BBVA Research

# Türkiye | GDP growth could be around 2.5% y/y in 1H26

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- Despite the conflict in the Middle East, industrial production remained relatively resilient in 2Q26, while services activity was broadly flat and construction continued to weaken. June leading indicators suggest that firms' forward-looking expectations have improved, supported by growing hopes for a peace agreement in the Middle East.
- Our monthly GDP indicator nowcasts annual growth of 2.3% as of June, based on 40% of the available information, implying a quarterly growth of around 0.5–1.0%.
- On the demand side, domestic demand continues to moderate. The clear slowdown in retail sales, stagnant services output, and the quarterly contraction in private consumption goods imports all point to weaker consumption. Meanwhile, temporary factors drove a quarterly rebound in exports and a decline in imports on weaker domestic demand, suggesting that net exports will make a positive contribution to growth in 2Q26.
- Demand conditions are becoming more supportive of disinflation, but geopolitical risks, inflation inertia, elevated inflation expectations, and energy price volatility continue to cloud the outlook. At the same time, volatile energy prices pose risks to the external balance, reinforcing the delicate trade-off between supporting growth and preserving financial stability. As a result, we expect only limited fiscal support for activity and a gradual monetary easing cycle.
- We expect GDP growth to reach around 2.5% in 1H26. Under our baseline scenario of gradually normalizing energy prices and a prudent policy mix, we maintain our 2026 GDP growth forecast at 3.0%. The main downside risk remains the renewed escalation in geopolitical tensions leading to a sharper rise in energy prices, while faster-than-expected monetary easing represents a modest upside risk. Overall, we see risks to the growth outlook as broadly balanced.

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

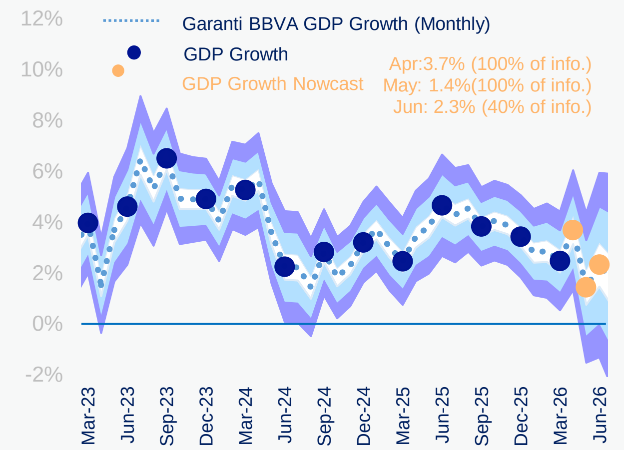
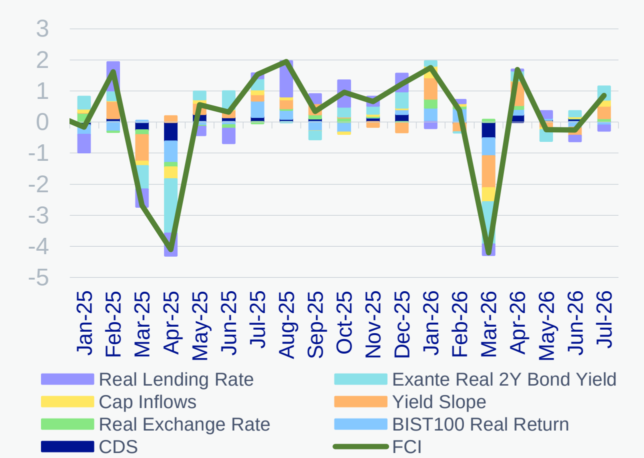


