

SEPTEMBER 2025

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# Türkiye Economic Outlook

# Main messages

## Economic policies

Our baseline scenario assumes the continuation of the restrictive policies prioritizing disinflation in the short term. We expect the abundant level of CBRT reserves and a relatively higher real interest rate to act as buffers against any volatility in the near future. External financial conditions, if stay supportive, can also help the outlook.



## Growth outlook

Led by the positive surprise of 2Q25 GDP data, 2025 GDP growth might reach 3.5-4%, creating a carry-over impact for 2026. Nevertheless, we remain prudent and keep our previous 2026 GDP growth forecast of 4%. We envisage that the CBRT continues rate cuts but reduces its pace with an increasing reliance on macro-prudential measures for longer (36.5% rate by end 2025 and 30% by end 2026). We assume the negative fiscal impulse of this year seen since April might turn neutral in 2026.



## Inflation and Rates

We keep our year-end inflation expectation of 30%, with limited upside risks. Monthly inflation trend could stay above 2% during 1Q26, fueled by administrative price hikes of early 2026. Given the last months' stickiness, we add some persistence on certain services items and revise our 2026 year-end inflation forecast to 23% from 21%. We still assume a limited average real appreciation in 2026 with no changes in our previous USDTRY forecasts (45 USDTRY by end 2025 and 52 USDTRY by end 2026).



## Risks

We evaluate the balance of risks on our forecasts tilted to the downside for growth, depending on the effectiveness of the policy mix, which would also weigh down on our exchange rate and inflation forecasts, generating more room for rate cuts. Global financial volatility affecting demand for EM assets, Trump policies particularly impacting Europe, and increasing domestic unknowns are near term risks on the Turkish economy, keeping us cautious.



# Global Economic Outlook

# Main messages

## US policies are an increasing source of concerns.



Tariffs have recently risen beyond expectations and immigration curbs and attacks on the Fed have been harsher than anticipated. Still, despite some moderation signs, the global economy remains broadly resilient. Growth has expanded more than expected, while US inflation has surprised to the downside. Financial volatility has been surprisingly low, backed by prospects of a more significant monetary easing by the Fed.

**Global growth will likely ease ahead**, from 3.3% in 2024 to around 3.0% in 2025 and 3.1% in 2026. Although fiscal policy, less strict monetary conditions and the AI boom will provide some support, activity will likely be hit by raising protectionism, immigration curbs, persistent uncertainty, geopolitical tensions... Yet, recent data suggest that the impact of these factors could be more gradual than anticipated.



**Tariff effects are likely to keep US inflation relatively high**, around 3% in 2025-26. Still, growth deceleration is expected to allow the Fed to drive rates down to 3% in 2026. In Europe, inflation is forecasted to remain close to the target level and interest rates to remain at 2%.



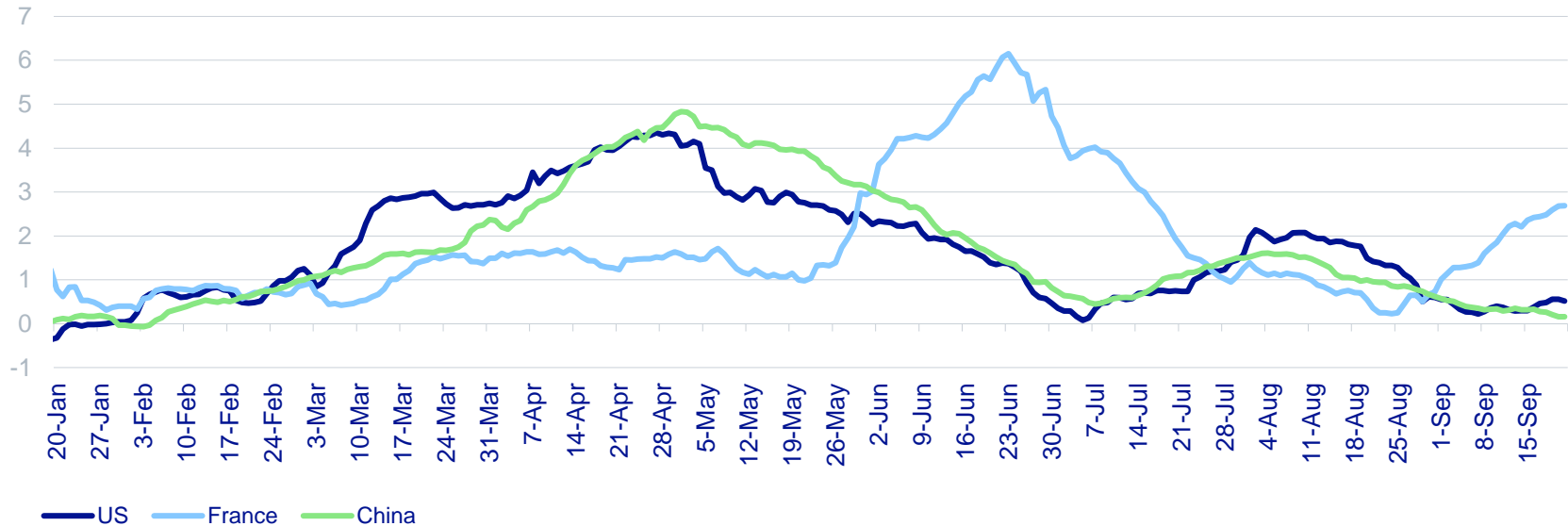
**Risks are mounting** amid heightened uncertainty, recurring shocks, weaker global cooperation and potential non-linearities. On top of trade and immigration policies, threats to the Fed independence are among the main concerns.



# Protracted uncertainty on tariffs, pressure on the Fed, immigration policies, debt risks, geopolitical tensions

## ECONOMIC POLICY UNCERTAINTY INDEX (2025): UNITED STATES, FRANCE AND CHINA (\*)

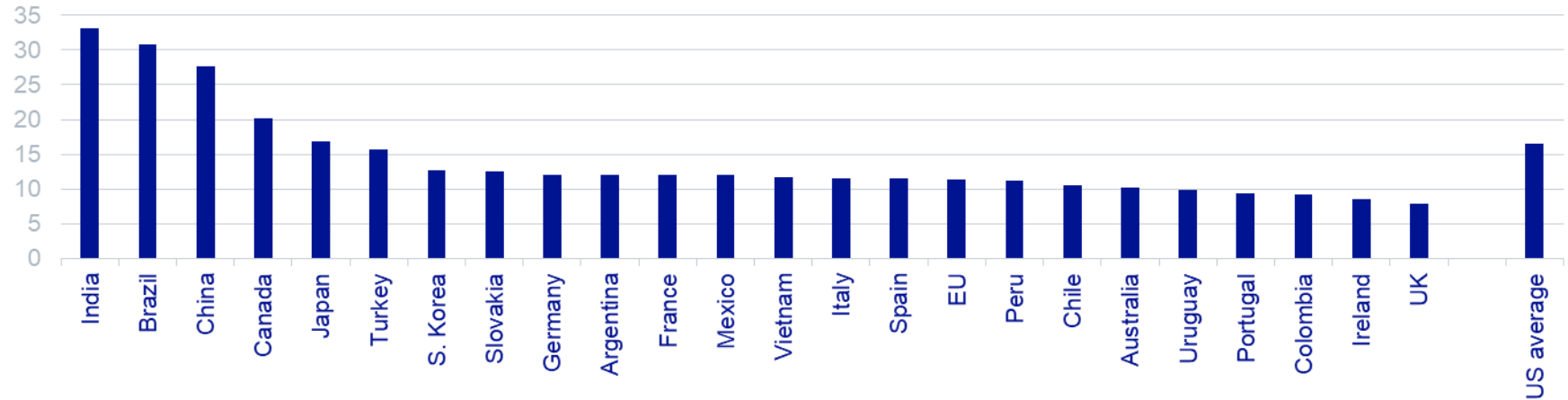
(INDEX: HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



