Türkiye | Absence of significant cooling down in activity

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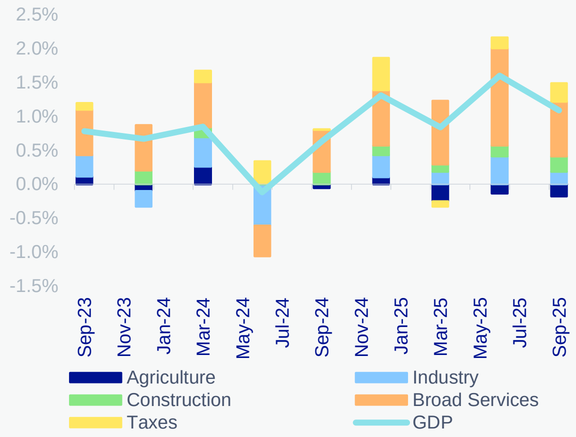
- GDP grew by 1.1% q/q in the 3Q25 (vs market expectation of 0.6%)—slightly above potential—showing only a modest loss of momentum despite faster slowdown signals from hard and soft high frequency data. While industry and services experienced some deceleration, the construction sector grew strongly in line with expectations.
- Leading indicators suggest that, despite some recovery on the production side—particularly in industry and services driven by a pickup in demand—the overall outlook remains weak. Indeed, our monthly GDP indicator points to 4.4% y/y growth in the 4Q25, while signaling a further loss of momentum on quarterly basis.
- Contrary to our weakening expectation on high frequency data, aggregate demand remains strong in 3Q25. Domestic demand excluding inventories contributed 6 percentage points to annual growth and posted a solid increase on a quarterly basis. The imbalance between supply and demand persists.
- Sectorial survey indicators show signs of a revival in demand in the 4Q25. Therefore, the output gap may not be as disinflationary as the Central Bank envisages, posing a significant risk to next year's inflation target of 16%.
- Türkiye's economy grew by 3.7% y/y in the first three quarters of the year. GDP could grow between 3.5–4% in 2025 with high likelihood on strong momentum so far. Considering the expected rate-cut cycle, more neutral fiscal stance going forward, the carry-over impact, and expectations of resilience in the global economy despite downside risks, we continued to forecast 4% annual growth for 2026.

Private Consumption Rebounds; Supply–Demand Imbalance Persists

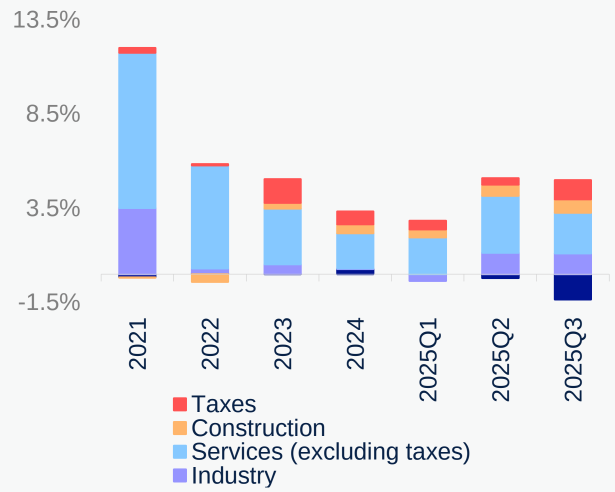
The economy grew by 1.1% q/q in 3Q25, slowing from 1.6% q/q in 2Q25, though remaining slightly above potential and again surprising on the upside, bringing annual growth to 3.7% y/y (vs. 4.9% y/y prev.). On the supply side, despite high-frequency indicators pointing to a contraction in industrial production and a flat trend in services, both sectors continued to grow, albeit with a loss of momentum. Industry expanded by 1% q/q (vs. 2.2% in 2Q), while services grew 0.9% q/q (vs. 3.3% in 2Q). The agriculture sector, however, contracted by 3.7%. As expected, the construction sector gained momentum, posting 4.3% q/q growth. On an annual basis, all sectors except agriculture recorded strong positive growth. Leading indicators suggest that although production is showing some improvement, it is likely to remain weak overall in 4Q25. In manufacturing, the weaker recovery in quarterly capacity utilization rate (+22bps vs 3Q25) still lower than historical average, PMI (47.25 vs. 2Q25's average 46.63) remaining in contractionary territory since Mar24, manufacturing confidence still below historical average despite the recent rise signaled the sluggish outlook in industry. Also, construction and services sector indices remained subdued, displaying the weak supply conditions. Our monthly GDP Indicator points to 4.4% y/y growth in the 4Q25, implying only a modest loss of momentum on quarterly basis.

