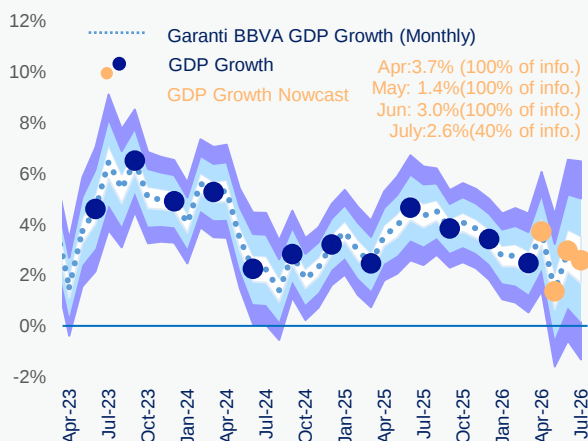


Türkiye | GDP growth could remain firm but unbalanced in 2Q26

Adem Ileri / Ali Batuhan Barlas / Berfin Kardaslar / Ates Gursoy

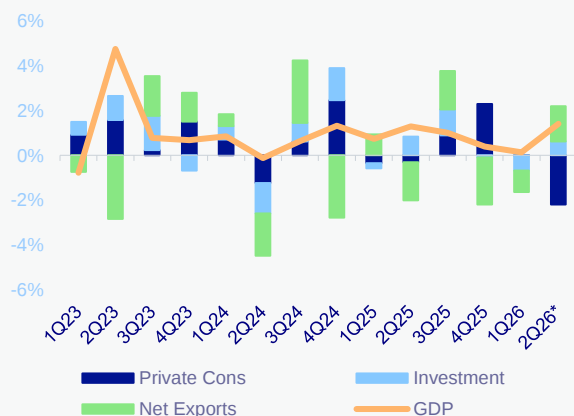
- Despite the conflict in Middle East, hard-data realization for 2Q26 surprised to the upside relative to our expectations, confirming the supportive industry, flat services and weakening construction. Meanwhile, July leading indicators provide some recovery signals for services and construction, while presenting weak outlook for industry.
- Our monthly GDP indicator nowcasts annual growth of 3.0% for 2Q26 with the full information set, indicating a quarterly growth of around 1.0–1.5%.
- Domestic demand softened visibly in 2Q26, with private consumption possibly retreating quarter-on-quarter: retail sales slowed sharply, services activity was flat, and consumer-goods imports contracted. Meanwhile, despite, still-weak underlying external demand, temporary factors supported a quarterly recovery in exports, while declining imports helped turn net exports' contribution to both annual and quarterly growth positive in 2Q26.
- Tight financial conditions led clear deceleration in consumer lending and private consumption, providing stronger support to disinflation process. However, risks remain elevated amid geopolitical-driven energy price volatility, persistent inflation inertia, and elevated inflation expectations. Uncertainty over the energy price outlook also poses risks to the external balance and financial stability, limiting the scope for significant fiscal policy support to activity.
- 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 and disruptions in supply chains while the likelihood of better than expected momentum in 2Q26 could be buffer.

Figure 1. Garanti BBVA Monthly GDP Nowcast (3-MA, YoY)



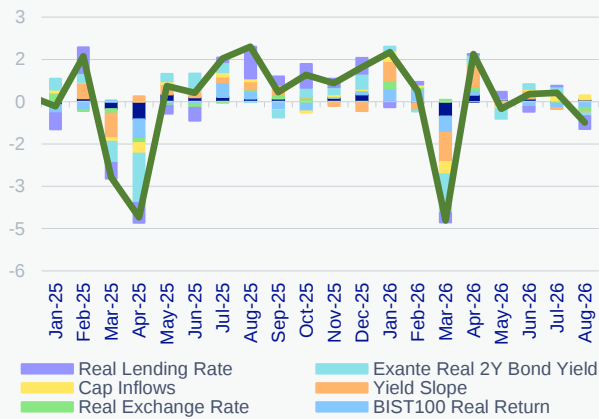
Source: Garanti BBVA Research, TURKSTAT

Figure 2. GDP Demand Sub-Components (contribution to quarterly GDP, pp)



