Türkiye | More of the same in economic activity

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- Economic activity remained subdued in 3Q26. In terms of the sectoral breakdown, completed hard data for 3Q26 point to solid performance in services, a recovery in construction and continued weakness in industry. Leading indicators also signal weak momentum for 4Q26.

- Our monthly GDP indicator nowcasts 2.6% y/y growth in 3Q26, implying a slowdown to around 0.5% q/q (vs. 1.1% in 2Q26). Preliminary estimates point to nearly 3% y/y growth as of Nov26, based on limited information.

- Domestic demand, including inventories, could weaken further based on our nowcasts, while the contribution of net exports to GDP could be significantly positive thanks to a continued, albeit slower, reallocation of exports in favor of Türkiye and the contraction of imports due to weak demand. We estimate that the negative output gap widened modestly in 3Q26.

- Negative wealth effects amid the shock through funds and the impact on the stock exchange together with deteriorating confidence could put downside pressure on private consumption, but the significant heterogeneity in exposure and potential improvement in future valuations could limit the overall impact. The recent easing in loan growth caps, signals of future easing for retailers and potential support for pensioners would also support economic activity.

- The recent easing in the inflation trend and some normalization in energy prices leave room for a 100bp rate cut at the next MPC meeting, but continuing volatility in reserves should be monitored. High inflation expectations, strong inertia and tighter global financial conditions could leave limited room for monetary easing in 2027. Assuming some easing in geopolitical risks and only targeted support from fiscal and quasi-fiscal policies, we expect 3.5-4% growth in 2027, with risks tilted to the downside.

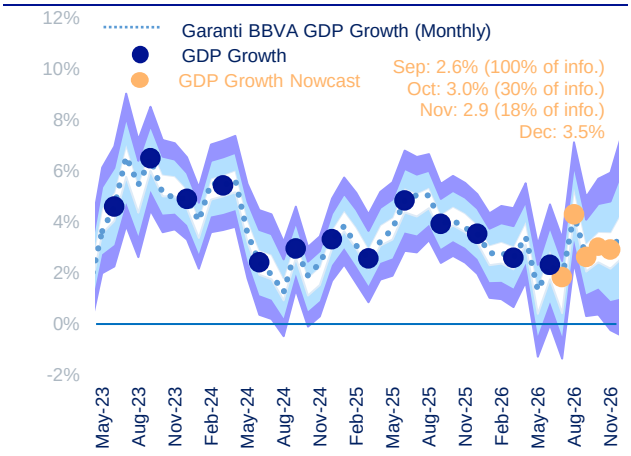
Soft demand keeps economic activity on a slower track

Industrial production rebounded by 2.1% m/m in Sep26 (vs. -0.9% m/m in Aug26), driven by the strong increase in capital goods production (8.2% m/m), supported by the volatile sectors, particularly the manufacturing of other transportation vehicles. Excluding volatile sectors, however, monthly growth moderated to 0.4% m/m. Despite the monthly rebound, the overall quarterly performance remained weak: following the strong expansion in 2Q26 (2.0% q/q), industrial activity contracted by 1.8% q/q in 3Q26, marking its sharpest quarterly decline in the

last two years and bringing production back close to its 1Q26 levels. The sectoral breakdown also points to broad-based weakness in industry, with contractions across all product segments except energy (0.9% q/q). Intermediate goods production (-1.9% q/q) emerged as the largest negative contributor to overall industrial activity, while the declines in non-durable consumer goods (-2.5% q/q) and capital goods production (-2.2% q/q) were also noteworthy.

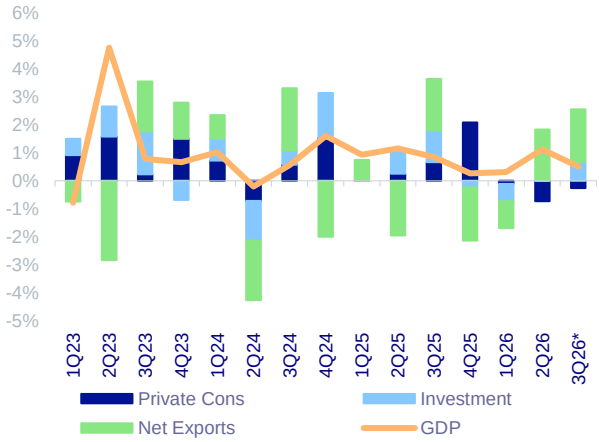
Looking ahead, leading indicators do not provide strong signals that the rebound observed in Sep26 will extend into 4Q26. As of Nov26, real sector confidence remained soft in the current quarter, driven by firms' less favorable assessments of orders and broadly deteriorated expectations with the exception of unemployment expectations, while capacity utilization rate averaged 74.2% (+0.4pp vs. 3Q26 average) but persisted below its historical average. The PMI fell further to 47.3 (-0.6p) in Oct26, confirming continued weakness in new orders and production. Additionally, the back to back declines in production volume over the past three months through Oct26 and Nov26, as reported in the CBRT's Business Tendency Survey, further reinforces the subdued outlook for industrial activity in 4Q26. All in all, leading indicators so far indicate that industrial activity is set to carry its weak momentum in 3Q26 into the current quarter.

