

Türkiye | Growth slows in 3Q26

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

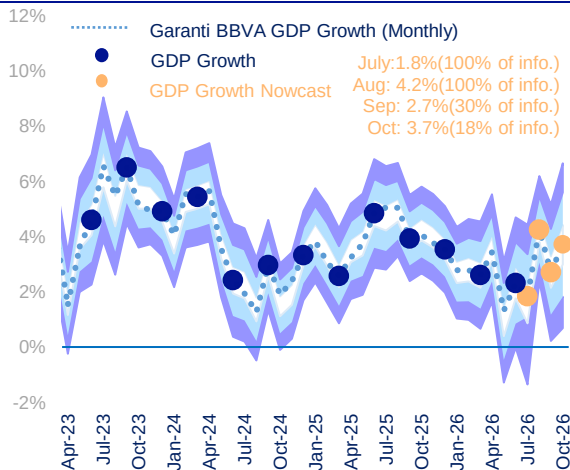
- Available hard data for 3Q26 point to a moderation in economic activity, reflecting weaker industrial production, relatively resilient services output and a recovery in construction activity. September leading indicators provide some positive signals for industry, while suggesting a potential moderation in construction and a broadly flat outlook for services.
- Our monthly GDP indicator nowcasts an annual growth of 2.7%, based on 30% available information for 3Q26, implying a quarterly growth of around 0.5% (vs. 1.1% q/q in 2Q26). The divergence between our overall GDP and non-farm GDP nowcast indicators suggests stronger agricultural output, supported by this year's particularly favorable harvest.
- Domestic demand remained subdued in 3Q26, with private consumption likely contracting further q/q amid persistently restrictive financial conditions. Meanwhile, despite still-weak underlying external demand, continued trade reallocation effects amid the prolonged conflict in the Middle East, together with solid tourism revenues, helped moderate the annual contraction in exports, while declining imports kept net exports' contribution to annual growth positive in 3Q26.
- Weak domestic demand and investment activity contributed to a slightly wider negative output gap, supporting disinflation. However, elevated energy prices and inflation expectations, alongside tighter global financial conditions, warrant maintaining a cautious policy stance.
- Persistently high energy prices, weaker-than-expected economic activity and the potential impact of the recent shock through funds add to downside risks to our 2026 GDP growth forecast of 3%.

Activity moderates amid a shift in growth composition

Industrial production contracted by 1.0% m/m in Aug26 (vs. -0.9% m/m in Jul26), driven by broad-based declines across product groups, with energy being the sole exception (3.3% m/m). Notably, the largest negative contribution came from capital goods production (-3.3% m/m), while both durable and non-durable consumer goods continued to contract, further weighing on overall industrial activity. Given the significant influence of volatile sectors on capital goods production, exclusion of these sectors moderates the overall contraction to 0.7% m/m (vs. -0.2% m/m prev.). On a quarterly basis, industrial production declined by 2.4% q/q in the first two months of 3Q26 (vs. 2.4% q/q in 2Q26). After the recovery in 2Q26 driven by external demand, industrial production in 3Q26 has fallen to its lowest level since 1Q25. The sectoral breakdown paints a similarly weak picture, with broad-based declines across product groups, except for energy (0.8% q/q). Capital goods production (-4.4% q/q) once again emerged as the largest negative contributor to overall industrial activity.

