

Macro: "Slowdown narrative" not confirmed by the data

In 2025Q3, Gross Domestic Product (GDP) grew by 3.7% year-on-year (yoy), below market expectations (4.2%) and close to our model estimates (3.8%). However, as in Q2, seasonally adjusted (s.a.) quarterly growth of 1.1% remained above our "below-potential" expectation. According to the CBRT's latest inflation report, the output gap estimates projected a cooling of around 0.3 percentage points (pp) in Q3 (i.e., growth 0.3 pp below quarterly potential growth). Just as in Q2, the anticipated cooldown did not happen. Moreover, annual and quarterly growth in Q2 and Q3 has been constrained by a significant contraction due to supply-side factors in the agricultural sector. This supply-side contraction in the agricultural sector not only reduces potential growth but also hinders accurate assessments of demand conditions based on headline GDP growth.

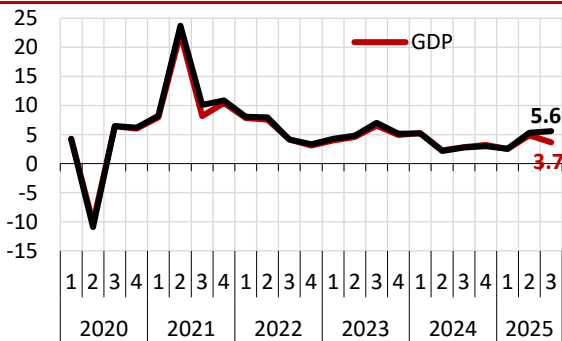
We calculate annual non-agricultural GDP growth at 5.6% in Q3 and 4.5% over the first three quarters, significantly above the headline growth rate (3.7%). The same applies to quarterly growth. Since 2025Q1, agricultural value added has contracted by 4.6%, 2.6%, and 3.7% quarter-on-quarter (qoq) (10.6% cumulatively). Consequently, quarterly non-agricultural GDP growth has remained strong over the last four quarters, at 1.3%, 1.2%, 1.8%, and 1.3% qoq, respectively.

While annual growth has been close to our forecast, the sectoral composition of growth indicates a significant divergence in activity and, contrary to the CBRT's projections, inflationary demand persists. Non-agricultural GDP has been growing at 5.5% yoy and averaging around 1.5% qoq over the last two quarters. On the services side, led by retail trade, and on the construction side, driven by earthquake spending, there is an acceleration rather than a slowdown. There is no "slowdown" signal on the expenditure side of the GDP either. In short, this outlook raises questions about the tightness of the monetary stance and financial conditions.

Although the expected slowdown in inflation in November presents a very positive outlook for the CBRT, which has been signaling interest rate cuts at every meeting, it seems unlikely that the CBRT will increase its interest rate cuts in December given the uncertainties surrounding wages and administered prices, as well as data suggesting stronger-than-expected activity.

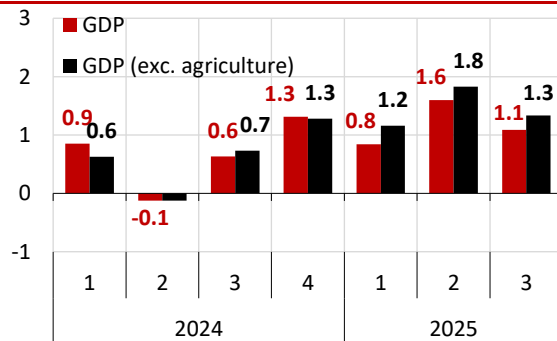
In 2025Q3, GDP grew by 3.7% yoy, below market expectations (4.2%) and close to our model estimates (3.8%) (Chart 1). Thus, the Turkish economy grew 3.7% yoy over the first three quarters of the year. Seasonally and calendar adjusted (s.a.) GDP grew 1.1% qoq in the third quarter (Chart 2).