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



Source: Garanti BBVA Research, TURKSTAT

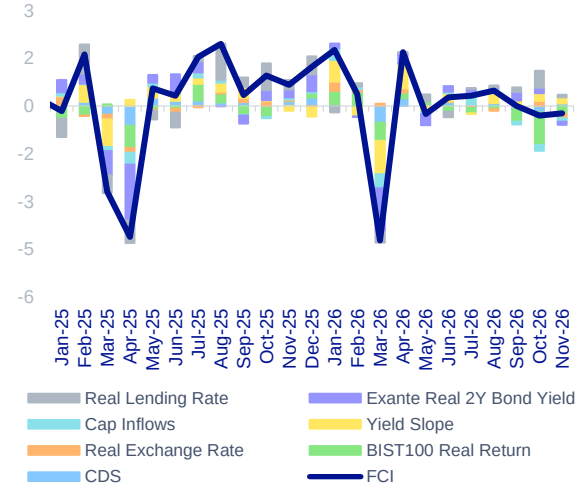
Figure 2. GDP Demand Sub-Components (contribution to quarterly GDP, pp)



Source: Garanti BBVA Research, TURKSTAT, 3Q26* is estimated based on our nowcasts

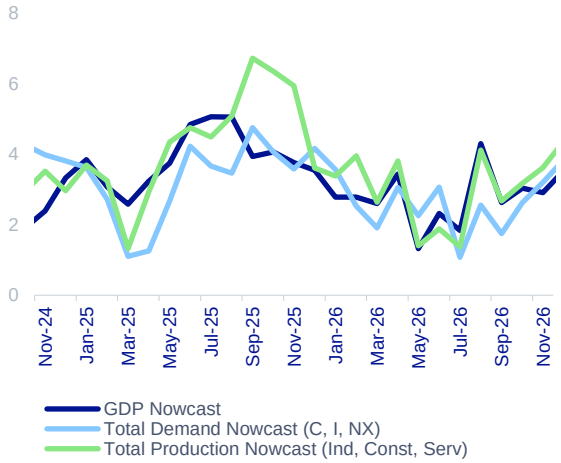
Services production shrank by 0.3% m/m in Oct26 (vs. 0.3% m/m before) following the soft monthly upticks over the past couple of months. The monthly decline was led by the ease in administrative and support services (-4.1% m/m) while information and communication posted a smaller decline (-0.6% m/m). On the upside, professional & scientific activities (3.6% m/m) and real estate activities (0.1% m/m) posted gains. Moreover, demand sensitive sectors, namely food & accommodation services, and, transportation & storage services have remained unchanged. Despite the monthly contraction, services activity still grew by 1.3% q/q in 3Q26 (vs. 0.1% q/q in 2Q26) showing broad-based improvement in all of its subsegments except the administrative & support services. Looking ahead, services confidence slipped in Oct26, as the assessments regarding business conditions, employment and demand turnover over the past three months alongside the turnover expectation over the next three months have all worsened.