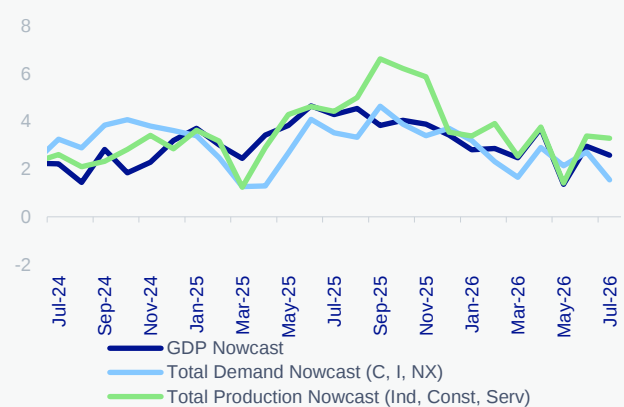
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT, Bloomberg, CBRT

Figure 4. Garanti BBVA Monthly GDP (3-MA, YoY)

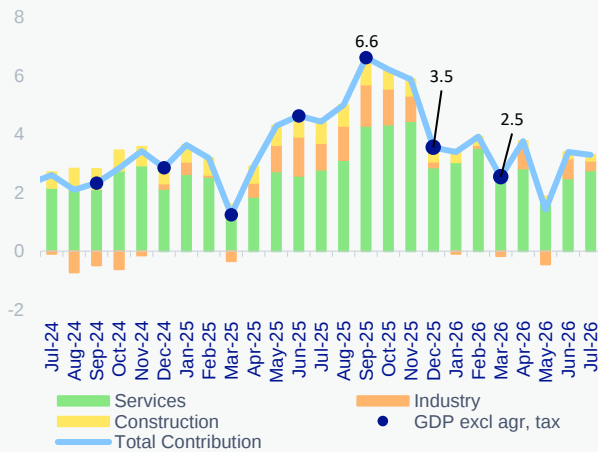


Source: Garanti BBVA Research, TURKSTAT

GDP growth set to accelerate despite the weak consumption

Contrary to leading indicators, industrial production grew by 0.1% m/m in Jun26 (vs. -3.0% m/m prev.). The modest uptick in production was mainly driven by the capital goods segment (+5.1% m/m), which was supported by volatile sectors, while energy production (0.6% m/m) returned to positive side following the contractions in the previous months. Non-durable consumer goods production contracted for the first time in the quarter (-1.1% m/m), while durable goods production continued to weaken for a second consecutive month (-3.3% m/m). Excluding the volatile sectors, IP instead declined by 1.8% m/m. On quarterly basis, industrial production accelerated in 2Q26 (2.0% q/q vs. 0.2% q/q in 1Q26) amid broad-based improvements in all product segments except the energy (-1.3% q/q in 2Q26). Overall, industrial activity is expected to have supported economic activity in 2Q26 but June data indicates weak underlying trend despite the positive impact of bridge day. Also, the industrial growth in the first half of 2026 is uneven and remained far below the historical averages in each sub-sector. Looking ahead, the real sector confidence has weakened moderately in July26 (-0.8% m/m) on the back of lower investment expenditures and current total orders despite the improvements in expectations of production volume, employment and export order over the next three months. Moreover, capacity utilization rate dropped to 73.8% (-0.5pps vs. Jun26 and -0.3pps vs. 2Q26) while PMI edged up to 47.7 (vs. 47.1 in Jun26 and 47.5 in 2Q26) but remained in contraction territory, reflecting continued weak market conditions and slowing new orders. The production volume in the last 3 months and expectation for the next 3 months in the Business Tendency Survey remained below historical averages. To sum up, leading indicators signaled weak outlook for industry as early in 3Q26.

