

# Türkiye | Cooling Demand, Challenging Outlook

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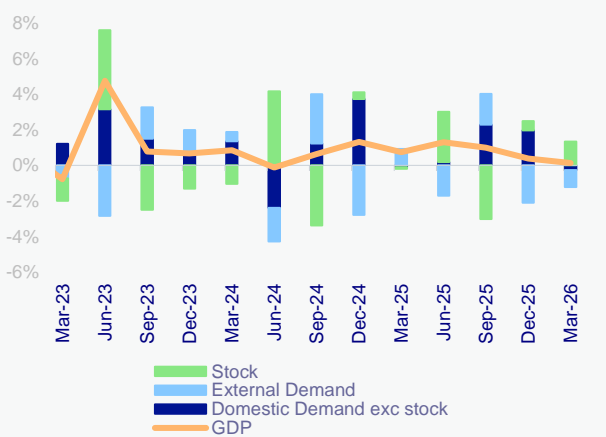
- The Turkish economy grew by 2.5% y/y in 1Q26, in line with our expectations, but continued to lose momentum on a quarterly basis. The prolonged conflict and tight financial conditions pose downside risks to the growth outlook, while the deteriorating external balance is reducing the room for supportive measures.
- Production remains weak amid moderating demand conditions. While sectorial growth (exc. taxes and subsidies) has gained some momentum, the recovery appears unbalanced. Industry and construction contracted, whereas services and agricultural sectors contributed positively to quarterly growth.
- Demand conditions continued to cool broadly in line with our expectations but domestic demand proved more resilient than anticipated as the main drag on domestic demand came from the contraction in investment expenditures, while net exports continued to make a negative contribution amid subdued external demand.
- The demand-supply imbalance has narrowed somewhat, supported by a recovery in inventories over the past two quarters, while we estimate that the output gap has turned more negative. Nevertheless, the moderation in demand conditions in 1Q26 was not sufficiently disinflationary to offset other upside risks to the inflation outlook.
- Growth could remain weak in 2Q26 due to the war in the Middle East, as signaled by confidence indicators. However, bridge-day effects associated with the extended holiday could generate volatility in monthly data. Our nowcasting monthly GDP indicator pointed to annual growth of around 2% as of May, although this could be partially reversed in June. Looking ahead, calendar effects could provide additional support to growth in 2H26.
- The deteriorating external balance is reducing the room for supportive policy measures, while fiscal support is also likely to remain limited. Under the assumption that the conflict is resolved before July and policy responses remain selective, we believe GDP growth is likely to come in at around 3% in 2026, compared with our pre-conflict forecast of 4%.

## Moderating demand conditions

Maintaining the cooling trend seen since 2Q25, real GDP grew by 0.1% q/q in 1Q26 (2.5% y/y), in line with our expectations. Amid the carry-over effect from the front-loaded spending in 4Q25, tight financial conditions supported by macroprudential measures, elevated uncertainty stemming from the geopolitical tensions in the Middle East, in quarterly terms, domestic demand excluding stocks declined for the first time since 1Q25, on the back of decelerating private consumption and further contracting investment expenditures despite the fastened government spending. In

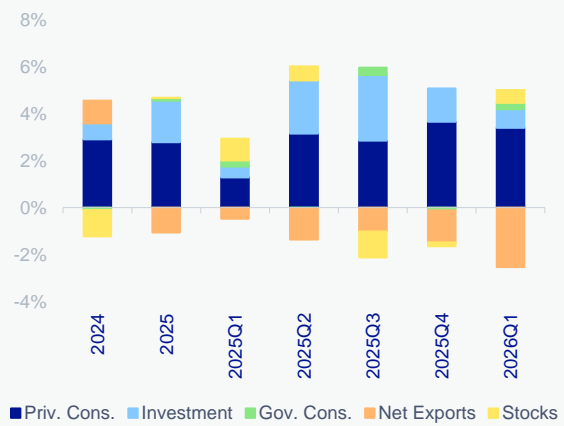
particular, while private consumption growth slowed down to 0.1% q/q (vs. 4.2% q/q prev.) and investment spending continued to weaken (-2.2% q/q) albeit at a higher rate (-0.3% q/q prev.), government expenditures strengthened by 3.3% q/q after contracting by 1.7% q/q in 4Q25. Overall, the contribution of domestic demand excluding stocks to overall quarterly growth declined from 2.0pp in 4Q25 to -0.3pp in 1Q26.