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



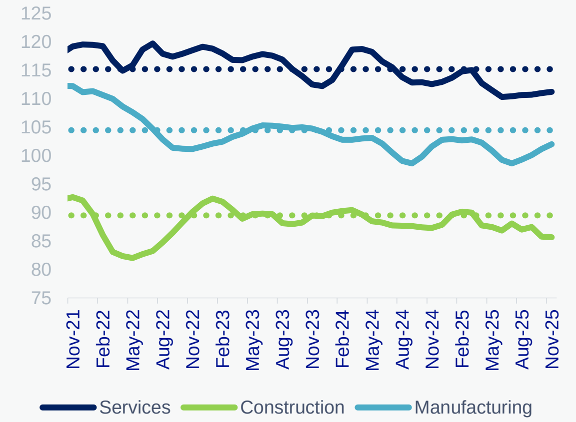
Source: Garanti BBVA Research, TURKSTAT

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



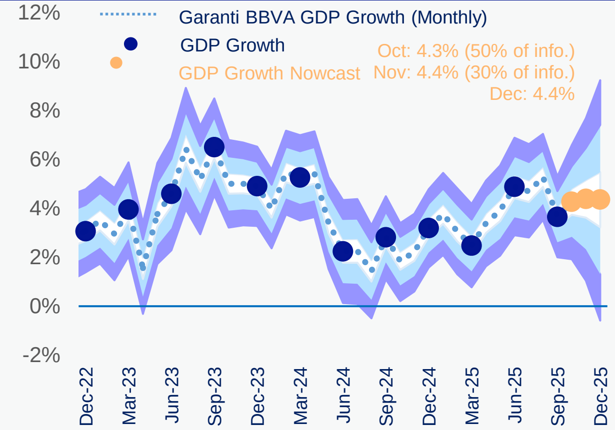
Source: Garanti BBVA Research, TURKSTAT

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



Source: Garanti BBVA Research, TURKSTAT

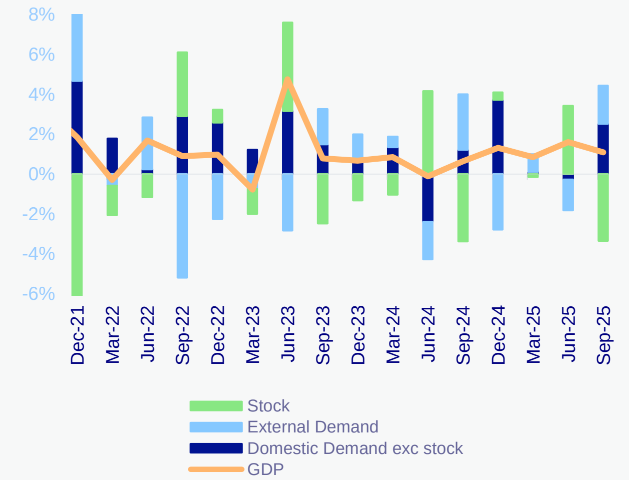
Figure 4. Garanti BBVA Monthly GDP Nowcast* (3-month average YoY)