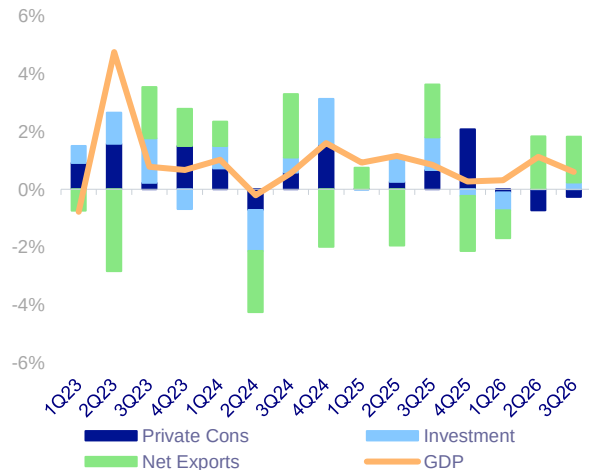
Looking ahead, leading indicators provide some positive signals for Sep26. The capacity utilization rate increased to 74.1% (vs. 73.5% previously), while production volume over the past three months, as reported in the CBRT's Business Tendency Survey, showed a strong acceleration. Real sector confidence also improved marginally by 0.1% m/m, supported by a considerable increase in current orders (3.5% m/m). On the other hand, the manufacturing PMI edged down to 47.9 (vs. 48.1 prev.), reflecting a slowdown in new orders. All in all, despite some encouraging signals from leading soft indicators, industrial activity is likely to remain subdued in 3Q26. In addition, the available leading indicators do not yet provide convincing evidence that the recent positive signals will extend into 4Q26, suggesting that further confirmation from hard data is needed before drawing firmer conclusion.

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



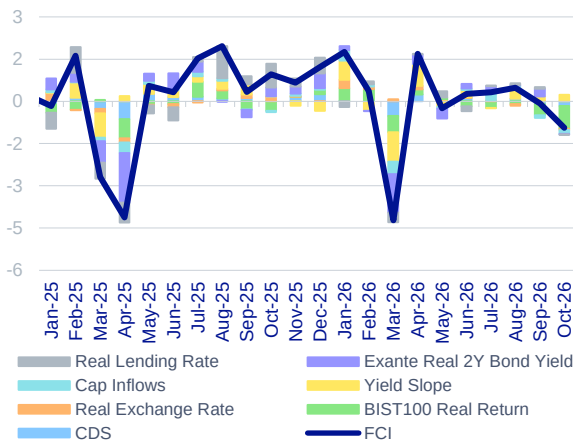
Source: Garanti BBVA Research, TURKSTAT

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



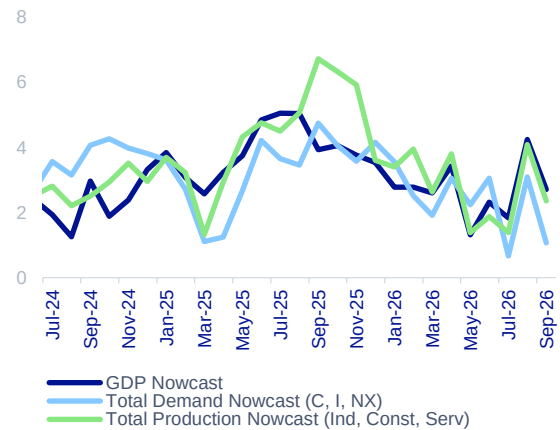
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT, CBRT, Bloomberg

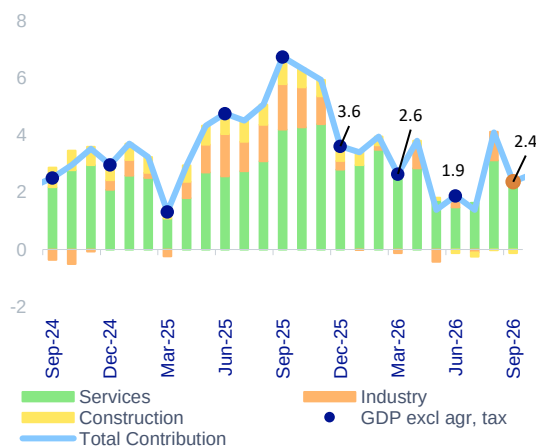
Figure 4. Garanti BBVA Monthly GDP (3-MA, YoY)