Chart 1. GDP (yoy, %)



Source: TURKSTAT, Akbank

Chart 2. GDP (seasonally adjusted, qoq, %)



Source: TURKSTAT, Akbank

Production Side:



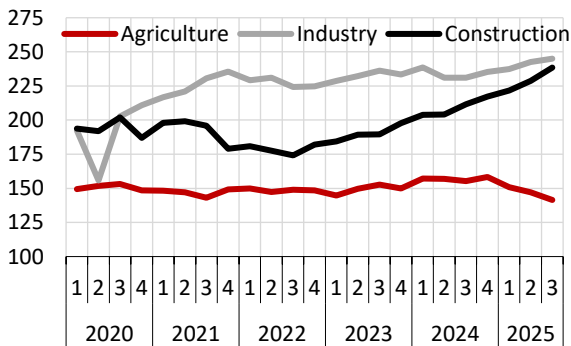
In Q3, annual and quarterly growth spread across all sectors except the agriculture (Table 1). Supply-side problems (frost, drought, etc.) are causing a significant contraction in agricultural production in 2025. **Agricultural value added**, which contracted by 5.5% yoy in Q2, further declined by 12.7% in the Q3, contributing a negative 1.3 pp to annual GDP growth. We calculate annual non-agricultural GDP growth at 5.6% in Q3. Excluding the 9.7% annual contraction in the agricultural sector in the first three quarters, GDP grew by 4.5%, above headline growth and close to long-term averages. A similar outlook holds for quarterly growth. Since Q1 2025, quarterly contractions in agricultural value added have been 4.6%, 2.6%, and 3.7%, respectively (10.6% cumulatively). Quarterly GDP growth excluding agriculture has been 1.3%, 1.2%, 1.8%, and 1.3%, respectively, for the last four quarters. This outlook does not indicate a slowdown in activity due to financial tightness.

Construction value-added continued to support growth, supposedly due to ongoing reconstruction efforts in the earthquake zone and urban transformation projects. We also noted a relatively more positive trend in construction-related manufacturing sectors in the IPI. As in the previous quarter, construction value-added was the main sector with the highest annual (13.9%) and quarterly (4.3% s.a.) growth (Chart 3). Construction value-added increased by 11.3% yoy in the first three quarters and recorded a cumulative increase of 9.8% in terms of level (s.a.) since 2024Q4.

Annual growth in **services value added** spread across all subsectors and reached its highest level (5.8%) since 2022Q2. Annual growth over the first three quarters, at 3.9%, was slightly above GDP. Quarterly growth (s.a.), however, remained strong, although it slowed to 1.3% due to the slowdown in value added growth in the **wholesale-retail trade** sector (3.3% → 0.9%). **Public administration** value added turned from negative to positive, at 1.4%, while high growth in the **finance and insurance** (3.2%) and **information and communication** (2.8%) supported quarterly growth in the services sector (Chart 4). With the exception of **professional and administrative services**, all subsectors contributed positively to qoq growth.

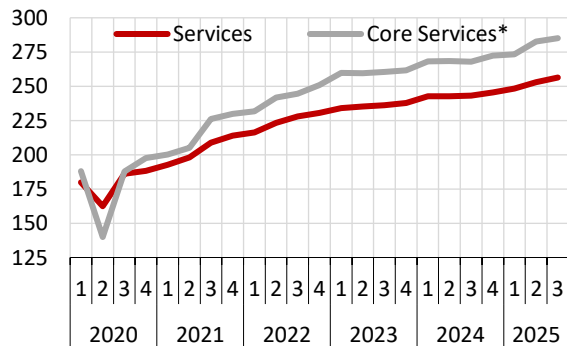
While the quarterly increase in **industrial value added** slowed down compared to the second quarter at 1%, annual growth rose to 6.5% due to the base effect, contributing 1.1 percentage points to GDP growth (Table 2). Thus, the annual increase in industrial value added was higher than the annual increase in the IPI (5.4%). Based on the IPI data, we believe that the positive picture in capital goods, particularly other transport vehicles, supports industrial value added. Finally, the annual increase in **net taxes** item rose from 2.9% to 9.6%, while a quarterly increase of 2.4% was recorded.

Chart 3. Value Added by Sectors
(seasonally adjusted, 2009=100)



Source: TURKSTAT

Chart 4. Value Added by Sectors
(seasonally adjusted, 2009=100)



* The sum of retail and wholesale trade, transport and storage, accommodation and catering services

Source: TURKSTAT

Due to the chain indexing method used in calculating national income, the quarterly and annual growth rates derived from totalling the sectors are not the same as the headline quarterly and annual growth for GDP. The annual and quarterly growth rates obtained from adding up the sectoral data were higher than the announced rates, at 4.8% and 1.3%, respectively.

