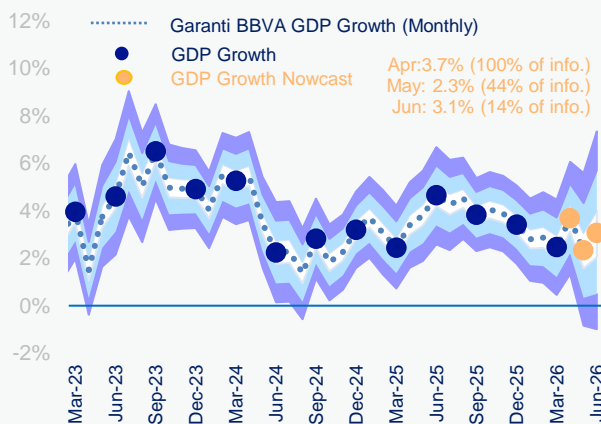


# Türkiye | Growth Moderation Rather than Recession

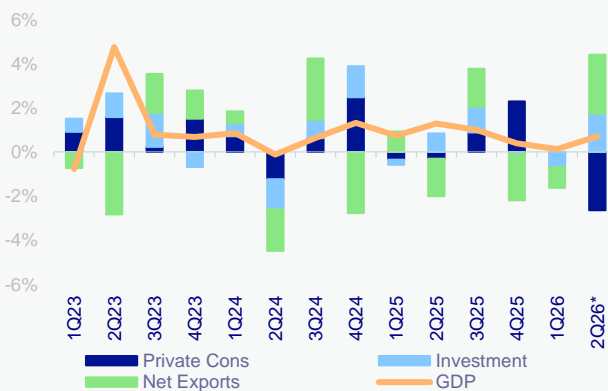
- Data released so far suggest only a limited recovery in 2Q26, following the flat quarterly GDP growth in 1Q26. On the other hand, firms' expectations have improved amid prospects for peace in the Middle East.
- We nowcast annual GDP growth slowing down to around 2% in May, followed by a modest rebound in June. Given the calendar shifts caused by the extended holiday in late May, GDP growth in 2Q26 could remain in the range of 2.0–2.5% on an annual basis, based on currently available information.
- On the demand side, our nowcast results suggest that the slowdown in domestic demand is being driven by private consumption, while net exports' contribution could be positive. As a result, we estimate that the demand-supply imbalance has narrowed further, alongside a widening negative output gap.
- The recent normalization in energy prices has somewhat eased the trade-off between growth and external balance. However, risks to the external balance remain elevated, particularly given tighter global financial conditions. Therefore, we expect only limited fiscal support going forward. On the inflation front, energy prices have evolved more favorably than we previously expected, which could bring year-end inflation slightly below 30%. However, a rapid easing cycle by the CBRT could jeopardize these gains. Therefore, we expect the CBRT to adopt a more cautious approach to monetary easing.
- We forecast GDP growth of 3.0% in 2026, with risks tilted slightly to the upside if favorable energy prices persist and the CBRT embarks on a faster easing cycle. The evolution of the policy mix, together with developments in the peace process, will be key in shaping the outlook.