Source: Garanti BBVA Research, TURKSTAT

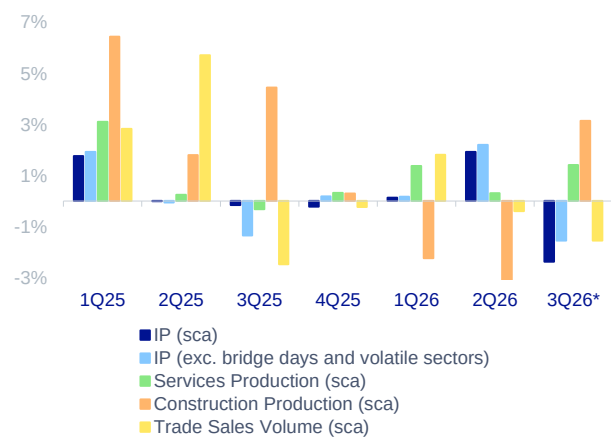
Services production remained flat in Aug26 (0.0% m/m vs. 1.0% m/m prev.), as declines in demand-sensitive sectors, particularly transportation & storage (-0.5% m/m) and accommodation & food services (-1.9% m/m), alongside professional & scientific activities (-1.2% m/m), offset gains in other sub-sectors. On a quarterly basis, however, available hard data suggest that services activity is on track to accelerate in 3Q26 (1.4% q/q vs. 0.3% q/q in 2Q26). All subsectors recorded positive quarterly growth except administrative & support services (-0.2% q/q). Notably, growth in demand-sensitive sectors accelerated, while the contraction in administrative & support services moderated compared to 2Q26. Looking ahead, services confidence remained unchanged in Sep26, as improvements in business conditions and demand turnover over the past three months were offset by a deterioration in expectations and employment conditions.

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. Manufacturing CUR vs. PMI Index (3-MA, Seasonally adjusted, Level)

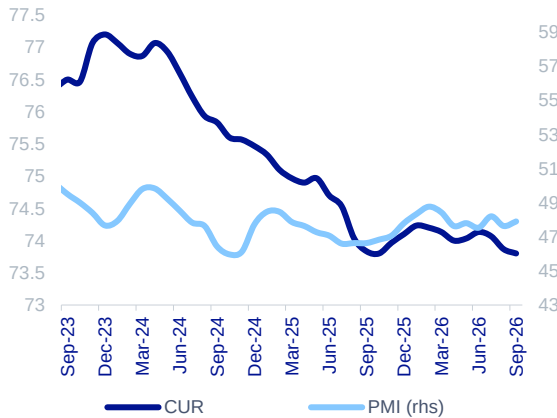
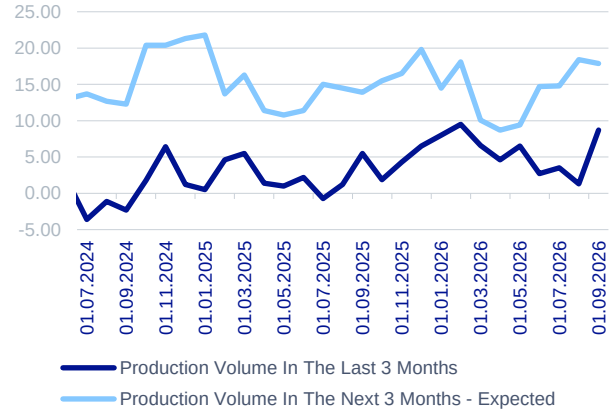


Figure 9. Economic Tendency Survey Production Volume (Seasonal adjusted, Balance of Expectations: % increase - % decrease)



Construction activity has been on a downward trend since the beginning of the year and has remained subdued since Mar26, compared to the levels seen in 2H25 when the sector hovered around its historically high levels. However, Aug26 hard data surprised to the upside, with activity returning to its pre-conflict levels on the back of a strong 4.9% m/m increase, lifting its quarterly growth to 3.1% q/q in 3Q26 (vs. -3.9% q/q in 2Q26 & -2.2% q/q in 1Q26). Looking ahead, confidence in the sector edged down by 0.2% m/m in Sep26, driven by a significant deterioration in building activity over the past three months (-6.1% m/m in Sep26 vs. 6.3% m/m in Aug26). Therefore, although soft indicators point to a potential moderation in construction activity in Sep26, the strong Aug26 reading suggests that the sector is likely to contribute positively to quarterly growth in 3Q26.

