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Türkiye | GDP grew by 2.5% y/y in 1H26.

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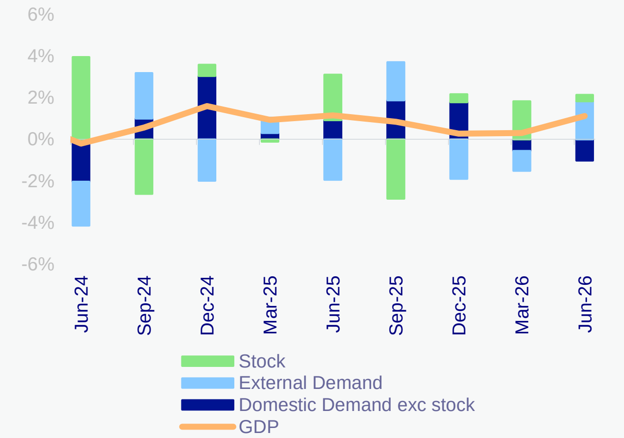
- The Turkish economy grew by 2.3% y/y in 2Q26, below both our expectation (3%) and market consensus (2.9%), bringing growth in 1H26 to 2.5% y/y.
- Despite the adverse supply shock stemming from the conflict and weakening domestic demand, the shift in external demand toward Türkiye supported growth in 2Q26. Industrial activity gained momentum, led by export-oriented sectors. While agriculture continued to contribute positively to growth, the contribution from services weakened, and the negative contribution from construction deepened.
- The contraction in private consumption and government expenditures led to a further adjustment in domestic demand, while the relatively favorable performance of exports resulted in a positive contribution from net exports to growth. Demand conditions remain disinflationary; however, geopolitical uncertainties, persistent inflation inertia, and elevated inflation expectations appear to limit contribution to the disinflation process.
- Leading indicators point to a weak outlook for industry in 3Q26, while we expect agriculture to remain supportive. Based on the data available so far, our monthly GDP indicator nowcasts an annual growth of around 3% in 3Q26, implying a quarterly growth in the range of 1.0–1.5%.
- The CBRT has started easing as of late August by lowering the cost of funding by 300 bps. Although the move came earlier than expected, we expect the CBRT to maintain a prudent stance going forward, given the challenges to the inflation outlook. On the fiscal side, the Medium-Term Program, expected to be announced in early September, should provide a clearer picture of the fiscal policy stance.
- We maintain our 3.0% GDP growth forecast for 2026 under the assumption of no further escalation in geopolitical tensions and a prudent policy mix going forward. However, the conflict in the Middle East remains a key downside risk to the outlook.

External Demand Drives Growth, Lifting Industry

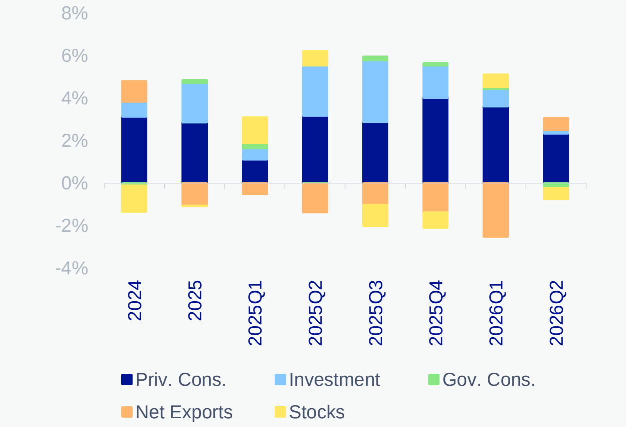
The quarterly cooling trend observed since 2Q25 appears to have stalled, as real GDP grew by 1.1% q/q in 2Q26 (vs. 0.3% q/q in 1Q26). On an annual basis, however, real GDP growth decelerated to 2.3% y/y (vs. 2.6% y/y in 1Q26), coming in below both our and the consensus expectations, partly reflecting the impact of upward revisions to the 2025 growth figures. The 2024 ve 205 year GDP growth rates were revised to the upside to 3.5% and 3.7% from 3.3% and 3.6%, respectively. Amid the extension of the war into 2Q26, the accompanying elevated uncertainty, and tight financial conditions—with the funding rate remaining at 40% and reinforced by macroprudential measures—domestic demand excluding inventories continued to contract in 2Q26. The contraction became more pronounced, driven by a sharper decline in private consumption and an apparent negative impulse from government expenditures. More specifically, investment expenditure remained flat in quarterly terms (0.0% q/q vs. -2.0% q/q prev.), while private consumption declined more clearly in 2Q26 (-1.3% q/q vs. -0.1% q/q prev.) and government expenditures turned negative (-2.0% q/q vs. 1.3% q/q prev.). Overall, according to our calculations, the negative contribution of domestic demand excluding stocks to quarterly GDP deepened from -0.6pp in 1Q26 to -1.0pp in 2Q26.