Figure 5. Garanti BBVA Monthly GDP Production Sub-Components (3-MA , contribution to annual GDP, pp)



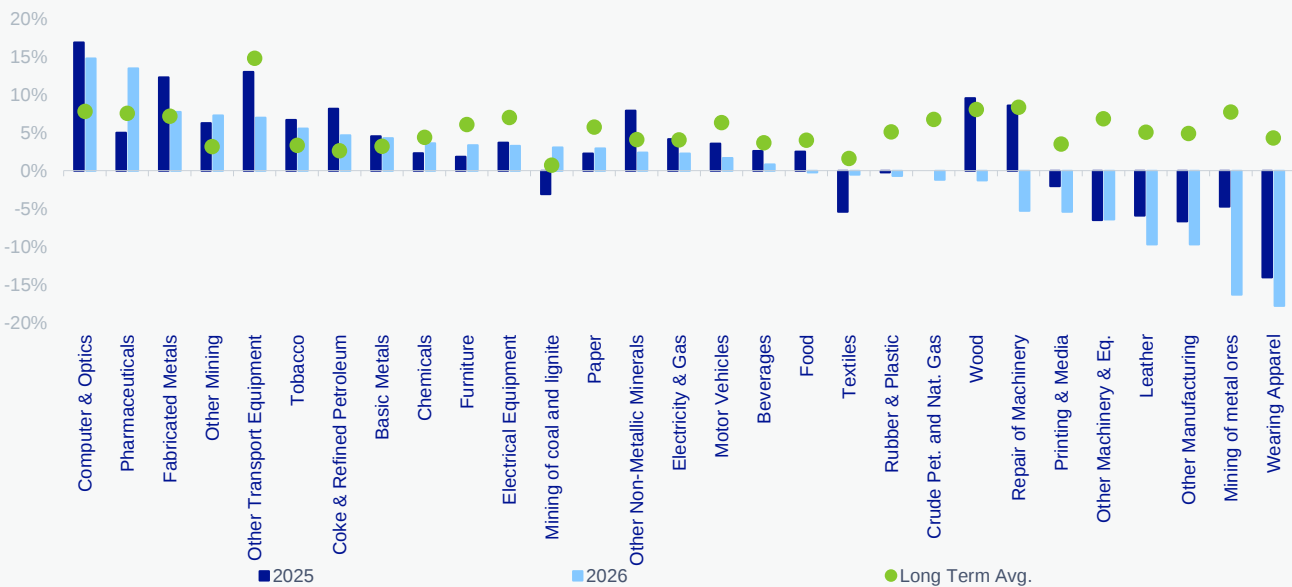
Source: Garanti BBVA Research, TURKSTAT

Figure 6. Sectoral Productions (QoQ, seas. & cal. adj.)



Source: Garanti BBVA Research, TURKSTAT

Figure 7. Cumulative Changes Across Industry (YoY, cal. adj., %)

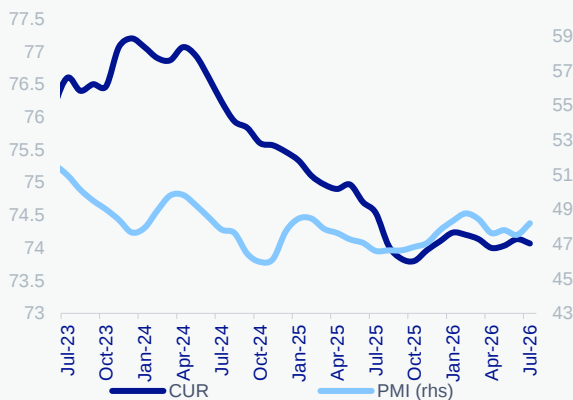


Source: Garanti BBVA Research, TURKSTAT, 2026 numbers are based on YoY growth of the first 6 months.

Services production rebounded by 0.6% m/m in Jun26 (-0.5% m/m prev.) led by the sharp uprise in information and communication services that had weighed down on services production greatly in the previous month (8.7% m/m vs. -7.0% m/m prev.). Yet, the impact of weaker demand on services activity in Jun26 was not straightforward as demand-sensitive sectors have moved in opposite directions. That is, while accommodation and food services contracted by 1.1% m/m, transportation and storage services increased by 1.9% m/m. On a quarterly basis, services activity lost momentum, remaining broadly flat in 2Q26 (0.0% q/q vs. 1.2% q/q in 1Q26). While the previously mentioned demand sensitive sectors, i.e. transportation & storage and accommodation & food services, have expanded moderately by 0.6% q/q and 0.3% q/q respectively, all the remaining sectors have

