Macro: Domestic demand still strong in the last quarter

GDP grew by 3.4% year-on-year in the fourth quarter, below market expectations (3.8%) but close to our model estimate (3.5%). Seasonally adjusted quarterly growth came in at 0.4%, in line with our "below-potential" expectation. However, the loss of momentum in quarterly growth stemmed from the net export contribution turning negative again. The contribution of private consumption reached its highest level of the year. Therefore, demand components did not present a more favorable outlook from a disinflation perspective.

The picture in the final quarter also holds for the whole year. Despite the high interest rate environment and financial volatility in March, domestic demand continued to be the main driver of growth, and growth accelerated from 3.3% to 3.6% in 2025 (MTP forecast: 3.3%). In 2025, the contribution of domestic demand to growth rose significantly to 4.7 percentage points, while the contribution of net exports turned negative at -1.1 percentage points, in contrast to 2024. Thus, the anticipated rebalancing in demand conditions via tight financial conditions did not materialize.

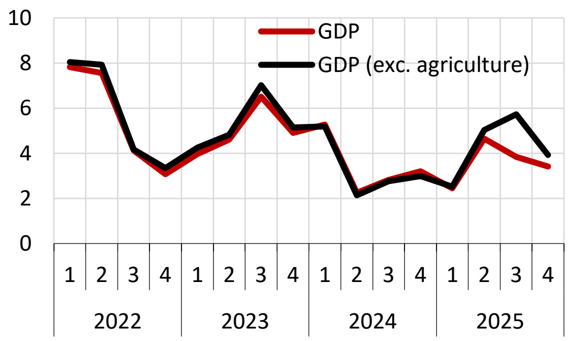
One development that complicates a sound assessment of demand conditions based on headline GDP growth is supply problems in the agricultural sector. Excluding the sharpest annual contraction (8.8%) in agricultural value added since 2001, GDP grew by 4.3%, well above headline growth, and the acceleration compared to 2024 (3.2%) was stronger.

The various output gap indicators we construct suggest that demand conditions are at inflationary levels, contrary to the CBRT's projections. This indicates that the monetary stance and financial conditions had not been sufficiently tight. While current data for the first quarter point to this trend continuing as of February, recent geopolitical developments pose downside risks to growth in the period ahead.

In 2025Q4, Gross Domestic Product (GDP) annual growth was realized at 3.4%, below the market expectation (3.8%) and close to our model estimates (3.5%) (Chart 1). Calendar-adjusted annual growth was also 3.4%. Seasonally and calendar-adjusted (s.a.) GDP grew by 0.4% quarter-on-quarter; thus, quarterly growth slowed compared to previous quarters (Chart 2).

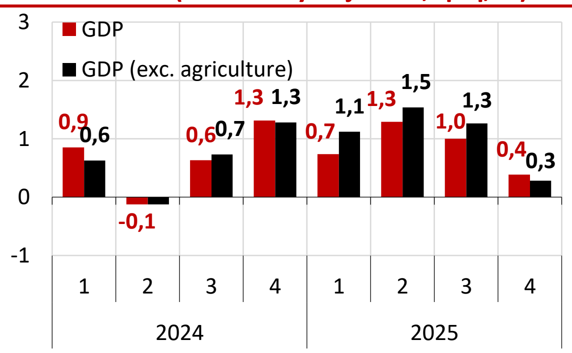
Data for the first three quarters of the year were slightly revised. While annual growth for the first quarter remained unchanged, it declined from 4.9% to 4.7% for the second quarter and increased from 3.7% to 3.8% for the third quarter. Quarterly growth rates (s.a.) were revised from 0.8% to 0.7% for the first quarter, from 1.6% to 1.3% for the second quarter, and from 1.1% to 1.0% for the third quarter.

Chart 1. GDP (yoy, %)



Source: TURKSTAT, Akbank

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



Source: TURKSTAT, Akbank

Accordingly, **growth accelerated from 3.3% in 2024 to 3.6% in 2025**. The MTP forecast was lower at 3.3%. The output gap estimate of the CBRT in the latest Inflation Report implied a growth rate of 3.5%. Therefore, we assess that the year-end level of GDP (s.a.) will push the CBRT's output gap projection somewhat higher.