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



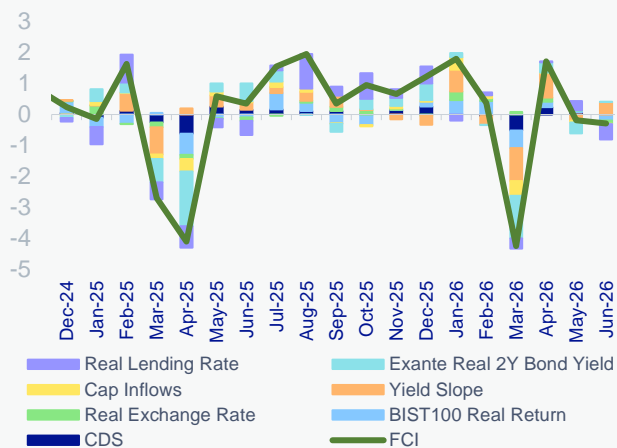
Source: Garanti BBVA Research, TURKSTAT

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



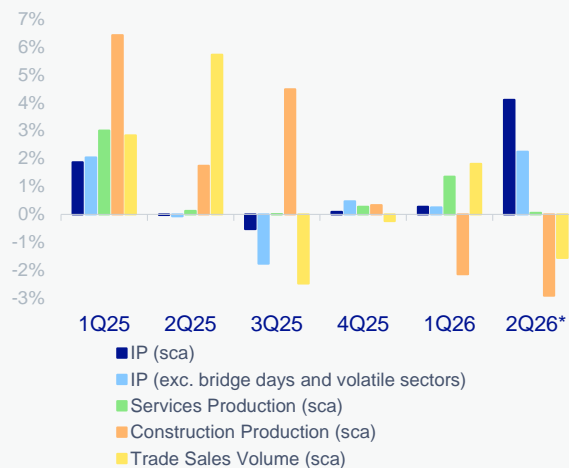
Source: Garanti BBVA Research, TURKSTAT \*based on our nowcast results for 2Q26 on traditional method. The missing components are Stocks & Government consumption to reach overall GDP.

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



Source: Garanti BBVA Research, CBRT, Bloomberg, TURKSTAT

**Figure 4. Sectorial Production (QoQ, seasonal and cal. adj.)**



Source: Garanti BBVA Research, TURKSTAT, \*2Q26 refers to April 2026

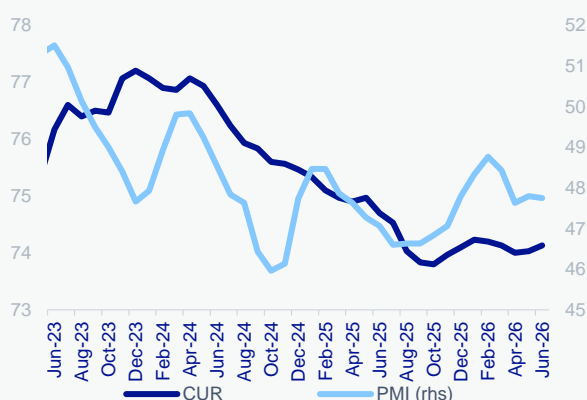
## Further moderation in domestic demand and sub-potential supply

Industrial production (IP) expanded by 3.7% m/m in Apr 2026, largely driven by the capital goods segment, which includes volatile sectors (especially defense related production). Excluding these, IP growth moderates to 1.0% m/m (vs. 0.8% prev.), still indicating a stronger-than-expected performance relative to a faster deterioration in confidence indicators due to the recent conflict in the Middle East. This may reflect front-loading of production ahead of May, which had significantly fewer working days due to long Eid holidays during the month. At the same time, there is no clear evidence of war-related deterioration in export-oriented sectors so far. Despite the improved confidence indicators such as PMI and Real Sector Confidence, May IP data could come in weaker due to the extended holiday, before slightly rebounding in June. Hence, extended holiday-related bridge days may generate short-term volatility in the data, making the three-month trend a more reliable indicator of underlying activity. On a quarterly basis, IP points to an improved outlook, with growth of 2.1% q/q so far in 2Q26 (April vs. 1Q26; 0.2% q/q in 1Q26), excluding volatile sectors; though this could moderate as April's carry-over effects fade.

The Real Sector Confidence Index (s.a.) rose by 1% m/m following the increase in May26 (2.4% m/m), driven mainly by improvements in expected production volume over the next three months, investment expenditures, and total orders. However, the recovery in May-June was more than offset by the contraction in March-April, leaving the index down 1.8% q/q in 2Q26, reflecting the impact of the Middle East conflict. According to the June business tendency survey, production over the past three months remained below its 1Q26 average. Meanwhile, capacity utilization edged up by 0.2pp to 74.3% in June, but was broadly flat on a quarterly basis in 2Q26 and remained below its historical average. Manufacturing PMI also rebounded to 49.8 in May after falling to 45.7 in April amid supply chain disruptions caused by the conflict. Nevertheless, the index was still down