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



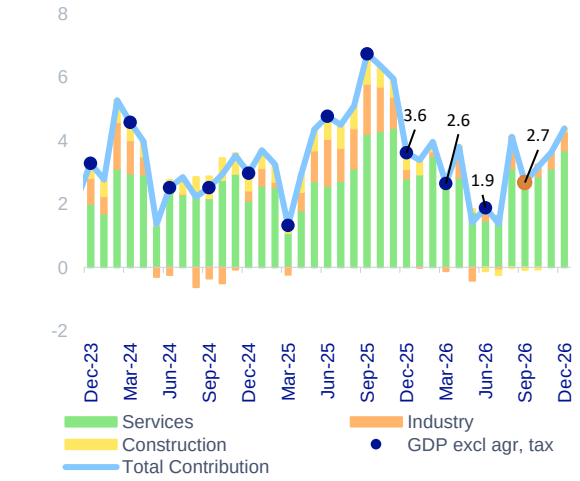
Source: Garanti BBVA Research, TURKSTAT, CBRT, Bloomberg

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



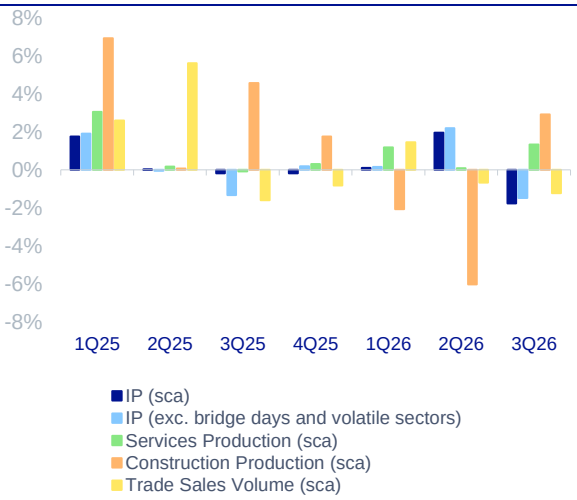
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT, CBRT

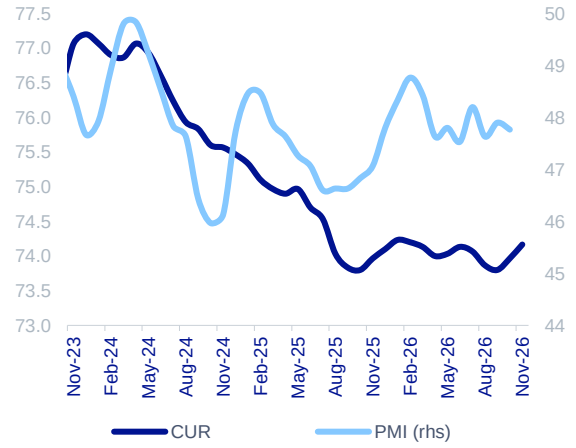
Figure 6. Sectoral Productions (QoQ, seas. & cal. adj.)



Source: Garanti BBVA Research, TURKSTAT

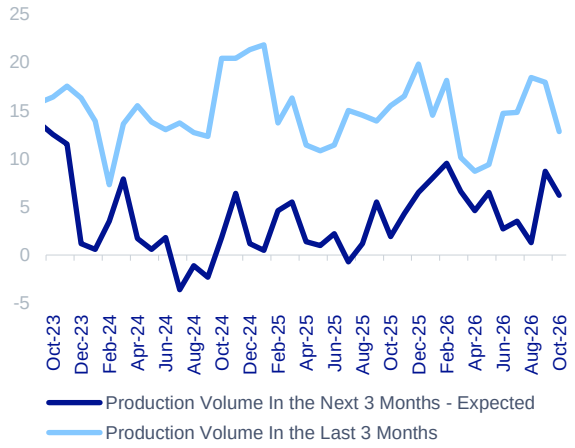
Construction activity declined by 2.7% m/m in Sep26 (vs. 4.0% m/m before), but remained above the levels observed in the wake of the Middle East conflict, thus continuing to help reverse the downward trend seen in 1H26. As a result, construction activity has improved by 2.9% q/q in 3Q26 (vs. -6.0% q/q in 2Q26). Despite the quarterly growth, construction activity would weigh on the annual GDP growth in 3Q26 to the downside on unfavorable base effects. Going ahead, the confidence in the sector has improved moderately in Oct26 on the back of higher current orders and better expectations regarding employment and prices over the next three months.

