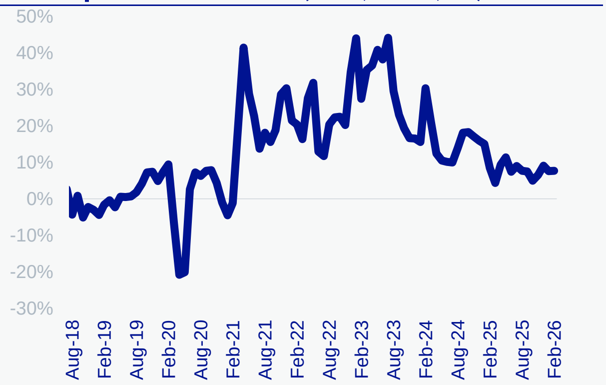
Source: Garanti BBVA Research, TURKSTAT

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



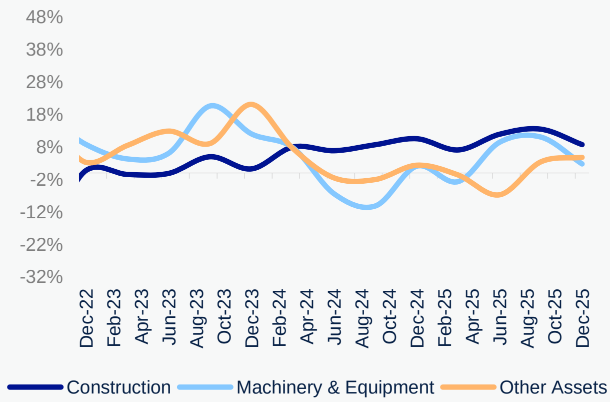
Source: Garanti BBVA Research, TURKSTAT

Figure 8. Garanti BBVA Big Data Consumption Indicator (real, YoY, %)



Source: Garanti BBVA Research, TURKSTAT

Figure 9. Gross Capital Formation (YoY)



Source: Garanti BBVA Research, TURKSTAT

With respect to investments, construction investment (8.7% y/y) was the main driver of total year-over-year investment growth of 5.4%. In contrast, investment in machinery and equipment (2.8% y/y) and other assets (4.8% y/y) recorded more moderate increases for 4Q25. For 2025 as a whole, growth is more pronounced in construction (10.4% y/y) and in machinery and equipment (5.0% y/y), while the expansion in other assets is limited (0.6% y/y).

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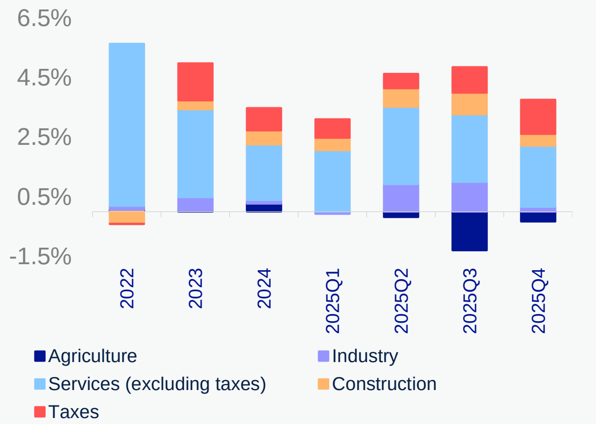
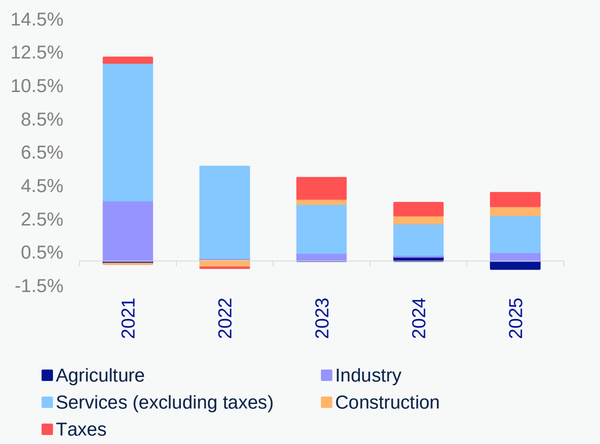
Figure 10. Contributions to GDP Growth via Sectors (Calendar adj., Annual, pp, Detailed)



Source: Garanti BBVA Research, TURKSTAT

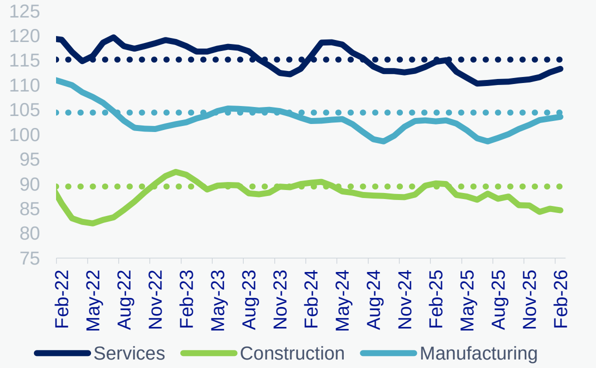
Figure 11. Contributions to GDP Growth via Sectors (Calendar adj., Annual, pp)