(\*) Last available data: September 21, 2025  
Source: BBVA Research

# Protectionism: US tariffs have reached high levels, especially for some targeted countries

US TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 UNTIL SEPTEMBER 22 (\*)  
(PP)



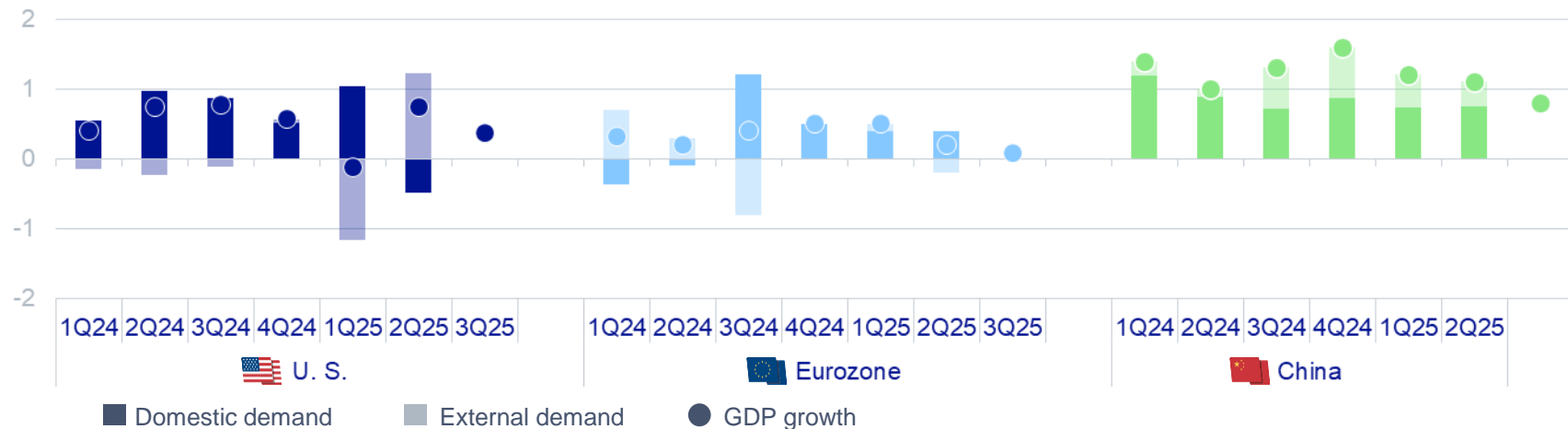
(\*) Following recent trade deals and unilateral US announcements. Based on general tariffs set for each country (reciprocal and/or preferential), specific tariffs on some sectors (steel, aluminum, automobiles, autoparts...) and exempted goods (selected electronics, oil...). Sectoral weights are calculated according to 2024 trade flows.  
Source: BBVA Research

**Despite US trade deals with the EU, UK, Japan, Vietnam, etc., uncertainty on tariffs remain given still unsettled negotiations, legal challenges and the view that they are now part of the US policy toolkit; preliminary evidence suggest that effective tariffs are below face-value tariffs**

# GDP growth has remained broadly resilient in the first half of the year, despite deceleration signs BBVA Research

## GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH (\*)

(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



(\*) 3Q25 figures: BBVA Research estimations

Source: BBVA Research based on data from Haver and China's NBS

**GDP data surprised upwards in 1H25; consumption has slowed, but remained relatively robust; investment has been supported by AI spending; exports have stayed resilient**

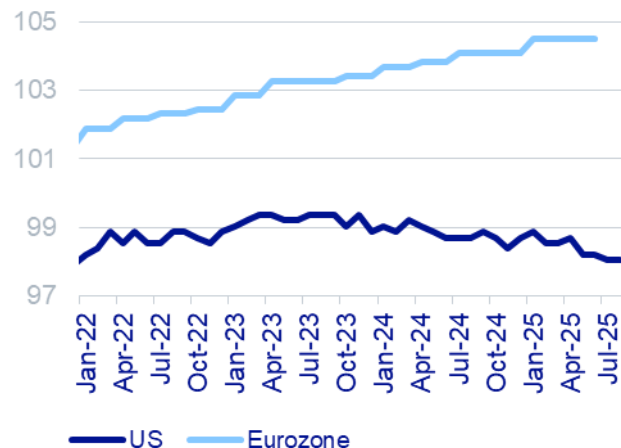
# Global trade surged ahead of tariffs, US labor markets have eased amid lower immigration flows