Table 1. The Growth of GDP and Sub-Items from the Production Side (%)

| | Annual Growth | | | | Quarterly Growth (seas. adj.) | | | |
|------------------------------------|---------------|-------------|-------------|--------------|-------------------------------|-------------|-------------|-------------|
| | 2024-Q4 | 2025-Q1 | 2025-Q2 | 2025-Q3 | 2024-Q4 | 2025-Q1 | 2025-Q2 | 2025-Q3 |
| GDP | 3.2 | 2.5 | 4.9 | 3.7 | 1.3 | 0.8 | 1.6 | 1.1 |
| Agriculture | 7.9 | -0.7 | -5.5 | -12.7 | 1.9 | -4.6 | -2.6 | -3.7 |
| Industry | 0.8 | -1.6 | 6.0 | 6.5 | 1.8 | 0.9 | 2.2 | 1.0 |
| Manufacturing | 1.2 | -2.4 | 6.9 | 7.7 | 2.8 | 0.0 | 2.5 | 1.4 |
| Construction | 10.3 | 8.5 | 11.1 | 13.9 | 2.7 | 2.1 | 3.1 | 4.3 |
| Services | 2.9 | 1.8 | 4.1 | 5.8 | 0.9 | 1.1 | 1.9 | 1.3 |
| Core Services* | 3.8 | 1.5 | 5.8 | 6.3 | 1.7 | 0.4 | 3.3 | 0.9 |
| Information and Communication | 4.1 | 5.7 | 7.1 | 10.1 | 1.0 | 3.4 | 1.8 | 2.8 |
| Financial and Insurance Activities | 3.5 | -0.1 | 4.0 | 10.8 | -0.6 | 1.9 | 2.7 | 3.2 |
| Real Estate Activities | 4.5 | 2.0 | 2.6 | 4.2 | 1.4 | 0.3 | 1.2 | 1.1 |
| Profes.. Adm. and Support Services | 2.3 | 2.4 | 5.8 | 4.4 | 1.7 | 2.7 | 1.0 | -0.2 |
| Public Administration** | -1.6 | 0.9 | -0.5 | 2.1 | -1.1 | 1.9 | -0.9 | 1.4 |
| Other Services | 3.3 | 4.4 | 2.5 | 7.1 | 1.5 | 1.6 | 0.9 | 2.5 |
| Net Taxes (Tax - Subsidies) | 9.8 | 4.5 | 2.9 | 9.6 | 4.4 | -0.7 | 1.4 | 2.4 |

* Retail-Wholesale Trade, Transport-Storage, Accommodation-Catering

** Public Administration, Education, Human Health and Social Work Activities

Source: TURKSTAT, Akbank

Table 2. Contribution to GDP Growth from the Production Side (Percentage Point)

| | Annual Growth | | | | Quarterly Growth (seas. adj.) | | | |
|------------------------------------|---------------|-------------|-------------|-------------|-------------------------------|-------------|-------------|-------------|
| | 2024-Q4 | 2025-Q1 | 2025-Q2 | 2025-Q3 | 2024-Q4 | 2025-Q1 | 2025-Q2 | 2025-Q3 |
| GDP | 3.2 | 2.5 | 4.9 | 3.7 | 1.3 | 0.8 | 1.6 | 1.1 |
| Agriculture | 0.3 | 0.0 | -0.2 | -1.3 | 0.1 | -0.3 | -0.1 | -0.2 |
| Industry | 0.2 | -0.3 | 1.1 | 1.1 | 0.3 | 0.2 | 0.4 | 0.2 |
| Manufacturing | 0.2 | -0.4 | 1.1 | 1.1 | 0.4 | 0.0 | 0.4 | 0.2 |
| Construction | 0.5 | 0.4 | 0.6 | 0.7 | 0.1 | 0.1 | 0.2 | 0.2 |
| Services | 1.8 | 1.1 | 2.6 | 3.3 | 0.6 | 0.7 | 1.1 | 0.8 |
| Core Services* | 1.0 | 0.4 | 1.5 | 1.5 | 0.4 | 0.1 | 0.8 | 0.2 |
| Information and Communication | 0.2 | 0.2 | 0.2 | 0.3 | 0.0 | 0.1 | 0.1 | 0.1 |
| Financial and Insurance Activities | 0.2 | 0.0 | 0.3 | 0.5 | 0.0 | 0.1 | 0.1 | 0.2 |
| Real Estate Activities | 0.4 | 0.2 | 0.3 | 0.4 | 0.1 | 0.0 | 0.1 | 0.1 |
| Profes. Adm. and Support Services | 0.1 | 0.1 | 0.3 | 0.2 | 0.1 | 0.1 | 0.0 | 0.0 |
| Public Administration** | -0.1 | 0.1 | 0.0 | 0.2 | -0.1 | 0.2 | -0.1 | 0.1 |
| Other Services | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 |
| Net Taxes (Tax - Subsidies) | 1.1 | 0.5 | 0.3 | 1.0 | 0.5 | -0.1 | 0.2 | 0.3 |

* Retail-Wholesale Trade, Transport-Storage, Accommodation-Catering

** Public Administration, Education, Human Health and Social Work Activities

Note: Totals may not sum up to GDP growth due to chain index method.