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



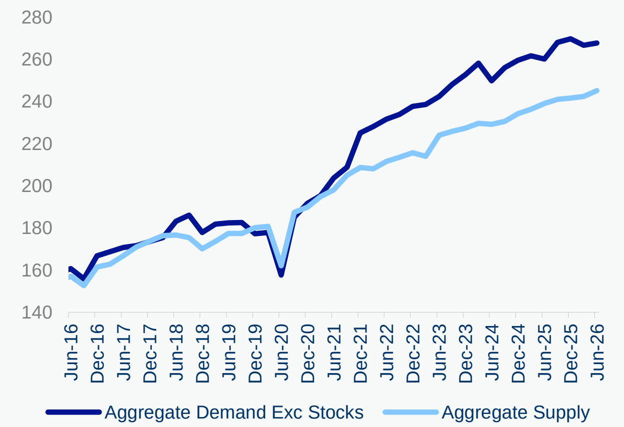
Source: Garanti BBVA Research, TURKSTAT

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



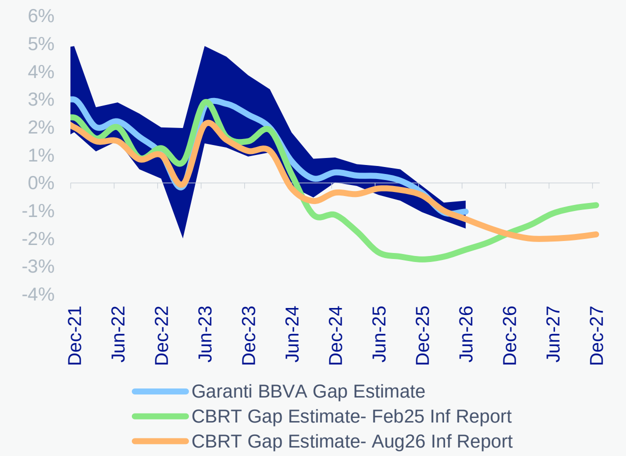
Source: Garanti BBVA Research, TURKSTAT

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)

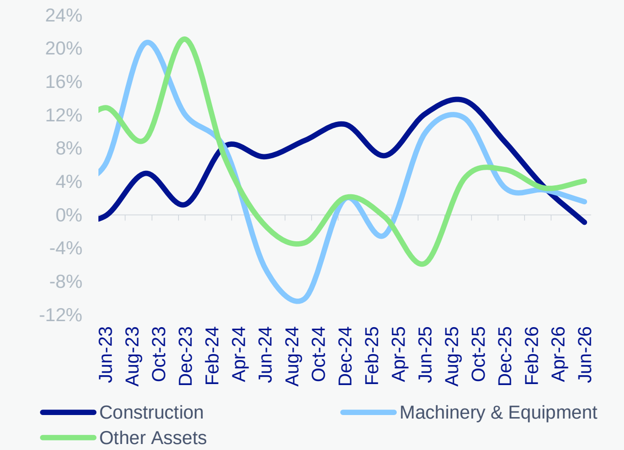


Source: CBRT, TURKSTAT, Garanti BBVA Research

On the external side, despite subdued global demand, net exports contributed positively to quarterly growth, supported by the reallocation of external demand towards Türkiye during the war. This ended the two consecutive quarters in which net exports had weighed down on the growth. We calculate the positive contribution to be around 1.8pp (vs. -1.0pp in 1Q26 and -1.9pp in 4Q25) to the quarterly growth in 2Q26. Namely, exports rebounded (6.2% q/q vs. -7.0% q/q prev.), while imports continued to shrink (-1.8% q/q vs. -3.4% q/q prev.) albeit at a smaller degree.