In 2025, GDP in US dollar terms increased by 17.5% to $1.6 trillion. Thus, GDP per capita rose to $18,040.

Production Side:

As in the previous quarter, annual growth in the fourth quarter of 2025 was widespread across sectors except agriculture (Table 1). Supply-side problems (agricultural frost, drought, etc.) led to a significant contraction in agricultural production in 2025. **Agricultural value added**, which contracted by 5.0% in the second quarter and 12.4% in the third quarter on an annual basis, declined by 7.2% in the fourth quarter as well, contributing -0.3 percentage points to annual GDP growth (Table 2). Therefore, we calculate non-agricultural GDP annual growth to be stronger at 3.9% in the fourth quarter (Chart 1). A similar outlook prevails for the whole year. Excluding the sharpest contraction (8.8%) in the agricultural sector since 2001, GDP grew by 4.3%, above headline growth, and gained stronger momentum compared to 2024 (3.2%). Despite the strong annual contraction, agricultural value added increased by 2.6% on a seasonally adjusted basis following sharp declines in the previous three quarters. This increase is far from compensating previous losses and appears more as a technical correction. Non-agricultural GDP quarterly growth (s.a.), after an average increase of 1.3% in the last four quarters, rose more modestly by 0.3% in the fourth quarter (Chart 2). In this respect, a slowdown in core economic activity appears to have taken place.

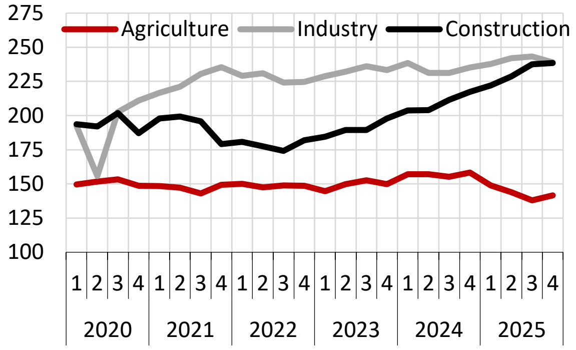
The support of construction value added to growth continued in the fourth quarter, albeit at a lesser extent compared to previous quarters (Chart 3). While annual growth stood at 8.6%, significantly outperforming other sectors, quarterly growth (s.a.) was 0.4%, similar to GDP. For the whole year, construction value added recorded its highest growth since 2013 at 10.8%. Reconstruction activities in the earthquake zone and urban transformation projects enabled construction value added to increase significantly over the past three years (Chart 3). However, with the completion of a large part of earthquake-related expenditures, we expect normalization in construction value added growth from 2026 onwards.

Annual growth in services value added was 4.0%, spreading across all sub-components (Table 1). Quarterly increase (s.a.) slowed significantly to 0.2% compared to other quarters of the year (Chart 4). The slowdown on a quarterly basis was driven by core services, consisting of **wholesale-retail trade, transportation-storage, and accommodation-food services.** Technical correction in **financial and insurance activities** was another determinant of the slowdown. **Information-communication** and **real estate activities** maintained their upward trend with increases of 1.2% and 0.7%, respectively.

Industrial value added (s.a.) contracted by 1.8% after five quarters of consecutive increase (Chart 3). Annual sectoral growth was 0.9% in Q4, close to the Industrial Production Index (IPI) (Macro: Industrial Production – December 2025). In 2025 as a whole, industrial value added growth reached 2.9%, the highest in the last four years (IPI increase: 2.6%). Nevertheless, its growth remained weaker than other main sectors excluding agriculture. Weak external demand conditions continued to limit the industrial sector in 2025, while strong performance in defense industry and construction-related sectors supported industrial value added.