Source: Garanti BBVA Research, TURKSTAT

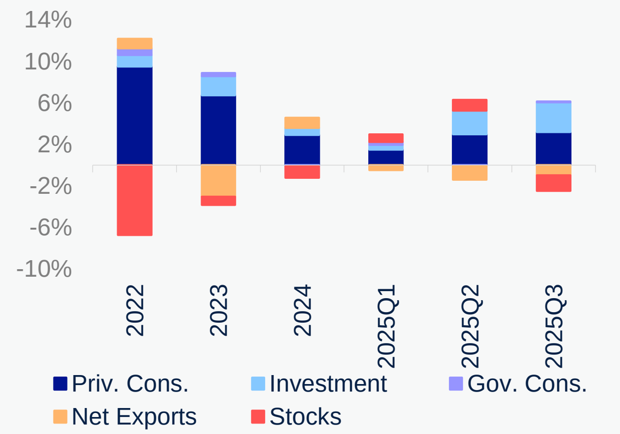
On the demand side, looser financial conditions in 3Q25, together with household inflation expectations that have not improved, appear to have triggered the rebound in private consumption, which rose by 2.1% q/q (vs. -1.5% q/q in 2Q25) and contributed positively to quarterly growth after two consecutive quarters of negative contributions. Investment expenditures accelerated to 4.0% q/q (vs. 3.0% q/q prev.). Meanwhile, government expenditures increased by 1.3% q/q (vs. -2.5% q/q prev.), contributing positively to quarterly GDP despite fiscal efforts in 3Q25, largely due to base effects following the significant contraction in 2Q25. The contribution of net exports also turned positive: exports grew by 2.9% q/q (vs. -2.9% q/q prev.) and imports contracted by 4.4% q/q (vs. +2.6% q/q prev.), after both had contributed negatively in 2Q25. On an annual basis, domestic demand excluding inventories increased its contribution to 6.1 percentage points to growth, while stocks and net exports made negative contributions. Absence of cooling down in demand conditions suggested continued weakness in monetary transmission in restraining demand. The increase in the contribution of private consumption (up 0.2pp) warrants caution regarding current demand dynamics, particularly as financial conditions have moved back toward neutral/supportive levels in the last quarter of the year. According to our calculations, inventories contributed -1.5pp to GDP, revealing inflationary pressures in 3Q25 and signaling a possible carry-over impact into the coming period unless production recovers meaningfully in 4Q25. Investment expenditures' contribution to annual growth also increased (up 0.5pp). Investment expanded by 11.8% y/y in 3Q25 (vs. 9.1% y/y prev.), with all components accelerating: construction at 13.3% y/y (from 11.7% y/y), machinery & equipment at 11.3% y/y (from 9.6% y/y), and other investment at 5.0% y/y (from -5.4% y/y). Government expenditures contribution elevated by 0.2pp y/y in 3Q25 despite fiscal efforts, and further recovery in this component could lift demand going forward. Stemming from still high inflation expectations on top of the ease in financial conditions, the survey indicators in real sector, retail and services also indicated the some recovery in demand conditions in 4Q. The revival in consumption goods imports in Oct25, coupled with front-loading in consumption due to higher inflation expectations at the start of 2026, may keep private consumption buoyant in 4Q25.

Figure 5. Contributions to GDP Growth via Demand Subcomponents (Quarterly, pp)



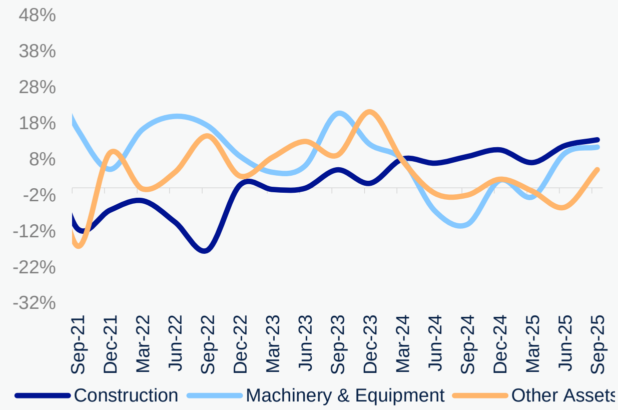
Source: Garanti BBVA Research, TURKSTAT

Figure 6. Contributions to GDP Growth via Demand Subcomponents (Annual, pp)



