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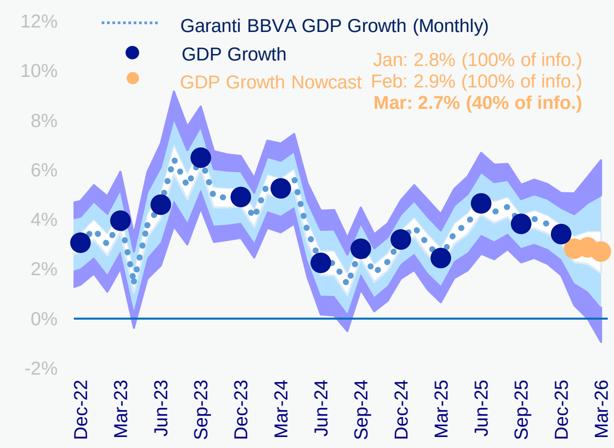
Türkiye | Weak Activity Meets Geopolitical Shock

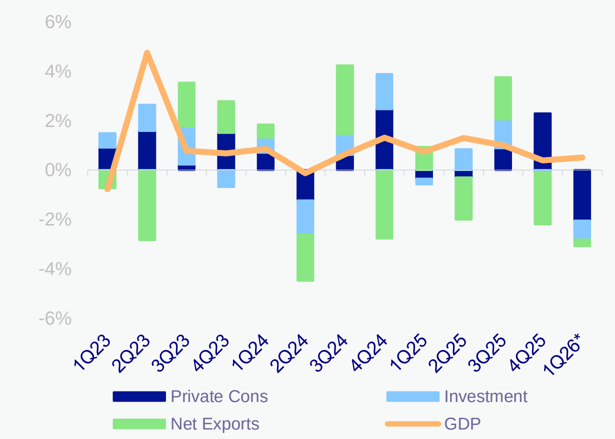
- Production indicators had shown signs of a recovery before the Middle East conflict, but the overall outlook has remained weak. While industry and construction exhibited clearer weakness, the services sector showed a modest recovery.
- March leading indicators point to a sharp deterioration in expectations, orders and production. Our monthly GDP indicator nowcasts 2.7% y/y growth, implying around 0.5% q/q growth in 1Q26.
- The weakness in the production outlook has been most recently driven by weak demand conditions. Domestic demand (excluding inventories) points to a quarterly contraction, led by private consumption, while external demand is likely to make a slight negative contribution in 1Q26. Looking ahead, tighter financial conditions may further weigh on domestic demand, and exports could remain weak amid subdued global demand.
- Available fiscal space could help offset some downside risks to growth. However, war-related deterioration in the external balance may deepen the growth trade-off. Despite some recovery, potential pressure on the CBRT reserves, elevated inflation expectations, and a strong underlying inflation trend suggest that a tight monetary policy stance will need to be maintained for longer.
- According to our calculations, a 10% increase in oil prices due to a supply shock would reduce growth by around 0.3pp within a year. Considering the longer duration of the war and the energy & supply-chain shocks so far, there are clear downside risks to our pre-conflict GDP growth forecast of 4% for 2026. Even if a ceasefire is reached by 2Q26, uncertainty remains regarding its durability and the pace of normalization in supply chains. We will revise our forecast once the outlook becomes clearer.