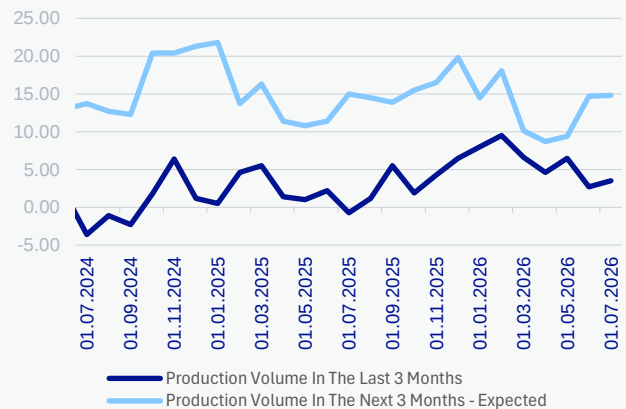
deteriorated. Going forward, confidence in the sector have strengthened in July26 (1.4% m/m and 2.1% q/q) reflecting a more favorable business situation and stronger demand-turnover over the past three months, alongside the brighter expectations for demand-turnover over the next three months, on a quarterly basis.

Figure 8. Manufacturing CUR vs. PMI Index (3-MA, Seasonally adj., Level)



Source: Garanti BBVA Research, TURKSTAT

Figure 9. Economic Tendency Survey Production Volume (Seasonal adj., Balance of Expectations: %increase-%decrease)



Source: Garanti BBVA Research, CBRT

Construction activity further declined in Jun26 (-0.7% m/m vs. -0.4% m/m prev.) keeping the downward trend in the sector during 2026 on the back of likelihood of weakening activity in the earthquake region. With the Jun26 realization, quarterly weakening has become even more pronounced in 2Q26 (-4.1% q/q vs. -2.5% q/q in 1Q26.). On the other hand, construction confidence inched up in July26 (0.6% m/m and 0.8% q/q), amid better building activities and current orders on a quarterly basis. Even though the confidence in the sector has been recovering over the past two months, it still stays below pre-conflict levels. Leading data suggest that the slump in the sector could moderate in 3Q26.

Figure 10. Economic Confidence Index (3-MA, seas. & cal. adj., Level)

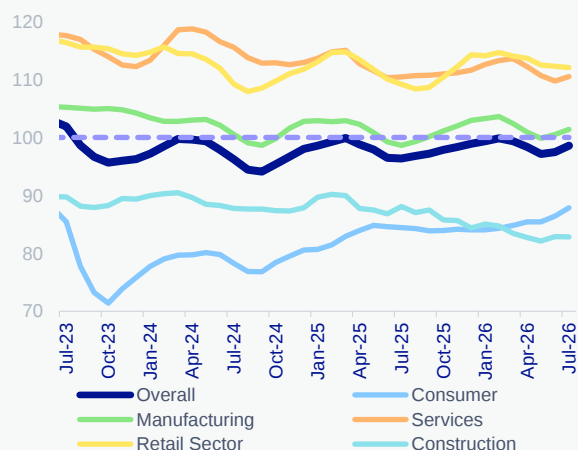
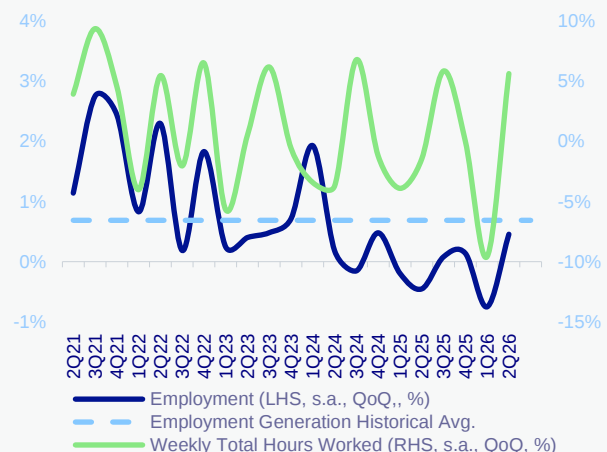


Figure 11. Employment & Total Hours Worked (QoQ, seasonal adj., %)