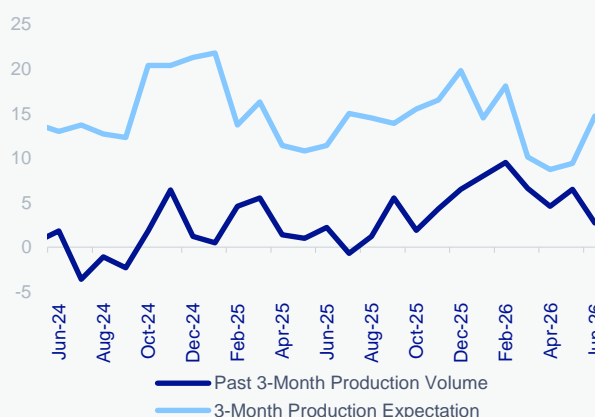
1.4% q/q in the April-May period relative to 1Q26. Overall, leading indicators point to a below-potential industrial outlook in 2Q26. Looking ahead, the easing of geopolitical tensions following the prospect of a peace agreement, together with the faster-than-expected normalization in energy prices, has improved firms' expectations for domestic orders and production over the next three months, while their expectations for external demand have softened slightly. In addition, firms anticipate lower cost of production per unit on the retreat in energy prices, and expect their sales prices to ease over the next three months. However, the 12-month ahead domestic producer inflation expectation remained steady at 31.5% (vs 31.6% in May).

**Figure 5. Manufacturing CUR vs. PMI Index (Seasonally adj., Level)**



Source: Garanti BBVA Research, TURKSTAT

**Figure 6. Economic Tendency Survey Production Volume (Seasonal adj., Balance of Expectations: %increase-%decrease)**

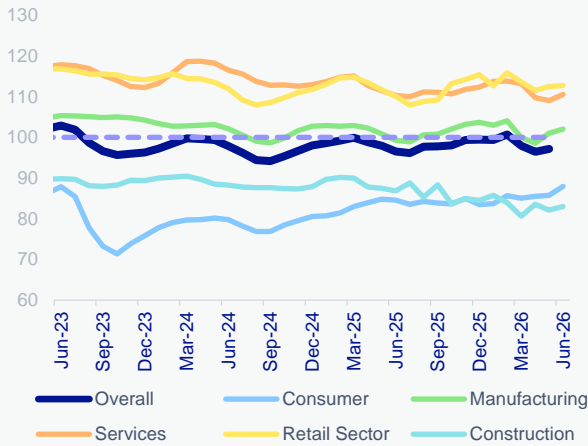


Source: Garanti BBVA Research, CBRT

Services production declined by 0.6% m/m in Apr26; and, on a quarterly basis it shows broad-based weakening, decelerating to 0.1% q/q so far in April (vs. 1.3% q/q in 1Q26). Both the monthly and quarterly contraction in accommodation and food services signal a continued softening in domestic demand (-0.3% m/m; -0.9% q/q vs. -1.1% in 1Q26). The services confidence index rose by 1.4% m/m in June after the contraction in both April (-3.1% m/m) and May (-0.6% m/m). However, it still retreated by 3.4% q/q in 2Q26. Both the weakness in current business conditions and demand for services in the last 3 months signal a cooling in domestic demand. While firms expect a modest recovery in demand over the next three months, expectations for employment have deteriorated significantly. As a result, despite easing geopolitical tensions, sentiment in the services sector remains weak.