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



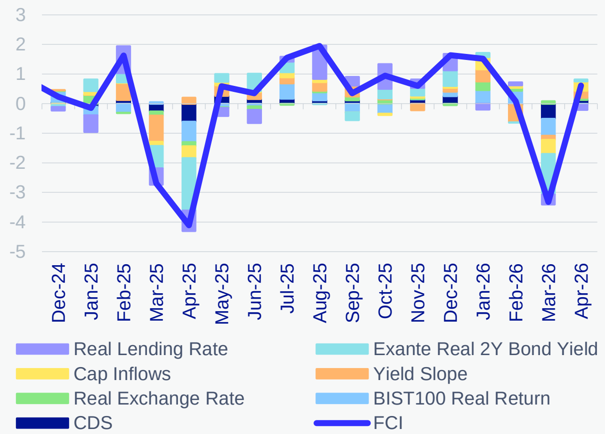
Source: Garanti BBVA Research, TURKSTAT

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



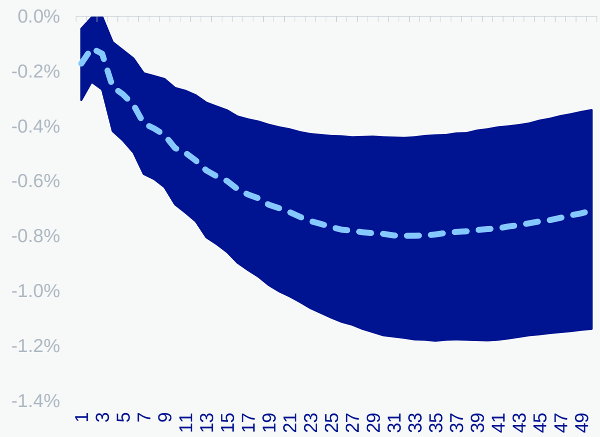
Source: Garanti BBVA Research, TURKSTAT **based on our nowcast results for 1Q26 on traditional method. The missing components are stocks & Government consumption to reach overall GDP*

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



Source: Garanti BBVA Research, CBRT, Bloomberg, TURKSTAT
* April is an estimate based on our expectations

Figure 4. The cumulative response of GDP to 10% rise in oil price stemming from supply shock in months[1] (%)



Source: Garanti BBVA Research, TURKSTAT

Sluggish Activity Undercuts Expectations of Early Recovery

Upon contracting in Jan26 (-2.9% m/m), seasonally and calendar-adjusted industrial production rebounded in Feb26 (2.6% m/m), although it did not fully recover to its January level. The monthly rebound was mainly driven by an expansion in capital goods production (6.5% m/m, +1.5pp), and was further supported by increases in intermediate goods (2.3% m/m, +0.9pp), non-durable consumer goods (2.6% m/m, +0.6 pp), and durable consumer goods (0.7% m/m, +0.03 pp). In contrast, energy products -the only category to weaken- recorded a contraction (-3.6% m/m, -0.4pp). Additionally, excluding volatile sectors[2], IP only grew by 1.5% m/m in Feb26 (vs -2.3% m/m in Jan26), with the manufacturing of other transport equipment accounting for most of the difference. Moreover, production increased broadly across export-oriented sectors[3], with the exception of electrical equipment manufacturing.

On a quarterly basis, industrial production remained almost flat (0.03% q/q). Energy and capital goods expanded (2.9% q/q and 2.5% q/q, respectively) as the remaining product groups—intermediate goods (-1.4% q/q), durable consumer goods (-4.2% q/q), and non-durable consumer goods (-0.1% q/q)—all contracted. Notably, both durable and non-durable consumer goods production recorded their fourth consecutive quarter of decline.

At the same time, the implied quarterly change derived from year-over-year, calendar-adjusted industrial production—which appears to be a more reliable signal for GDP—is approximately -0.4% q/q for 1Q26 so far.