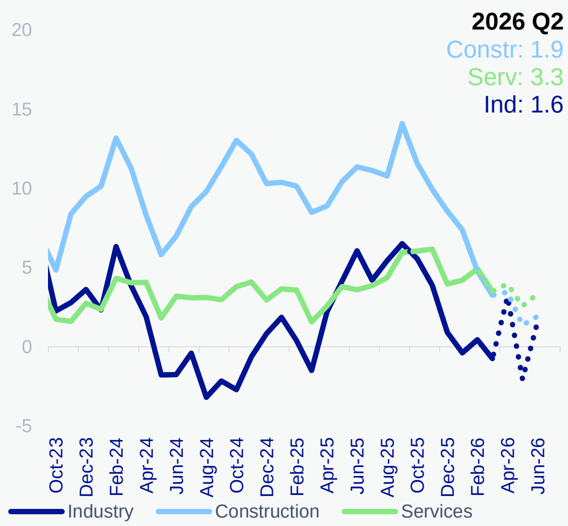

**Figure 2. Garanti BBVA Financial Conditions (FCI) Index*** (standardized, + easing, - tightening, MoM)



Source: Garanti BBVA Research, TURKSTAT

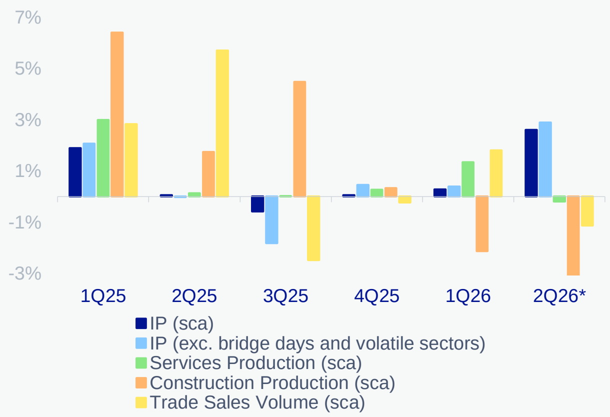
Source: Garanti BBVA Research, CBRT, Bloomberg, TURKSTAT

**Figure 3. Sectoral Growth Nowcasts** (3-MA, YoY)




Source: Garanti BBVA Research, TURKSTAT

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



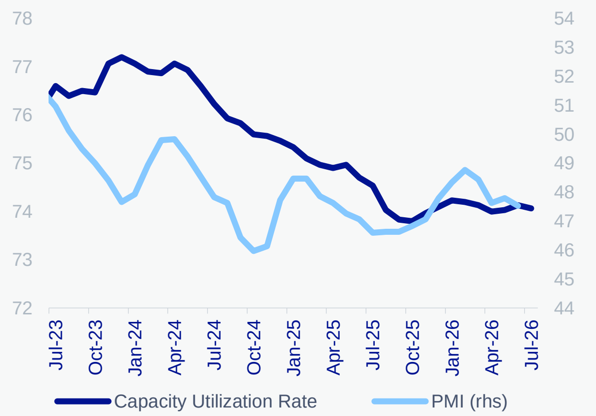

Source: Garanti BBVA Research, TURKSTAT, *2Q26 refers to April - May 2026

## Supply Stays Resistant Despite Moderating Demand Conditions

Despite the positive signals from the leading indicators, industrial production declined by 2.9% m/m in May, largely driven by a sharp contraction in capital goods production. The decline likely reflects a correction following the front-loaded production in April, when industrial output rose by 3.7% m/m, marking its strongest monthly increase since May25. Capital goods production, which appears to have benefited the most from this front-loading—particularly through the volatile manufacturing of other transport equipment—fell by 12.7% m/m in May, after increasing by 12.3% m/m in April. Notably, the bridge-day effect associated with the public holiday in late May also weighed on production. Moreover, excluding volatile sectors, the contraction moderates to 0.1% m/m (vs. 1.0% m/m prev.); and when also accounting for the bridge days, IP grew by 0.9% m/m, according to our calculations. Overall, IP remains on the supportive side to the overall activity with a growth of 2.6% q/q so far in 2Q26 (April-May vs. 1Q26; 0.3% q/q in 1Q26). Leading indicators, as explained more in detail in our latest report, such as the increased real sector confidence (1.0% m/m in June) driven mostly by better expectation of production volume over the next three-months, investment expenditures and total orders and higher capacity utilization rate (+0.2pp to 74.3% in Jun26) point out to a potential uptick in industrial activity in June. However, on a quarterly basis, broadly flat capacity utilization rate, weaker confidence and PMI readings, and a deterioration in the three-month production balance reported in the Jun26 Business Tendency Survey suggest that industrial growth set to remain supportive but below potential in 2Q26. Looking ahead to 3Q26, the retreat in capacity utilization and real sector confidence in July signal a weak outlook for industry. It is still too early to draw firm conclusions without observing hard data despite the deterioration in confidence indices in 2Q26 as industrial production has proven more resilient than implied.