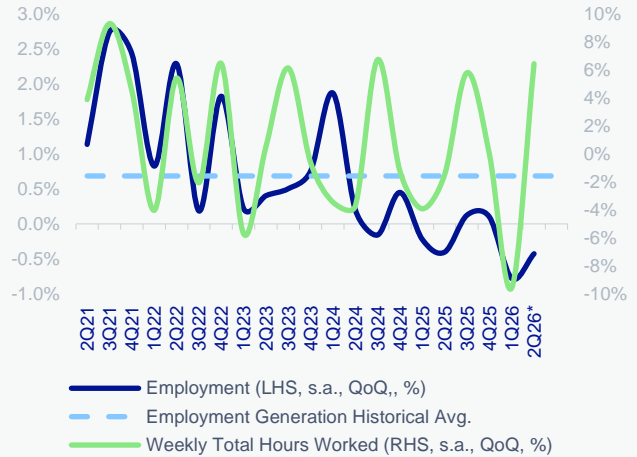
Construction production grew by 0.7% m/m in Apr26 after the sharp contraction in February (-1.3% m/m) and March (-4.7% m/m). Hence, the sector contracted by -2.9% q/q in 2Q26 (-2.1% in 1Q26). The construction confidence index increased by 1.1% m/m in June, following a 1.7% decline in May. Nevertheless, it contracted by 0.7% q/q in 2Q26 (vs. -1.1% q/q in 1Q26). While construction activity has recovered over the past three months, it remains below the pre-conflict levels, and the current level of orders has been broadly flat compared with the 1Q26. That said, the improvement in employment expectations for the next three months suggests that the sector maintains a somewhat more positive outlook for activity ahead.

**Figure 7. Economic Confidence Index**  
(seasonal and cal. adj., 3M Mov. Avg.)



Source: Garanti BBVA Research, TURKSTAT, CBRT

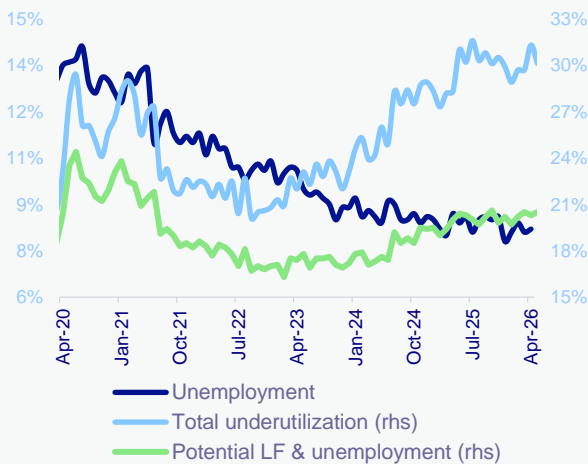
**Figure 8. Employment & Total Hours Worked**  
(QoQ, %, seasonal adj.)



Source: Garanti BBVA Research, TURKSTAT, \*2Q26 refers to April 2026

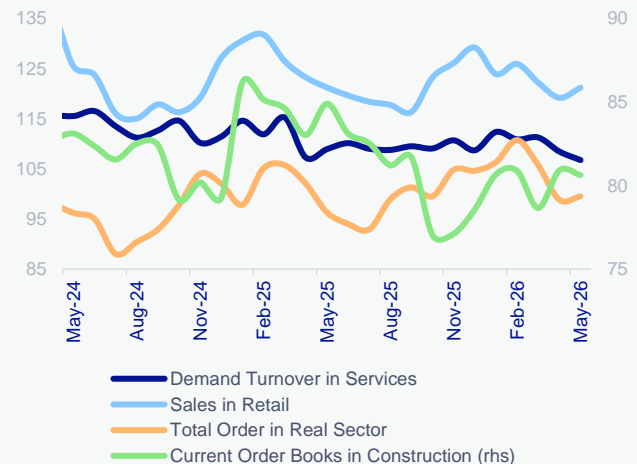
In the labor market, the unemployment rate edged up in April to 8.2% and remained flat on a quarterly basis, while underutilization rate stays at a historical high of 30.1% in April (vs. 30.2% in 1Q26). Employment declined further in April, confirming the subdued supply-side activity (-0.4% q/q in Apr vs. -0.8% q/q in 1Q26). Meanwhile, sectoral confidence indices do not signal improvement in the labor market outlook for the quarter.