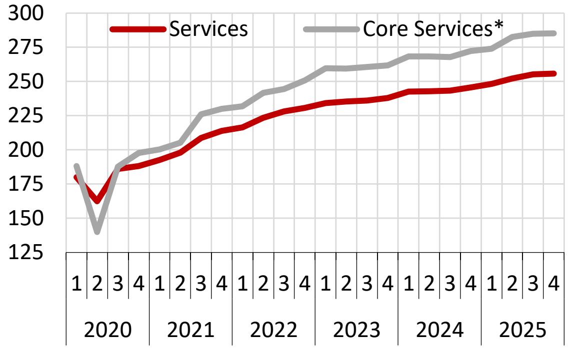
Finally, **net taxes** maintained a high annual increase of 9.5%, while quarterly growth accelerated to 3.4% (Table 1).

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 may differ from the headline quarterly and annual growth for GDP. However, in the fourth quarter, the annual and quarterly growth figures we obtained from the totals of sectors were of 3.8% and 0.3%, respectively, which are closer to the announced values this time compared to previous quarters.

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

	Annual Growth				Quarterly Growth (seas. adj.)			
	2025-Q1	2025-Q2	2025-Q3	2025-Q4	2025-Q1	2025-Q2	2025-Q3	2025-Q4
GDP	**2.5**	**4.7**	**3.8**	**3.4**	**0.7**	**1.3**	**1.0**	**0.4**
Agriculture	**-0.1**	**-5.0**	**-12.4**	**-7.2**	**-5.9**	**-3.3**	**-4.2**	**2.6**
Industry	**-1.5**	**6.1**	**6.5**	**0.9**	**1.1**	**1.8**	**0.5**	**-1.8**
Manufacturing	-2.3	7.0	7.6	0.9	0.2	2.1	0.9	-1.6
Construction	**8.5**	**11.3**	**14.1**	**8.6**	**2.2**	**3.0**	**3.9**	**0.4**
Services	**1.6**	**3.6**	**6.0**	**4.0**	**1.1**	**1.6**	**1.3**	**0.2**
Core Services*	1.6	5.9	6.5	4.2	0.6	3.2	0.8	0.1
Information and Communication	5.7	7.0	10.1	8.9	3.5	1.8	2.8	1.2
Financial and Insurance Activities	-1.1	2.1	11.1	4.1	1.2	1.4	2.6	-1.4
Real Estate Activities	1.2	1.7	4.3	3.5	-0.3	0.9	1.1	0.7
Profes. Adm. and Support Services	2.3	5.6	4.5	3.7	2.8	0.8	-0.2	1.0
Public Administration**	1.1	-1.6	2.4	1.7	2.0	-1.3	1.9	-0.2
Other Services	4.3	2.2	7.2	3.8	1.3	0.4	2.3	0.4
Net Taxes (Tax - Subsidies)	**4.5**	**2.7**	**9.7**	**9.5**	**-0.7**	**1.8**	**3.0**	**3.4**

* 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.)			
	2025-Q1	2025-Q2	2025-Q3	2025-Q4	2025-Q1	2025-Q2	2025-Q3	2025-Q4
GDP	**2.5**	**4.7**	**3.8**	**3.4**	**0.7**	**1.3**	**1.0**	**0.4**
Agriculture	**0.0**	**-0.2**	**-1.3**	**-0.3**	**-0.3**	**-0.2**	**-0.2**	**0.1**
Industry	**-0.3**	**1.1**	**1.1**	**0.2**	**0.2**	**0.3**	**0.1**	**-0.3**
Manufacturing	-0.4	1.1	1.1	0.1	0.0	0.3	0.1	-0.3
Construction	**0.4**	**0.6**	**0.7**	**0.4**	**0.1**	**0.2**	**0.2**	**0.0**
Services	**1.0**	**2.2**	**3.4**	**2.4**	**0.7**	**0.9**	**0.8**	**0.1**
Core Services*	0.4	1.5	1.6	1.1	0.1	0.8	0.2	0.0
Information and Communication	0.2	0.2	0.3	0.4	0.1	0.1	0.1	0.0
Financial and Insurance Activities	-0.1	0.1	0.6	0.2	0.1	0.1	0.1	-0.1
Real Estate Activities	0.1	0.2	0.4	0.3	0.0	0.1	0.1	0.1
Profes. Adm. and Support Services	0.1	0.3	0.2	0.2	0.1	0.0	0.0	0.0
Public Administration**	0.1	-0.2	0.2	0.1	0.2	-0.1	0.2	0.0
Other Services	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.0
Net Taxes (Tax - Subsidies)	**0.5**	**0.3**	**1.0**	**1.2**	**-0.1**	**0.2**	**0.3**	**0.4**