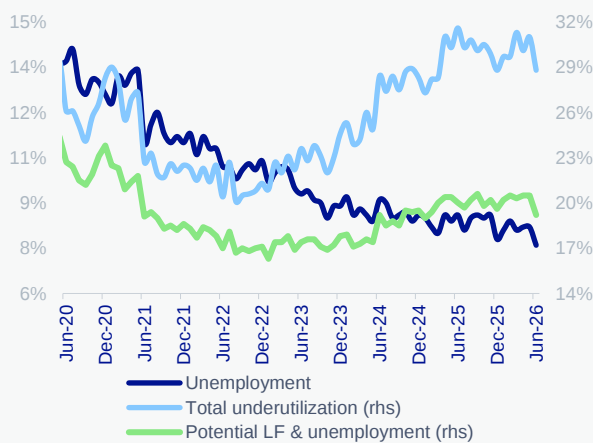


Source: Garanti BBVA Research, TURKSTAT, CBRT

Source: Garanti BBVA Research, TURKSTAT

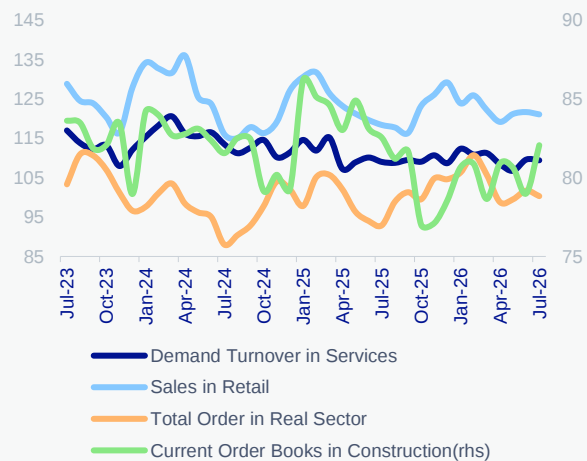
In the labor market, the unemployment dropped down to a historically low level, 7.6% in Jun26 leading the quarterly unemployment rate decrease to 8.0% (vs. 8.2% in May26 & 1Q26). Similarly, the underutilization rate fell to 28.8% (vs. 31.0% in May26 & 30.2% in 1Q26) posting its lowest figure in 2026. Employment kept expanding in Jun26 (0.8% m/m vs. 0.9% m/m in May26) resulting in a quarterly employment growth of 0.5% q/q (vs. -0.7% q/q in 1Q26). In addition, total weekly hours worked grew by 5.6% q/q in 2Q26, in align with the expected rise in the activity in 2Q26.

Figure 12. Unemployment Rate
(seasonally adjusted, %)



Source: Garanti BBVA Research, TURKSTAT

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

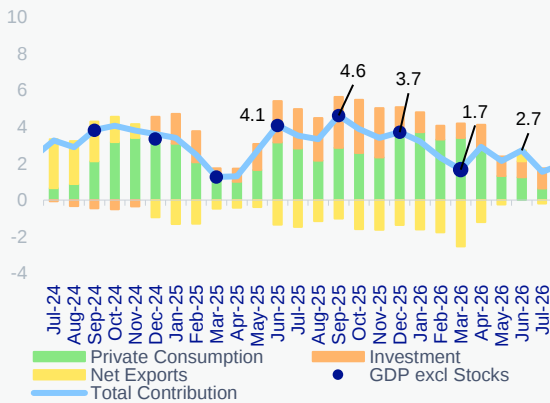


Source: Garanti BBVA Research, TURKSTAT, CBRT

To sum up, contrary to our weaker forecast on the back of the war in Middle East, hard data surprised to the upside in 2Q26. We expect that industry and agriculture sectors support the production while services could stay neutral, and construction weighed on the downside. We nowcast GDP growth at close to 3.0% y/y in 2Q26, implying quarterly growth of approximately 1.0–1.5% q/q.