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



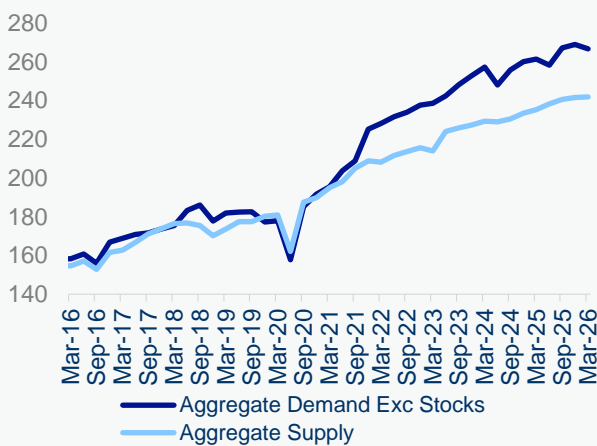
Source: Garanti BBVA Research, TURKSTAT

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



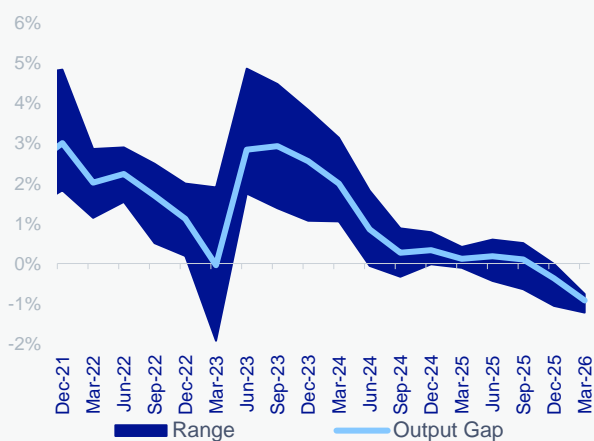
Source: Garanti BBVA Research, TURKSTAT

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



Source: TURKSTAT, Garanti BBVA Research

**Figure 4. Garanti BBVA Output Gap (% deviation from potential GDP)**



Source: CBRT, TURKSTAT, Garanti BBVA Research

On the external side, in the face of the subdued global demand, external demand continued to weigh down on growth as in the previous quarter. According to our calculations, it made a negative contribution of around 1pp to the quarterly growth (vs. -2.1pp previously). In detail, exports declined by 7.5% q/q (vs. -4.5% q/q previously), marking its sharpest contraction since the COVID-19 pandemic. Imports also fell by 3.9% q/q, following the 4.3% q/q increase in the previous quarter.

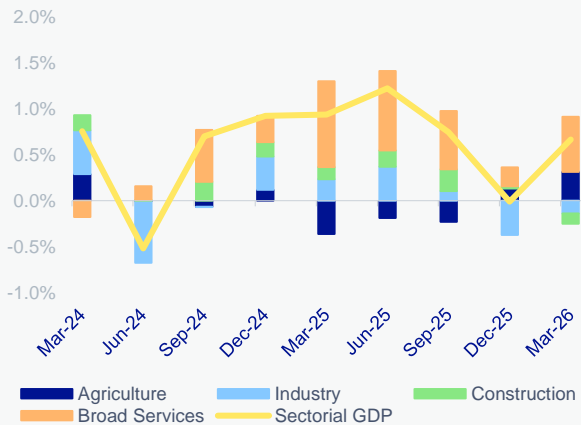
The weaker performance in quarterly changes -particularly in exports- was also resulted from less number of working days due to bridge day effects, weighing down on overall net balance. In annual terms, contribution of domestic demand excluding stocks decreased from 5.0pp to 4.5pp driven by the softening private consumption (4.8% y/y vs. 5.2% y/y prev.) and investment expenditures (3.0 % y/y vs. 5.4% y/y prev.). Government spending, in contrast, accelerated (2.1% y/y vs. -0.9% y/y prev.). On the other hand, negative contribution of net exports on annual growth deepened to -2.5pp in 1Q26 from -1.4pp in 4Q25, led by worsened export performance (-12.7% y/y vs. -2.3% y/y prev.) despite lower imports (-2.0% y/y vs. 3.8% y/y prev.) on weaker domestic demand.