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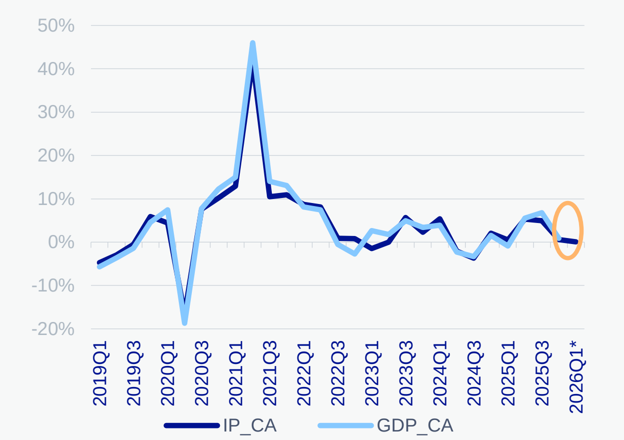
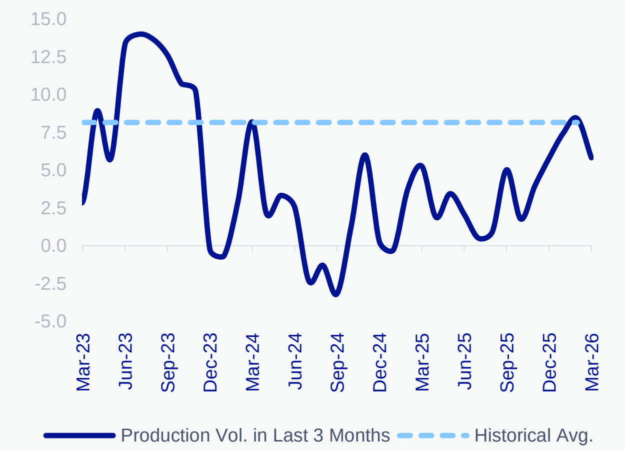
[1] Bayesian VAR model with monthly data (Jan10-Dec19). Oil supply shock series obtained from the study made by Kanzig, Diego (2021). Range displayed shows the cumulative response between 35th and 65th percentiles
[2] The volatile sectors are taken to be C26, C29, C30 according to the NACE2 Classification.
[3] The mentioned sectors are C13, C14, C24, C25, C28 and C29 according to the NACE2 Classification.

Figure 5. Industrial Activity under GDP vs Industrial Production (Calendar adj., YoY)



Source: Garanti BBVA Research, TURKSTAT ,*1Q26 refers to Jan-Feb 2026

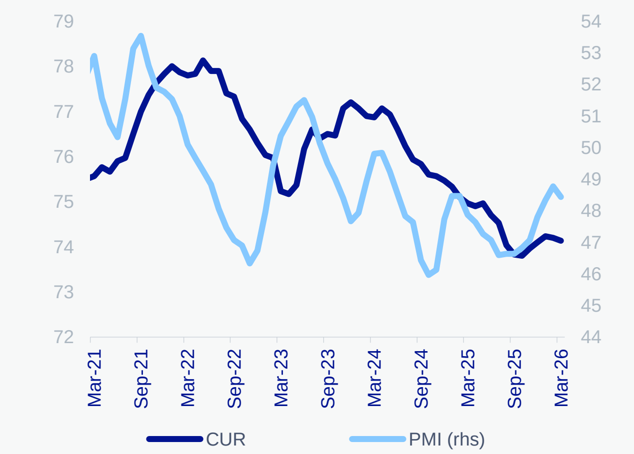
Figure 6. Economic Tendency Survey Production Volume (seasonal adj., over the past 3 months)



Source: Garanti BBVA Research, CBRT

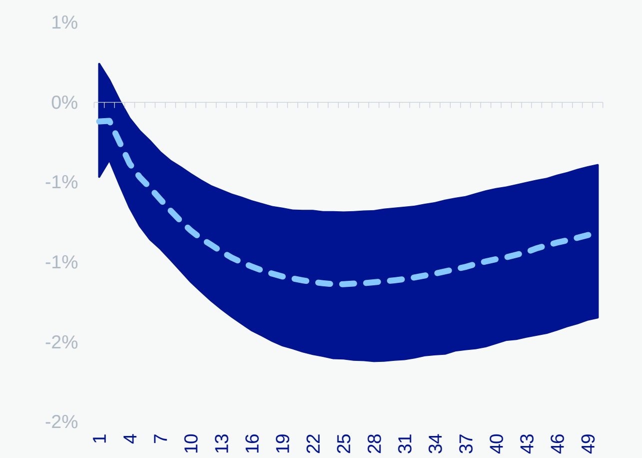
Before the conflict, the trend in industrial production was already weak. Although the oil supply shock in March and disruptions in supply chains have begun to show some impact on confidence indicators, the main effects are likely to become more evident in the coming months. We observe a sharp deterioration in expectations, with current order levels and production also being negatively affected. Capacity utilization remained weak at 74% in Mar26, unchanged from Feb26. The PMI deteriorated further to 47.9 (from 49.3 in Feb26), while real sector confidence declined in Mar26 (-3.9% m/m, -0.6% q/q in 1Q26) driven by weaker total orders in the last 3-months (-4.5% m/m), lower current orders (-4.1% m/m) and worsened expectations for the next 3-months (production volume:-6.8% m/m, employment: -0.4% m/m, and export orders: -2.2% m/m).