Figure 7. Manufacturing CUR vs. PMI Index (3-MA, Seasonally adjusted, Level)



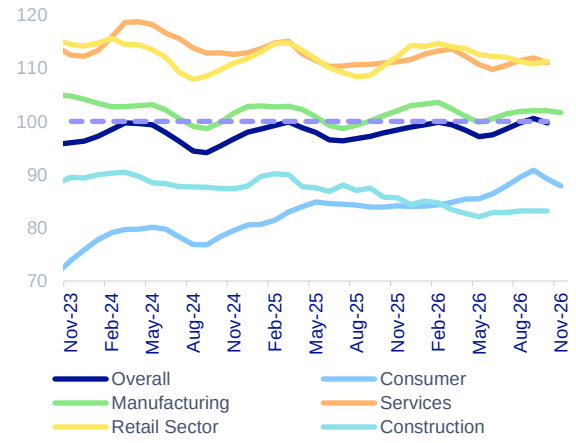
Source: Garanti BBVA Research, CBRT

Figure 8. Economic Tendency Survey Production Volume (Seasonal adjusted, Balance of Expectations: % increase - % decrease)



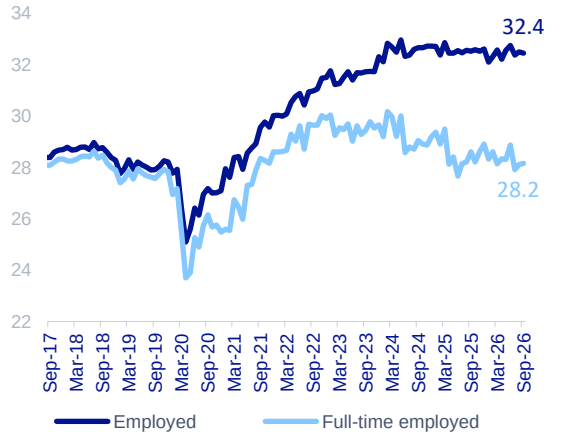
Source: Garanti BBVA Research, CBRT

Figure 9. Economic Confidence Index (3-MA, seas. & cal. adj., Level)



Source: Garanti BBVA Research, TURKSTAT, CBRT

Figure 10. Employment (monthly, seasonal adj., million people)

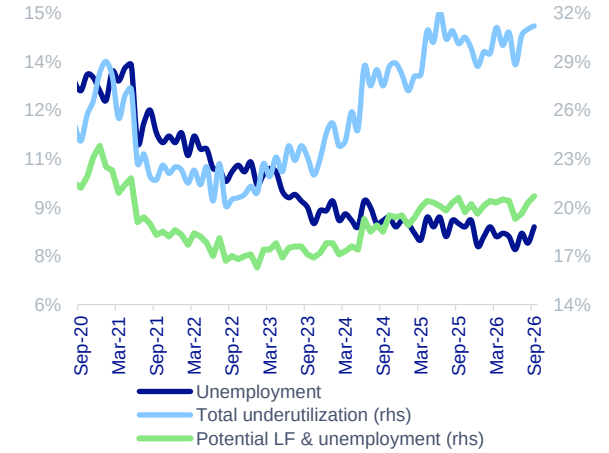


Source: Garanti BBVA Research, TURKSTAT

In the labor market, the unemployment rate climbed back above 8%, namely to 8.4% in Sep26, following its 7.8% reading in Aug26. Meanwhile, employment remained weak (-0.2% m/m), while the labor underutilization rate reached 31.2% (+0.2pp), pointing to persistent labor market slack in Sep26. In quarterly terms, employment contracted (-0.2% q/q vs. 0.5% q/q prev.), while growth in hours-worked lost momentum (2.3% q/q vs. 5.6% q/q prev.), consistent with the weakening economic activity in 3Q26. To the upside, all the sectoral surveys suggest some recovery in employment expectations going into 4Q26.

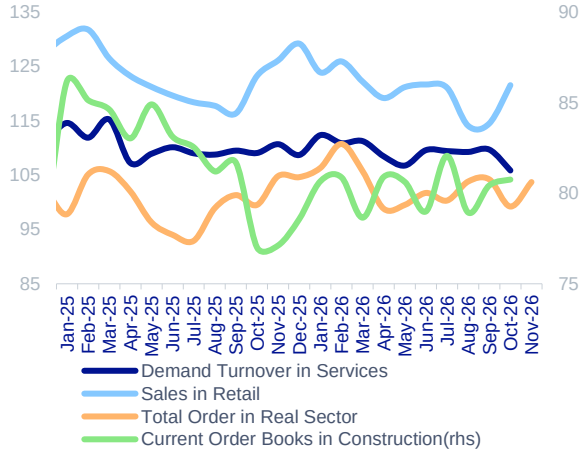
To sum up, following the relatively resilient growth of 1.1% q/q in 2Q26, we nowcast 2.6% y/y growth in 3Q26, implying a quarterly growth close to 0.5% q/q. In terms of sectoral breakdown, we maintain our previous expectation that services and construction support the quarterly GDP growth, while industrial activity weigh on the downside. On the other hand, better agricultural production performance could pose upside risk to our 3Q26 nowcast.