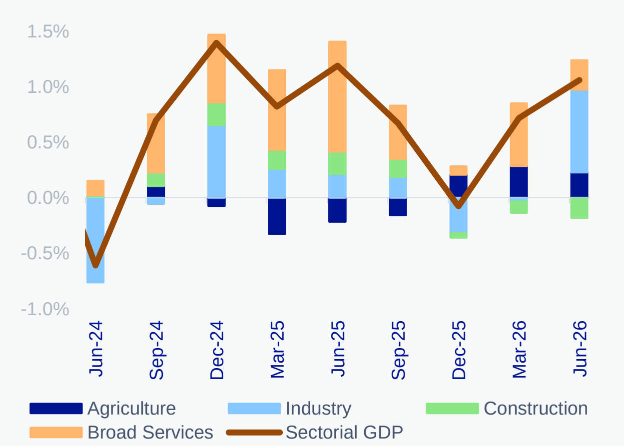
In annual terms, the contribution of domestic demand including inventories declined to 1.8pp in 2Q26 from 5.1pp in 1Q26, driven mostly by a smaller contribution from private consumption (2.3pp vs. 3.6pp prev.), along with a moderate contribution from investment expenditures (0.2pp vs. 0.8pp prev.), and a negative contribution from government spending (-0.2pp vs. 0.1pp prev.). On the other hand, in line with its quarterly contribution, net exports also turned positive in annual terms (0.6pp vs. -2.5pp prev.). This was driven by a more pronounced contraction in imports (-6.4% y/y vs. -2.0% y/y prev.) amid weaker domestic demand, which more than offset the decline in exports (-3.4% y/y vs. -12.7% y/y prev.).

Figure 5. Gross Capital Formation (YoY)



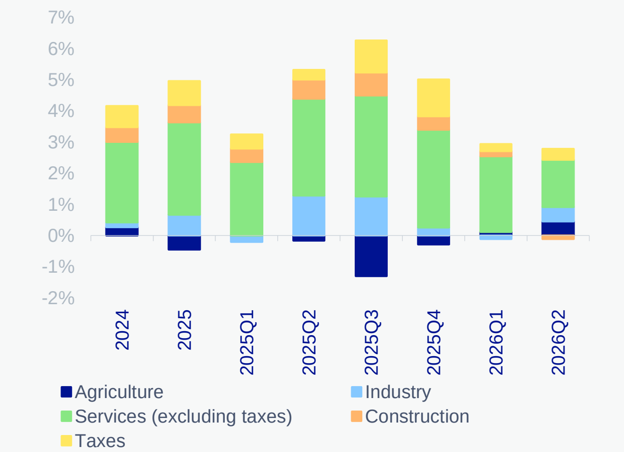
Source: Garanti BBVA Research, TURKSTAT

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



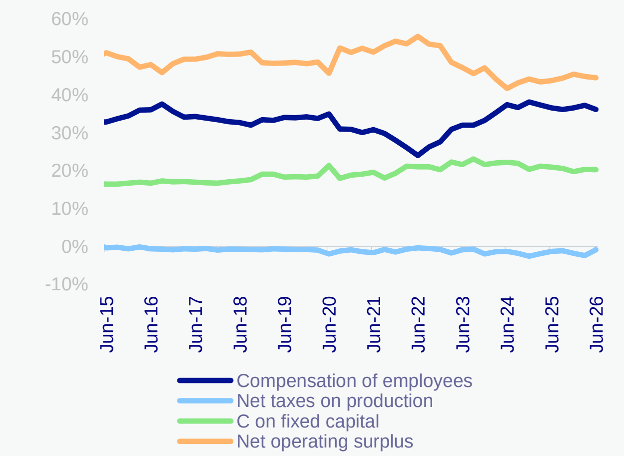
Source: Garanti BBVA Research, TURKSTAT

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 investment, unlike the usual pattern, machinery and equipment investment (1.6% y/y) was the main driver of total investment growth on top of the investments in other assets (4.1% y/y), while construction investment deteriorated (-0.9% y/y). As a result, total investment growth remained historically weak at 0.6% y/y in 2Q26.