Figure 7. Manufacturing CUR vs. PMI Index (3-MA, seasonally adj., Level)



Source: Garanti BBVA Research, TURKSTAT

Figure 8. The cumulative response of IP to 10% rise in oil price stemming from supply shock in months (%)



Source: Garanti BBVA Research, TURKSTAT

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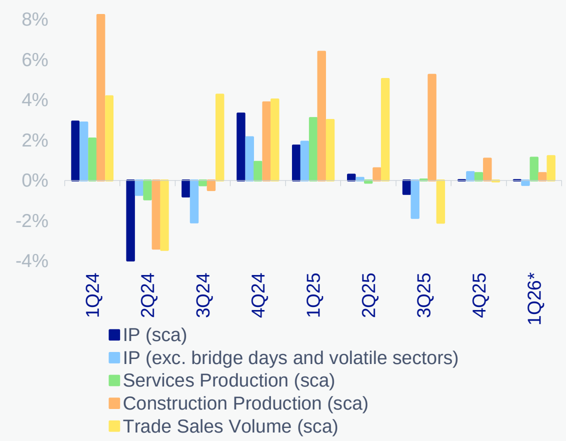
Overall, early soft indicators suggest that industrial activity is likely to remain subdued in 1Q26, maintaining the weakness in 4Q25. Based on our calculation, an oil supply shock, resulting in a %10 rise in oil price, had a cumulative impact around 1pp lower industrial production within a year.

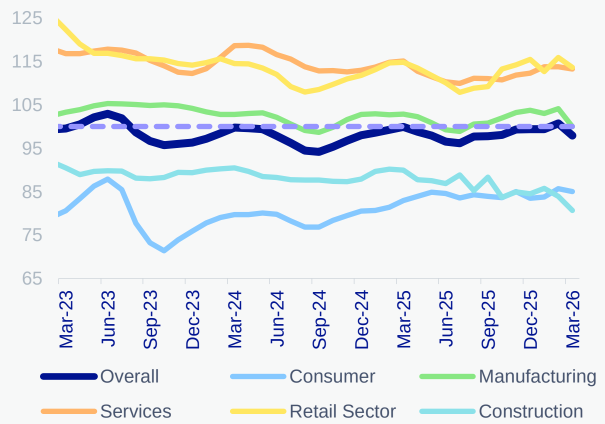
Services activity rose by 1.2% m/m in Feb26 (vs. -0.1% m/m in Jan26) indicating 1.1% q/q growth for 1Q26 so far. On a quarterly basis, while demand-sensitive sectors contracted, namely transportation and storage (-1.0% q/q) and accommodation and food services (-0.1% q/q), all the remaining sub-sectors mostly showed a considerable growth, notably professional, scientific and technical activities (6.5% q/q), information and communication (4.8% q/q), administrative and support services (1.2% q/q) and the real estate activities (0.5% q/q). In other words, hard data indicate that services activity picked up moderately, following the flat trend over the previous three quarters of 2025. However, the confidence in the services sector declined in Mar26 (-0.5% m/m), driven by weaker expectations for demand turnover over the next three months, as well as lower employment in the past three months. This comes despite improvements in business conditions and demand turnover over the same month. Overall, both hard and soft data suggest only a modest improvement in services activity in 1Q26.

Figure 9. Sectorial Production (QoQ, seasonal and cal. adj.)



