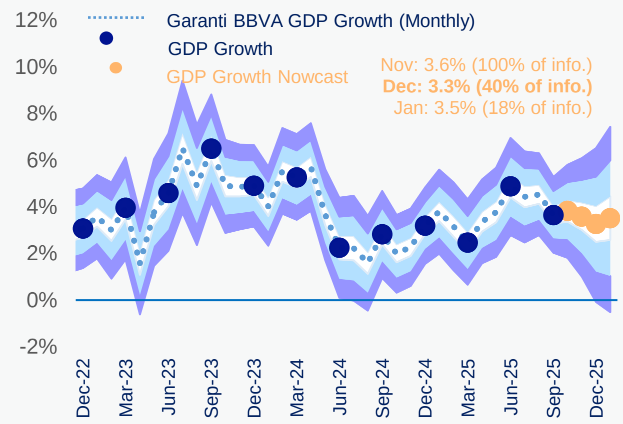
Türkiye | Resilient growth led by domestic demand

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

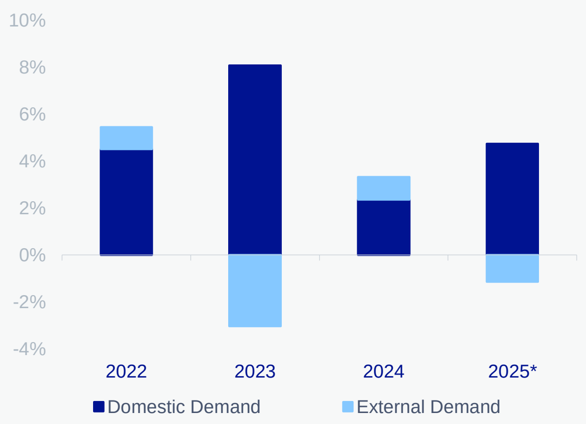
- High-frequency data suggest that production could have cooled more noticeably in 4Q25. Sectorally, a pronounced slowdown might have occurred in industry and services, while construction has decelerated.
- Our monthly GDP indicator points to nearly 3.5% y/y growth and approximately 0.25% q/q growth in 4Q25. Under this scenario, 2025 growth is highly likely to materialize between 3.5–4%, broadly in line with our 3.7% forecast.
- Data on demand conditions indicated that growth in 4Q25 might have been supported by domestic demand led by investment expenditures, while external demand has made a negative contribution. Consistent with our nowcast results, domestic demand appears to be the sole driver of growth throughout 2025.
- Contrary to the CBRT's guidance, domestic demand conditions were not adequately deflationary in 2025 and it was one of the factors behind the shortfall in disinflation. Growth in 2026 may exceed the level implied in the CBRT projections presented in November 2025 inflation report, indicating that demand-driven upside risks to the disinflation process could remain in place.
- Despite downside risks such as tariff wars and rising geopolitical tensions, supportive policy measures could allow the global economy to slow only moderately in 2026. On domestic front, considering carry-over effects, expected rate cuts, and limited fiscal discipline, there are upside risks to our 4% growth forecast for 2026. We will reassess our growth forecasts in the near term, depending on the effectiveness of policy coordination and the evolution of external conditions.

Figure 1. Garanti BBVA Monthly GDP Nowcast (3-month average YoY)



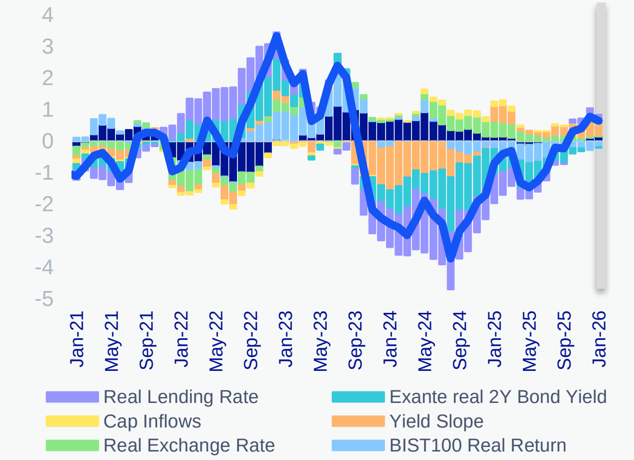
Source: Garanti BBVA Research, TURKSTAT

Figure 2. GDP Demand Decomposition* (pp contribution, annual)