Turning to the supply side, industry drove the acceleration in quarterly growth in 2Q26, as expected. Industrial activity increased by 2.9% q/q (vs. -0.2% q/q prev.), led by a recovery in manufacturing (3.3% q/q vs. -0.7% q/q prev.) amid the reallocation of external demand towards Turkish manufacturers because of the Middle East conflict. Meanwhile, construction continued to contract (-1.2% q/q vs. -1.6% q/q prev.) partly stemmed from the deceleration in activity in earthquake regions, agriculture lost momentum (4.0% q/q vs. 5.3% q/q prev.), and broad services eased moderately (0.4% q/q vs. 0.8% q/q prev.), according to our calculations based on traditional methods. We estimate that agriculture, industry, and broad services contributed 0.2pp, 0.7pp, and 0.3pp, respectively, to the quarterly sectoral GDP growth, while construction subtracted 0.2pp.

To sum up, despite softer domestic demand conditions weighing on activity, quarterly GDP growth accelerated in 2Q26, driven by stronger external demand amid above-mentioned reallocation effects, which were largely reflected in industrial production.

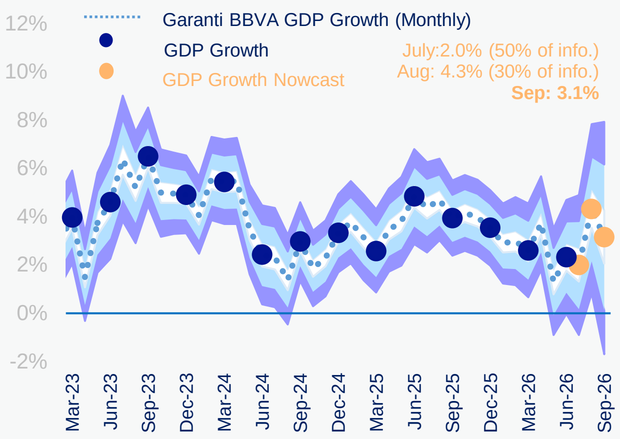
On the income side, share of wages in value added fell to 36.1% in 2Q26 and remained in a range of 36-37% since 2024. Furthermore, annual GDP reached $1.71trn, bringing per capita income up to $19,139 in 2Q26 from $18,500 by 1Q26 based on our calculation.

Modest Recovery Expected in 2H26; Prudent Policy Mix Warranted

GDP growth gained momentum in 2Q26 on the back of a temporary revival in external demand, despite the still-weak underlying trend; sourcing reallocation in favor of Türkiye amid the conflict in the Middle East led exports to make a positive contribution to quarterly GDP growth. Meanwhile, the negative contribution of domestic demand excluding inventories to real GDP growth, first observed in 1Q26, deepened, reflecting the effects of tighter financial conditions in 2Q26—particularly on private consumption—as well as a negative fiscal impulse. Accordingly, real GDP grew by 2.5% y/y in 1H26, implying a negative output gap during the first half of the year, dragged down by both external and domestic demand.

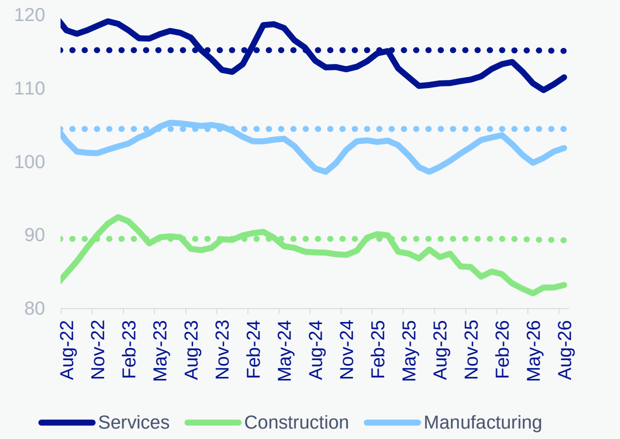
Our monthly GDP indicator nowcasts GDP growth of around 3% y/y in 3Q26, implying slightly above-potential quarterly growth of 1.0–1.5%. According to sectoral confidence surveys, demand conditions have remained muted so far in 3Q26—also confirmed by our big-data, high-frequency consumption indicators—but are expected to recover in the near term. Indeed, financial conditions are set to ease as markets reflect the decline in funding rates following the CBRT’s late-August decision to return to one-week repo auctions at the 37% policy rate, effectively lowering the funding rate by 300bps. Leading indicators point to a weak outlook for industrial activity in 3Q26, as production increasingly reflects the weak underlying trend amid the supply shock, while benefiting less from the above-mentioned substitution effects, and remains weighed down by domestic demand. As of August, total orders in the real sector contracted on a quarterly basis in 3Q26, while the average capacity utilization rate declined to below its 2Q26 level – which was already below its historical average. On the other hand, sectoral confidence surveys suggest that services and construction activity could provide greater support to growth in 3Q26, while agricultural production could also remain supportive.