Source: Garanti BBVA Research, TURKSTAT, CBRT

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



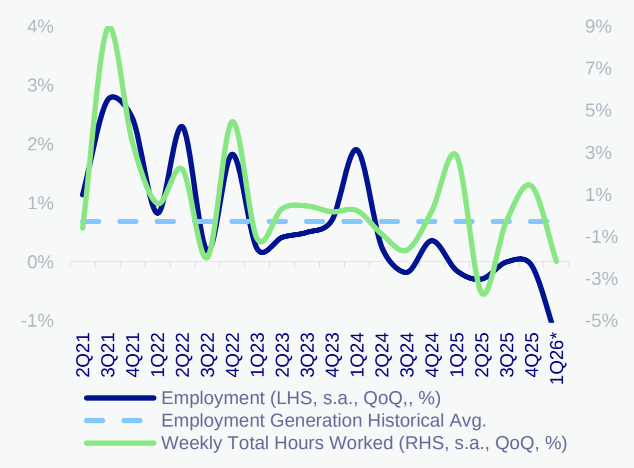
Source: Garanti BBVA Research, CBRT, ICI

Construction activity declined by 1.3% m/m in Feb26 upon growing by 0.8% m/m in Jan26 carrying the quarterly growth down to 0.4% q/q in 1Q26 so far. This indicates that the deceleration observed in 4Q25 has extended into 1Q26, led by a further decline in the manufacture of other non-metallic mineral products (-7.0% q/q), which are the key inputs to the sector. Moreover, confidence in the sector dropped in Mar26 (-3.9% m/m) showing a broad based worsening in building activity over the past 3-months, current overall orders and, employment and price expectations over the next 3-months. Therefore, construction activity in 1Q26 is likely to maintain its downward momentum, in line with the cooling trend observed so far.

In the labor market, the unemployment rate rose to 8.5% in Feb26 (vs. 8.2% in Jan26 and 8.3% in 4Q25), and at the same time, the underutilization rate reached to 29.9% (vs. 29.8% in Jan26). On a quarterly basis, underutilization rate stays high, employment and weekly total hours worked contracted (-1.3% q/q and -2.2% q/q, respectively) confirming the muted supply side. Additionally, sectoral confidence indices do not suggest an improved labor market outlook. On the contrary, employment expectations have deteriorated in construction, retail trade, and industry.

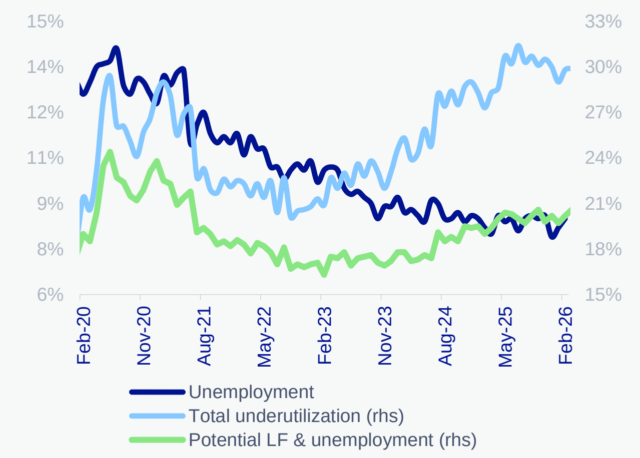
To sum up, hard data for 1Q26 do not confirm a solid revival in economic activity suggested by early indicators at the start of the quarter. In 1Q26, construction appears set to continue decelerating, industry is likely to remain weak, and services are expected to show only a limited improvement. The tighter financial conditions, war related energy shocks and supply disruptions could weigh downside on activity in the upcoming months.

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



Source: Garanti BBVA Research, TURKSTAT, *1Q26 refers to Jan-Feb 2026

Figure 12. Unemployment Rate (seasonally adjusted)



Source: Garanti BBVA Research, TURKSTAT

On the demand side, available data indicate a weakening in both domestic and external demand conditions, weighing on activity in 1Q26. On the domestic front, the initial slowdown in demand reflected a carry-over effect from front-loaded spending in 4Q25 ahead of new-year price adjustments. In addition, tighter financial conditions, supported by reinforced macroprudential measures (including regulations on overdraft loans and credit cards), constrain consumption despite still unanchored inflation expectations. Accordingly, consumer card spending decelerated at the beginning of the quarter and stays relatively benign. However, the lack of easing in consumer loans excluding mortgages points to potential risks of a renewed pickup in already firm demand conditions, underscoring the importance of tight policy stance, anchoring expectations and managing currency pressures. On the external side, the conflict further weakened demand, which had already been soft at the start of 1Q26. In parallel, real imports contracted at the beginning of the quarter, mainly driven by a decline in consumption goods imports. With the intensification of the conflict, distortions in inflation expectations might have led to a rebound in consumption goods imports (excluding jewelry), while weakening orders were reflected in sharp contraction in intermediate goods imports (excluding gold).