**GLOBAL EXPORTS OF GOODS: VOLUME**  
(4Q19=100; THREE-MONTH MOVING AVERAGE)



Source: BBVA Research based on data from Haver

**EMPLOYMENT-POPULATION RATIO**  
(INDEX: 2019 AVERAGE = 100)

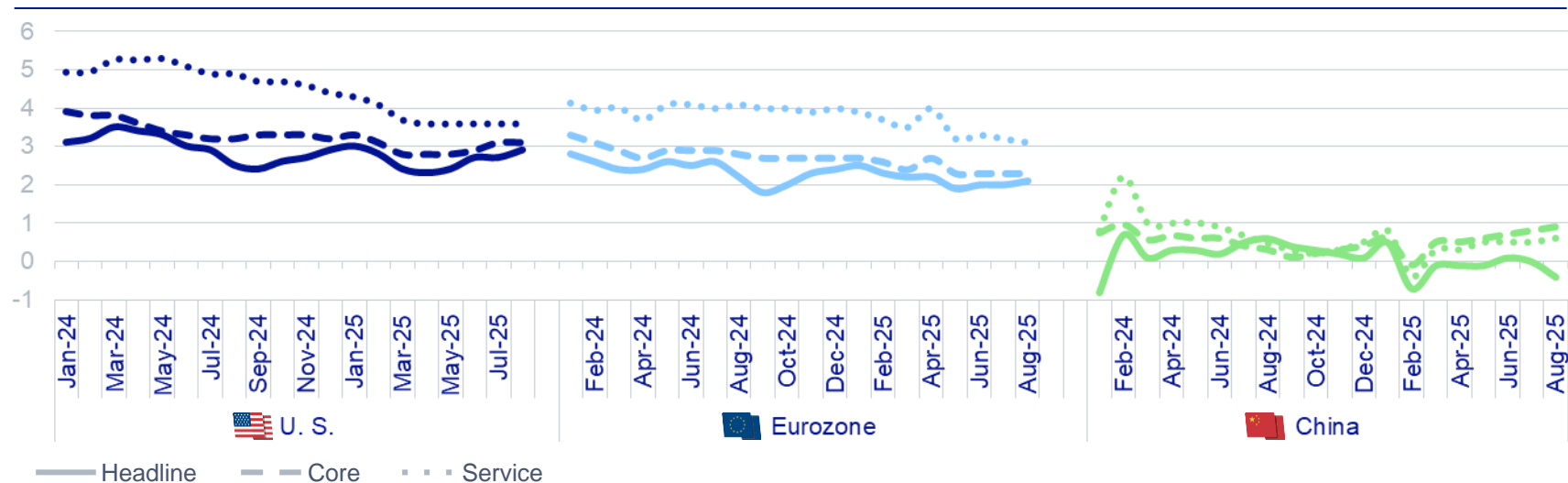


Source: BBVA Research based on data from Fred and Eurostat

# Inflation has risen (but less than expected) in the US; it stays at nearly 2% in Eurozone and very low in China

## CPI INFLATION: HEADLINE, CORE AND SERVICE

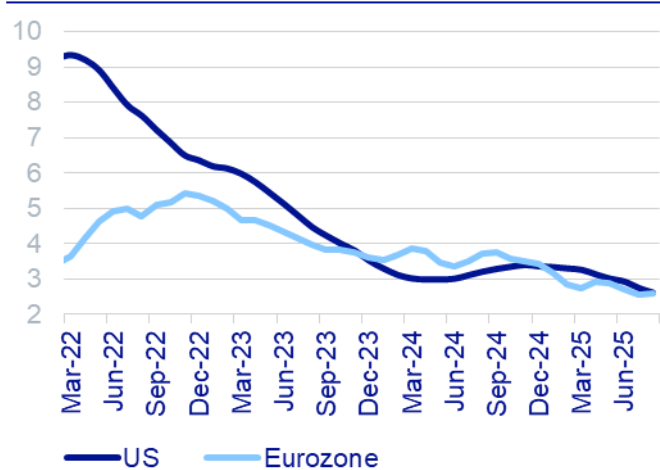
(Y/Y %)



Source: BBVA Research based on data from Haver

# Wage moderation and lower energy prices have taken some pressure off inflation

**NOMINAL WAGES: INDEED WAGE TRACKER**  
(Y/Y %, 3-MONTH MOVING AVERAGE)



Source: BBVA Research based on data from Indeed

**BRENT PRICES (\*)**  
(USD PER BRENT BARREL)

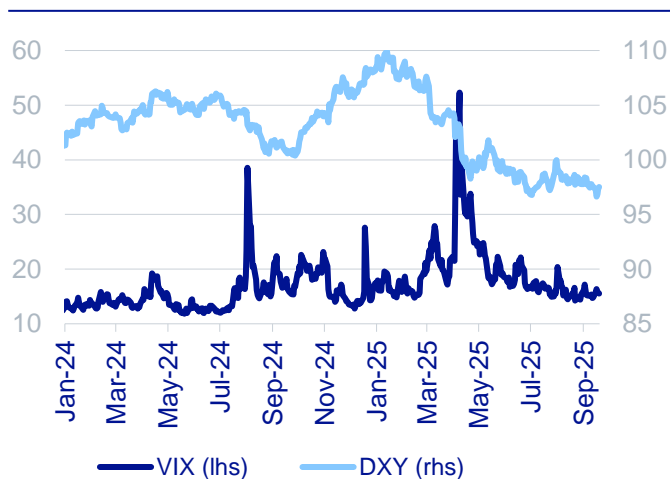


(\*) Last available data: September 17, 2025  
Source: BBVA Research based on data from Haver

**Wage growth has slowed despite immigration curbs while oil prices have remained low despite ongoing geopolitical tensions; their effects are helping to offset the initial impact of tariffs**

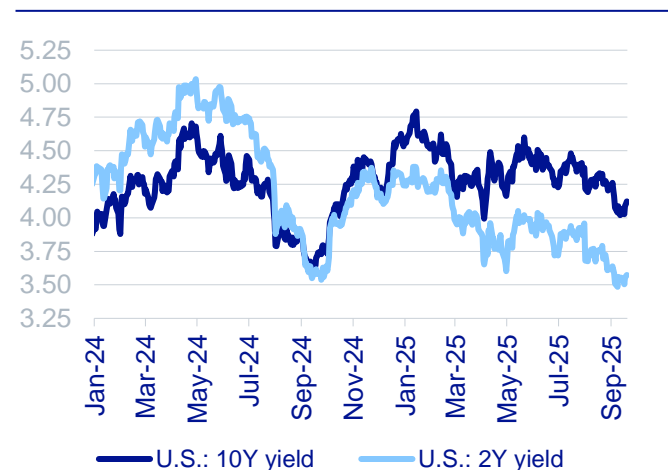
# Financial markets continue to exhibit a positive tone, supported by prospects of lower interest rates in the US

**EQUITY VOLATILITY (VIX); US DOLLAR (DXY)  
(INDEXES)**



(\*) A lower DXY represents a weaker US dollar. Last available data: September 19, 2025.  
Source: BBVA Research based on data from Haver

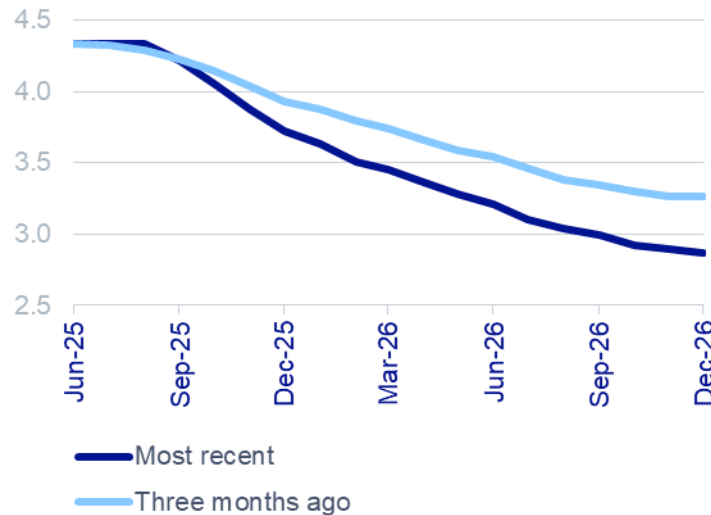
**US SOVEREIGN YIELDS  
(%)**



(\*) Last available data: September 19, 2025.  
Source: BBVA Research based on data from Haver

# Financial markets continue to exhibit a positive tone, supported by prospects of lower interest rates in the US

US: IMPLICIT RATE IN FED FUND FUTURES (\*)  
(%)



- Concern on US policies has so far triggered limited **pressure on long term yields and the dollar**
- Despite lingering inflation risks, **the Fed cut rates** by 25bps in Sep25 amid labor market slowdown and **mouting political pressure**
- In Europe, markets now discount that **ECB policy rates will remain unchanged** ahead
- Prospects of **lower US policy rates have helped to drive the dollar further down**
- **Volatility has remained surprisingly low**, spurring capital flows into riskier assets
- In **France**, the risk premia rose on political and fiscal uncertainty, with limited spillovers

(\*) Last available data: September 18, 2025  
Source: BBVA Research based on data from Haver

# Unsettling US policies are likely to hit the global economy, yet impact may be more gradual than expected

**Global resiliency, so far, due to fiscal stimulus, AI boom,** looser monetary conditions, weaker dollar, preemptive exports, effective tariffs below nominal levels, etc.



