Macro: Slowdown in domestic demand, moderate growth due to net exports

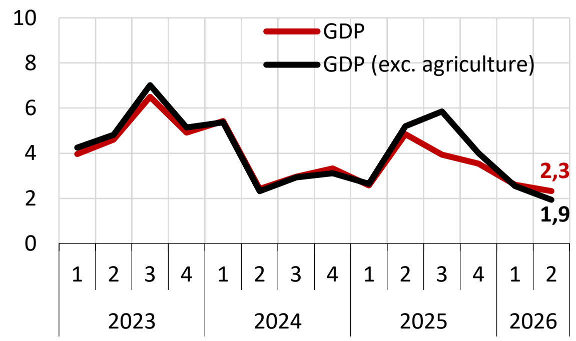
In the second quarter, annual growth fell short of expectations at 2.3%, while seasonally adjusted quarterly growth accelerated again to 1.1%, exceeding expectations. Improving agricultural production contributed 0.5 percentage points to annual growth, while non-agricultural quarterly growth remained strong at 1.0%. According to expenditure composition, net exports (1.6 percentage points) and stock changes (0.7 percentage points) were the main drivers of quarterly growth, while final domestic demand contracted on a quarterly basis due to consumption expenditures, contributing negatively to quarterly growth by 1.2 percentage points. Consumption expenditures declined due to both private and public consumption, while fixed capital investment expenditures remained flat after two quarters of contraction. In terms of annual growth, the contribution of net exports turned positive after 1.5 years, while domestic demand, led by consumption expenditures, continued to be the main driver. Our estimated output gap indicators suggest that total demand may have converged to or fallen below its potential level as of the second quarter.

The strong quarterly growth rate in Q2, where the tightness in financial conditions became much more noticeable, should be approached cautiously (Q425: 0.3%, Q126: 0.3%). Indeed, when we adjust directly for GDP, we calculate quarterly growth below previous quarters and limited to 0.4%. Despite the positive surprise in quarterly growth, we expect the CBRT not to change its policy messages regarding total demand conditions. The additional growth driven by agriculture, which is an adjustment from last year, including the third quarter, should be considered 'deflationary', as the improvement in supply conditions is limiting food inflation. We also expect the CBRT to increase its emphasis on non-agricultural growth data and domestic demand.

In the second quarter of 2026, annual GDP growth was 2.3%, below our model estimates (2.9%) and market expectations (2.5%-2.8%) (Chart 1). Thus, annual growth in the first half of 2026 was 2.5%. Seasonally and calendar adjusted (s.a.) quarterly GDP growth, however, accelerated again to 1.1%, exceeding expectations (Chart 2).

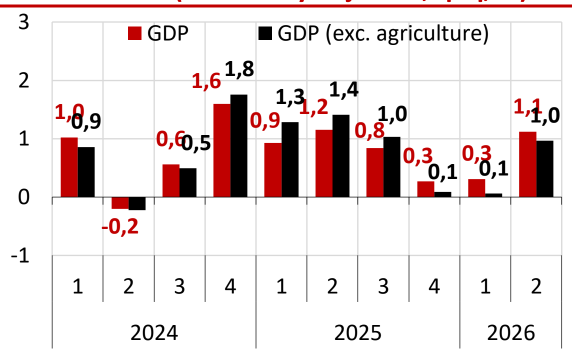
As part of routine revisions, GDP data was updated since 2024. Following the revision, growth for 2024 increased from 3.3% to 3.5%, and growth for 2025 increased from 3.6% to 3.7%.

Chart 1. GDP (yoy, %)



Source: TURKSTAT, Akbank

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



Source: TURKSTAT, Akbank

Production Side:

In the second quarter of 2026, all major sectors excluding construction contributed to annual and quarterly growth (s.a.) (Table 1).