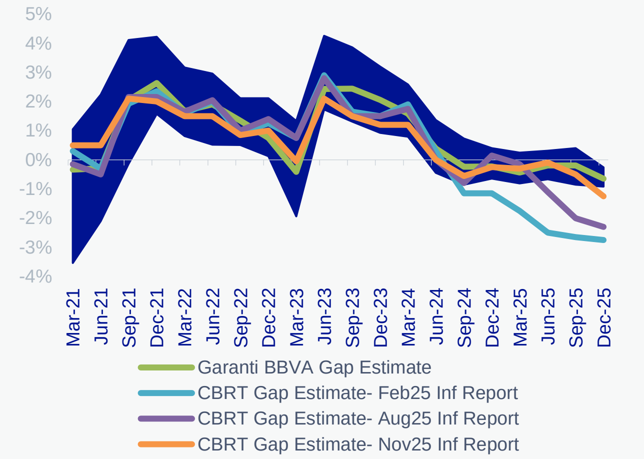
Source: Garanti BBVA Research, TURKSTAT *2025 is our forecast, domestic demand includes contribution from stocks*

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



Source: Garanti BBVA Research, CBRT, Bloomberg, TURKSTAT
*Grey area displayed forecasts for 1Q26 based on our expectations

Figure 4. Output Gap Estimates (% deviation from potential GDP)



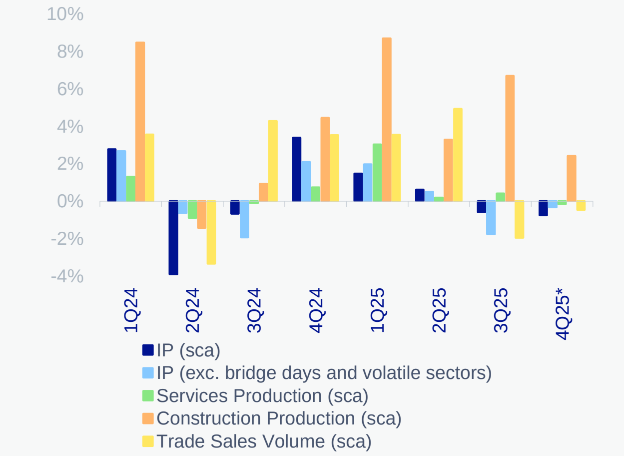
Source: Garanti BBVA Research, TURKSTAT

Financial Conditions Ease, but Production Remains on Hold

Industrial production (IP, sca) rebounded by 2.5% m/m in Nov25, following two consecutive months of contraction. The recovery was driven primarily by capital goods (5.8% m/m) and intermediate goods production (2.6% m/m). The strength in capital goods was largely supported by volatile sub-sectors; excluding these, IP growth was more modest at 1.3% m/m (vs. -0.2% previously). There were moderate increases in durable (1.6% m/m) and non-durable consumer goods (0.4% m/m) production, while energy production continued to weaken (0.7% m/m). On a quarterly basis, comparing the Nov–Oct average with 3Q25, industrial production deteriorated further, contracting by 0.7% q/q in 4Q25 (vs. -0.6% q/q in 3Q25). Capital goods (-2.1% q/q) and energy (-2.7% q/q) accounted for 0.8pp of the contraction, while intermediate goods (0.4% q/q) were the only category contributing positively to the quarterly growth. The monthly industrial production series and the industrial sector component of GDP have recently shown some inconsistency in terms of quarterly trends; however, calendar-adjusted annual changes appear more consistent across the two series. Accordingly, the calendar-adjusted industrial production increase of 2.4% y/y in the Oct–Nov period of 4Q25 (vs. 3.0% y/y sca) points to a clearer quarterly weakening that may emerge in the industrial sector within GDP.