**More disruptive US policies:** tariffs rose beyond expectations, attacks on institutions and immigration curbs have been harsher than anticipated, fiscal deficits will stay high, geopolitical conflicts remain unresolved



**Global growth will likely slow;** policy rates are expected to converge to 3% in the US and remain at 2% in Europe; inflation to remain high in the US, under control in Europe and low in China



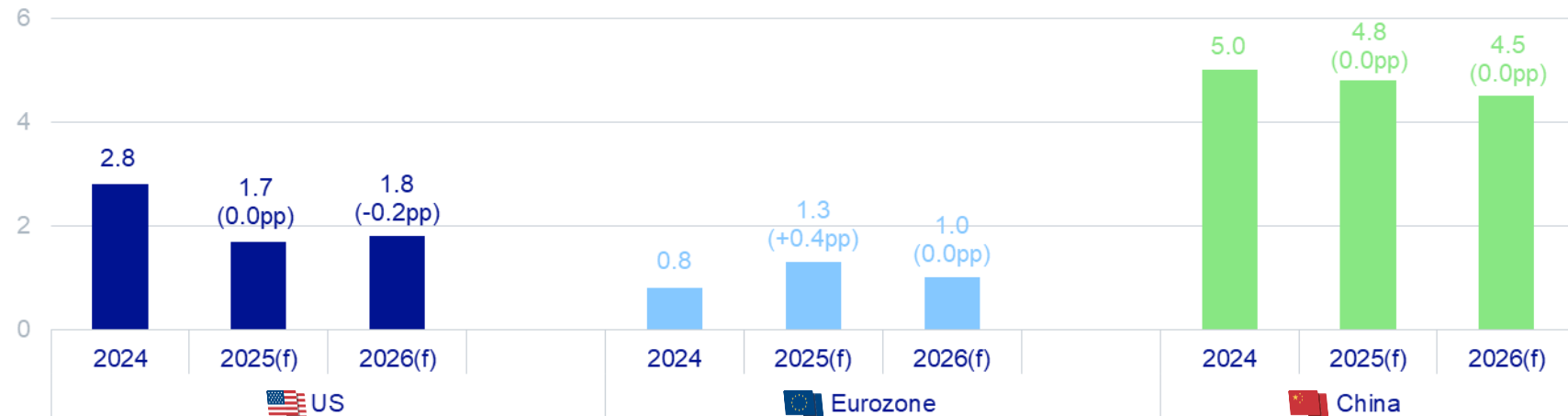
**Risks are rising;** they include more negative supply shocks on tariffs, immigration policies... and stress due to Fed intervention; and also a positive AI wave



# Global growth is forecasted to moderate gradually, from 3.3% in 2024 to 3.0% in 2025 and 3.1% in 2026

## GDP GROWTH

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(\*) Global GDP grew by 3.3% in 2024 and is forecast to expand by 3.0% in 2025 and 3.1% in 2026, unchanged in comparison to previous forecasts.

(f): forecast.

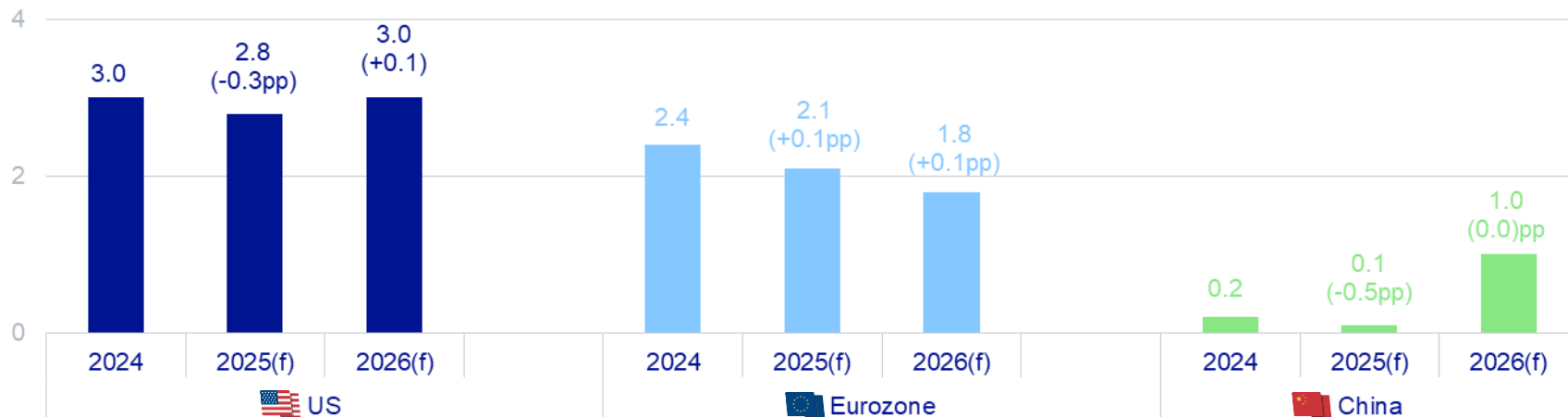
Source: BBVA Research

**In the US, more disruptive policies favor weaker growth despite supportive 2Q25 GDP data and positive AI effects; in Europe, recent data support higher growth in 2025, while 2026 outlook stays unchanged: defense stimulus to offset tariff impact; in China, slowdown prospects remain in place**

# Inflation: tariff effects are still expected; mostly unchanged prospects in Europe; deflation risks in China

## HEADLINE CPI INFLATION

(Y/Y %, PERIOD AVERAGE, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



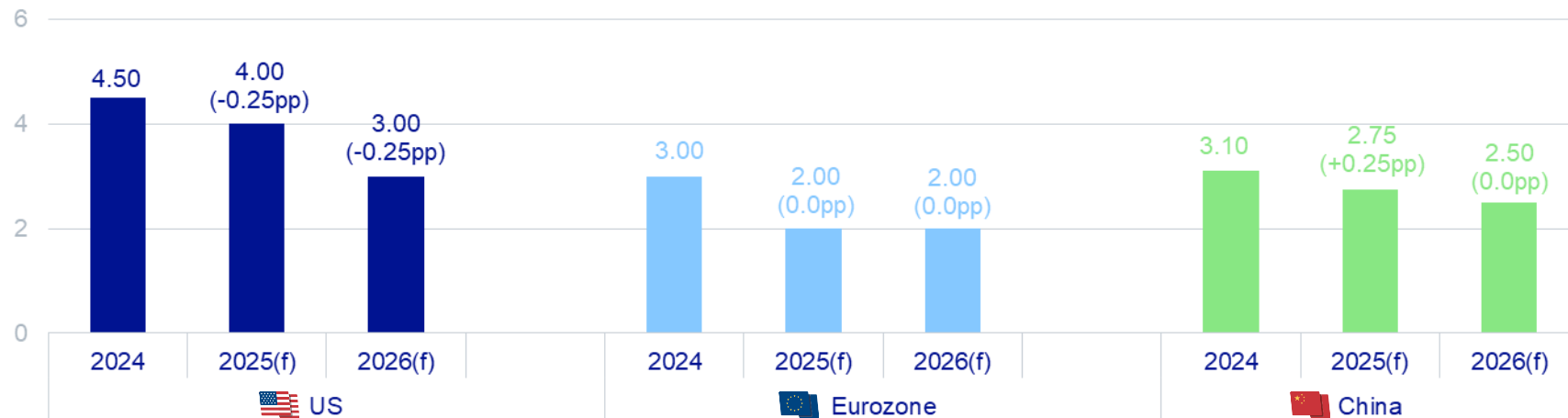
(f): forecast.  
Source: BBVA Research

**US inflation has surprised downward, but tariffs and immigration curbs will keep it around 3%; in the Eurozone inflation will likely be slightly higher than previous forecasts but still very close to 2%; In China, moving out of the low-inflation regime is proving increasingly challenging**