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

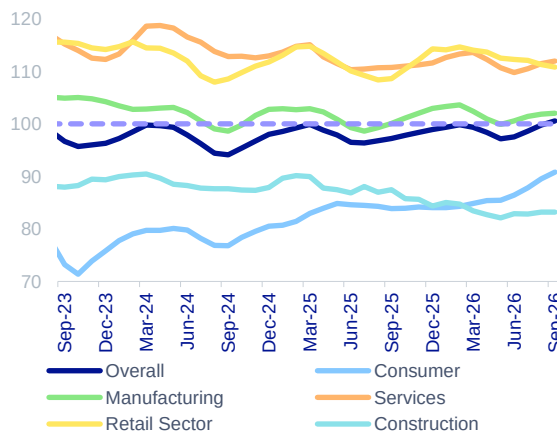
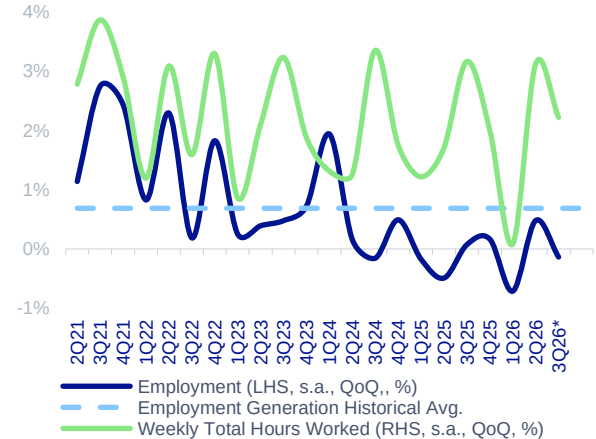


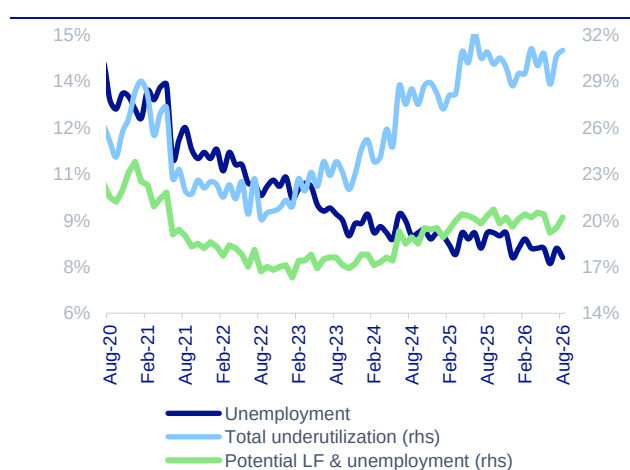
Figure 11. Employment & Total Hours Worked (QoQ, seasonal adj., %)



In the labor market, despite weaker economic activity, the unemployment rate declined to 7.8% in Aug26 (vs. 8.1% in Jul26), approaching its historical low of 7.6% recorded in Jun26. However, the unemployment rate appears to provide a misleading signal about underlying economic activity. Indeed, employment has remained weak for an extended period, while the broad unemployment rate continues to hover around historical highs, pointing to substantial labor market slack consistent with the weakness in the economic activity.

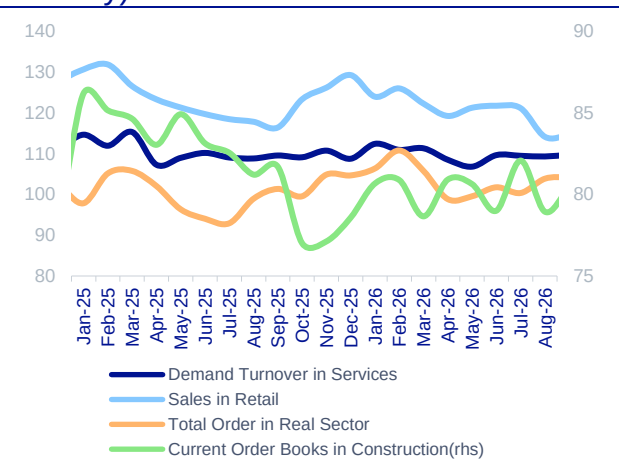
To wrap up, following the resilient growth of 1.1% q/q in 2Q26, we nowcast a quarterly growth moderating to around 0.5% q/q in 3Q26. In terms of sectoral composition, we expect services, agriculture and construction to support growth, while industrial activity is likely to weigh on the downside.