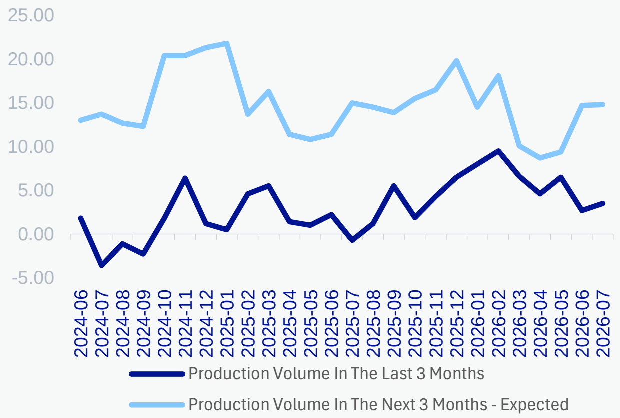
Services production further retreated by 0.4% m/m in May upon contracting by 0.5% m/m in April. The monthly decline was driven solely by the deterioration in information & communication services which dropped by 7.5% m/m, its highest drop since Jan23. On a quarterly basis, services remained on the downside with a weakening of 0.1% q/q (vs. 1.3% q/q in 1Q26). While demand-sensitive sectors give mixed signals, namely, transportation and storage (-0.5% q/q) and accommodation and food services (1.1% q/q), remaining sectors showed a broad-based improvement, real estate activities (0.3% q/q), professional, scientific & technical activites (0.2% q/q), administrative & support services (0.6% q/q) with the exception of information & communication services (-2.3% q/q). Although overall confidence suggests a rebound in June, the sentiment in the sector regarding business conditions, demand for services, and expectations for demand and employment over the next three months have yet to recover to the levels observed before the conflict in the Middle East on a quarterly basis. As a result, we expect services to remain weak in 2Q26.

**Figure 5. Manufacturing CUR vs. PMI Index** (3-MA, Seasonally adj., Level)




Source: Garanti BBVA Research, TURKSTAT

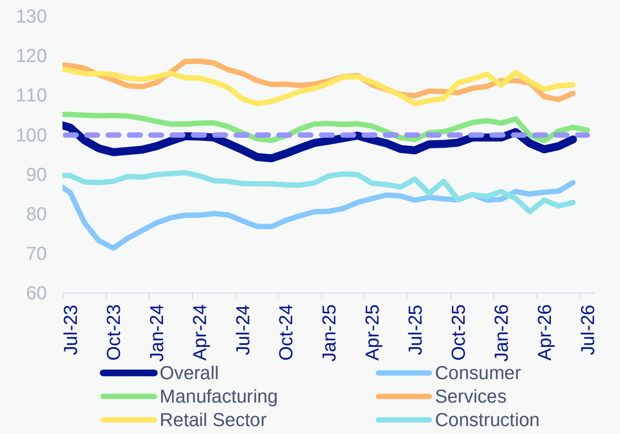
**Figure 6. Economic Tendency Survey Production Volume** (Seasonal adj., Balance of Expectations: %increase-%decrease)