# A more dovish Fed will keep easing monetary policy, likely lowering rates to 3% in 2026; ECB to hold at 2%

## POLICY INTEREST RATES<sup>(\*)</sup>

(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



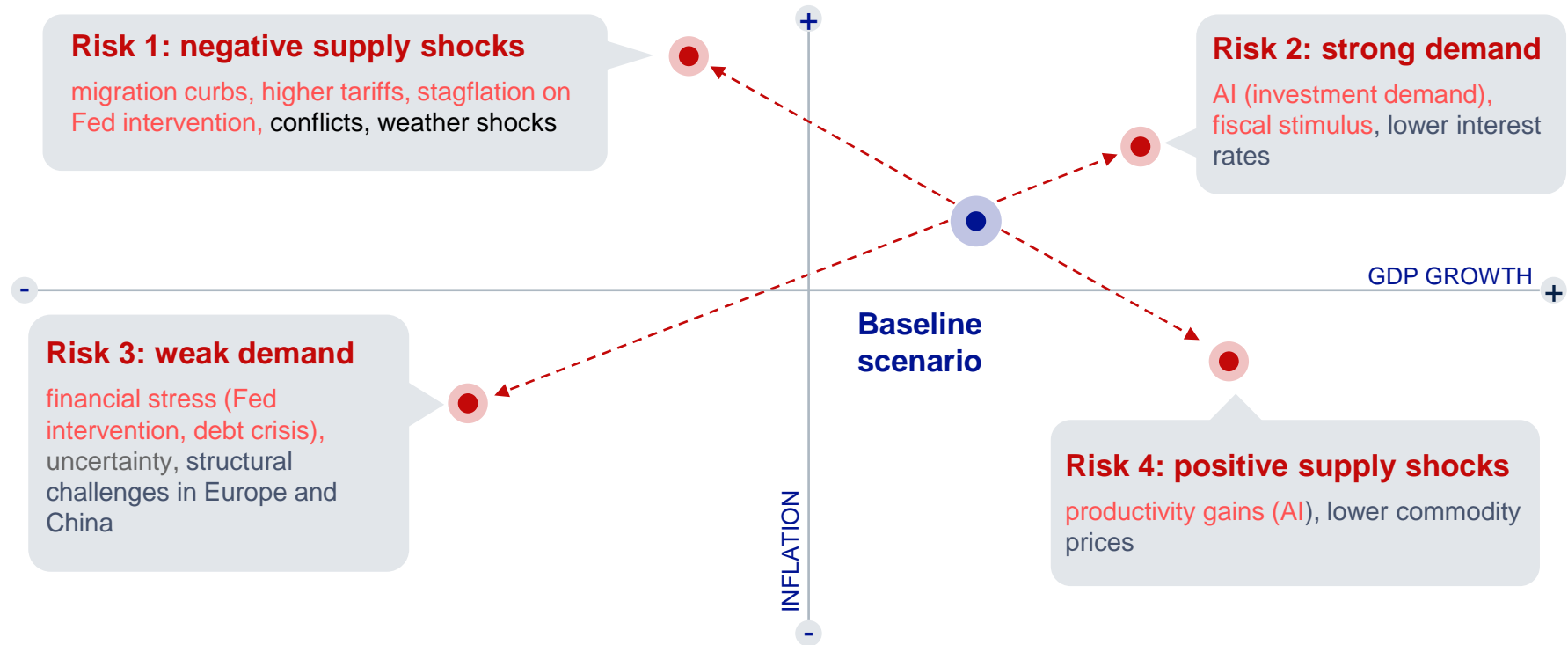
(f): forecast.

(\*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

**Fed's easing path towards 3% in 2026 will depend on upcoming inflation and labor market outcomes; the risk is that rates are cut twice, rather than only once, in 4Q25; ECB expected to hold rates at 2%, with risk of one more cut on weak growth, trade uncertainty, and euro strength**

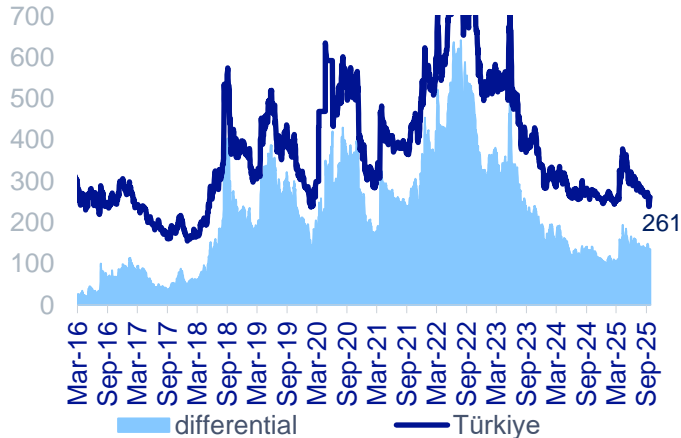
# Risks are mounting amid uncertainty, recurring shocks, weaker global cooperation and potential non-linearities



# Türkiye Economic Outlook

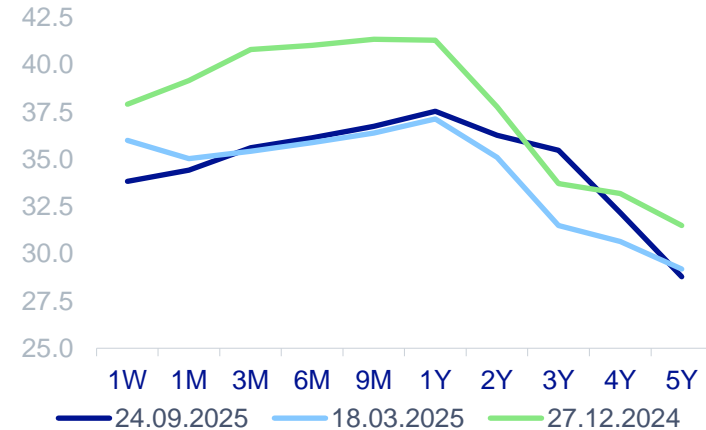
# The interpretation of reduced risks in the short term has recently boosted foreigner demand for TR assets

## TÜRKİYE VS. EM 5-YEAR CDS DIFFERENTIAL (BASIS POINTS)



Source: Bloomberg and Garanti BBVA Research

## USDTRY FORWARD IMPLIED RATES (%)

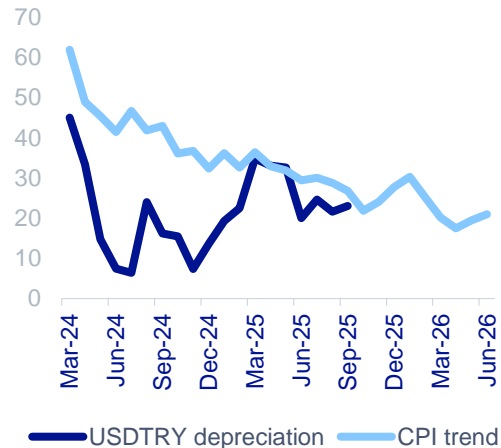


Source: Bloomberg and Garanti BBVA Research

**Potential effects from the global financial volatility and the domestic legal calendar with trials against the opposition till the end of the year are key to be watched out.**

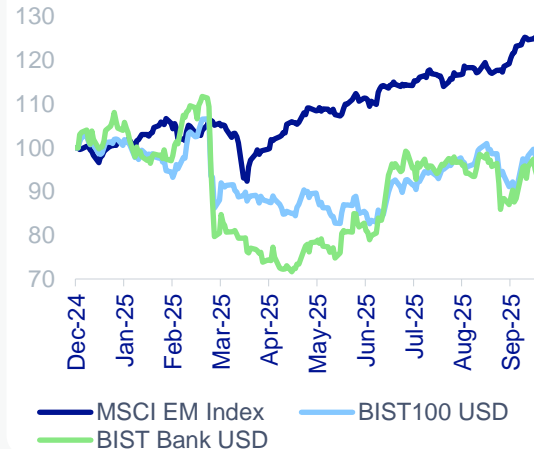
# The CBRT dropped the reference of real appreciation but still implied a managed currency wrt inflation