Agricultural value added, after contracting significantly throughout 2025 due to supply-side problems (agricultural frost, drought, etc.), returned to annual growth in the first half. With the base effect strengthening, agricultural value added increased by 13.3% year-on-year, contributing 0.5 percentage points to the annual growth in the second quarter. Therefore, GDP growth excluding agriculture was

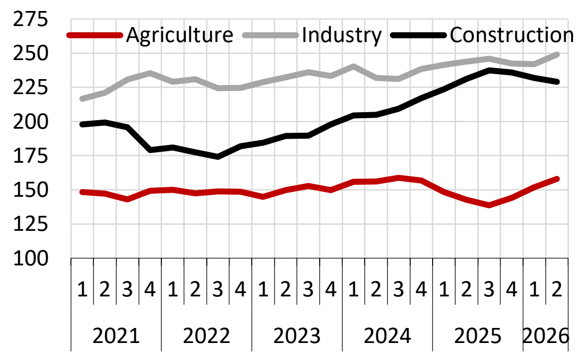
1.9%, falling below GDP growth (Chart 1). In seasonally adjusted terms, the quarterly increase remained strong at 4.0%, similar to the previous two quarters. Thus, the cumulative recovery over the last three quarters compensated for the cumulative decline in 2025. Quarterly GDP growth excluding agriculture (s.a.) also remained strong at 1.0% (Chart 2). We expect the positive trend in agricultural value added to contribute even more strongly to annual growth in the third quarter.

The contribution of **construction** value added to growth continued to weaken (Chart 3). Reconstruction efforts in the earthquake-affected region and urban transformation projects had been key drivers of construction growth over the past three years. As spending related to earthquake reconstruction has largely been completed, construction value added weakened. The year-on-year change was negative at -1.9%, the first time since the third quarter of 2022, while the quarterly contraction trend that began in the last quarter of 2025 continued at 1.2% (Graph 3). The cumulative decline over the last three quarters was 3.5%.

Services sector value added grew by 2.1% annually, with all sub-sectors contributing to the annual growth, as in the previous three quarters (Table 1). Quarterly growth (s.a.) slowed to 0.4% compared to the previous quarter, but, as with annual growth, it was spread across all sectors (Table 2, Chart 4). **Core services**, including transportation and storage, which have stronger industrial links, continued to perform relatively weakly, while **information and communication**, **professional, administrative and support services**, and **other services** recorded strong growth.

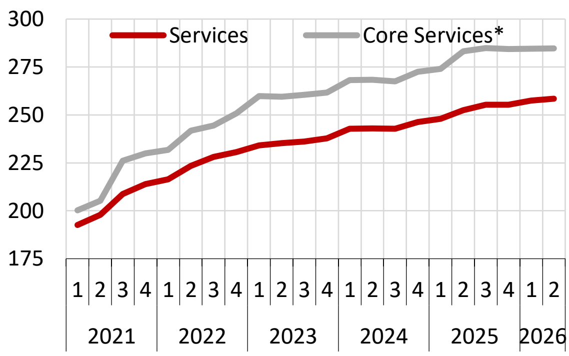
Industrial value added (s.a.) increased by 2.9% on a quarterly basis after two quarters of decline, making it the sector that contributed most to quarterly growth and offsetting the cumulative decline of the last two quarters (Chart 3). On an annual basis, the sector grew by 2.4%, higher than the Industrial Production Index (IPI) (1.9%) (Table 1). Finally, while the annual increase in net tax accelerated to 3.3%, the 1.6% quarterly increase (s.a.) contributed 0.2 percentage points to quarterly growth (Table 2).

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

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

	Annual Growth				Quarterly Growth (seas. adj.)			
	2025-Q3	2025-Q4	2026-Q1	2026-Q2	2025-Q3	2025-Q4	2026-Q1	2026-Q2
GDP	**3.9**	**3.5**	**2.6**	**2.3**	**0.8**	**0.3**	**0.3**	**1.1**
Agriculture	**-12.4**	**-6.2**	**4.8**	**13.3**	**-2.9**	**4.0**	**5.3**	**4.0**
Industry	**7.3**	**1.4**	**-0.5**	**2.4**	**0.9**	**-1.5**	**-0.2**	**2.9**
Manufacturing	8.1	1.2	-1.3	2.4	1.1	-1.5	-0.7	3.3
Construction	**14.4**	**9.1**	**3.2**	**-1.9**	**2.7**	**-0.7**	**-1.6**	**-1.2**
Services	**5.8**	**3.9**	**3.6**	**2.1**	**1.1**	**0.0**	**0.8**	**0.4**
Core Services*	6.6	4.3	3.5	0.5	0.6	-0.1	0.0	0.1
Information and Communication	9.9	8.8	9.0	8.6	2.9	1.4	2.5	1.7
Financial and Insurance Activities	10.7	3.6	3.8	2.1	2.7	-1.3	1.8	0.3
Real Estate Activities	2.9	2.4	3.0	2.1	0.6	0.4	0.8	0.4
Profes. Adm. and Support Services	5.0	3.9	1.9	2.0	-0.2	0.6	0.7	1.0
Public Administration**	2.2	0.6	3.1	4.0	1.8	-0.2	1.8	0.3
Other Services	10.2	7.5	4.1	3.2	2.3	0.7	0.6	1.1
Net Taxes (Tax - Subsidies)	**9.6**	**9.8**	**2.1**	**3.3**	**2.2**	**2.9**	**-2.8**	**1.6**