Source: Garanti BBVA Research, CBRT

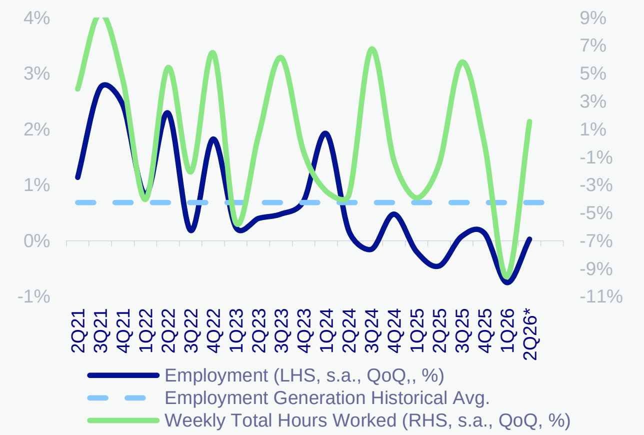
Construction activity edged down by 0.4% m/m in May (vs. 0.3% m/m in April) extending the sector's downward trend since the beginning of the year. Available data point to a sharper quarterly contraction of 3.8% q/q in 2Q26 ( vs. -2.5% q/q 1Q26). Although construction confidence improved by 1.1% m/m in June, both confidence and building activity remain below their pre-conflict levels, offering no clear indication of an imminent recovery. All in all, construction is likely to provide negative contribution to growth in 2Q26.

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




Source: Garanti BBVA Research, TURKSTAT, CBRT

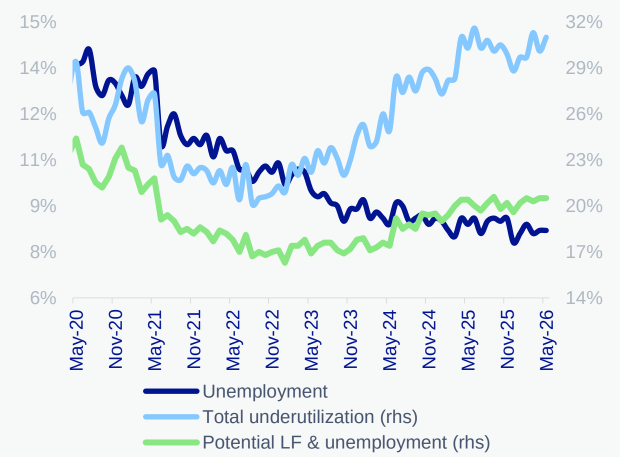
**Figure 8. Employment & Total Hours Worked** (QoQ, %, seasonal adj.)




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

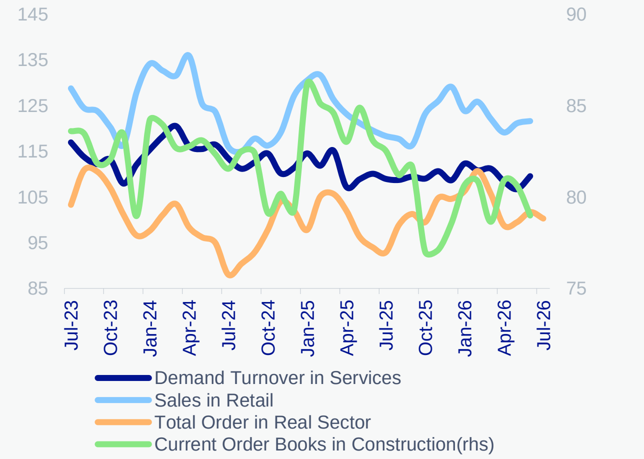
In the labor market, the unemployment rate stayed flat at 8.2% in May leading to a no change on quarterly basis, while underutilization rate reached 31% (vs. 30.1% in Apr & 30.2% in 1Q26), remaining near a historical high. With the rebound in employment in May (0.9% m/m), employment growth turned to positive (0.03% q/q) with total weekly hours worked up by 0.9% q/q in 2Q26 in align with the expected rise in the activity.