## USDTRY NOMINAL DEPRECIATION & CPI TREND (ANNUALIZED)



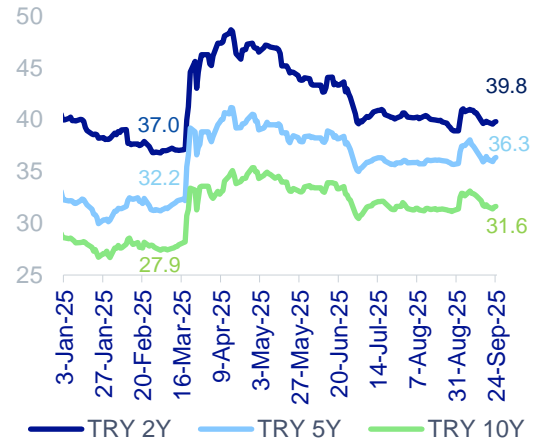
Source: Bloomberg and Garanti BBVA Research

## MSCI & BIST EQUITY (31.12.2024=100)



Source: Bloomberg and Garanti BBVA Research

## TRY SOVEREIGN YIELD CURVE (%)



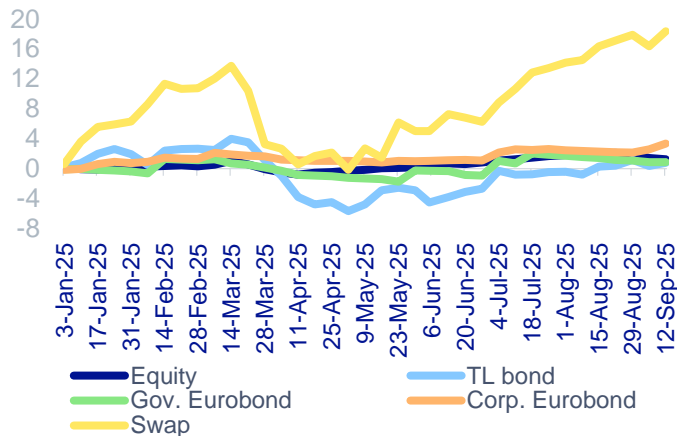
Source: Bloomberg and Garanti BBVA Research

**As we underlined before, the gap has narrowed down for stronger real appreciation with monthly inflation trend already closer to 2%. Demand for TL assets are on the rise with rate cut expectations.**

# Foreigners' exposure to TR assets has reached above pre-March shock level, mainly on carry trade swaps

## FOREIGNERS FLOWS TO TR ASSETS\*

(\$USbn, cumulative year to date)



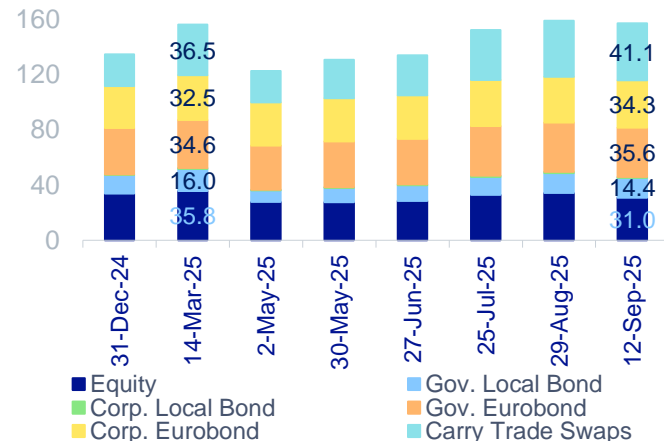
\* Excluding local banks' external subsidiaries

\* Including only the outright purchases in Government local bonds

Source: CBRT and Garanti BBVA Research

## FOREIGNERS EXPOSURE TO TR ASSETS\*

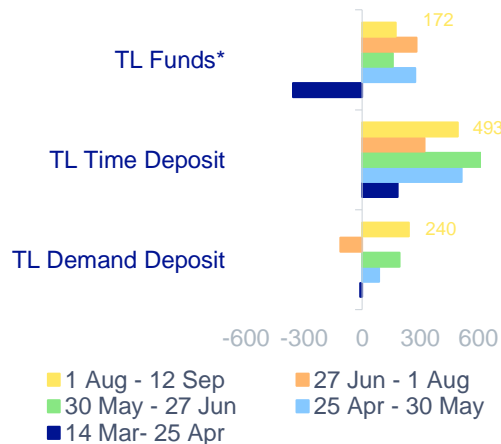
(\$USbn, STOCK)



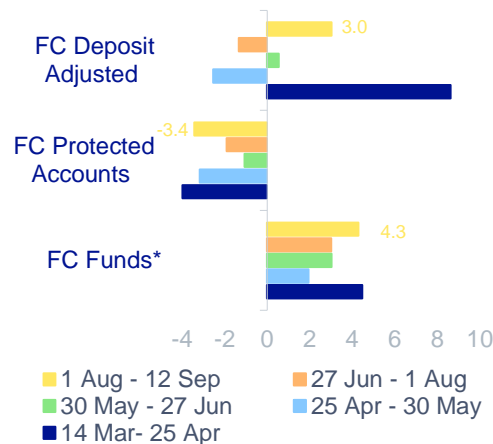
**Foreigner outflows seen btw Mar-May have been fully received back so far, yet with still TL bond inflows lagging behind.**

# On the residents side, we observe a stronger tendency towards TL assets, mostly in favor of TL time deposits

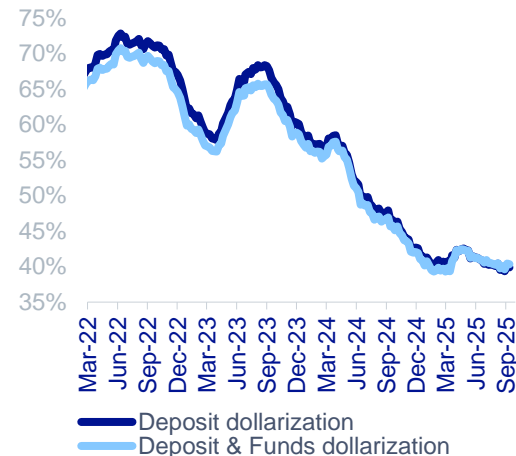
## CHANGES IN TL INSTRUMENTS, SECTOR (BN TL)



## CHANGES IN FC INSTRUMENTS, SECTOR (\$USbn)



## DOLLARIZATION RATIO (%)



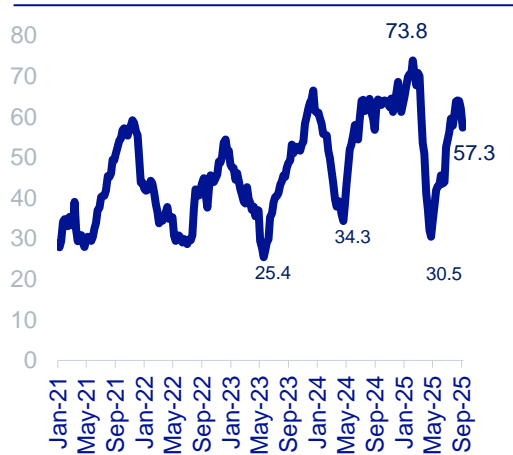
\* FC Funds consist of FC Hedge Funds, Eurobond Funds and Precious Metals Funds. TL Funds include Money Market Participation & Hedge Funds, Stock Market Funds, Debt Securities Funds, TL Hedge Funds and TL Variable Funds