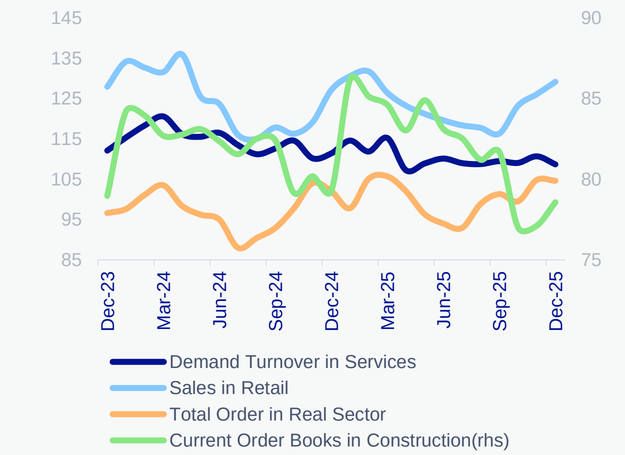
Leading indicators suggest that, while financial conditions have begun to turn supportive levels as of Oct25—providing some relief to industrial activity—a meaningful recovery is still expected to materialize in the near term, given improvement expectations for orders. Manufacturing capacity utilization gradually edged up to 74.2% in Dec25, remaining at a historically low level and bringing the 4Q25 average to 74.1% (+0.3pp q/q). Manufacturing PMI improved to a one-year high of 48.9 in Dec25 (4Q25 average: 47.8, +1.2pp q/q), still indicating contraction overall, although some sectors moved into expansionary territory. Real sector confidence strengthened in Dec25, supported by improvements in assessments of the general business situation (2.1% m/m) and near-term expectations for production volume (2.8% m/m) and employment (1.5% m/m), despite a decline in current orders (-2.2% m/m). Percentage of firms reporting above-usual inventory levels declined, while those reporting below-usual stock levels increased, suggesting no inventory accumulation and indicating room for production to expand in the near term. Overall, early 4Q25 data point to slack in industrial activity—particularly in annual comparisons—while also signaling that a recovery has already started in some sectors, with a more meaningful rebound likely in 1Q26, also supported by external demand.

Figure 5. Industrial, Services and Construction Production (QoQ, seasonal and cal. adj.)



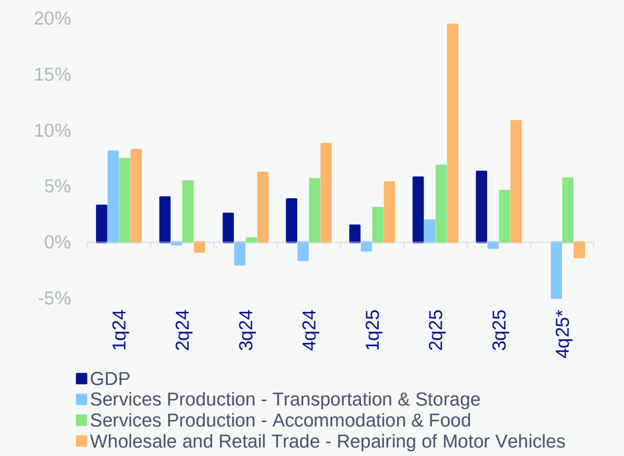
Source: Garanti BBVA Research, TURKSTAT, 4Q25* is Oct-Nov

Figure 6. Demand Conditions over the past 3 months (seasonal adj index, monthly)



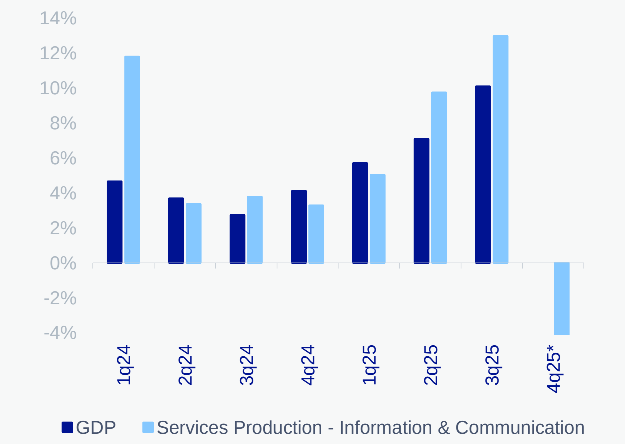
Source: Garanti BBVA Research, CBRT

Figure 7. Trade, Transportation, Accommodation and Food Services (YoY)