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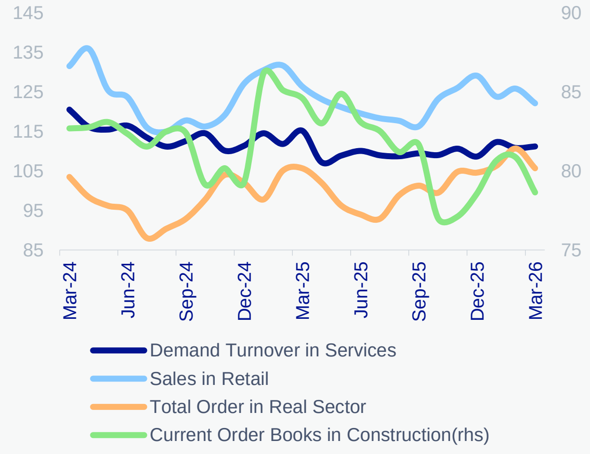
Figure 13. Foreign Trade Components Volume (QoQ, seasonal and cal. adj.)

Source: Garanti BBVA Research, TURKSTAT

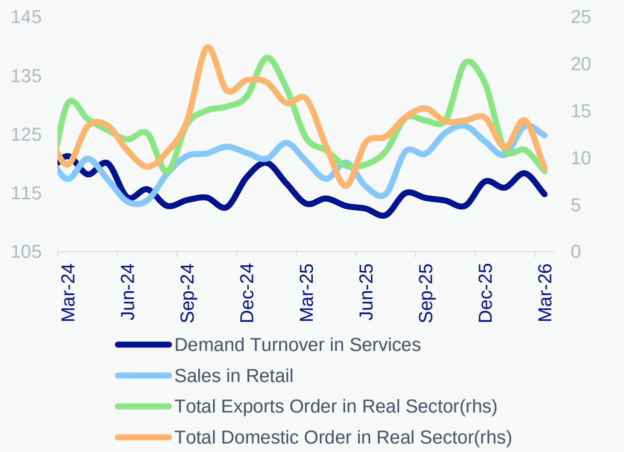
Figure 14. Demand Conditions over the past 3 months (seasonal adj index, monthly)



Source: Garanti BBVA Research, Ministry of Trade, TURKSTAT

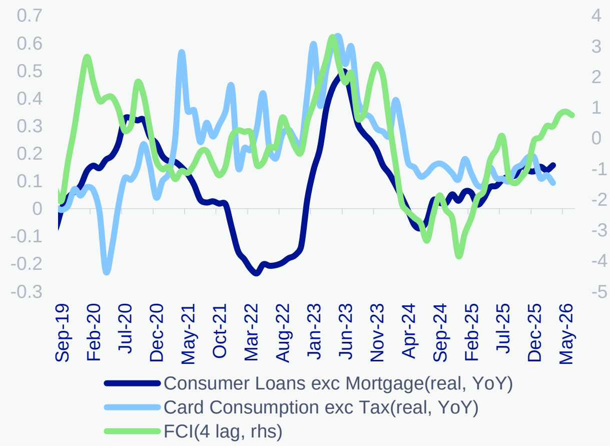
Our monthly private consumption indicator nowcasts 2.1% y/y growth (vs. 5.2% y/y in 4Q25), implying a quarterly contraction in 1Q26. High frequency indicators present a mixed picture so far in Feb26; despite the solid contraction in consumer goods imports excluding jewelry and in durable goods turnover, data indicate a continued firm pace in retail sales, alongside a modest revival in services consumption based on the sectoral production index. Retail sales excluding watches and jewelry edged down on a quarterly basis in Feb (2.6% q/q in 1Q26 vs. 2.9% q/q in 4Q25), while March core import indicators signal renewed acceleration. Looking ahead, we expect monetary tightening to preserve financial stability amid war-related effects and diminishing wealth effects on the recent sharp decline in gold prices to weigh down on consumption in the near term.