* 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-Q3	2025-Q4	2026-Q1	2026-Q2	2025-Q3	2025-Q4	2026-Q1	2026-Q2
GDP	**3.9**	**3.5**	**2.6**	**2.3**	**0.8**	**0.3**	**0.3**	**1.1**
Agriculture	**-1.3**	**-0.3**	**0.1**	**0.5**	**-0.1**	**0.2**	**0.3**	**0.2**
Industry	**1.3**	**0.3**	**-0.1**	**0.5**	**0.2**	**-0.3**	**0.0**	**0.5**
Manufacturing	1.2	0.2	-0.2	0.4	0.2	-0.2	-0.1	0.5
Construction	**0.7**	**0.4**	**0.2**	**-0.1**	**0.1**	**0.0**	**-0.1**	**-0.1**
Services	**3.3**	**2.3**	**2.3**	**1.3**	**0.7**	**0.0**	**0.5**	**0.2**
Core Services*	1.6	1.1	0.9	0.1	0.2	0.0	0.0	0.0
Information and Communication	0.3	0.4	0.3	0.3	0.1	0.1	0.1	0.1
Financial and Insurance Activities	0.5	0.2	0.2	0.1	0.1	-0.1	0.1	0.0
Real Estate Activities	0.3	0.2	0.3	0.2	0.1	0.0	0.1	0.0
Profes. Adm. and Support Services	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.1
Public Administration**	0.2	0.0	0.3	0.4	0.2	0.0	0.2	0.0
Other Services	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Net Taxes (Tax - Subsidies)	**1.0**	**1.2**	**0.2**	**0.4**	**0.2**	**0.3**	**-0.3**	**0.2**

* 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:

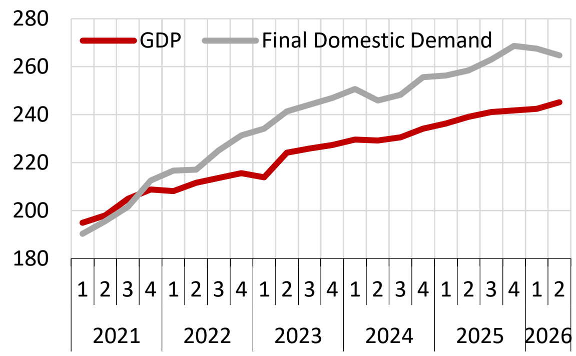
As in the previous six quarters, domestic demand was the main driver of annual growth in the second quarter of 2026, while the contribution of net exports to growth turned to positive. Domestic demand contributed 1.75 percentage points to annual growth, while net exports contributed approximately 0.6 percentage points (Table 4). On the expenditure side, private consumption continued to be the main driver of annual growth (Table 3). The contribution of investment, however, weakened considerably.

On the other hand, quarter-to-quarter changes (s.a.) presented a different picture from the annual growth outlook (Chart 5). While final domestic demand declined compared to the first quarter due to the contraction in consumer spending (Chart 5 and 6), net exports and stock changes contributed 1.6

and 0.7 percentage points respectively, driving quarterly growth (Chart 8, Table 4). Investments remained flat (Figure 7).