Source: Garanti BBVA Research, TURKSTAT, 4Q25* is Oct-Nov

Figure 8. Information and Communication Services (YoY)

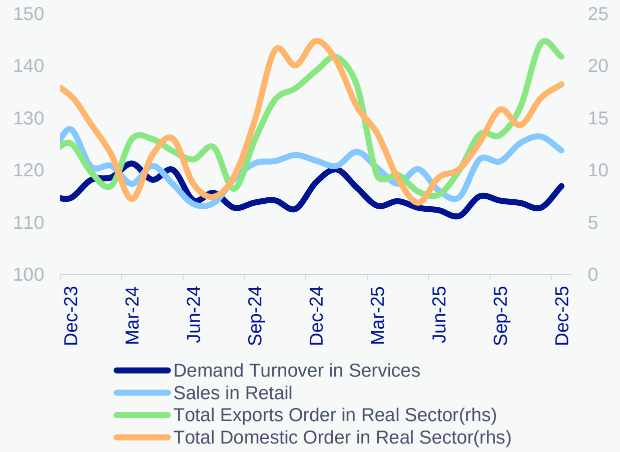


Source: Garanti BBVA Research, TURKSTAT, 4Q25* is Oct-Nov

Services production rose by 0.2% m/m in Nov25 (vs. -0.3% m/m in Oct25) yielding a minor contraction in 4q25 (-0.04% q/q) so far. On a quarterly basis, demand-sensitive sectors showed some improvement, notably transportation and storage (0.6% q/q) and accommodation and food services (0.8% q/q). In contrast, the remaining sectors contracted, including information and communication (-1.1% q/q), real estate activities (-1.6% q/q), professional activities (-1.0% q/q), and administrative and support services (-0.6% q/q). Compared to 3Q25, all segments recorded weaker growth, with the exception of transportation and storage services. Accordingly, services activity appears to have remained weak in the 4Q25 , a view further supported by confidence indicator data for Dec25, which show that firms in the sector reported weaker demand and employment over the previous three months relative to Sep25.

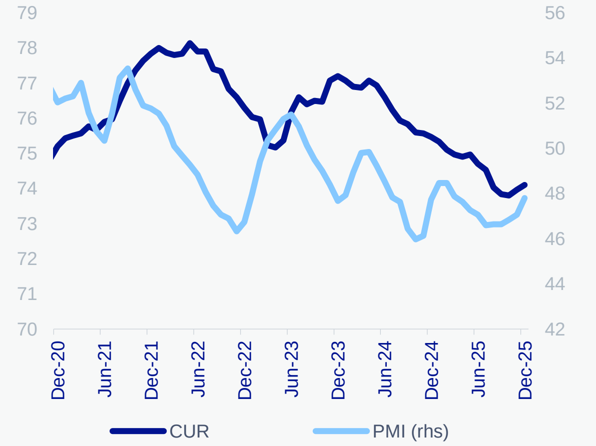
Construction activity declined by 0.1% m/m in Nov25 (vs. -0.2% m/m in Oct25). Remaining close its Sep25 level, the highest level of production since 2017, construction recorded a quarterly growth rate of 2.4% in 4Q25 as of Nov25. Nevertheless, the data indicate a marked deceleration in 4Q25 compared to the 6.7% growth registered in the 3Q25. However, the quarterly deceleration could be softer than suggested since firms reported higher order levels and improvement in construction activity in Dec25.