Figure 11. Unemployment Rate (seasonally adjusted, %)



Source: Garanti BBVA Research, TURKSTAT

Figure 12. Demand Conditions over the past 3 months (seasonal adj, index, monthly)



Source: Garanti BBVA Research, TURKSTAT, CBRT

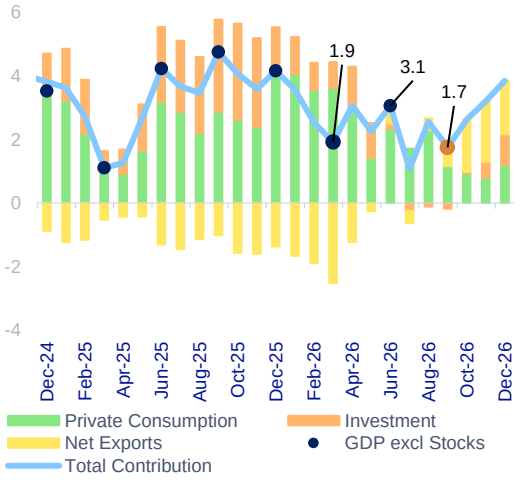
On the demand side, data indicate that increasing softness in domestic demand conditions continued to weigh on economic activity in 3Q26, while external demand appears to have remained supported by sourcing reallocation in favor of Türkiye, with no definitive resolution to the Middle East conflict in sight.

According to our nowcasts, private consumption showed no signs of recovery in 3Q26 following the contraction recorded in the previous quarter, resulting in a significant deceleration in annual growth (1.7% y/y in 3Q26 nowcast vs. 3.5% previously). Financial conditions remained restrictive throughout 3Q26; although the CBRT effectively reduced the funding cost by 300bps in late August by normalizing funding through the resumption of weekly repo auctions at the policy rate, rather than providing funding through the overnight lending facility, financial conditions did not ease materially due to persistently restrictive macroprudential measures. On top of that, the shock though funds, negative valuations particularly in the stock exchange and the decline in gold prices could put more downside pressure on domestic demand in the upcoming months. Accordingly, real-time indicators confirm the continuing weakness in consumption, with consumer card spending remaining below its historical average and consumer loans (excluding mortgages) decelerating significantly. However, the easing of consumer lending caps in early November -together with signals for future easing- alongside increased spending during November sales campaigns and ahead of new-year price adjustments may be supportive.

On the investment front, despite some recovery in construction activity supporting a quarterly expansion in investment, our nowcasts point to a mild contraction in annual terms (-0.7% y/y in 3Q26 vs. 0.6% previously). Tight financial conditions continue to weigh on investment amid growing liquidity concerns, as the prolonged period of subdued demand has increasingly squeezed firms' margins. The lack of a definitive resolution to the Middle East conflict has further weighed on investment decisions. As of October, real sector firms reported some recovery in investment expenditures following the sharp contraction in 3Q26. Depending on their assessment of future demand conditions, this recovery could continue, supported by the easing of commercial loan growth caps, initially for SMEs and later for all commercial loans.

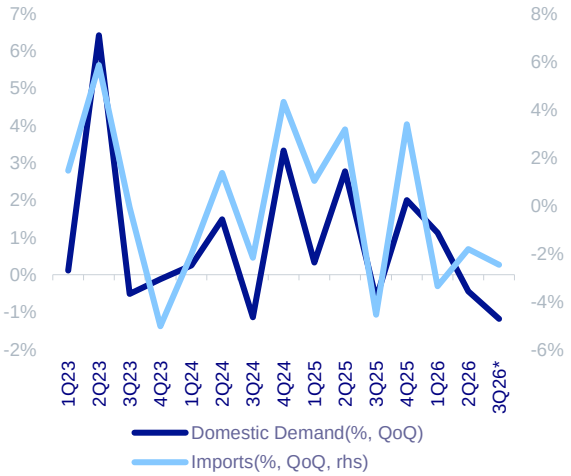
On the external front, despite persistently weak underlying external demand amid subdued global activity, energy supply shock and heightened protectionism in global trade policies, a continued, albeit slower, reallocation of exports, together with solid tourism revenues, contributed to a further moderation in the annual decline in exports (-0.3% y/y in 3Q26 nowcast vs. -3.4% previously). Combined with a continued contraction in import demand (-4.4% y/y in 3Q26 nowcast vs. -6.4% previously), the contribution of net exports to annual growth is expected to remain positive in 3Q26.