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




Source: Garanti BBVA Research, TURKSTAT

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

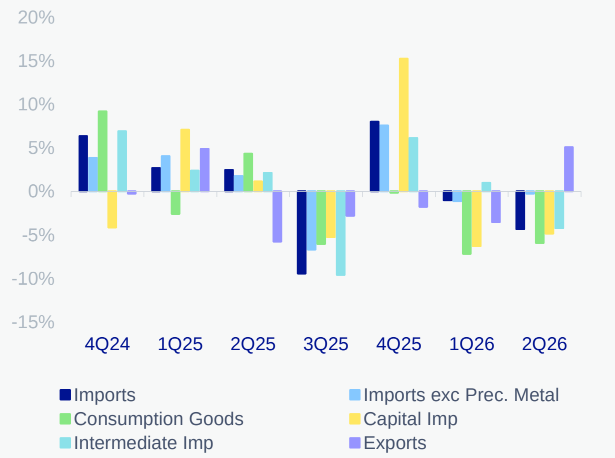



Source: Garanti BBVA Research, TURKSTAT, CBRT

In short, incoming data and our nowcast estimates suggest that supply-side activity gained momentum in 2Q26, although growth likely remained below potential. Industry and agriculture are expected to have made positive contributions, while construction likely weighed on activity and services remained broadly flat. Bearing in mind the bridge day effects, our nowcast points to GDP growth of 2.3% y/y in 2Q26, implying around 0.5–1.0% q/q.

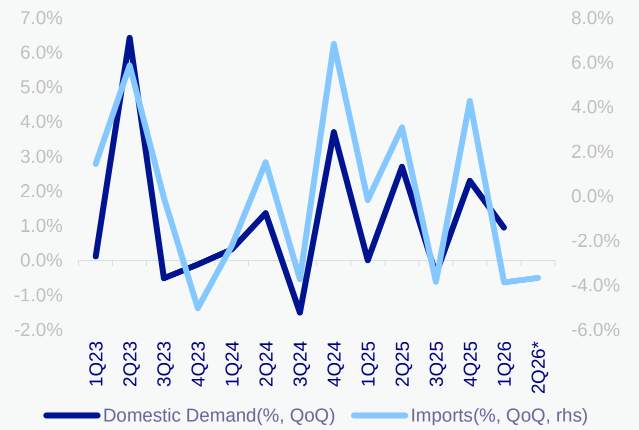
On the demand side, incoming data point to little change in the underlying picture since our last report: domestic demand weakens, whereas net external demand continues to support overall growth. Relatively tight financial conditions in 1H26 and ongoing loan growth caps with additional restrictions led the deceleration in consumer loans and card spending, implying softer demand conditions. Hard data confirm a moderation in domestic demand while external demand appears to have remained supportive, largely due to temporary factors. The decline in import volumes excluding precious metals also points to weakening domestic demand. Meanwhile, the business tendency survey in July indicates manufacturing firms expect external demand to improve over the next 3 months but anticipate a marked slowdown in domestic demand. In services, June confidence indicators also suggest that demand expectations for the next 3 months remain subdued.