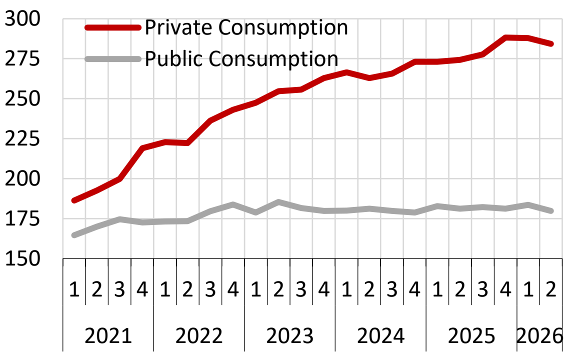
Our estimated output gap indicators suggest that total demand may have converged to or fallen below its potential level as of the second quarter.

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



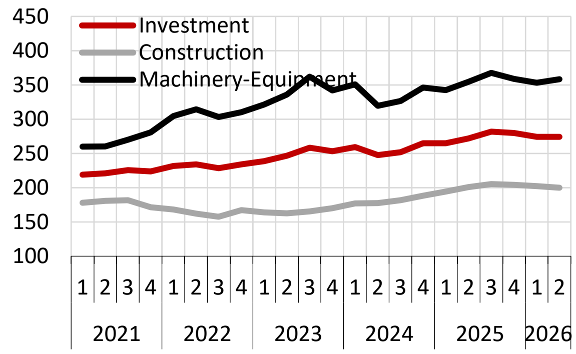
Source: TURKSTAT, Akbank

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



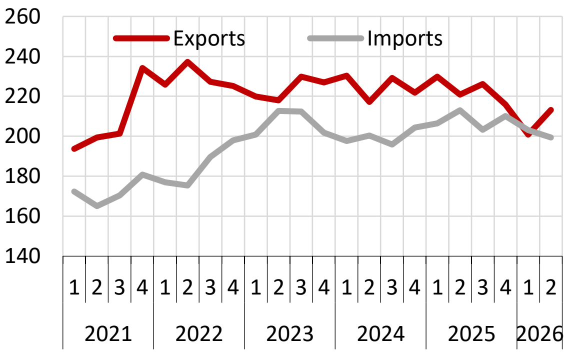
Source: TURKSTAT, Akbank

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



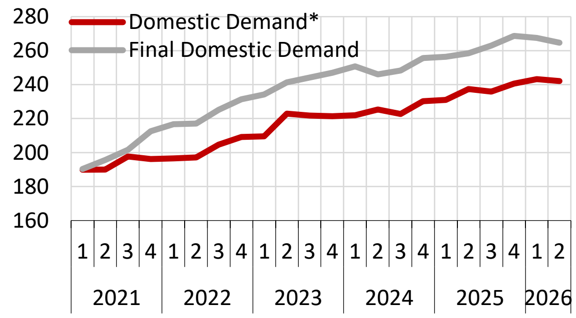
Source: TURKSTAT, Akbank

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



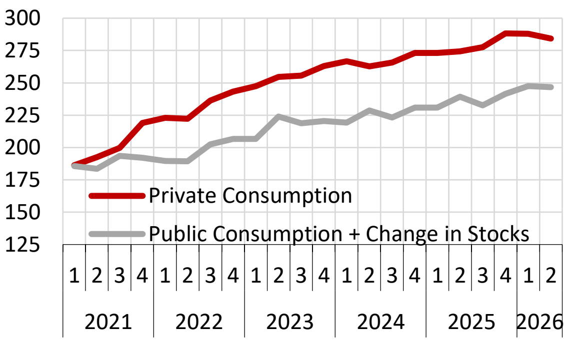
Source: TURKSTAT

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-Q3	2025-Q4	2026-Q1	2026-Q2	2025-Q3	2025-Q4	2026-Q1	2026-Q2
GDP	**3.9**	**3.5**	**2.6**	**2.3**	**0.8**	**0.3**	**0.3**	**1.1**
Total Consumption	**3.9**	**5.0**	**4.4**	**2.7**	**1.1**	**3.1**	**0.1**	**-1.4**
Private Consumption	4.3	5.7	5.1	3.5	1.2	3.8	-0.1	-1.3
Public Consumption	1.5	0.9	0.8	-1.8	0.5	-0.6	1.3	-2.0
Investment	**12.0**	**5.8**	**3.1**	**0.6**	**3.6**	**-0.7**	**-2.0**	**0.0**
Construction	13.7	8.8	3.3	-0.9	2.3	-0.5	-1.1	-1.0
Machinery and Equipment	11.6	3.3	3.0	1.6	3.7	-2.3	-1.6	1.4
Other Assets	4.4	5.5	3.2	4.1	7.9	5.2	-6.4	-2.3
Exports	**-1.1**	**-2.6**	**-12.7**	**-3.4**	**2.4**	**-4.5**	**-7.0**	**6.2**
Imports	**4.0**	**3.5**	**-2.0**	**-6.4**	**-4.6**	**3.4**	**-3.4**	**-1.8**
Domestic Demand	**5.3**	**4.9**	**5.3**	**1.8**	**-0.6**	**2.0**	**1.1**	**-0.4**
Final Domestic Demand	**5.8**	**5.2**	**4.1**	**2.2**	**1.7**	**2.2**	**-0.4**	**-1.1**