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



Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, Ministry of Trade, TURKSTAT

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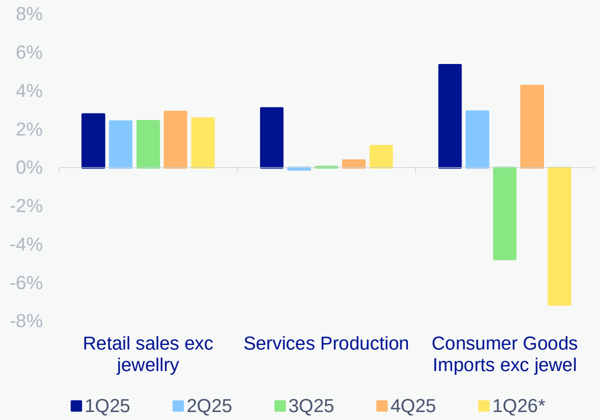
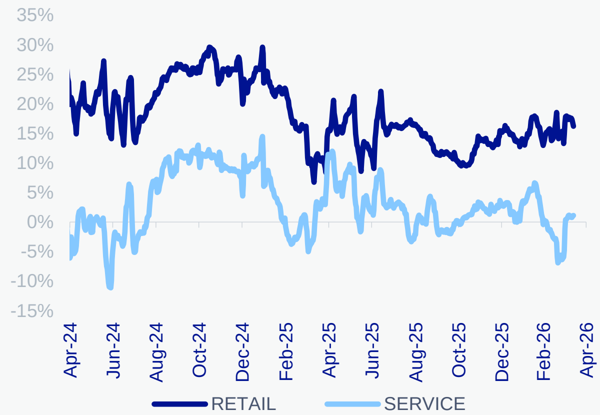
Figure 17. Consumption Indicators (3-month average, QoQ, %)



Source: Garanti BBVA Research, TURKSTAT, 1Q26* is Jan-Feb26

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

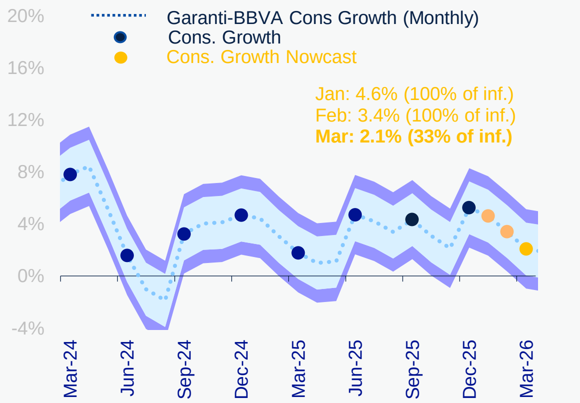


Source: Garanti BBVA Research, TURKSTAT

Investment expenditures continued to lose momentum, with our monthly investment indicator nowcasting 3.2% y/y growth in 1Q26 (vs. 5.4% y/y in 4Q25), likely reflecting weaker construction activity, partly due to a slowdown in earthquake-affected regions. However, capital goods production rebounded, posting 10.6% y/y growth (vs. 4.1% y/y in 4Q25), potentially reflecting relatively supportive financial conditions at the beginning of the quarter before tightening resumed.