Figure 12. Unemployment Rate
(seasonally adjusted, %)



Source: Garanti BBVA Research, TURKSTAT

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



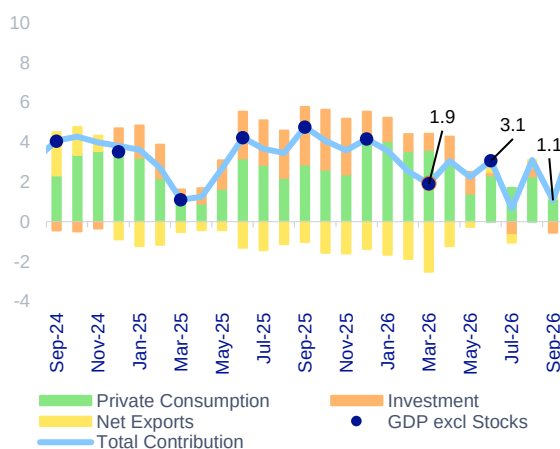
Source: Garanti BBVA Research, TURKSTAT, CBRT

On the demand side, available data indicate continued softness in domestic demand conditions in 3Q26, weighing on economic activity; while foreign demand remained supportive, potentially reflecting a continued reallocation of sourcing towards Türkiye amid prolonged conflicts in the Middle East.

Private consumption is likely to contract further q/q in 3Q26, following the sizeable contraction recorded in the previous quarter, resulting in a significant deceleration in annual growth (1.7% y/y in the 3Q26 nowcast vs. 3.5% previously). Having initially tightened significantly following the outbreak of the Middle East conflict in early Mar26, financial conditions remained restrictive through 3Q26; despite the CBRT normalizing funding to the policy rate (from the overnight lending rate previously), financial conditions did not ease materially due to ongoing restrictive macroprudential measures. Accordingly, lending indicators continued to reflect restrictive financial conditions in 3Q26, contributing to subdued domestic demand, with consumer card spending remaining below its historical average and consumer loans (excluding mortgages) decelerating significantly. Sectoral surveys suggest that firms expect subdued demand conditions to persist. Similarly, tighter financial conditions continue to weigh on investment demand amid growing liquidity concerns stemming from the prolonged weakness in demand, with no near-term normalization expected given diminishing prospects for a resolution to the conflict in the Middle East.

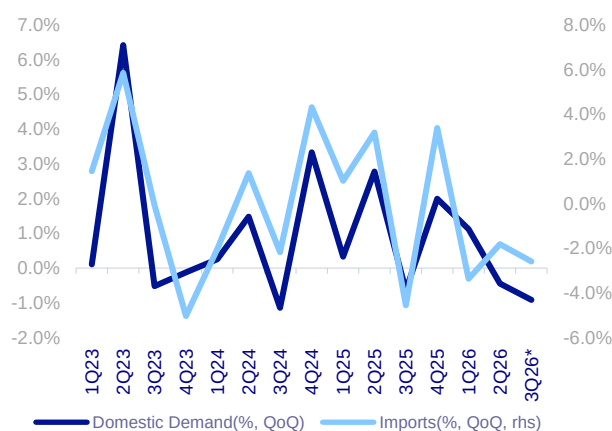
On the external front, despite persistently weak underlying trend in foreign demand, energy supply shock and heightened trade protectionism, the temporary reallocation of demand towards Türkiye, as observed in the previous quarter, together with solid tourism revenues, contributed to a further moderation in the annual contraction in exports in 3Q26 (-1.6% y/y in the 3Q26 nowcast vs. -3.4% previously). Combined with declining import demand, the contribution of net exports to annual GDP growth is expected to remain positive in 3Q26.