Source: TURKSTAT, Akbank

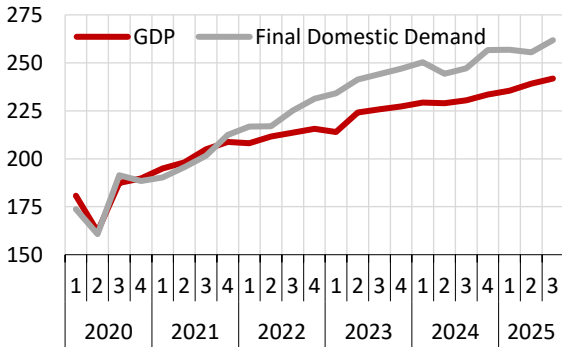
Expenditure Side:

As in the previous three quarters, domestic demand was the main driver of annual growth in the Q3, while net exports made a negative contribution (Tables 3 and 4, Chart 5). Domestic demand contributed 4.6 pp to annual growth, while net exports contributed -1.0 pp (Table 4). Meanwhile, qoq changes indicate that final domestic demand remained strong, driven by both private consumption and investment, while stock changes constrained growth, and net exports made a positive contribution to quarterly growth.

We calculate that **domestic demand (final domestic demand + stock changes)** contracted by 0.5% qoq in the third quarter and increased by 4.9% yoy (Table 3, Chart 9). While both private consumption and investments, which recorded the highest growth in the last eight quarters, were at the forefront of annual domestic demand growth, public consumption expenditures grew relatively weakly. On a quarterly basis, the contraction in domestic demand was largely due to stock changes. **Stock changes** dragged down annual growth by 1.5 points and quarterly growth by 3.0 points. As noted in previous notes, it is unlikely to attribute this data to economic reasons due to statistical discrepancies. **Final domestic demand**, which excludes stock changes, increased by 6.1% yoy and by 2.6% qoq.

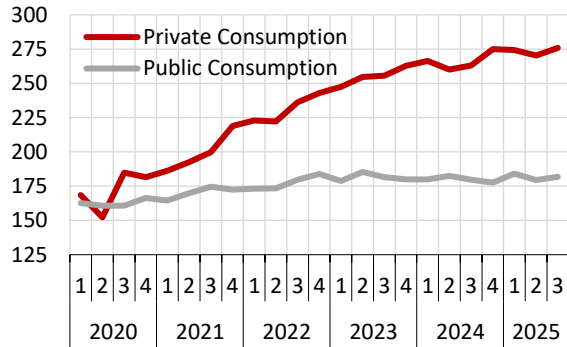
Private consumption, the largest component of final domestic demand, grew strongly this quarter at 2.0% qoq and 4.8% yoy, following a contraction in the first half of the year (Chart 6). Investment spending grew at 4.0% qoq and 11.7% yoy, the highest growth in the last eight quarters. Construction (13.3%) and machinery and equipment (11.3%) made a balanced contribution to the double-digit annual growth in investment spending (Table 3, Chart 7). Public consumption, on the other hand, increased by 1.3% qoq and by 0.8% yoy (Chart 6).

Chart 5. GDP ve Final Domestic Demand
(Seasonally adjusted, 2009=100)



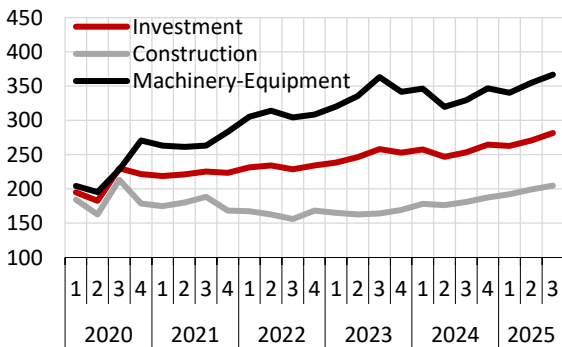
Source: TURKSTAT, Akbank

Chart 6. Consumption Expenditures
(Seasonally adjusted, 2009=100)