**Figure 9. Unemployment Rate** (seasonally adjusted)



Source: Garanti BBVA Research, TURKSTAT

**Figure 10. Demand Conditions over the past 3 months** (seasonal adj index, monthly)



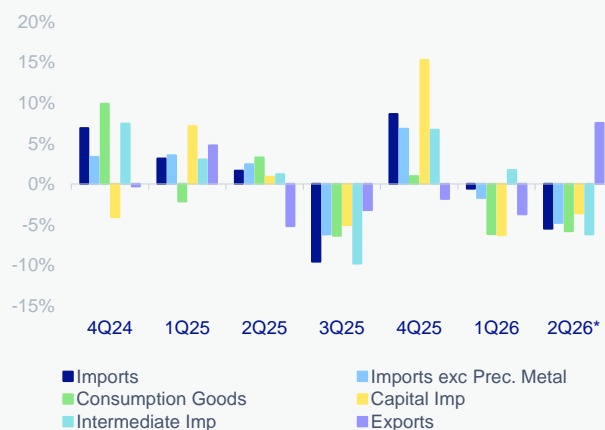
Source: Garanti BBVA Research, TURKSTAT, CBRT

In summary, hard data for April-May and confidence indicators for the 2Q26 suggest that production may remain below potential. However, confidence indicators tend to react sharply to adverse shocks, whereas hard data often show a more limited impact. Therefore, the picture for activity will become clearer once May and June hard data are available, although the effects of the extended holiday period should also be taken into account. Our monthly GDP nowcast indicator

points to an annual growth of around 2% in May, followed by a modest recovery in June. Given the bridge day effects, we think that GDP growth in 2Q26 could materialize around 2–2.5% y/y and 0.5–1.0% q/q, based on the information currently available. Industry and agriculture may provide positive contributions in 2Q26, while services and construction could remain weaker.

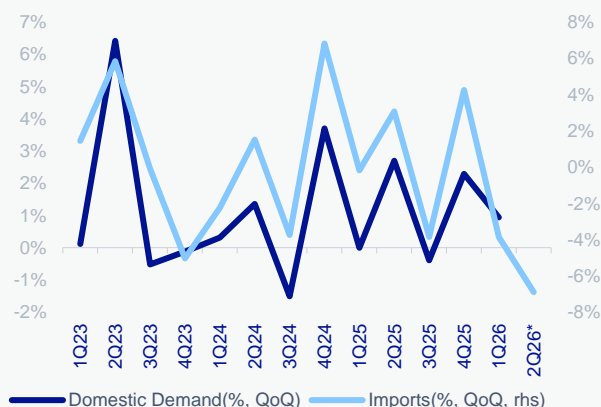
On the demand side, available data indicate that soft domestic demand conditions continued to weigh on activity in 2Q26, while foreign demand turned supportive to economic activity after acting as a drag in 1Q26. On the domestic front, the previous quarter marked a significant deceleration in private consumption: although real lending rates eased at the beginning of the quarter, reinforced macroprudential measures (including regulations on overdraft loans and credit cards) helped dampen demand; later, following the outbreak of the Middle East conflict in early March, the CBRT effectively raised the market funding rate by 300bps and imposed stricter credit growth caps, increasing real lending rates and thereby tightening financial conditions further. Accordingly, consumption indicators reflect tighter financial conditions overall in 2Q26 compared to the previous quarter, with both consumer card spending and consumer loans (excluding mortgages) decelerating significantly. On the external side, the effects of the conflict do not appear to have extended into the second quarter; in fact, external demand rebounded from the weaker conditions in 1Q26, with firms reporting improved external orders compared to the previous quarter.