Figure 9. Demand Conditions over the next 3 months (seasonal adj index, monthly)



Source: Garanti BBVA Research, TURKSTAT, CBRT

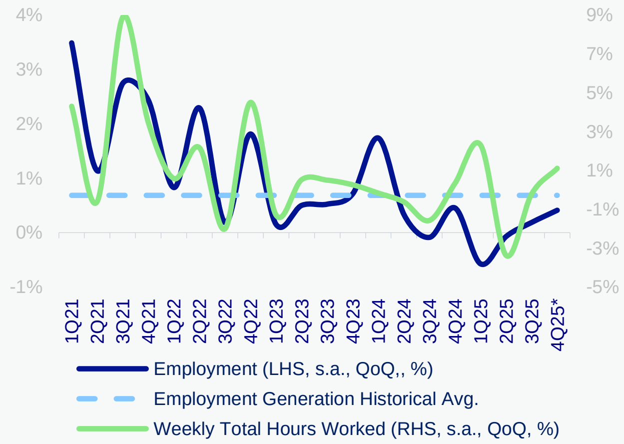
Figure 10. Manufacturing CUR vs. PMI Index (Monthly, seasonally adj., Level)



Source: Garanti BBVA Research, CBRT, ICI

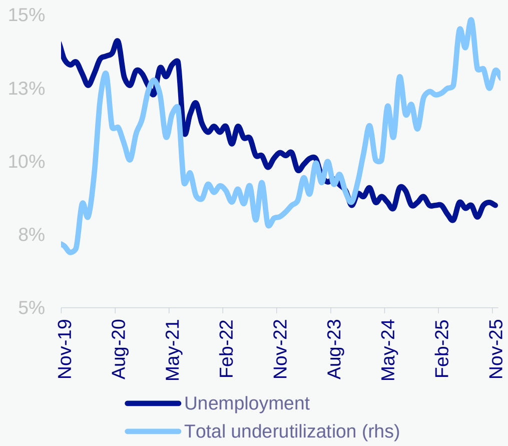
In the labor market, the unemployment rate rose to 8.6% in Nov25 (vs. 8.5% in Oct25 and the 3Q25 avg.), while the underutilization rate improved to 29.0% (vs. 29.6% in Oct25), reflecting a shift from time-related underemployment toward full-time employment. On a quarterly basis, both indicators increased by 0.1pp and employment growth remained weak at 0.4% q/q in 4Q25 so far (as of Nov25), pointing to still subdued economic activity. Sectoral surveys do not indicate a positive outlook for employment, with declines in employment expectations across services, construction, and retail trade, and only marginal improvement in industry.

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



Source: Garanti BBVA Research, TURKSTAT, 4Q25* is Oct-Nov

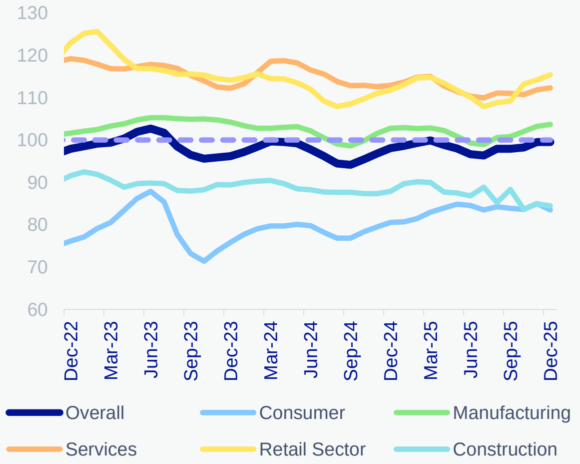
Figure 12. Unemployment Rate (seasonally adjusted)



Source: Garanti BBVA Research, TURKSTAT

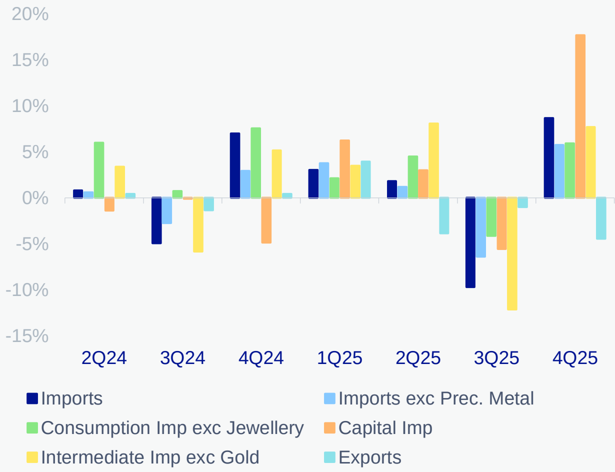
Overall, Oct–Nov data indicate a slowdown in economic activity in 4Q25: the contraction in industrial production intensified, services production retreated, and construction activity decelerated. Despite the easing in financial conditions, production seems to have stayed on hold in 4Q25 amid robust demand conditions. Looking ahead, soft indicators suggest that the improvement in industry could become more broad-based in 1Q26, services demand may recover, while construction activity is not likely to see an improvement in the absence of continued support from earthquake-related spending.