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



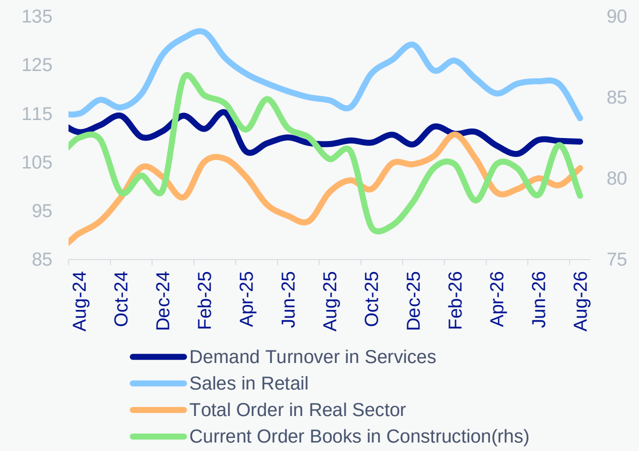
Source: Garanti BBVA Research, TURKSTAT

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



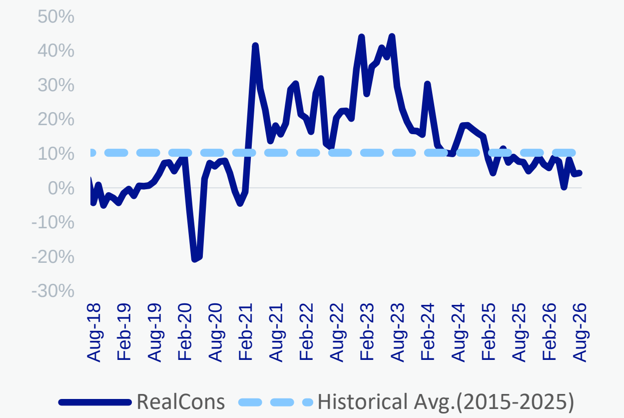
Source: Garanti BBVA Research, TURKSTAT

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

Although uncertainty surrounding the conflict in the Middle East continues to cloud the activity outlook, assuming no further escalation, the expected easing in financial conditions following the normalization of funding rates in late August, together with recent targeted financing support for SMEs and manufacturing firms, could support activity in 2H26 and help the economy recover toward its potential. Meanwhile, although demand conditions remain disinflationary, risks to the inflation outlook and the current account balance persist, calling for a prudent policy mix. Higher energy prices pose risks to the inflation outlook, as support from the sliding-scale mechanism diminishes and is expected to cease after October 1. Moreover, amid the risk of tighter global financial conditions, containing import demand and maintaining a healthy external balance have become increasingly important for preserving financial stability and limiting depreciation pressures on the Turkish lira. Last but not the least, persistent inflation inertia, particularly in services, and elevated inflation expectations—which have recently deteriorated among households and the real sector—continue to pose risks to the disinflation process.

Looking ahead, taking the above-mentioned supportive factors into account, and assuming no escalation in the Middle East conflict, a prudent policy mix—with fiscal policy only moderately counteracting and the CBRT maintaining the policy rate at 37% until December—should lead GDP growth to recover to ~3.5% y/y in 2H26, from the below-potential 2.5% y/y recorded in 1H26, bringing annual growth to around 3.0% in 2026. While the war in the Middle East remains a key downside risk, we expect the announcement of the new Medium-Term Program targets in September to support our assessment of the near-term projections.

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