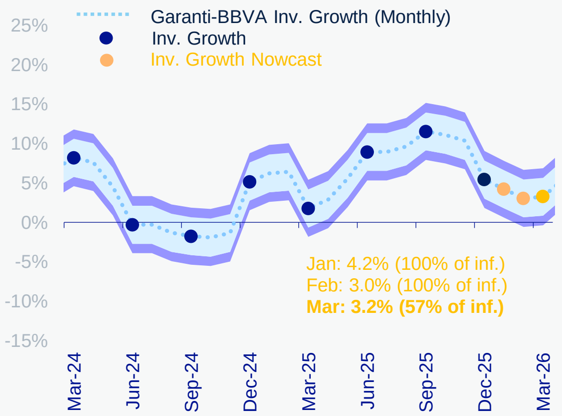
Net exports weighed more heavily on GDP in 1Q26 despite the contraction in imports. We nowcast imports to contract by 3.6% y/y in 1Q26 (vs. 3.8% y/y growth in 4Q25), while the decline in exports deepened to 11.9% y/y (vs. -2.3% y/y in 4Q25). Overall, the negative contribution of net exports on an annual basis widened further in 1Q26 and is expected to remain elevated amid the aforementioned effects of the conflict in the Middle East.

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



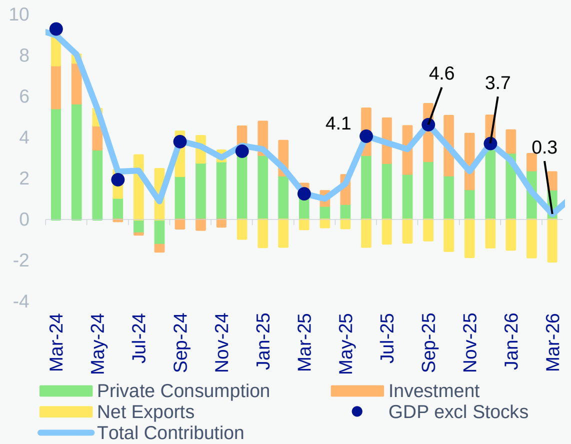
Source: TURKSTAT, Garanti BBVA Research

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



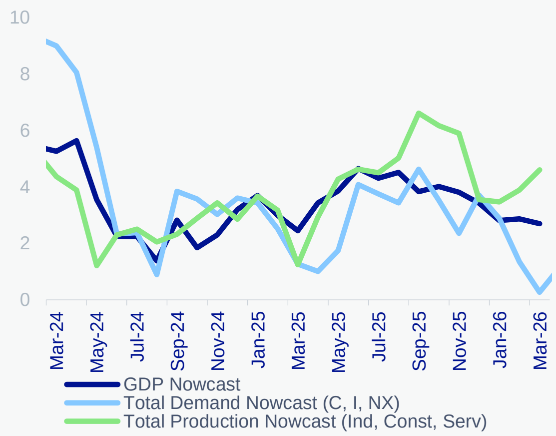
Source: TURKSTAT, Garanti BBVA Research

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 Nowcasts (3-month average, YoY)



Source: TURKSTAT, Garanti BBVA Research

Taken together, after solid domestic demand in 4Q25, the outlook has weakened notably in 1Q26. Demand conditions have softened, with domestic demand (excluding inventories) pointing to a quarterly contraction led by private consumption, while external demand has exerted a deepened negative contribution. On the production side, activity had shown tentative signs of recovery prior to the Middle East conflict; however, the overall outlook has stayed weak, with mounting impacts expected to prevail in the near term. Our monthly GDP Indicator nowcasts 2.7% y/y growth, corresponding to around 0.5% q/q growth in 1Q26.

Looking ahead, tighter financial conditions are likely to weigh further on domestic demand, while external demand is expected to remain subdued amid weak global demand conditions due to the conflict. Considering the longer duration of the war and the energy & supply-chain shocks so far, there are clear downside risks to our pre-conflict GDP growth forecast of 4% for 2026. Although the likelihood of a ceasefire within 2Q26 has increased, uncertainty remains regarding its durability and the pace of normalization in energy markets. At the same time, the deterioration in the external balance due to the conflict makes supporting growth more costly, suggesting that fiscal policy response may be more limited. In addition, high inflation expectations, strong inflation inertia, and a persistent inflation trend will likely require a tight monetary policy stance for longer. Mix policy could mitigate the negative impact of the war on activity to some extent. Overall, we see downside risks to growth, and we will revise our forecast once the outlook becomes clearer.

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