Source: TEFAS, BRSA, CBRT and Garanti BBVA Research

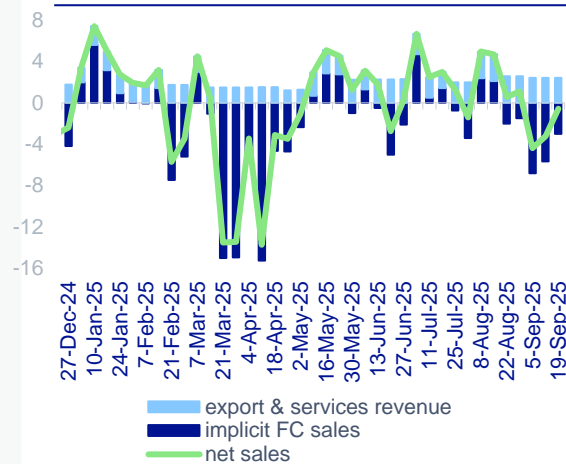
**KKM has been finalized except for YUVAM accounts. A higher FC demand in favor of FC funds than the KKM exit has started to be seen after March shock; yet overall dollarization ratio stays closer to 40%.**

# After spending implicitly above 10bn\$ in the first half of Sep, the CBRT has again started to buy reserves

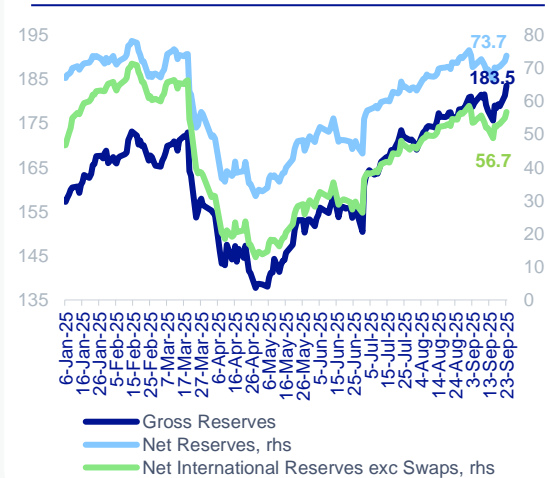
**CBRT HIGH LIQUID FOREIGN ASSETS** (\$USbn, as of 12th of Sep)



**CBRT RESERVES NET WEEKLY FLOWS\*** (\$USbn)



**CBRT INTERNATIONAL RESERVES** (\$USbn, as of 23rd of Sep)



\*Adjusted from gold price effects. CBRT payments due from KKM are assumed to have a similar ratio in Garanti BBVA since March 29th 2024.

Source: TURKSTAT, CBRT and Garanti BBVA Research

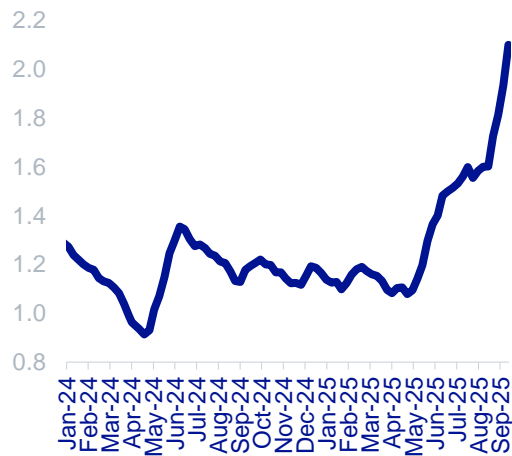
**The CBRT had received back around 80% of the net reserves (excluding swaps) till Sep that it had lost in Mar-Apr, where it is now well prepared to defend the Lira (as seen in early Sep).**

# The Treasury also had a front-loaded borrowing in both TL and FC, helping for an effective sterilization

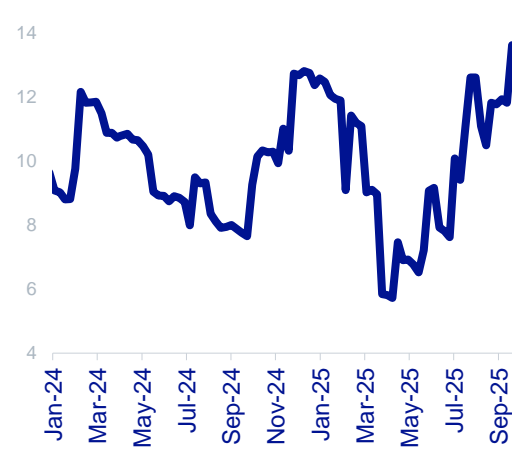
TRESUARY DOMESTIC DEBT  
ROLL-OVER RATIO\* (%)



TRESUARY TL DEPOSIT AT  
CBRT & STATE BANKS (TRN TL)



TRESUARY FC DEPOSIT AT  
CBRT (\$USbn)



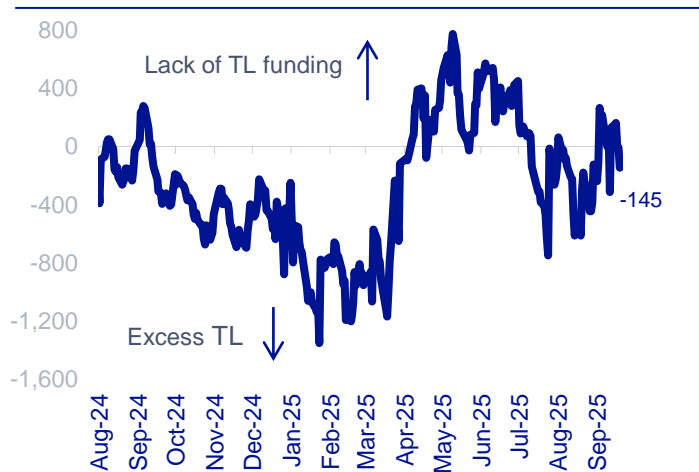
\*Including FC debt issuances in the domestic market  
Source: Treasury, CBRT and Garanti BBVA Research

**The Treasury issued \$10.75bn debt from the international markets (vs. \$11bn targeted for 2025) as of Sep, adding a new buffer against any volatility.**

# The CBRT proactively sterilizes TL liquidity, leading the cost of funding to stay closer to the policy rate

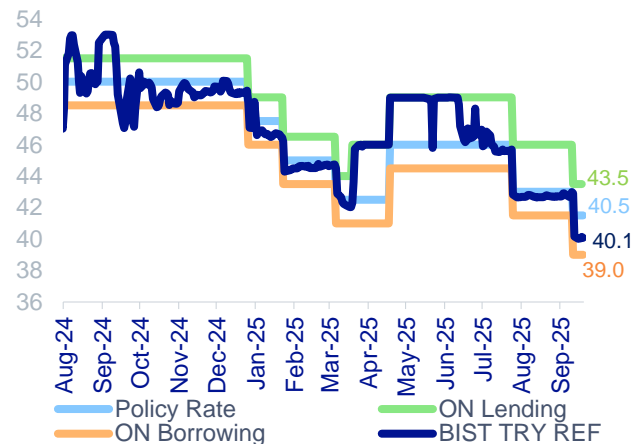
## NET CBRT FUNDING\*

(bn TL as of Sep 16th)