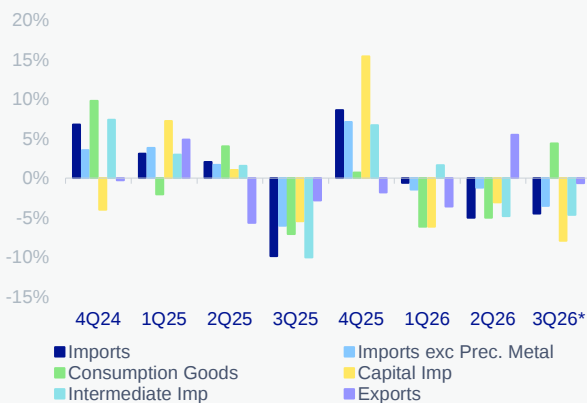
On the demand side, tighter financial conditions led to a visible softening in 2Q26, with private consumption likely contracting quarter-on-quarter; meanwhile, temporary factors helped external demand turn supportive to economic activity after acting as a drag in the previous two quarters. On the domestic front, demand conditions had already softened in the previous quarter following reinforced macroprudential measures: after the outbreak of the Middle East conflict in early Mar26, the CBRT effectively raised the market funding rate by 300bps and imposed stricter credit growth caps; these measures remained in place throughout 2Q26, resulting in overall tighter financial conditions compared with the previous quarter. Accordingly, consumption indicators reflected this further tightening, with both consumer lending (excluding mortgages) and consumption indicators decelerating significantly. On the external side, despite still-weak underlying external demand amid weak global activity, the energy-supply shock, and heightened protectionism in global trade policies, temporary factors supported a quarter-on-quarter recovery in exports.

Figure 14. Garanti BBVA Monthly GDP Demand Sub-Components (3-MA, contribution to annual GDP, pp)



Source: Garanti BBVA Research, TURKSTAT

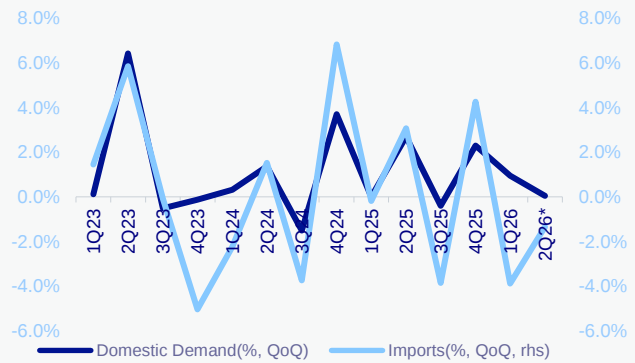
Figure 16. Foreign Trade Components Volume (QoQ, seasonal cal. adj., %)



Source: Garanti BBVA, TURKSTAT, CBRT, The Ministry of Trade,*3Q26 as of July

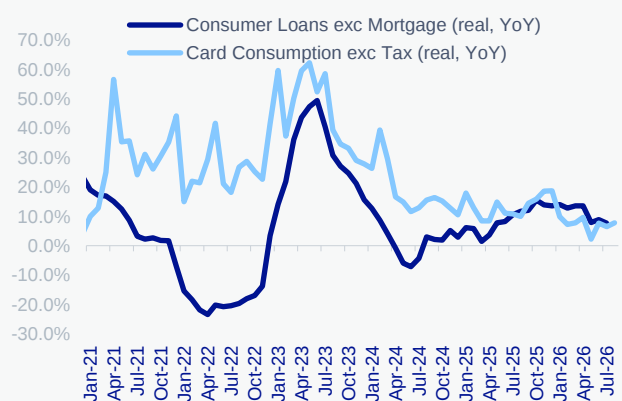
Figure 18. Demand Conditions over next 3 months (seasonal adj. index, monthly)

Figure 15. Imports vs. Domestic Demand (QoQ, seasonal and cal. adj., %)



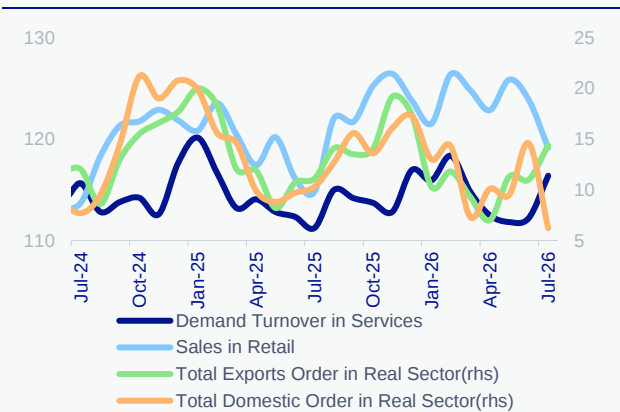
Source: Garanti BBVA Research, TURKSTAT, The Ministry of Trade, *2Q26 figure is estimated based on Apr-May information