**Figure 11. Foreign Trade Components Volume (QoQ, seasonal cal. adj.)**



Source: Garanti BBVA Research, TURKSTAT, Ministry of Trade, \*2Q26 refers to Apr-May 2026

**Figure 12. Imports vs. Domestic Demand (QoQ, seasonal and cal. adj.)**

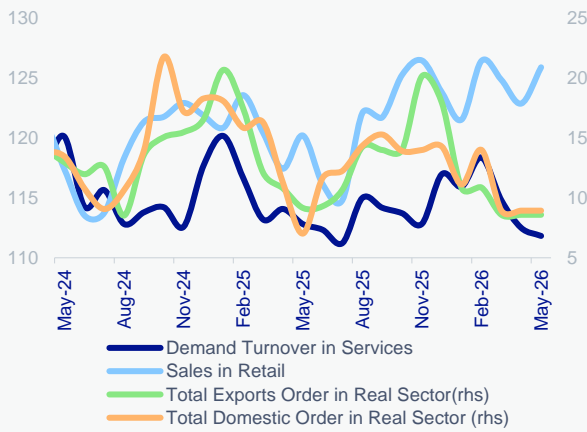


Source: Garanti BBVA Research, TURKSTAT, The Ministry of Trade, \*2Q26 figure is estimated based based on Apr-May information

Our monthly private consumption indicator nowcasts 1.1% y/y growth (vs. 4.8% y/y in 1Q26), implying a quarterly contraction in 2Q26 (not accounting for the strong calendar day effects). High-frequency indicators overall confirm moderation in demand conditions, particularly after April, when household inflation expectations moderated following the earlier conflict-related jump, which may have initially triggered front-loading, especially in imported consumer goods, amid concerns over higher prices resulting from potential currency depreciation. Confirming this, consumer goods imports excluding jewelry remained strong in April after gaining momentum in March but contracted in May according to our calculations; nevertheless, retail sales excluding jewelry lost significant momentum in April (0.7% q/q in 2Q26 vs. 3.0% in 1Q26), while real trade turnover contracted. Services production, decelerating and remaining broadly flat on a quarterly basis as of April (vs. 1.3%

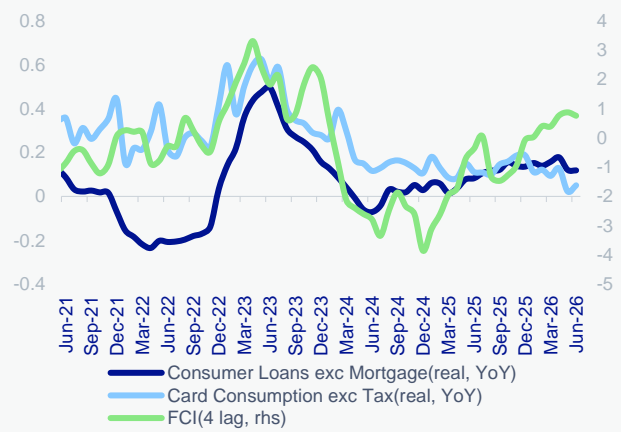
q/q in 1Q26), also points to moderating demand conditions. For the remainder of the quarter, likely amplified by the extended holiday period in May, our daily-frequency card spending indicators signal further weakening in demand conditions, with slowing retail spending and contracting services consumption.

**Figure 13. Demand Conditions over the next 3 months (seasonal adj. index, monthly)**



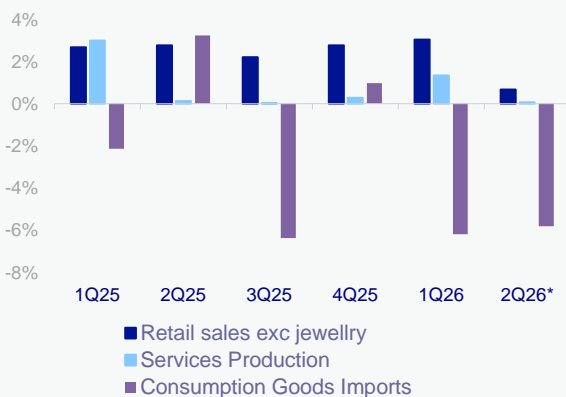
Source: Garanti BBVA Research, TURKSTAT, CBRT