Source: Garanti BBVA Research, TURKSTAT

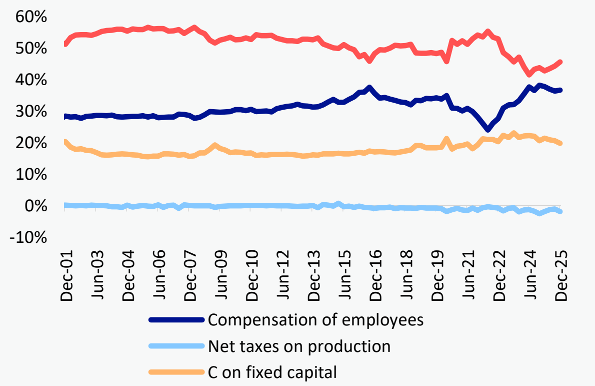
Turning to the supply side, consistent with hard leading indicators, on a quarterly basis, the industrial sector contracted (-1.8% q/q). Services remained broadly flat according to our calculations (0.8% q/q), while construction decelerated markedly (0.4% q/q in 4Q25 vs. 3.9% q/q in 3Q25). Meanwhile, agriculture recovered (2.6% q/q) following contractions in the previous quarters of the year. On an annual basis, in 2025, agriculture was the only sector to make a negative contribution to growth, posting a -0.5pp contribution alongside an 8.8% y/y decline. Although industry and construction expanded (2.9% y/y and 10.8% y/y, respectively) and each contributed positively to overall growth (0.5pp each), the largest contribution came from broad services (3.0pp), which grew by 4.2% y/y. Looking ahead, the leading indicators displayed mixed signals for the industrial sector, while services and construction appear likely to remain supportive in 1Q26.

Figure 12. Sectorial Confidence Indices vs Historical Avg. (3M Avg, Level)



Source: Garanti BBVA Research, TURKSTAT

Figure 13. Shares in Gross Value Added (%)



Source: Garanti BBVA Research, TURKSTAT

On the income side, share of wages in value added rose to 36.6% in 4Q25 (vs. 36.3% in 3Q25), implying an annual share of 36.9% for 2025 (vs. 37% in 2024). 2025 GDP reached to $1.59trn, bringing per capita income up to $18,040 in 2025 from $15,325 in 2024.

Known unknowns on geopolitical risk required more effective policy mix

High-frequency data through February suggests that demand remains relatively resilient; however, its reflection on supply side continues to be gradual in 1Q26. Indeed, the high frequency data on industrial sector put mixed signals so far. For instance, while real sector confidence is supported by orders, the decline in the capacity utilization rate, weak electricity production and the depletion of inventories in February according to economics tendency survey point to a weaker industrial outlook. Also, though despite some improvement, confidence indices in the services and construction sectors remain below their historical averages. Our monthly GDP indicator nowcasts 3% annual growth for the 1Q26, signaling a quarterly growth of 0.7%. The carry-over effect from 2025 is expected to support growth throughout 2026.

On the other hand, uncertainties regarding global tariffs and recently erupted conflict in the Middle East pose some downside risks. The uncertainty regarding the duration and scale of the conflict make it difficult to present a clear outlook. A prolonged conflict could impact the Turkish economy through multiple channels. Adverse effects on foreign trade and the current account balance are anticipated, primarily driven by energy prices. According to our estimates, a 10% upward deviation in energy prices could potentially increase the current account deficit-to-GDP ratio by roughly 0.3-0.4pp in a year. Furthermore, such a shock could exert an upward pressure of 1-1.5pp on consumer inflation within a year. As the energy shock is supply-side, it also poses downside risks to growth outlook. Additionally, potential impact on capital flows and tourism revenues may further weigh on economic activity.

Nevertheless, supportive policy steps may mitigate these potential adverse effects. On the fiscal policy front, the fiscal space created last year could be used to support disinflation (through skipping fuel tax hikes in July, use of the sliding-scale system and/or limiting expected energy price hikes) while potentially curbing negative impacts on activity, particularly through supportive measures for SMEs. Regarding monetary policy, actions aimed at preserving financial stability are expected to be supportive. Indeed, the Central Bank's recent move to discontinue weekly repo funding and its measures against FX market volatility (such as FX interventions or Turkish Lira-settled forward foreign exchange selling transactions) appear to serve this objective.

On the global side, AI-related investments and expansionary fiscal measures may also limit the negative fallout. Hence, the carry-over impact and a more effective domestic policy mix may soften the downside risks stemming from geopolitical factors. Therefore, we maintain our 4% growth forecast for 2026 for the time being. We will revise our projections as developments unfold.

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