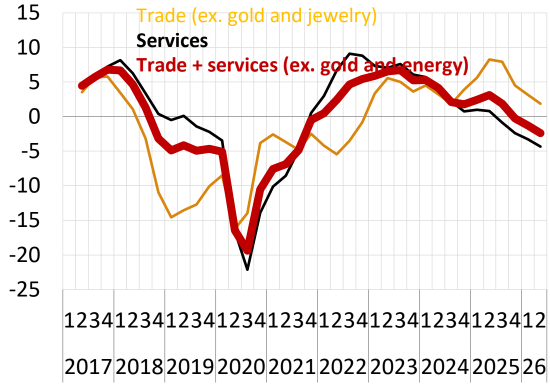
Source: TURKSTAT, Akbank

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

	Annual Growth				Quarterly Growth (seas. adj.)			
	2025-Q3	2025-Q4	2026-Q1	2026-Q2	2025-Q3	2025-Q4	2026-Q1	2026-Q2
GDP	**3.9**	**3.5**	**2.6**	**2.3**	**0.8**	**0.3**	**0.3**	**1.1**
Total Consumption	**3.0**	**4.1**	**3.7**	**2.1**	**0.9**	**2.5**	**0.1**	**-1.2**
Private Consumption	2.9	4.0	3.6	2.3	0.8	2.6	-0.1	-0.9
Public Consumption	0.2	0.1	0.1	-0.2	0.1	-0.1	0.2	-0.3
Investment	**2.9**	**1.5**	**0.8**	**0.2**	**0.9**	**-0.2**	**-0.5**	**0.0**
Construction	1.2	0.8	0.3	-0.1	0.2	0.0	-0.1	-0.1
Machinery and Equipment	1.4	0.4	0.4	0.2	0.5	-0.3	-0.2	0.2
Other Assets	0.1	0.2	0.1	0.1	0.2	0.2	-0.2	-0.1
Changes in Stocks	**-1.0**	**-0.7**	**0.6**	**-0.5**	**-2.5**	**-0.4**	**1.6**	**0.7**
Net Exports	**-1.0**	**-1.4**	**-2.5**	**0.6**	**1.5**	**-1.7**	**-0.8**	**1.6**
Exports	-0.3	-0.6	-2.9	-0.8	0.5	-1.0	-1.5	1.2
Imports	-0.7	-0.8	0.4	1.3	0.9	-0.7	0.7	0.4
Domestic Demand	**5.0**	**4.9**	**5.1**	**1.8**	**-0.6**	**1.9**	**1.1**	**-0.4**
Final Domestic Demand	**5.9**	**5.6**	**4.5**	**2.3**	**1.8**	**2.3**	**-0.5**	**-1.1**

Source: TURKSTAT, Akbank

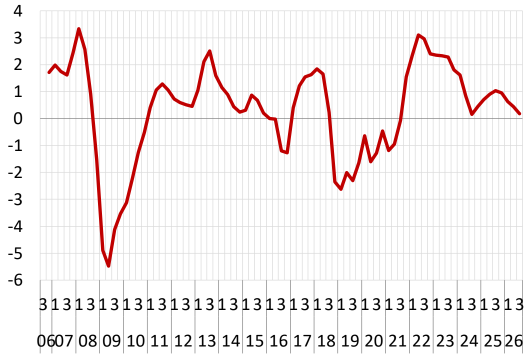
Chart 11. Output Gap in Services (% difference from log-linear trend)*



* 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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