Figure 13. Garanti BBVA Monthly GDP Demand Sub-Components (3-MA, contribution to annual GDP, pp)



Source: Garanti BBVA Research, TURKSTAT, CBRT, BRSA

Figure 14. Imports vs. Domestic Demand (QoQ, seasonal and cal. adj., %)



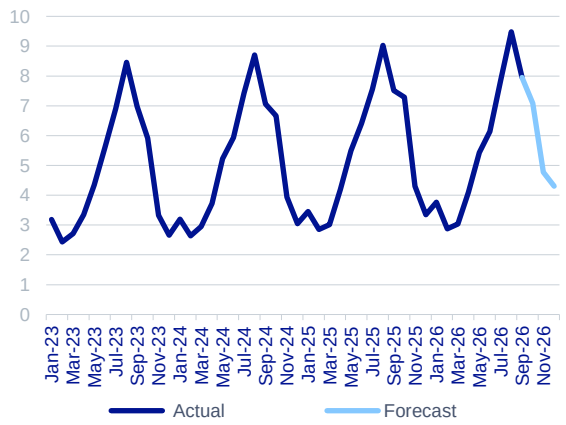
Source: Garanti BBVA Research, TURKSTAT, The Ministry of Trade, *3Q26 is estimated based on our nowcasts

Figure 15. Foreign Trade Components Volume (QoQ, seasonal cal. adj., %)



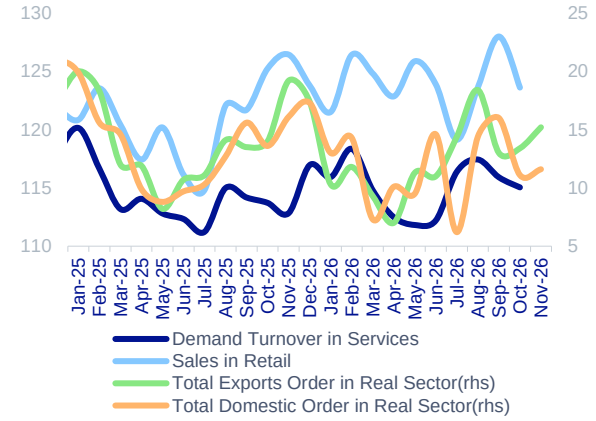
Source: Garanti BBVA, TURKSTAT, CBRT, The Ministry of Trade, 4Q26* refers to Oct26

Figure 16. Garanti BBVA Big Data Implied Tourism Rev. & 3M Ahead Forecast (Monthly, $USBn)



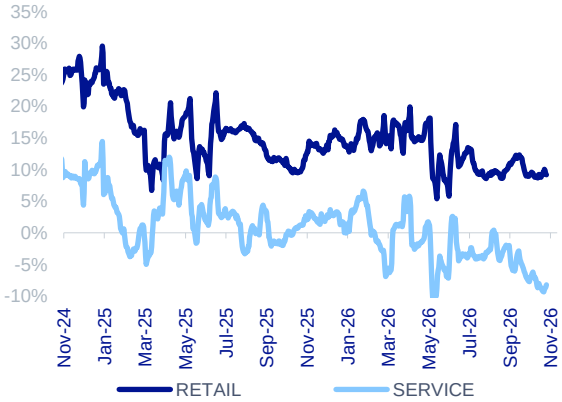
Source: TURKSTAT, Google Trends, Garanti BBVA Research

Figure 17. Demand Conditions over next 3 months (seasonal adj. index, monthly)



Source: Garanti BBVA Research, TURKSTAT, CBRT

Figure 18. Garanti BBVA Big Data Consumption Indicators (28-day sum, YoY, adj. by CPI)