Figure 13. Economic Confidence Index (seasonal and cal. adj., 3M Mov. Avg.)



Source: Garanti BBVA Research, TURKSTAT

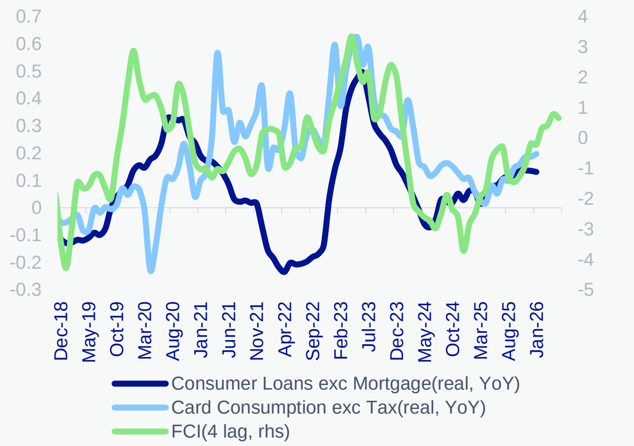
Figure 14. Foreign Trade Components Volume (QoQ, seasonal and cal. adj.)



Source: Garanti BBVA Research, Ministry of Trade, TURKSTAT

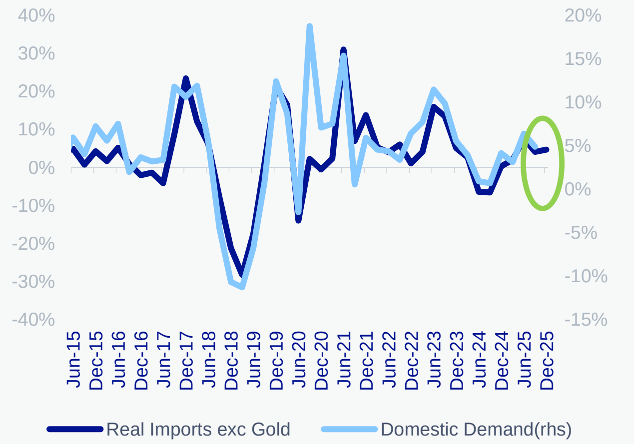
On the demand side, data released so far indicated that domestic demand remained relatively strong in 4Q25, while external demand stayed weak. High inflation expectations, easing financial conditions, and wealth effects appear to have supported card spending and consumer credit growth excluding housing. We see similar signals for 1Q26 (Figure 15). Indeed, the increase in real imports excluding gold in 4Q25 also suggested that domestic demand remained strong on both an annual and a quarterly basis (Figure 16).

Figure 15. Consumer Loans, Card Consumption & Financial Conditions - FCI (Real, YoY; standardized, + easing, - tightening)



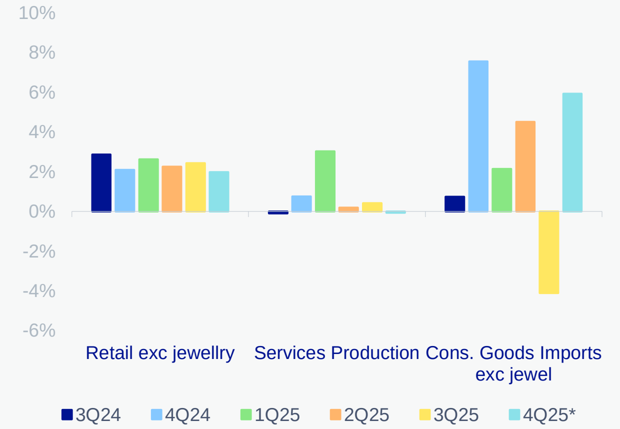
Source: Garanti BBVA Research, TURKSTAT, BRSA, Bloomberg, CBRT