**Figure 14. Consumer Loans, Card Consumption & Financial Conditions Index-FCI (Real, YoY; standardized)**



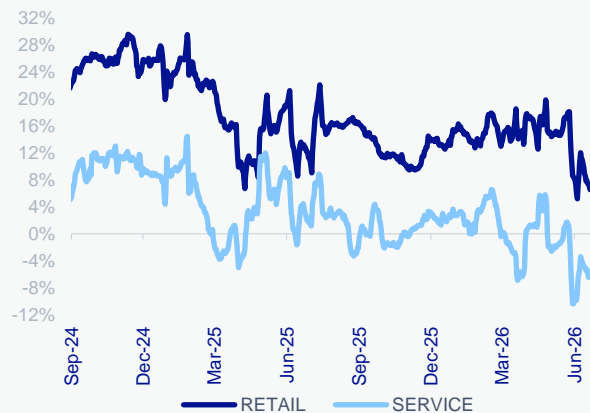
Source: Garanti BBVA Research, CBRT

**Figure 15. Consumption Indicators (3-month average, QoQ, %)**



Source: Garanti BBVA Research, TURKSTAT, 2Q26\* is Apr-May26

**Figure 16. Garanti BBVA Big Data Consumption Indicators (28-day sum, YoY, adjusted by CPI)**



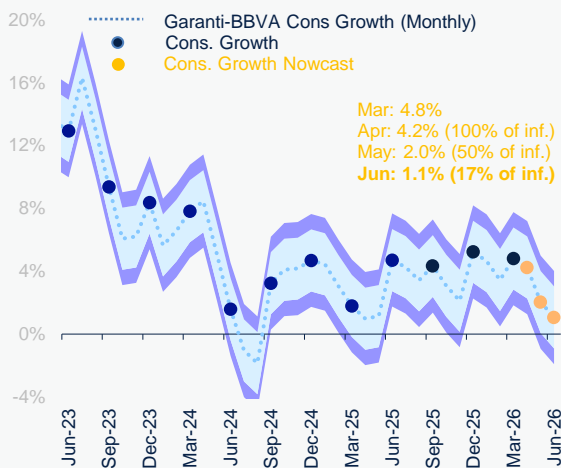
Source: Garanti BBVA Research, TURKSTAT

Investment expenditures gained momentum as the Middle East conflict has moved toward a resolution, despite tighter financial conditions. Our monthly investment nowcast indicator nowcasts 7.2% y/y growth in 2Q26 (vs. 3.0% y/y in 1Q26). Firms have been reporting increased investment spending since April, following the first ceasefire negotiations. Although construction activity

weakened, stronger capital goods production supported investment as of April but could moderate, given the volatility in this segment.

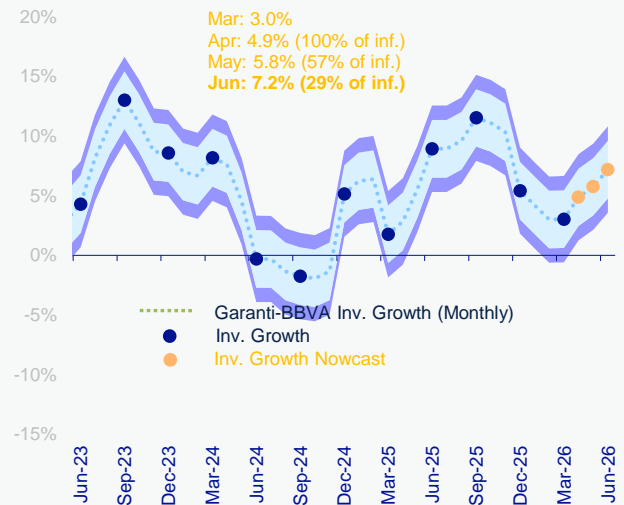
Net exports' contribution to annual GDP growth may turn positive in 2Q26 after weighing on growth throughout 2025 and 1Q26. We nowcast imports to contract by 10.9% y/y in 2Q26 (vs. -7.6% y/y in 1Q26), while the recent improvement in exports on the back of relocation of demand and solid tourism revenues implied by our big data indicator(Figure-20) results in a softer decline of 7.3% y/y (vs. -9.6% y/y in 1Q26). Overall, the recent ease in geopolitical tension may support exports in the upcoming period but the weak external demand would restrict the gains; meanwhile, the moderation in domestic demand could suppress imports.