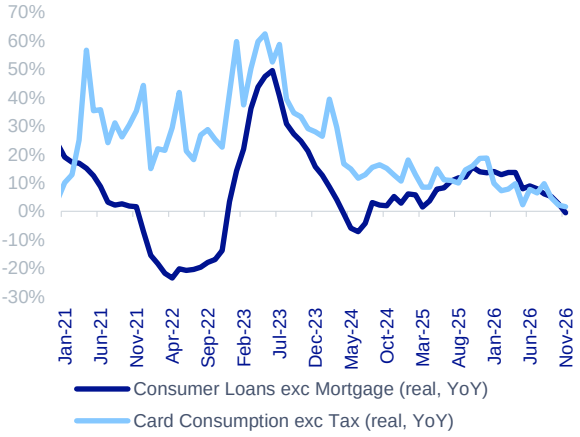
Source: Garanti BBVA Research, TURKSTAT

Figure 19. Consumption Indicators (QoQ, seas. & cal. adj, %)



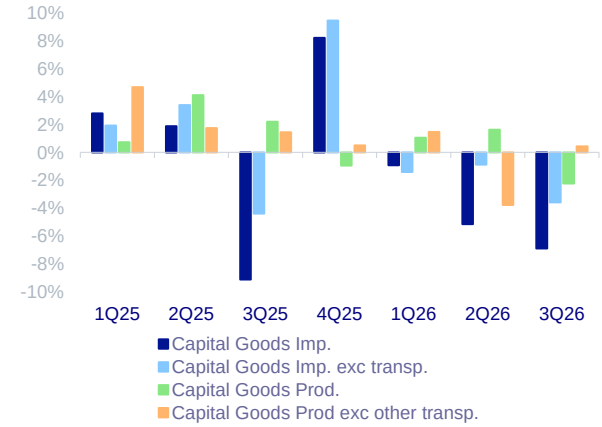
Source: TURKSTAT, Garanti BBVA Research, The Ministry of Trade

Figure 20. Consumer Loans, Card Consumption (Real, YoY)



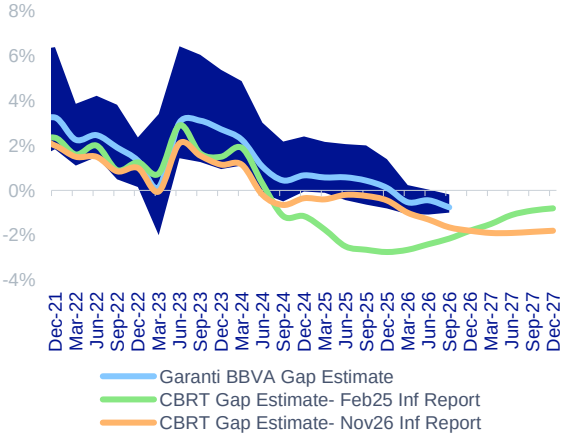
Source: CBRT, BRSA Garanti BBVA Research

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



Source: TURKSTAT, CBRT, Garanti BBVA Research

Figure 22. Output Gap Estimates (Annual, pp, deviation from potential)



Source: TURKSTAT, Garanti BBVA Research

Overall, following below potential GDP growth of 2.5% in 1H26, the supply side remained subdued in 3Q26 (nowcast of 2.6% y/y), weighed down by weak demand conditions and persistent supply-side pressures stemming from the conflict in the Middle East. Although modestly, we estimate that the negative output gap widened in 3Q26, reflecting an improvement in the demand-supply imbalance. Accordingly, weak demand conditions have continued to support the disinflation process. Going forward, we will continue to monitor how the recent easings of loan growth caps, credit card minimum payment requirements, and mortgage regulations may support economic activity. Nevertheless, persistent challenges to the inflation outlook, including volatile energy prices, elevated inflation expectations and tighter global financial conditions, warrant maintaining a cautious fiscal and monetary policy stance. At the November inflation report presentation, the CBRT Governor appeared confident that the current degree of monetary policy tightness was sufficient to dampen demand conditions. Nevertheless, reserve developments warrant close monitoring, as reserves have yet to show a sustained recovery following the losses associated with the recent fund shock.

Looking ahead, we continue to expect only targeted fiscal and quasi-fiscal support in the near term and a cautious monetary easing approach by the CBRT. Reflecting weaker-than-expected growth momentum in 2H26, ongoing geopolitical risks and weakness in demand conditions, potentially exacerbated by the effects of the recent fund shock, we evaluate limited downside risk on our 2026 GDP growth forecast of 3%. We expect GDP growth to be in the 3.5–4.0% range in 2027, assuming some normalization in energy prices and a prudent policy-mix. However, a prolonged period of geopolitical tensions and the recent weakness in underlying economic activity pose some downside risks.

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