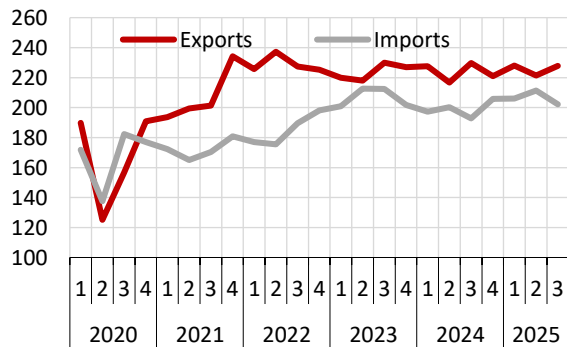
Source: TURKSTAT, Akbank

Chart 7. Investment Expenditures
(Seasonally adjusted, 2009=100)



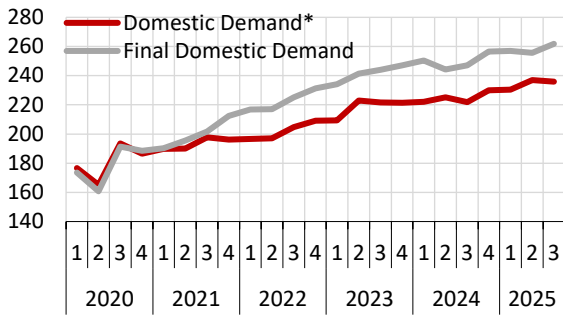
Source: TURKSTAT, Akbank

Chart 8. Goods and Services Exports and Imports
(Seasonally adjusted, 2009=100)



Source: TURKSTAT

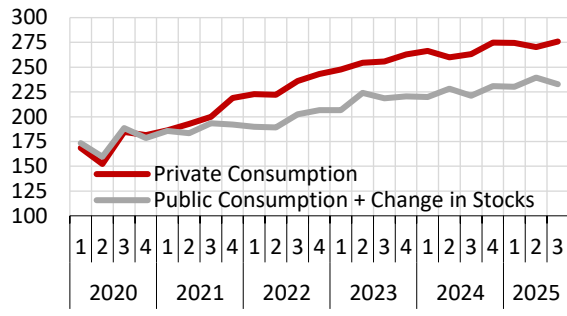
Chart 9. Domestic demand
(Seasonally adjusted, 2009=100)



* Domestic demand is the sum of final domestic demand and change in stocks.

Source: TURKSTAT, Akbank

Chart 10. Private Consumption
(Seasonally adjusted, 2009=100)



Source: TURKSTAT, Akbank

Table 3. The Growth of GDP and Sub-Items from the Expenditures Side (%)

| | Annual Growth | | | | Quarterly Growth (seas. adj.) | | | |
|------------------------------|---------------|------------|------------|-------------|-------------------------------|-------------|-------------|-------------|
| | 2024-Q4 | 2025-Q1 | 2025-Q2 | 2025-Q3 | 2024-Q4 | 2025-Q1 | 2025-Q2 | 2025-Q3 |
| GDP | 3.2 | 2.5 | 4.9 | 3.7 | 1.3 | 0.8 | 1.6 | 1.1 |
| Total Consumption | 3.6 | 2.1 | 3.6 | 4.2 | 3.6 | 0.4 | -1.6 | 1.9 |
| Private Consumption | 4.7 | 2.1 | 4.4 | 4.8 | 4.5 | -0.2 | -1.5 | 2.0 |
| Public Consumption | -1.9 | 2.1 | -0.6 | 0.8 | -1.2 | 3.7 | -2.5 | 1.3 |
| Investment | 5.2 | 1.8 | 9.1 | 11.7 | 4.5 | -0.8 | 3.0 | 4.0 |
| Construction | 10.6 | 7.0 | 11.7 | 13.3 | 3.5 | 2.6 | 3.5 | 2.8 |
| Machinery and Equipment | 2.1 | -2.5 | 9.6 | 11.3 | 5.1 | -1.8 | 4.1 | 3.4 |
| Other Assets | 2.4 | -0.9 | -5.4 | 5.1 | 4.7 | -6.4 | -2.9 | 10.2 |
| Exports | -2.4 | 0.2 | 2.0 | -0.7 | -3.8 | 3.1 | -2.9 | 2.9 |
| Imports | 1.6 | 2.8 | 8.9 | 4.3 | 6.8 | 0.0 | 2.6 | -4.4 |
| Domestic Demand | 4.1 | 3.1 | 6.4 | 4.9 | 3.7 | 0.2 | 2.9 | -0.5 |
| Final Domestic Demand | 4.0 | 2.0 | 4.9 | 6.0 | 3.8 | 0.1 | -0.5 | 2.4 |