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



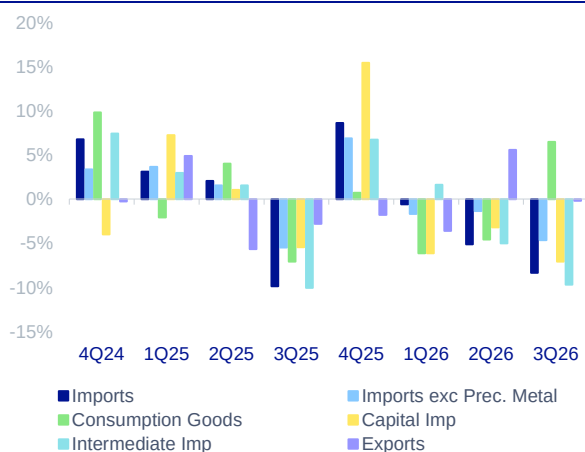
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT, The Ministry of Trade, *3Q26 figure is estimated based on our nowcasts

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



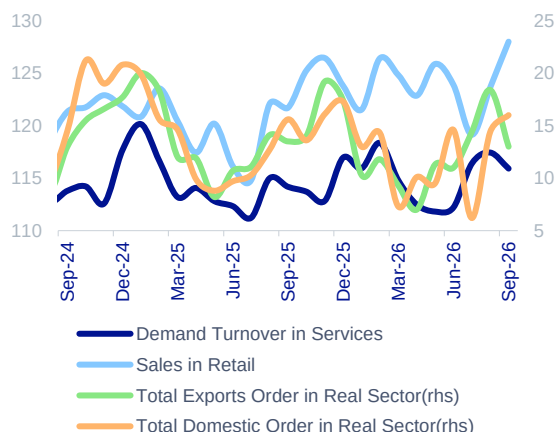
Source: Garanti BBVA, TURKSTAT, CBRT, The Ministry of Trade

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



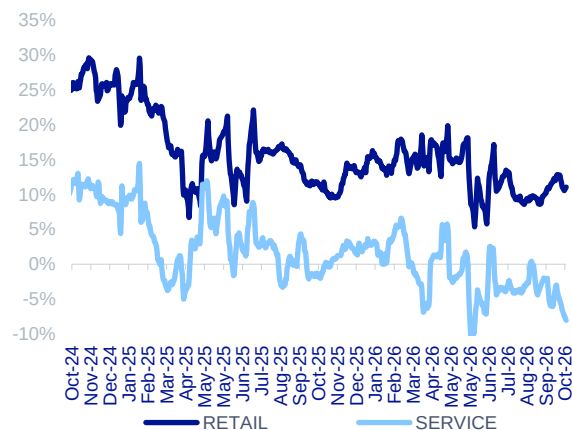
Source: Garanti BBVA Research, CBRT

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



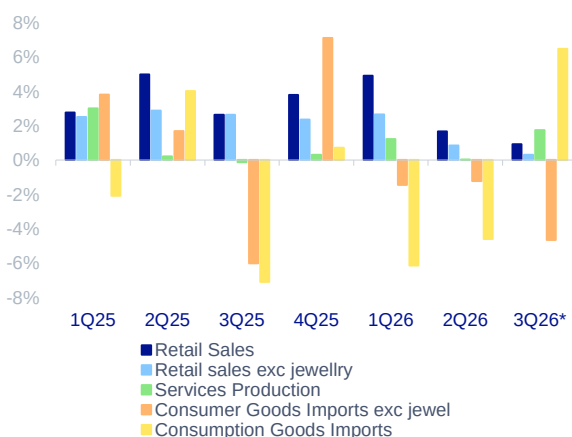
Source: Garanti BBVA Research, TURKSTAT, CBRT