* 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:

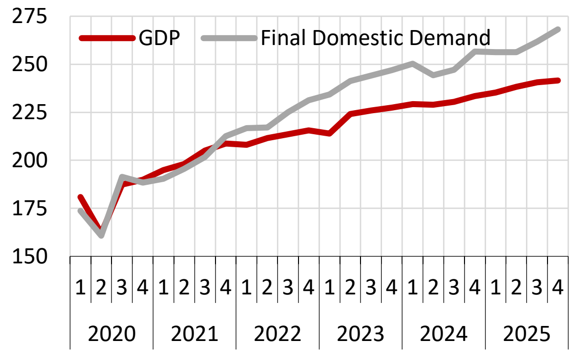
As in the first three quarters of 2025, domestic demand was the main driver of annual growth in the fourth quarter, while net exports again made a negative contribution (Tables 3 and 4, Chart 5). Domestic demand contributed 4.8 percentage points to annual growth, while net exports contributed -1.4 percentage points (Table 4). On the other hand, quarter-on-quarter changes indicate that final domestic demand remained strong through private consumption, change in stocks limited growth, and net exports made a significant negative contribution to quarterly growth. As highlighted in foreign trade data, the strengthening import demand after August played a role in this development.

We estimate that domestic demand (final domestic demand + change in stocks) increased by 2.3% quarter-on-quarter (s.a.) and 4.8% annually in the fourth quarter (Table 3, Chart 9). Both private consumption and investments contributed to annual domestic demand growth, while public consumption expenditures had a limiting effect. On a quarterly basis, the increase in domestic demand was driven by private consumption. **Change in stocks** reduced annual growth by 0.2 percentage points and quarterly growth by 0.4 percentage points. As noted in our previous reports, it is difficult to explain this data on economic grounds due to statistical discrepancies.

Private consumption, the biggest component of final domestic demand, followed a strong course in the second half of the year after contracting in the first half (Chart 6). In the fourth quarter, private consumption grew by 4.2% quarter-on-quarter (s.a.) and 5.2% year-on-year, reaching quite high levels. **Investment** expenditures, on the other hand, declined slightly on a quarterly basis due to machinery-equipment, while increasing by 5.4% year-on-year. In the last quarter, construction presented a more favorable outlook compared to machinery-equipment investments (Table 3, Chart 7). **Public consumption** decreased by 1.7% compared to the previous quarter and by 0.9% annually (Chart 6).

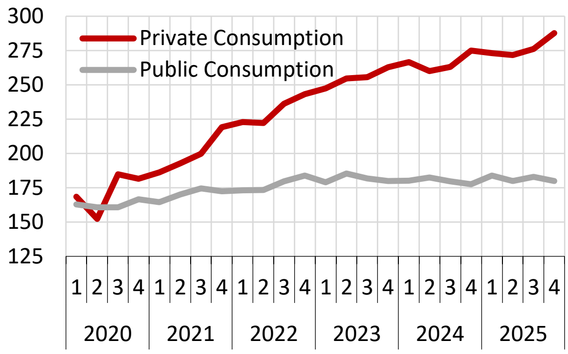
For 2025 as a whole, despite the high interest rate environment and financial volatility in March, domestic demand remained the main driver of growth. In 2025, domestic demand's contribution to growth strengthened significantly compared to 2024, up to 4.7 percentage points, while net exports' contribution turned negative at -1.1 percentage points, unlike in 2024. Therefore, the expected rebalancing in demand conditions through tight financial conditions did not materialize. The contribution of private consumption to growth declined from 3.0% to 2.8%, while the contribution of investments increased from 0.7 to 1.8 percentage points. Change in stocks made no contribution to growth in 2025 after four years of negative contribution. The increase in imports was the main determinant behind the negative contribution of net exports. The contribution of exports remained close to 2024 at -0.1. Therefore, rather than weak external demand, the import demand driven by strong domestic demand was the main factor behind the negative contribution of net exports.

