

SLIGHTLY LESS UNBALANCED GROWTH

The Turkish economy has experienced a moderate deceleration despite a flat labour market since 2024 and a reduction in exports in the second half of 2025. Concerns linked to political tensions in March 2025 have dissipated. Consumption is slowing but remains buoyant thanks to renewed disinflation and the use of credit. Investment has recovered after a slump in 2024. Growth is expected to strengthen slightly in 2026, in contrast to the previously expected slowdown scenario. Consumption is expected to moderate further, influenced by tighter controls on credit card use. However, monetary policy is likely to remain accommodative, and fiscal policy will also adopt a more supportive stance. The overvaluation of the lira continues to be the main risk to growth. While AI is likely to contribute only marginally, the country is demonstrating surprising potential in this area, particularly in terms of its available skilled labour force.

A DOMESTIC DEMAND-LED GROWTH TOGETHER WITH A RESUMPTION OF DISINFLATION

In Q2 and Q3 2025, real GDP growth averaged slightly above 4% q/q at a seasonally adjusted annualised rate, exceeding its potential as estimated by the IMF. It slowed in Q4 (+1.6% in saar) but held up very well for 2025 as a whole, at 3.6%.

Household consumption has been the main driver of growth, averaging +4.2% year-on-year, despite a deceleration since 2022. This growth has been bolstered by wage purchasing power and the use of credit. Disinflation continued in the last quarter, although it slowed in H2 compared to H1. In January, the year-on-year inflation rate stood at 30.7%, down from 35% in June 2025 and 44% in December 2024. However, employment has not increased since 2024, and the unemployment rate has been rising slightly since early 2025, reaching 8.6% in November. Household confidence has been stable since spring 2025, albeit at a lower level than before 2018, when inflation was in single digits and much less volatile. Until the end of 2025, households continued to make extensive use of their credit cards for consumption, with real-term spending financed in this way growing at a rate of 12% year-on-year.

In 2025, total investment picked up again (+7%) after experiencing a dip in 2024. Investment in equipment remained buoyant (+5%) and is 80% higher than in 2018. Investment in construction has been recovering steadily since 2024 (+9.8%), but remains 20% below its 2018 level.

The contribution of net exports of goods and services to growth was negative, primarily due to the weakness of exports (-0.3% in 2025), especially in the second half of the year, rather than the increase in imports. Imports rose by 4.9%, following a contraction in 2024 at the same rate. Furthermore, headline elasticity to growth remains relatively low (1.4).

In Q4 2025, industrial production and service sector activity remained largely unchanged, while the capacity utilisation rate in the manufacturing sector continued to decline, falling below its 2007-2024 average. Fortunately, activity in construction and retail sales remained buoyant during this period.

Overall, growth remained unbalanced (Chart 1), but slightly less so than in 2024, a year marked by a slowdown in equipment investment, which is crucial for potential growth.

OUTLOOK: FRAGILE CONSOLIDATION DUE TO A POTENTIALLY OVERVALUED LIRA

Several factors point to a consolidation of growth in 2026 and 2027. First, as in 2024, the carry-over effect is expected to be significant,

FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	5.0	3.3	3.6	3.8	4.0
Inflation, CPI, year average, %	53.9	58.5	34.9	26.1	19.0
Central gov. balance / GDP, %	-5.1	-4.7	-2.9	-3.5	-3.0
Gen. Gov. debt / GDP, % (EU standards)	24.9	20.8	21.7	21.9	22.4
Current account balance / GDP, %	-3.6	-0.8	-1.5	-2.0	-2.4
External debt / GDP, %	43.1	38.1	36.2	34.7	34.8
Forex reserves, USD bn	92.7	90.9	77.0	87.6	89.3
Forex reserves, in months of imports	2.9	3.0	2.3	2.5	2.4

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

ECONOMIC GROWTH SUPPORTED BY CONSTRUCTION & SERVICES

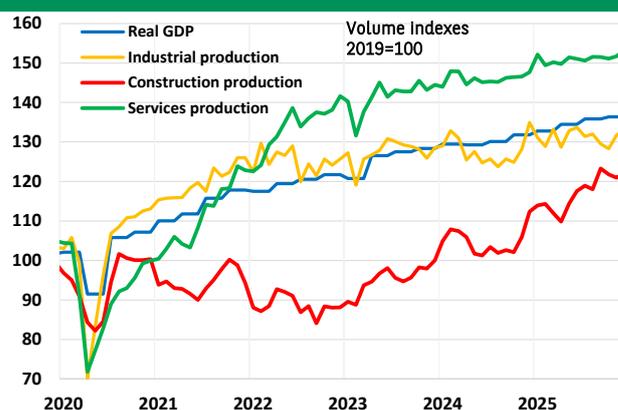


CHART 1

SOURCE: TUIK

contributing just over 1 percentage point to GDP. Second, disinflation is anticipated to continue, especially in the services sector, characterised by a lower rate of administered price adjustments and ongoing disinflation in rents. The central bank has maintained its inflation target at 16% for the end of 2026 but has revised its range upwards from a previous target of 13%-19% to 15%-21%. This adjustment is the result of a revision of the CPI index weightings, which is estimated to impact growth by 1 percentage point. However, it is mainly due to the central



bank's revised expectations regarding a fall in import prices. Despite this, monetary policy is expected to continue to ease, albeit cautiously, ensuring that the central bank maintains a positive real policy rate. Third, fiscal policy is expected to be more accommodative than in 2025 (see below). The official target for the primary balance is still a zero deficit after a year of surpluses. However, in 2027, fiscal policy may be deliberately relaxed, as the presidential elections scheduled for May 2028 are likely to be brought forward to November 2027.