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



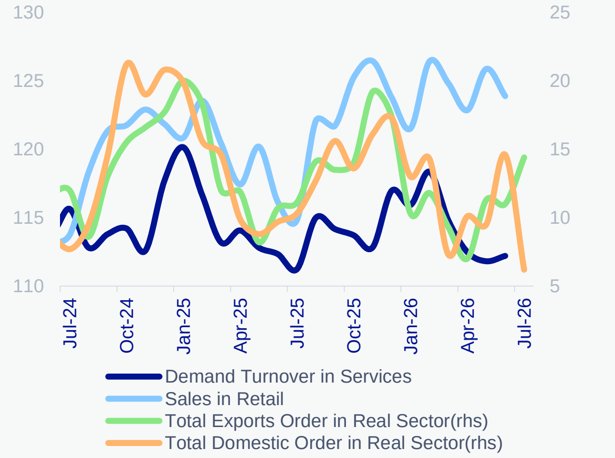

Source: Garanti BBVA Research, TURKSTAT, Ministry of Trade

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



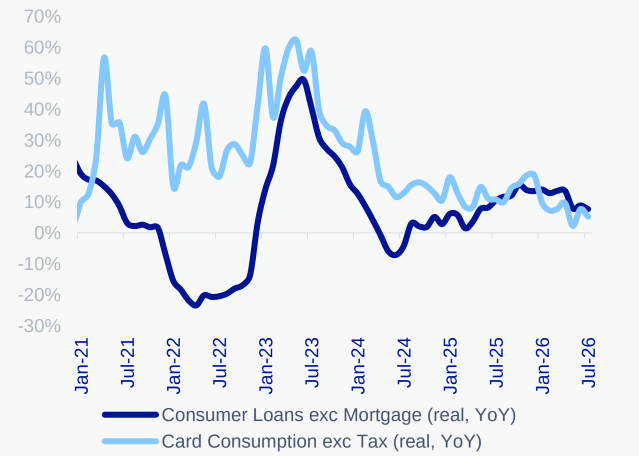

Source: Garanti BBVA Research, TURKSTAT, The Ministry of Trade, *2Q26 figure is estimated based based on Apr-May information

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



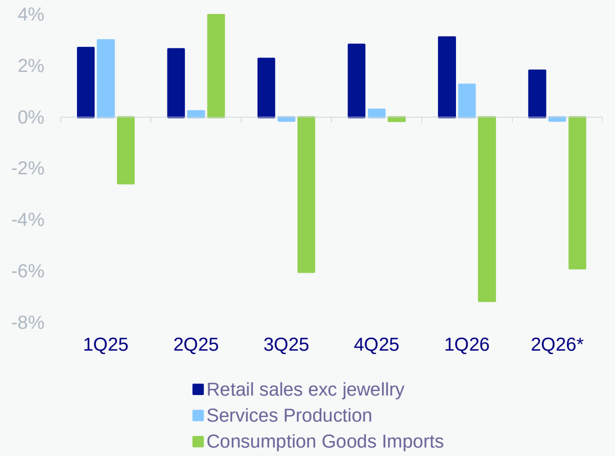

Source: Garanti BBVA Research, TURKSTAT, CBRT

**Figure 14. Consumer Loans, Card Consumption** (Real, YoY; standardized)



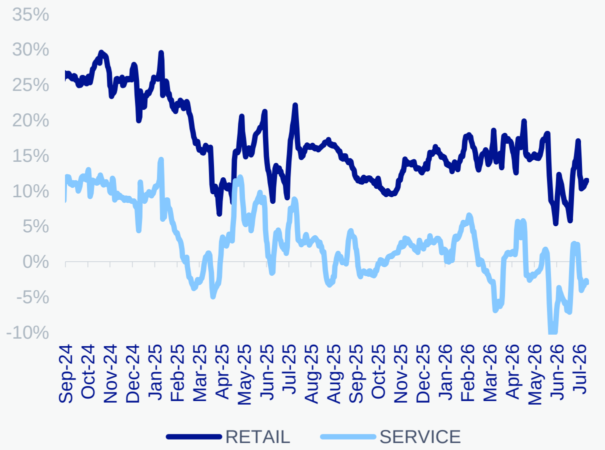

Source: Garanti BBVA Research, CBRT

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




Source: Garanti BBVA Research, TURKSTAT, Ministry of Trade, 2Q26* is Apr-May26, with the exclusion of imports that include June26 data