Figure 17. Consumer Loans, Card Consumption (Real, YoY; standardized)

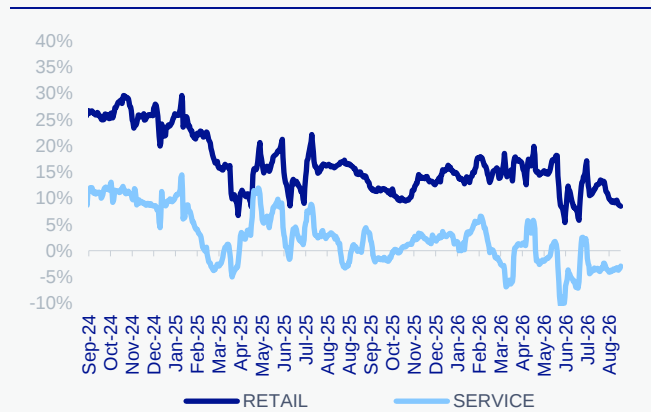


Source: Garanti BBVA Research, CBRT

Figure 19. Garanti BBVA Big Data Consumption Indicators (28-day sum, YoY, adj. by CPI)



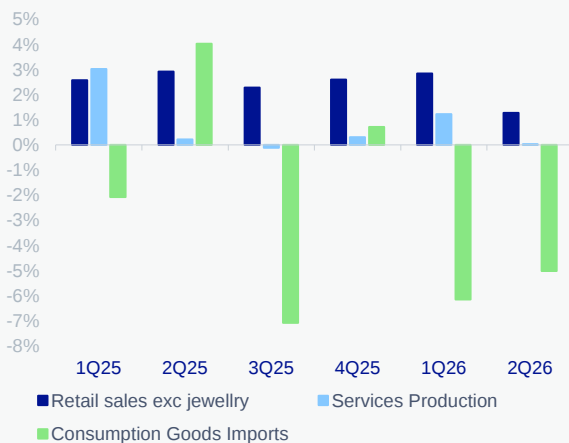
Source: Garanti BBVA Research, TURKSTAT, CBRT



Source: Garanti BBVA Research, TURKSTAT

Our monthly private consumption indicator nowcasts 1.9% y/y growth in 2Q26 (vs. 4.8% y/y in 1Q26), implying contraction on a quarterly basis. High-frequency indicators confirm a further moderation in demand conditions from the beginning of the quarter: retail sales excluding jewelry lost significant momentum (1.3% q/q in 2Q26 vs. 2.8% in 1Q26), real trade turnover contracted (-2.5% q/q in 2Q26 vs. 2.3% prev.), and consumer goods imports was depressed further (-5 % q/q in 2Q26 vs. -6.2% prev.). Moreover, services production decelerated and remained flat on a quarterly basis (0.0% q/q in 2Q26 vs. 1.2% prev.). Looking ahead, our big data consumption indicators point to continued softness in demand conditions as of mid-Aug26, which is also reflected in official data, with consumer lending and card consumption decelerating m/m in Jul26. Together with the real sector tendency survey showing a further decline in domestic orders and the services sector confidence survey pointing to weaker services demand, domestic demand seems to continue to weigh downside on activity at the beginning of 3Q26.

Figure 20. Consumption Indicators (QoQ, seas. & cal. adj, %)



Source: TURKSTAT, Garanti BBVA Research, The Ministry of Trade

Figure 21. Capital Goods Production and Imports (QoQ, seas. & cal. adj, %)