**Figure 5. Gross Capital Formation (YoY)**



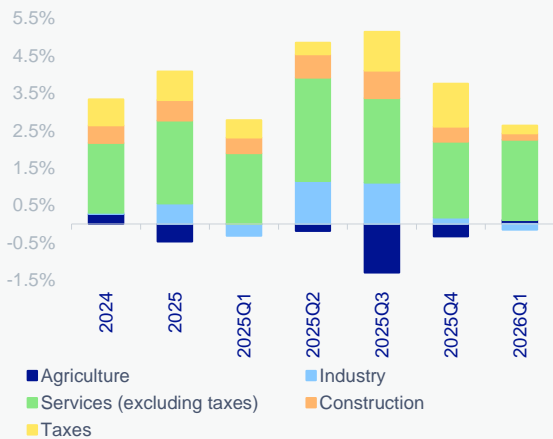
Source: Garanti BBVA Research, TURKSTAT

**Figure 6. Contributions to Sectoral GDP Growth via Sectors (Quarterly, pp)**



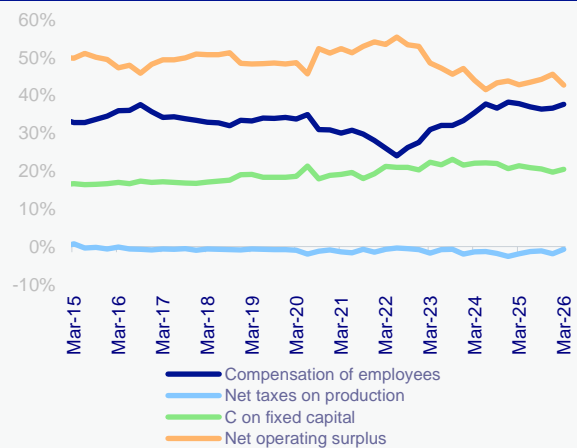
Source: Garanti BBVA Research, TURKSTAT

**Figure 7. Contributions to GDP Growth via Sectors (Annual, pp)**



Source: Garanti BBVA Research, TURKSTAT

**Figure 8. Shares in Gross Value Added (%)**



Source: Garanti BBVA Research, TURKSTAT

With respect to investments, as usual, construction investment (3.3% y/y) kept being the main driver of total year-over-year investment growth of 3.0% despite having suffered the largest slowdown across the investment classes. On the other hand, investment in machinery and equipment (3.0% y/y) and other assets (2.3% y/y) recorded smaller increases for 1Q26.

On the supply side, as expected, both industry and construction remained weak, posting contractions of 0.7% q/q and 1.7% q/q in 1Q26 (vs. -1.8% q/q & 0.4% q/q in 4Q25, respectively). Within the industrial sector, manufacturing fell by 1.6% q/q. Additionally, in parallel to our expectation of a limited recovery, broad-based services growth increased to 0.9% q/q from the 0.3% q/q observed in the last quarter. In the lack of drought effects that was observed last year, agriculture was strongly supportive with a 5.9% q/q growth (vs. 2.6% q/q in 4Q25 and -5.9% q/q in 1Q25). According to our calculations using traditional methods, on a quarterly basis, industry and construction each subtracted 0.1pp from the sectoral GDP growth, while the broad services and agriculture contributed positively 0.6pp and 0.3pp, respectively.

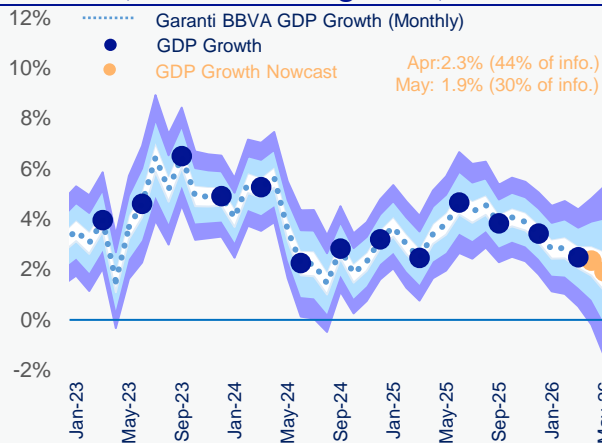
Overall, moderating demand conditions appear to have weighed on activity over the past two quarters. However, in 1Q26, external factors -including supply chain disruptions, elevated commodity prices that intensified cost pressures, and heightened uncertainty- played a more pronounced role in dampening growth, together with the downside factors from bridge day effects.

On the income side, share of wages in value added rose to 37.6% in 1Q26 from 36.6% in 4Q25, keeping the annualized share constant at 36.9%. Moreover, annual GDP reached to \$1.64trn, bringing per capita income up to \$18,426 in 1Q26 from \$17,975 by end 2025.

## Risks on growth outlook to the downside led by the conflict

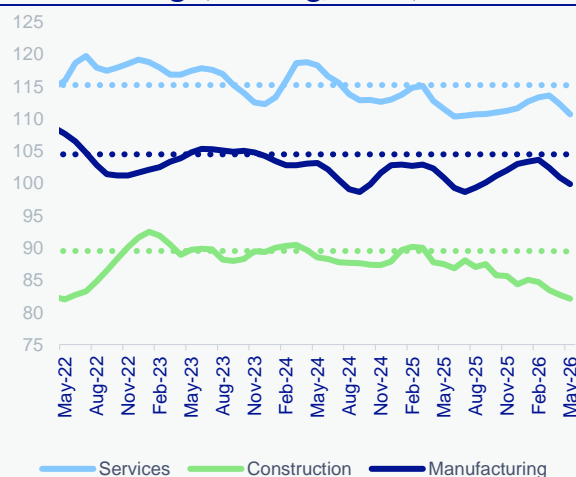
Both external and domestic demand would likely continue to weigh on economic activity in 2Q26, with the effects not expected to deepen materially. Our monthly GDP indicator nowcasts 2.3% y/y growth in April, following 2.5% y/y in 1Q26, and, due to negative calendar effects, shows a sharp slowdown in May (1.8% y/y), to be corrected in June through a favorable base effect. Accordingly, we expect 2Q26 quarterly growth to remain weakly positive, broadly in line with the pace in 1Q26.