**Figure 17. Garanti BBVA Monthly Consumption GDP Nowcast (3-month average, YoY)**



Source: Garanti BBVA Research, TURKSTAT

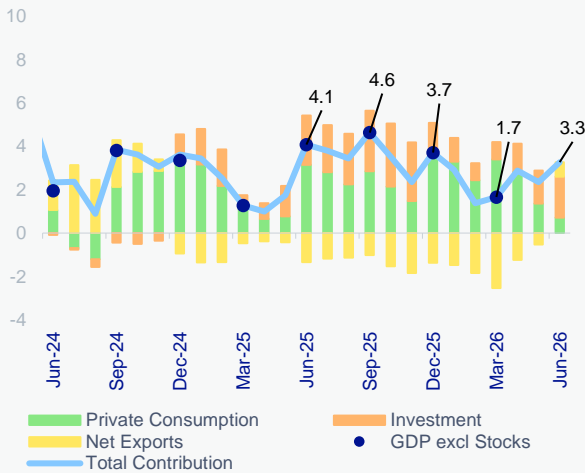
**Figure 18. Garanti BBVA Monthly Investment GDP Nowcast (3-month average, YoY)**



Source: Garanti BBVA Research, TURKSTAT

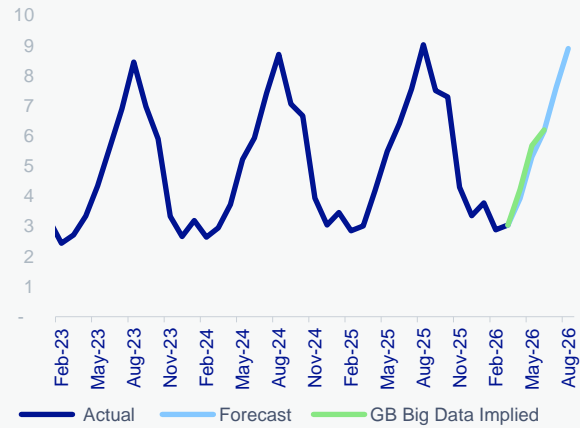
Taken together, we estimate that the demand-supply imbalance narrowed further in 2Q26, alongside a widening negative output gap. Demand conditions continued to soften, with domestic demand (excluding inventories) pointing to a quarterly contraction led by private consumption, while external demand's contribution to growth turned positive. On the production side, the incoming data confirming sub-potential growth, partly reflecting the impact from the Middle East conflict. Our monthly GDP Indicator nowcasts annual GDP growth slowing to around 2.0% in May, followed by a modest rebound in June. Given the calendar shifts caused by the holidays in late May, GDP growth in 2Q26 could remain in the 2.0–2.5% y/y range based on the information currently available.

**Figure 19. Garanti BBVA Monthly GDP Demand Sub-Components (contribution to annual GDP, pp)**



Source: TURKSTAT, Garanti BBVA Research

**Figure 20. Garanti BBVA Big Data Implied Tourism Rev. & 3M Ahead Forecast (Monthly, \$USBn)**



Source: TURKSTAT, Garanti BBVA Research

Looking ahead, the recent normalization in energy prices, if sustained, and a potentially faster easing cycle by the CBRT might pose slight upside risks to our 2026 GDP growth forecast of 3.0%, which assumes Brent oil prices averaging around USD 90 per barrel in 2H26 and the funding rate declining to 37% by year-end through a normalization in funding beginning in September. We expect only limited fiscal support going forward: although the retreat in energy prices has somewhat eased the trade-off between growth and the external balance, risks to the external balance remain elevated, particularly amid tighter global financial conditions. On the monetary policy front, we expect the CBRT to adopt a cautious easing approach, as a rapid easing cycle could jeopardize the gains from a faster-than-expected decline in global energy prices, which could bring year-end inflation slightly below 30%. The evolution of the policy mix, together with developments in the peace process, will be key in shaping the outlook.

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