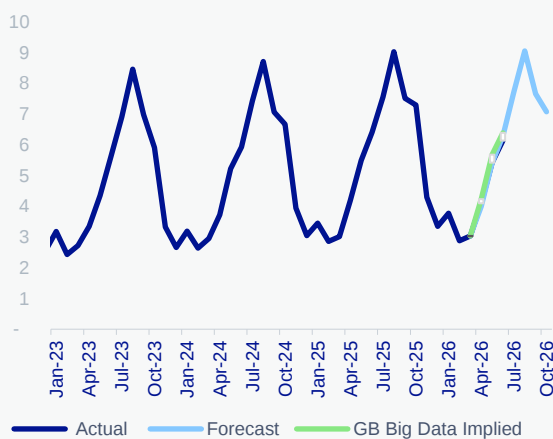
Source: TURKSTAT, Garanti BBVA Research

Investment expenditures gained momentum at the beginning of 2Q26, when the Middle East conflict was perceived to be moving toward a resolution, despite tighter financial conditions. Our monthly investment indicator nowcasts 3.3% y/y growth in 2Q26 (vs. 3.0% y/y in 1Q26), implying

positive growth on quarterly basis after contracting in the last 2 quarters. Firms had reported increased investment spending since Apr26 following the ceasefire negotiations, also confirmed by higher capital goods production. However, with the renewed escalation, investment spending declined sharply again in Jul26 according to firms' assessments, pointing to a weak outlook ahead. Meanwhile, construction activity weighed on investment in 2Q26, as in the previous quarter, and had yet to show signs of improvement as of Jul26.

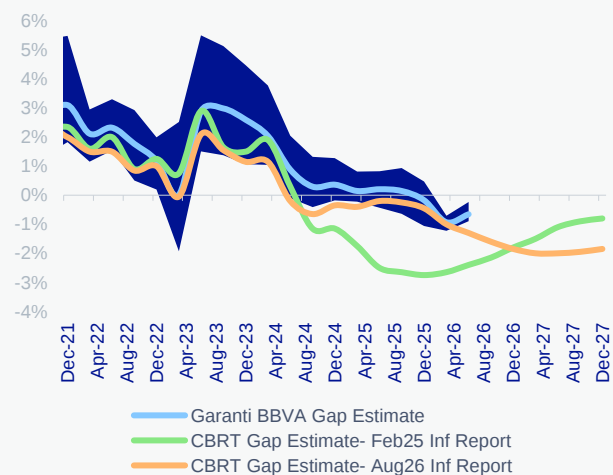
The contribution of net exports to annual GDP growth may turn positive in 2Q26 after weighing on growth throughout 2025 and 1Q26. We nowcast imports contracting sharply by 7.3% y/y in 2Q26 (vs. -2.0% y/y in 1Q26) stemming from weak demand conditions, while a temporary improvement in exports, possibly on the back of demand relocation due to the Middle East conflict, together with solid tourism revenues, resulted in a softer annual decline of 4.2% y/y (vs. -12.7% y/y prev.). Looking ahead, weak underlying external demand amid elevated geopolitical tensions, together with a possible recovery in domestic demand in response to an easing in financial conditions, could prevent net exports from maintaining a positive contribution.

Figure 22. Garanti BBVA Big Data Implied Tourism Rev. & 3M Ahead Forecast (Monthly, \$USBn)



Source: TURKSTAT, Garanti BBVA Research

Figure 23. Output Gap Estimates (Annual, pp, deviation from potential)



Source: TURKSTAT, Garanti BBVA Research

All in all, on the supply side, the recovery is solid but uneven as the industry and agriculture could be supportive while services could remain steady and the construction could contract. Demand conditions softened visibly during the quarter, while the negative contribution from external demand diminished. We estimate that the demand-supply imbalance narrowed further in 2Q26, alongside a slightly negative output gap, as in 1Q26. Weak demand conditions could support the disinflation process; however, persistent inflation inertia, particularly in services, and elevated inflation expectations continue to act as a drag on disinflation. Moreover, external risks remain elevated amid geopolitical-driven energy price volatility, while reduced support from the sliding-scale (eşel-mobil) mechanism on fuel prices leaves the inflation outlook more vulnerable to external developments. The challenges on inflation outlook and the risk on external balance sustainability warrant a cautious policy stance in both fiscal and monetary policy, and we expect the authorities

to remain prudent going forward. 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 a renewed escalation in geopolitical tension, which could lead to a sharper rise in energy prices and disruptions to supply chains, while the likelihood of better than expected momentum in 2Q could be buffer for the overall outlook in 2026.

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