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



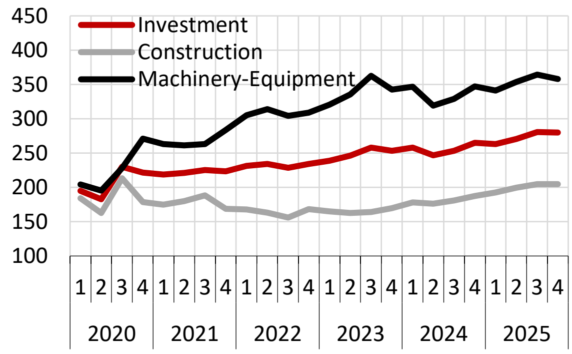
Source: TURKSTAT, Akbank

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



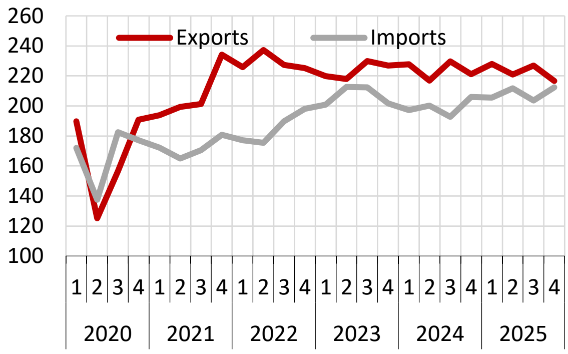
Source: TURKSTAT, Akbank

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



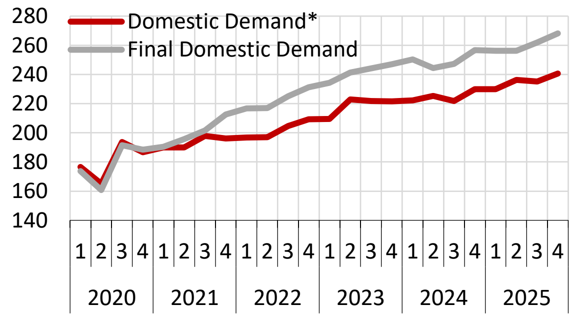
Source: TURKSTAT, Akbank

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



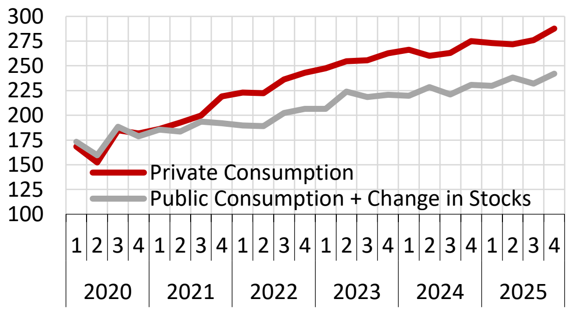
Source: TURKSTAT

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.)			
	2025-Q1	2025-Q2	2025-Q3	2025-Q4	2025-Q1	2025-Q2	2025-Q3	2025-Q4
GDP	**2.5**	**4.7**	**3.8**	**3.4**	**0.7**	**1.3**	**1.0**	**0.4**
Total Consumption	**1.8**	**3.9**	**4.0**	**4.3**	**0.0**	**-0.8**	**1.6**	**3.3**
Private Consumption	1.8	4.7	4.3	5.2	-0.6	-0.5	1.6	4.2
Public Consumption	2.1	-0.2	2.5	-0.9	3.6	-2.3	1.7	-1.7
Investment	**1.8**	**8.9**	**11.5**	**5.4**	**-0.6**	**2.8**	**3.7**	**-0.3**
Construction	7.1	11.9	13.5	8.7	2.8	3.5	2.7	0.0
Machinery and Equipment	-2.7	9.4	11.1	2.8	-1.8	3.8	2.9	-1.7
Other Assets	-0.6	-6.7	3.4	4.8	-5.7	-3.7	10.8	4.6
Exports	**0.2**	**2.0**	**-0.8**	**-2.3**	**3.1**	**-3.1**	**2.7**	**-4.5**
Imports	**2.8**	**8.9**	**4.4**	**3.8**	**-0.2**	**3.1**	**-3.8**	**4.3**
Domestic Demand	**3.1**	**6.1**	**5.1**	**4.8**	**0.0**	**2.7**	**-0.4**	**2.3**
Final Domestic Demand	**1.8**	**5.1**	**5.8**	**4.5**	**-0.2**	**0.0**	**2.1**	**2.4**