Figure 16. Real Imports (including services) vs Domestic Demand (YoY, %)



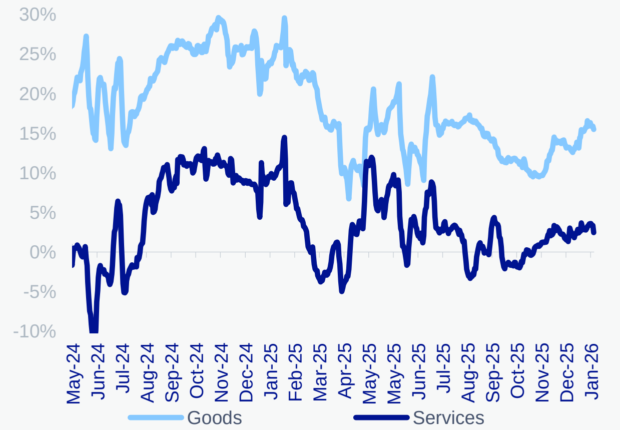
Source: Garanti BBVA Research, CBRT and TURKSTAT

Figure 17. Consumption Indicators (3M Avg., QoQ, %)



Source: Garanti BBVA Research, TURKSTAT, 4Q25* is Oct-Nov

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



Source: Garanti BBVA Research, TURKSTAT

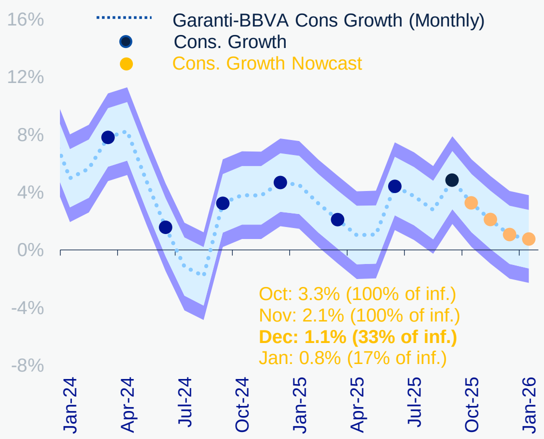
BBVA Research

On the private consumption, the data implied that goods demand remained strong, while services demand stayed relatively weak in 4Q25 (Figure 17). As of November, retail sales excluding watches and jewelry grew by around 2% q/q, reflecting a slight loss of momentum, while services production was close to flat. We also calculated that consumer goods imports excluding jewelry, after contracting in 3Q25, rebounded by around 6% q/q in 4Q25. Our big data indicators (Figure 18) point to similar trends in the last quarter, but in particular suggest that both goods and services consumption may have rebounded from late November through mid-January. Our monthly private consumption indicator (Figure 19) also nowcasted that, although private consumption lost some momentum in the 4Q25, it will continue to make a positive contribution to domestic demand on both annual and quarterly basis in 4Q25.

Investment expenditures, while losing some pace, would continue to support domestic demand in 4Q25. Although capital goods production eased somewhat on a year-on-year basis, it grew by around 12% y/y in 4Q25 as of November, indicating that machinery and equipment investment remained strong annually, albeit with some quarterly deceleration. By contrast, capital goods imports posted strong increases on both annual and quarterly basis. Meanwhile, the strong construction investment seen in 3Q25 may have weakened in 4Q25 on the back of the deceleration in activity in the earthquake-affected regions; indeed, both construction output and non-metallic mineral production lost momentum on a quarterly basis in the final quarter. Our monthly investment expenditures indicator (Figure 20) nowcasts 10.2% y/y growth as of December 2025 with %43 of information, implying around 3.1% q/q growth (vs 4% q/q in 3Q25).