**Figure 9. Garanti BBVA Monthly GDP Nowcast (3-month average YoY)**



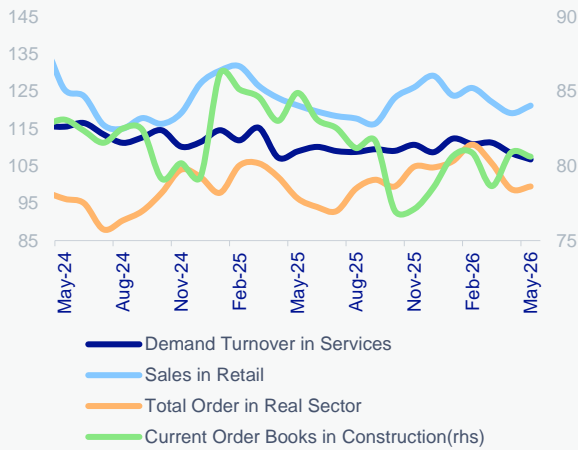
Source: Garanti BBVA Research, TURKSTAT

**Figure 10. Sectorial Confidence Indices vs Historical Avg. (3M Avg, Level)**



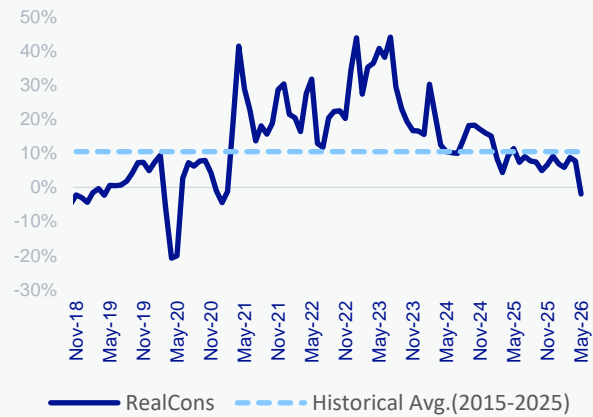
Source: Garanti BBVA Research, TURKSTAT

**Figure 11. Demand Conditions over the past 3 months (seasonal adj index, monthly)**



Source: Garanti BBVA Research, TURKSTAT

**Figure 12. Garanti BBVA Big Data Consumption Indicator (real, YoY, %)**



Source: Garanti BBVA Research, TURKSTAT

Lagged impacts of the conflict in the Middle East could show up more clearly in the early hard data during 2Q26, as signaled by confidence indicators. While the conflict initially weighed on sectoral confidence by distorting expectations in March, April data revealed more tangible effects on current conditions. The most recent May figures suggest that firms do not expect further escalation, as confidence regarding both current orders and expectations for foreign orders recovered to almost pre-war levels; as seen in steady capacity utilization rate and recovery in manufacturing PMI in May. Nonetheless, all sectoral confidence indices remain below their historical averages and, amid the ongoing conflict, continue to signal a weak outlook for production in 2Q26. On the domestic front, the recent cooling in domestic demand momentum neither suggests meaningful support ahead nor significant deterioration. Our big-data indicator suggests that private consumption remained broadly unchanged in March and April. While a sharp correction was observed in May, we believe this was largely temporary and driven by the extended holiday period.

More broadly, uncertainty regarding the duration and the scale of the conflict in the Middle East continues to cloud the activity outlook. Given the normalization process will take time, significant downside effects are already foreseeable even under the assumption of a near-term resolution. Moreover, depending on the duration of the conflict, additional factors could further weigh on activity, such as a downside risk in tourism revenues. Meanwhile, the conflict has necessitated a tighter for longer monetary stance; together with tightened credit growth caps further. Fiscal policy, on the other hand, counteracted the supply-side effects, with the sliding-scale mechanism absorbing the bulk of energy price increases, while supportive measures were introduced for SMEs and labor-intensive sectors, with these support packages are expected to be expanded should activity deteriorate further.

Overall, considering the supply-side effects, weaker external demand, and tighter financial conditions, amid moderately counteracting fiscal policy, we expect year-end GDP growth to materialize at around 3.0% in 2026, compared with our pre-conflict forecast of 4.0%, under the assumption that the conflict is resolved before July.

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