However, there are downside risks. Household consumption should continue to bolster growth, but it could also slow down as real wages have been stable since mid-2025. In addition, the minimum wage increase at the beginning of 2026 was lower than inflation, and rising unemployment could result in a higher savings rate. Furthermore, the percentage of non-performing loans on personal loans, particularly credit cards, has doubled from 3% to 6% since the end of 2023, prompting the central bank to impose stricter conditions on credit card financing.

There is even greater uncertainty regarding the contribution of net exports to growth. The real exchange rate, as measured in terms of producer prices, has appreciated by nearly 30% since 2022, returning to levels seen in the mid-2010s. For manufacturers exporting products with relatively low added value, such as textiles, the Turkish lira is perceived as overvalued. However, the trade deficit, excluding oil and gold products, is still low and, overall, Turkish companies continued to gain market share in the European market until 2025, increasing from 3.5% in 2019 to 4.1%, compared to 2.5% in the early 2000s, according to the Ministry of Finance. In addition, exports of medium- and high-tech products now account for 43.5% of total exports, marking an increase of 10 percentage points over the last five years. In any case, the consolidation scenario assumes that Türkiye will maintain its market share in Europe despite fierce competition from China.

FINANCIAL APPEAL DUE TO CURRENT AND BUDGET DEFICITS UNDER CONTROL

In 2025, public finances continued to improve. The central government's primary budget balance (excluding interest payments) recorded a surplus of 0.4% of GDP, following a deficit of 1.9% in 2024. This was largely driven by increased revenues, which accounted for two-thirds of the improvement. Although the interest burden rose to 3.3% of GDP from 2.8% in 2024 as a result of higher bond yields in the second half of the year, the overall deficit fell to just under 3% of GDP. Central government debt increased marginally, with the deficit offset by real exchange rate appreciation (foreign currency debt accounted for 53% of total debt at the end of 2025).

In 2026, the government's objective is to maintain a balanced primary budget. Fiscal policy will therefore be more accommodative¹. Interest payments on domestic debt are expected to rise compared to 2025, but the Treasury's financing plan remains secure with a lower domestic debt renewal rate than in previous years. In addition, the Treasury has already issued USD 5.9 billion in international bonds and lease certificates since the beginning of the year, which is almost half of the annual target of USD 13 billion. External debt servicing between March and December 2025 amounts to USD 14 billion and is expected to be managed without drawing on cash reserves.

The country's external vulnerability has diminished compared to a year ago, but continues to be an area of concern. The current account deficit has worsened significantly, rising from USD 10.4 billion in 2024 to USD 25.2 billion in 2025. However, it remains moderate as a percentage of GDP (1.5%). The central bank's international reserves exceed USD 200 billion, with gold reserves (60% of the total) rising sharply in value. Including gold, these reserves represent six months of imports. At the beginning of February 2026, net reserves, as defined by the IMF, stood at a satisfactory level of USD 90 billion (as a reminder, they were negative in spring 2023).

The concerns arising from political tensions in March 2025 have subsided. Portfolio managers are once again favouring the bond market, with significant inflows from non-resident investors, both on the bond market and the Istanbul Stock Exchange, which have surged since the beginning of the year. Risk premiums demanded on euro and dollar Eurobond issues in early February were at historic lows (240 basis points for 7-8 year maturities).

However, the risk of exchange rate volatility remains high. The central bank has also strengthened its prudential measures to limit corporate foreign currency debt (the ratio of corporate foreign currency debt to exports has been rising since 2024).

AI: AN ADVANTAGE IN TERMS OF HUMAN RESOURCES

AI contributes only marginally to overall GDP growth, but the country is making notable strides in this area. According to Stanford University's Artificial Intelligence Index, it ranks just behind Switzerland in terms of public sector engagement. A survey conducted by the National Institute of Statistics indicates that the rate of AI adoption had already reached 24% in companies with over 250 employees in 2025.

According to projections from Oxford Economics, exports related to artificial intelligence amounted to USD 10.8 billion in 2025. This figure is higher than that of major emerging countries such as Brazil, and Indonesia, and is on a par with certain European Union countries, including Portugal and Romania. However, these exports constitute a small fraction of total merchandise exports (4%). Furthermore, it is important to note that export statistics may be considerably inflated².

The number of data centers in Türkiye is low (35) compared to other similar countries such as Poland, which has four times as many. However, according to the Global AI Index compiled by the British information company Tortoise Media, Türkiye's score for access to and reliability of energy sources and IT infrastructure is comparable to that of Poland.

Türkiye's strength lies in the quality of its engineering training. Since the early 2010s, the cumulative number of AI-related patents per capita has been significantly higher than in several countries with a similar level of development. According to the Global AI Index, Türkiye ranks highest in Central Europe for the availability of skilled labour necessary for developing AI solutions.

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¹ The primary balance would deteriorate by 0.4 percentage points of GDP, whereas it improved by 2.3 pp in 2025.

² The estimate is based on the WTO nomenclature, which covers components explicitly used to run AI programmes, but also raw materials and electrical and electronic equipment that may be used by AI programmes (but not exclusively). The WTO scope therefore overestimates exports related solely to AI. For Türkiye, 78% of exports correspond to items in the nomenclature that do not explicitly refer to AI.