Source: TURKSTAT, Akbank

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

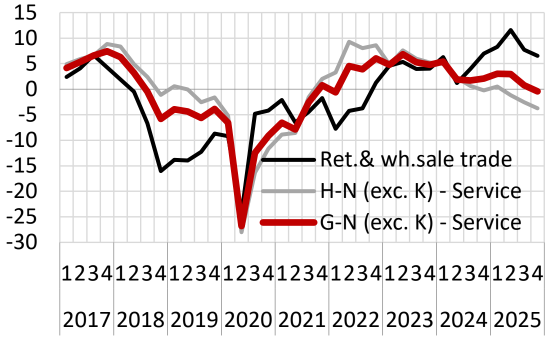
	Annual Growth				Quarterly Growth (seas. adj.)			
	2025-Q1	2025-Q2	2025-Q3	2025-Q4	2025-Q1	2025-Q2	2025-Q3	2025-Q4
GDP	**2.5**	**4.7**	**3.8**	**3.4**	**0.7**	**1.3**	**1.0**	**0.4**
Total Consumption	**1.5**	**3.1**	**3.2**	**3.5**	**0.0**	**-0.7**	**1.3**	**2.7**
Private Consumption	1.3	3.1	2.8	3.7	-0.5	-0.4	1.1	2.9
Public Consumption	0.3	0.0	0.3	-0.1	0.4	-0.3	0.2	-0.2
Investment	**0.5**	**2.3**	**2.8**	**1.4**	**-0.2**	**0.7**	**1.0**	**-0.1**
Construction	0.7	1.1	1.2	0.8	0.3	0.3	0.3	0.0
Machinery and Equipment	-0.4	1.2	1.3	0.4	-0.2	0.5	0.4	-0.2
Other Assets	0.0	-0.2	0.1	0.2	-0.2	-0.1	0.3	0.2
Changes in Stocks	**0.9**	**0.6**	**-1.1**	**-0.2**	**0.2**	**2.6**	**-2.7**	**-0.4**
Net Exports	**-0.5**	**-1.3**	**-1.0**	**-1.4**	**0.7**	**-1.3**	**1.4**	**-1.8**
Exports	0.1	0.4	-0.2	-0.5	0.7	-0.7	0.6	-1.0
Imports	-0.5	-1.8	-0.8	-0.9	0.0	-0.6	0.8	-0.8
Domestic Demand	**2.9**	**6.0**	**4.8**	**4.8**	**0.0**	**2.6**	**-0.4**	**2.2**
Final Domestic Demand	**2.0**	**5.4**	**5.9**	**5.0**	**-0.2**	**0.1**	**2.3**	**2.6**

Source: TURKSTAT, Akbank

Output Gap:

We believe that defining the output gap in this period as a combination of goods/services markets, credit markets, and the labor market provides a more appropriate assessment of overall demand conditions. In this context, the indicators we construct point to high sectoral heterogeneity and, overall, that the output gap continues to remain at inflationary levels, contrary to CBRT assessments (Charts 11–12).

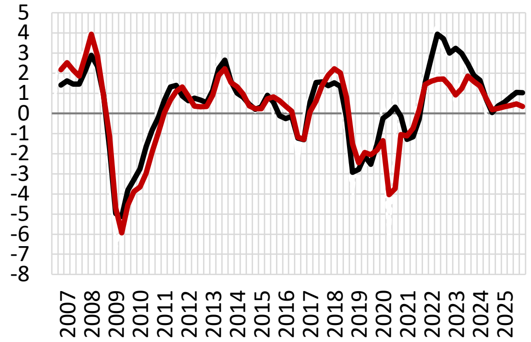
Chart 11. Output Gap in Services (%)*



* 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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