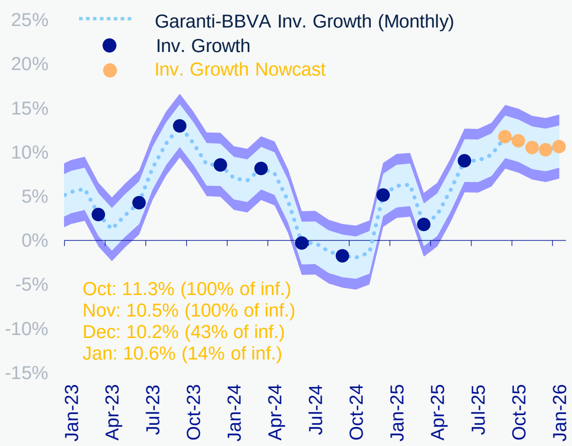
Due to weak external demand and real currency appreciation, we nowcast that exports of goods and services fell 4.1% y/y, indicating -7.1% q/q in 4Q25. After contracting in 3Q25 on a quarterly basis, imports recovered in the last quarter of 2025 on robust demand conditions and gold imports as our nowcast implied 3.6% y/y and 7.1% q/q growth.

Figure 19. Garanti BBVA Monthly Consumption GDP Nowcast
(3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research

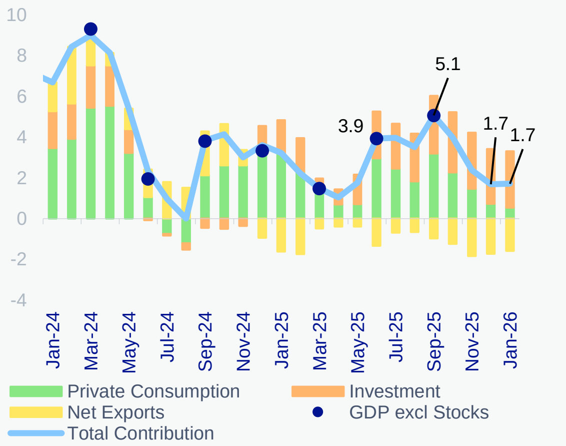
Figure 20. Garanti BBVA Monthly Investment GDP Nowcast
(3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research

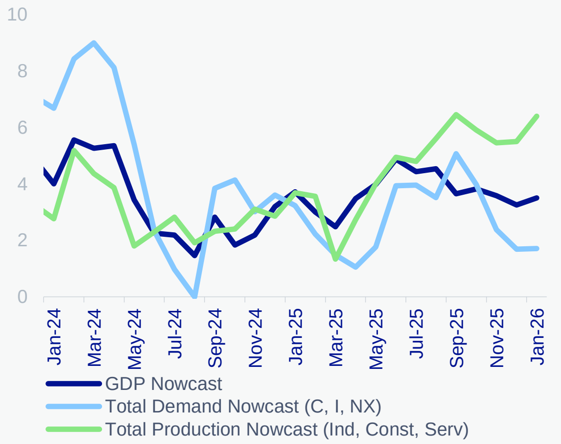
BBVA Research

Figure 21. Garanti BBVA Monthly GDP Demand Sub-Components (contribution to annual GDP, pp)



Source: TURKSTAT, Garanti BBVA Research

Figure 22. Garanti BBVA Monthly GDP Nowcasts (3-month average YoY)



Source: TURKSTAT, Garanti BBVA Research

In summary, domestic demand remained relatively strong in 4Q25 on top of mainly investment. Accordingly, our 4Q25 nowcasts suggest that 2025 growth decomposition as a whole was neither balanced nor sustainable, as growth was driven mainly by domestic demand, while external demand made a negative contribution. Contrary to the Central Bank's guidance throughout the year, domestic demand did not prove to be disinflationary enough, which was one of the factors behind the shortfall in disinflation. Our sectoral nowcast results (Figure 22) indicate that the agricultural sector could also put downward pressure on growth in 4Q25.

Although uncertainty around global tariff wars has eased somewhat, its persistence alongside renewed geopolitical risks poses downside risks on global activity. Still, supportive economic policies could allow global growth to slow only moderately in 2026. Taking into account a potentially more neutral fiscal stance, the expected easing cycle in monetary policy, and carry-over effects, we maintain our 2026 growth forecast at 4%, while acknowledging some upside risks.

DISCLAIMER