Source: TURKSTAT, Akbank

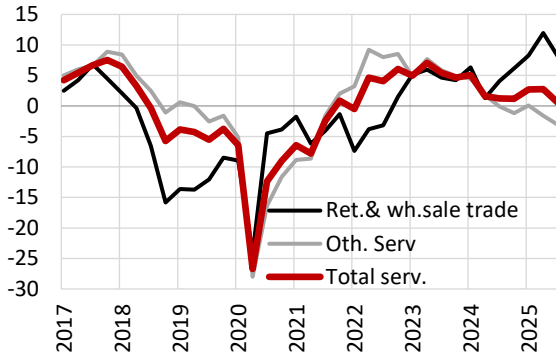
Table 4. Contribution to GDP Growth from the Expenditures Side (Percentage Point)

| | Annual Growth | | | | Quarterly Growth (seas. adj.) | | | |
|------------------------------|---------------|-------------|-------------|-------------|-------------------------------|-------------|-------------|-------------|
| | 2024-Q4 | 2025-Q1 | 2025-Q2 | 2025-Q3 | 2024-Q4 | 2025-Q1 | 2025-Q2 | 2025-Q3 |
| GDP | 3.2 | 2.5 | 4.9 | 3.7 | 1.3 | 0.8 | 1.6 | 1.1 |
| Total Consumption | 3.0 | 1.8 | 2.9 | 3.3 | 2.9 | 0.3 | -1.3 | 1.5 |
| Private Consumption | 3.3 | 1.5 | 3.0 | 3.2 | 3.1 | -0.1 | -1.0 | 1.4 |
| Public Consumption | -0.3 | 0.3 | -0.1 | 0.1 | -0.2 | 0.5 | -0.3 | 0.2 |
| Investment | 1.3 | 0.5 | 2.3 | 2.8 | 1.1 | -0.2 | 0.8 | 1.0 |
| Construction | 0.9 | 0.7 | 1.1 | 1.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Machinery and Equipment | 0.3 | -0.3 | 1.2 | 1.3 | 0.7 | -0.2 | 0.5 | 0.5 |
| Other Assets | 0.1 | 0.0 | -0.2 | 0.2 | 0.2 | -0.2 | -0.1 | 0.3 |
| Changes in Stocks | -0.2 | 0.7 | 1.0 | -1.5 | -0.5 | 0.0 | 3.4 | -3.0 |
| Net Exports | -0.9 | -0.5 | -1.3 | -1.0 | -2.2 | 0.7 | -1.2 | 1.5 |
| Exports | -0.6 | 0.0 | 0.5 | -0.2 | -0.9 | 0.7 | -0.7 | 0.6 |
| Imports | -0.4 | -0.5 | -1.8 | -0.8 | -1.3 | 0.0 | -0.5 | 0.9 |
| Domestic Demand | 4.1 | 3.0 | 6.2 | 4.6 | 3.5 | 0.1 | 2.8 | -0.5 |
| Final Domestic Demand | 4.3 | 2.2 | 5.2 | 6.1 | 4.1 | 0.1 | -0.6 | 2.6 |

Source: TURKSTAT, Akbank

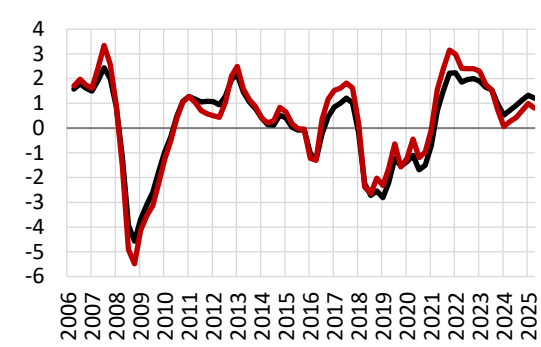
Output Gap:

We believe that defining the output gap as a combination of the goods/services market, the credit market, and the labor market during this period provides a more accurate assessment of aggregate demand conditions. In this context, the various indicators we developed indicate high sectoral heterogeneity and that, contrary to the CBRT's assessments, the output gap remains at inflationary levels (Charts 11-12).

Chart 11. Output Gap in Services (%)*

* Total services indicator is the weighted average of other two series with their 2024 weights

Source: TURKSTAT, Akbank

Chart 12. Output Gap (%)*

* Indicators created from the combinations of GDP, unemployment rate and net credit use that have the highest predictive power for core inflation (B).

Source: TURKSTAT, Akbank

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