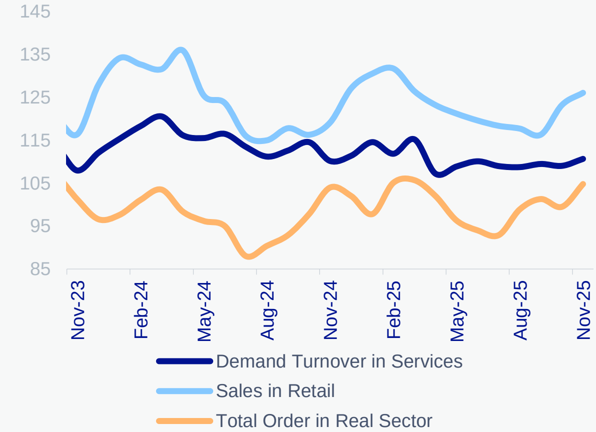
Source: Garanti BBVA Research, TURKSTAT

Figure 7. Gross Capital Formation (YoY)



Source: Garanti BBVA Research, TURKSTAT

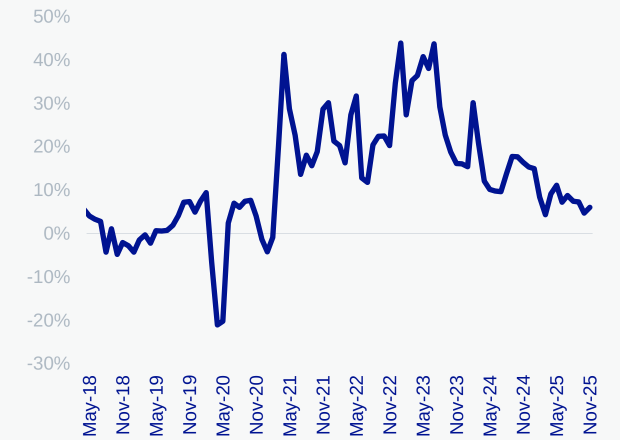
Figure 8. Demand Conditions over the past 3 months (seasonal adj index, monthly)



Source: Garanti BBVA Research, TURKSTAT

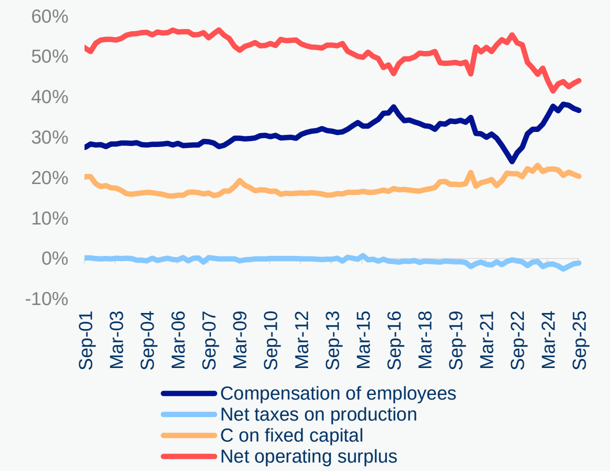
On the income side, the share of wages in value added fell to 36.7% in 3Q25 (vs. 37.1% prev.), continuing the downward trend observed throughout 2025. Annualized GDP reached $1.54trn, bringing per capita income up to $17.26k in 3Q25 from $14.59k a year earlier.