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



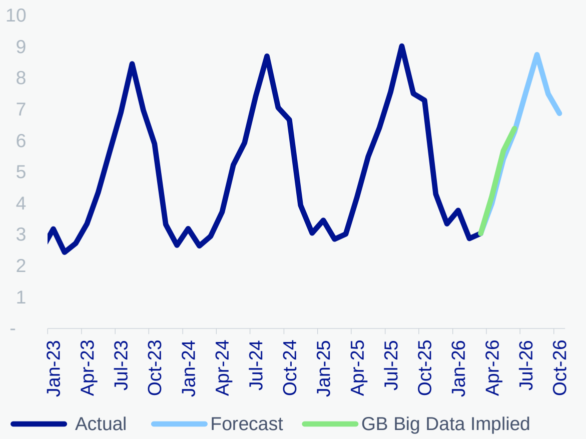

Source: Garanti BBVA Research, TURKSTAT

Hard data suggest that the moderation in domestic demand has been driven primarily by private consumption. Excluding watches and jewelry, retail sales rebounded in May (+1.9% m/m) after staying flat in April. Nonetheless, quarterly growth slowed down to 1.8% q/q in April–May, compared with the 3.1% q/q in 1Q26. On the services side, output contracted slightly again in May, leaving quarterly growth broadly flat at -0.1% q/q. In addition, our estimates based on preliminary June trade data indicate that consumer goods imports, after falling by 7.2% q/q in the 1Q26, contracted further by 5.9% q/q in 2Q26.

Investment spending is likely to have recovered modestly in the 2Q26 after contracting over the previous two quarters, with high-frequency indicators suggesting that the improvement was driven mainly by machinery and equipment investment. Capital goods production increased by 2.5% q/q, supported in part by the defense industry. However, the decline in capital goods imports and weak construction activity indicate that the recovery remains modest. Tight financial conditions and heightened geopolitical uncertainty appear to have weighed on firms' investment decisions. Indeed, the real sector confidence in July showed a sharp deterioration in firms' assessment of current investment spending, while the business tendency survey also reported a marked decline in investment expectations for the next 12 months.

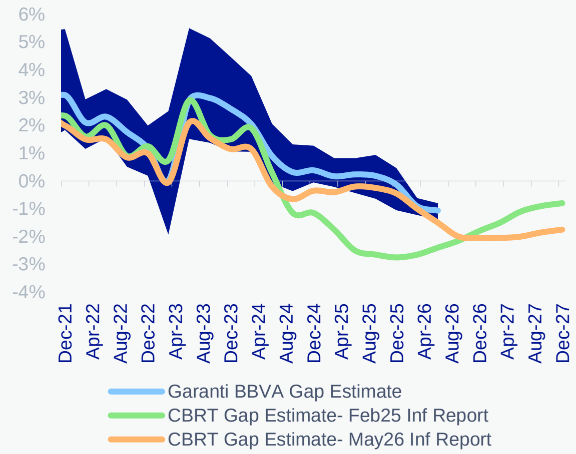
We estimate that net exports could positive contribution to aggregate demand on both a quarterly and annual basis. Front-loaded demand and trade diversion in favor of Turkish exports during the April–May period, driven by the conflict, more than offset the June correction, lifting goods exports by 5.1% q/q in the 2Q26. In addition, resilient tourism revenues despite the conflict supported services exports. Meanwhile, weaker domestic demand continued to weigh on imports. Goods imports declined by 4.3% q/q, while our nowcasts suggest that combined goods and services imports contracted by around 3.7% q/q.

**Figure 17. Garanti BBVA Big Data Implied Tourism Rev. & 3M Ahead Forecast** (Monthly, $USBn)




Source: TURKSTAT, Garanti BBVA Research

**Figure 18. Output Gap Estimates** (Annual, pp, deviation from potential)




Source: TURKSTAT, Garanti BBVA Research

Overall, high-frequency indicators suggest that demand conditions continue to soften, while production has shown signs of a modest recovery. Although weaker demand remains supportive of the disinflation process amid ongoing supply shocks, the deterioration in core goods inflation suggests that the slowdown is not yet sufficient. At the same time, volatile energy prices pose risks to the external balance, reinforcing the delicate trade-off between supporting growth and preserving financial stability. While the favorable fiscal performance provides room to support activity, we expect fiscal stimulus to remain limited and well targeted. On the other hand, persistent inflation risks leave only limited scope for monetary easing, suggesting that the overall policy mix will remain prudent. Under our baseline assumption of a gradual normalization in energy prices in 2H26, we maintain our 2026 GDP growth forecast at 3.0%. An escalation of tensions in the Middle East and a renewed surge in energy prices remain the main downside risks to our forecast. Conversely, faster-than-expected monetary easing could provide a modest short-term boost to growth but this may lead to greater inflation inertia.

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