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



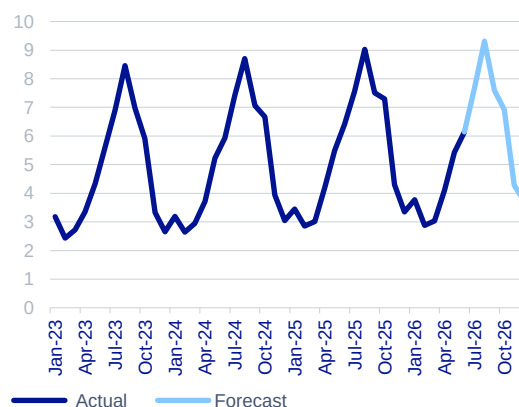
Source: Garanti BBVA Research, TURKSTAT

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



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

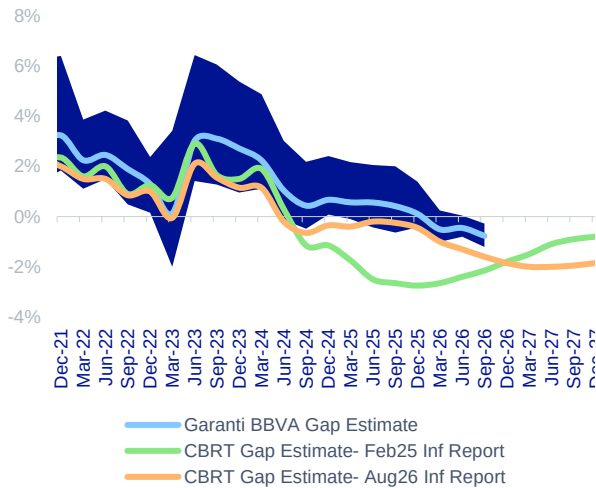
Figure 21. Garanti BBVA Big Data Implied Tourism Rev. & 3M Ahead Forecast (Monthly, \$USBn)



Source: TURKSTAT, Garanti BBVA Research

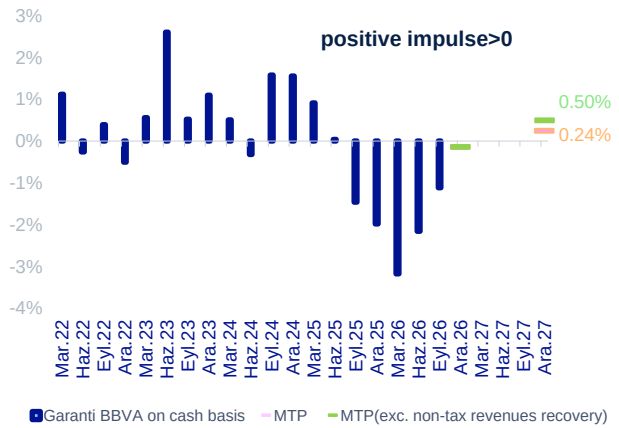
Overall, the recovery on the supply side remains subdued, weighed down by weak demand conditions and persistent supply-side pressures stemming from the ongoing conflicts, with diminished prospects for a near-term resolution. Subsidized credit packages for SMEs and labor-intensive sectors, together with the recent easing of lending caps for SMEs, could support firms' financial health but are unlikely to provide meaningful support to economic activity in the near term. Although modest in magnitude, we estimate a slightly wider negative output gap in 3Q26, with further improvement in the demand-supply imbalance. Accordingly, weak demand conditions continue to support the disinflation process; however, persistent challenges to the inflation outlook, including elevated energy prices and inflation expectations, alongside tighter global financial conditions, warrant maintaining a cautious stance in both fiscal and monetary policy.

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



Source: TURKSTAT, Garanti BBVA Research

Figure 24. Cyclically Adjusted Primary Fiscal Impulse(annual, pp of GDP)



Source: TURKSTAT, Garanti BBVA Research, IMF, Treasury and Finance Ministry

Looking ahead, we expect only targeted fiscal support in the near term and the CBRT to maintain a cautious easing approach, with a 100bps rate cut at the 22 Oct MPC meeting. Our cyclically adjusted primary cash budget balance indicator suggests that fiscal policy has become less restrictive since 2Q26 and could move toward a more neutral stance by year-end. Moreover, the Medium-Term Program (MTP) points to a somewhat supportive fiscal stance in 2027. While the MTP targets imply a modest fiscal impulse of around 0.2-0.5pp, additional measures, such as targeted credit support and employment incentives, could provide some further stimulus to economic activity. Meanwhile, according to our estimates, the recent shock through funds could reduce GDP growth by around 0.2–0.4pp over the medium term, through both direct and indirect wealth effects. However, the significant heterogeneity in fund holdings and a potential recovery in equity markets in the coming months could mitigate the overall impact, depending on the recovery rates on liquidated funds. Against this backdrop, weak underlying growth momentum, ongoing geopolitical risks, and the recent fund shock point to downside risks to our 3% GDP growth forecast for 2026.

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