Figure 9. Garanti BBVA Big Data Consumption Indicator (real, YoY, %)



Source: Garanti BBVA Research, TURKSTAT

Figure 10. Shares in Gross Value Added (%)



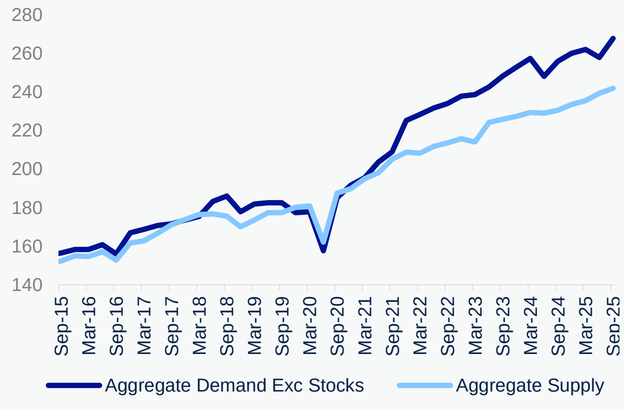
Source: Garanti BBVA Research, TURKSTAT

Solid demand conditions so far put upside risk on disinflation outlook

Leading indicators point to only limited weakening in activity in the 4Q25. On the other hand, high inflation expectations, the wealth effect from upsurge in gold prices, and worsened income distribution continue to support domestic demand. The rise in consumer loans especially the driven credit cards—also could support the recovery in demand. In firm surveys, responses to demandrelated questions indicate an improvement in current demand conditions, while consumer-goods imports excluding jewelry rose on a monthly basis in October. The imbalance between demand and supply persists (Figure 11). Indeed, our output gap estimates for 3Q(Figure 12) suggest that the gap remained above the level projected by the Central Bank in its latest report during November and may stay relatively better in the 4Q25 as well. Overall, domestic demand conditions have not cooled sufficiently, implying that disinflationary support may remain weak in the upcoming period, posing upside risk on CBRT's interim inflation forecast of 16% for the end of 2026.

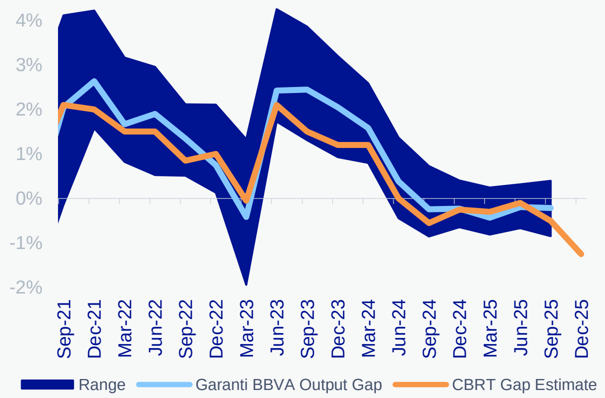
The current strong momentum and leading indicators suggest that GDP growth in 2025 will most likely come in between 3.5–4%. According to the Medium-Term Program, fiscal policy is expected to be more neutral next year. In addition, conducting fiscal consolidation mainly through revenue-raising measures rather than expenditure discipline limits the degree of support to faster correction in demand conditions. On the monetary policy side, rate cuts may continue despite the clear risks surrounding inflation targets but the policy stance seemed to be reinforced through macroprudential measures, liquidity actions, and regulatory adjustments. However, this complex picture could weaken the monetary transmission mechanism. Last but not least, on the global side, current lower tariff rates than April announcements following trade agreements, AI-related investments, and expansionary policy steps in some economies could help the global economy slow only modestly next year, despite downside risks. Under these conditions, we expect next year's growth to reach 4%.

Figure 11. Aggregate Demand vs. Aggregate Supply (Level, seas. & cal. adj., 2009=100)



Source: CBRT, TURKSTAT, Garanti BBVA Research

Figure 12. Garanti BBVA Output Gap vs CBRT Estimate(%, deviation from potential GDP)



Source: CBRT, TURKSTAT, Garanti BBVA Research

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