\* Negative refers to excess TL liquidity, positive refers to the funding need of the market  
Source: CBRT and Garanti BBVA Research

## CBRT FUNDING RATE & BIST TRY REF RATE (%)

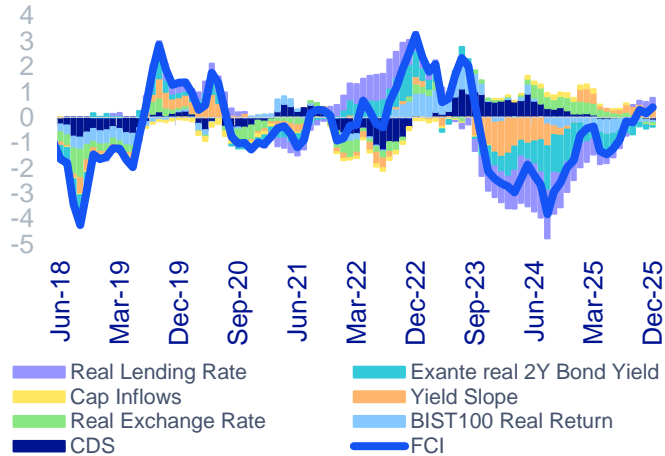


Source: CBRT and Garanti BBVA Research

**After the CBRT became a net FC seller to the market due to the volatility in the first two weeks of Sep, we have observed the lack of TL liquidity, which now reverse with again FC purchases from the market with inflows after Sep 15th.**

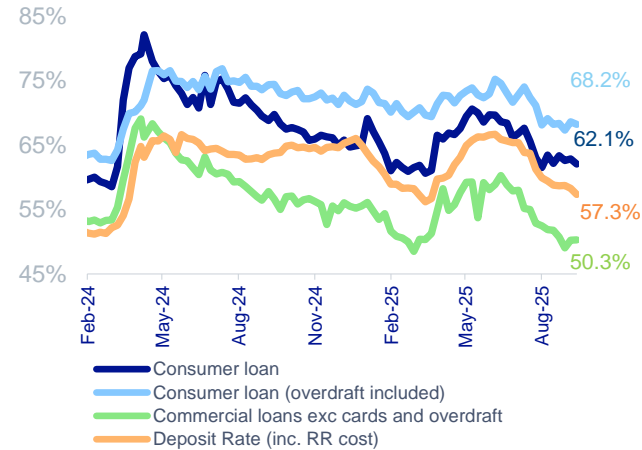
# Financial conditions converge to the neutral level in Sep, which we expect to become supportive in 4Q25

## GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI) (STANDARDIZED, + EASING, - TIGHTENING)



Source: TURKSTAT, CBRT, Bloomberg and Garanti BBVA Research

## TL LOAN & DEPOSIT RATES (% WEEKLY, FLOW, SECTOR)

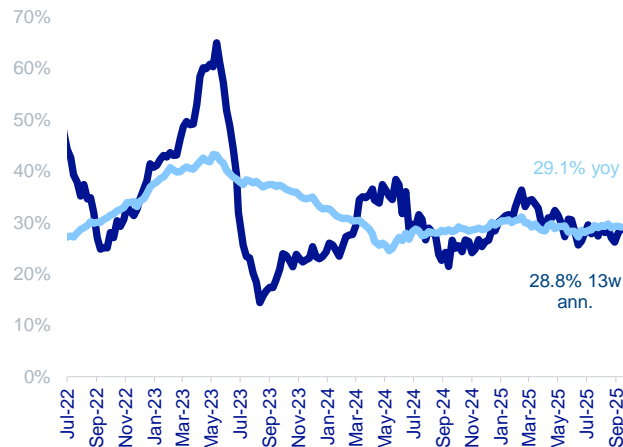


Source: CBRT and Garanti BBVA Research

**Given the ease in financial conditions, macro-prudential measures and liquidity policies will remain essential in order not to allow a fast decline in ON TL rates and a speeding up dollarization.**

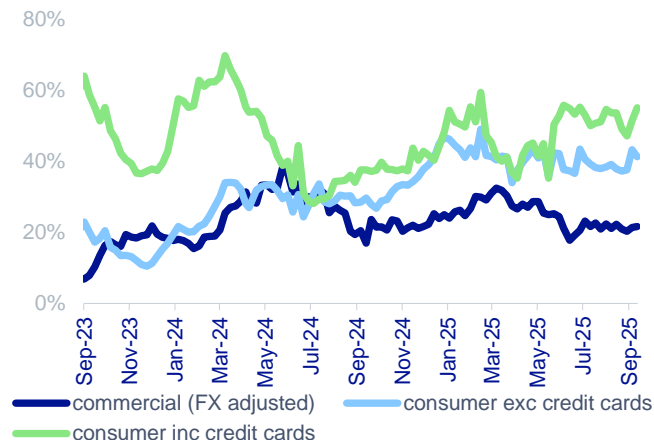
# Credit growth remains closer to 30% in both trend and annual growth, slightly higher than the inflation trend BBVA Research

**TOTAL CREDIT GROWTH (FX ADJ)**  
(13 WEEK ANNUALIZED & YOY)



Source: BRSA, CBRT and Garanti BBVA Research

**TOTAL CREDIT GROWTH**  
(13 WEEK ANNUALIZED)

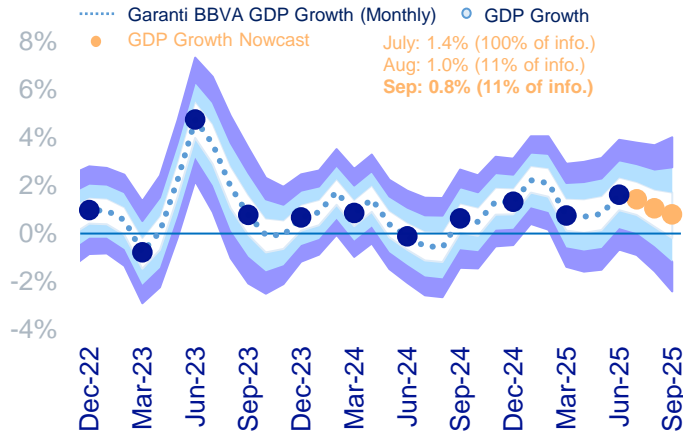


Source: BRSA, CBRT and Garanti BBVA Research

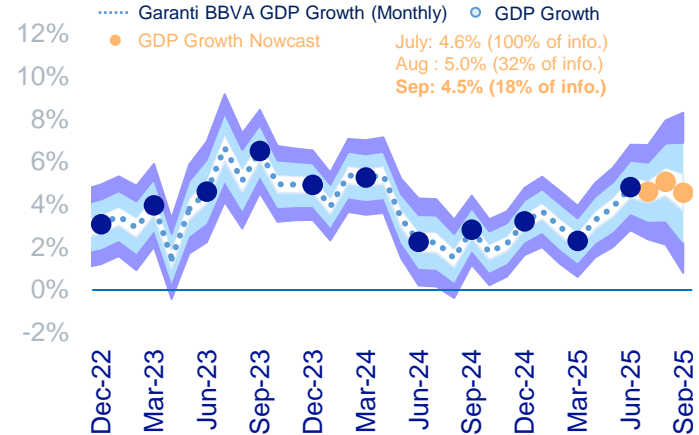
**Consumer credits stay much stronger than the commercial, implying the continuation of a higher growth in non-capped items (around 50% of the credit book in the sector).**

# 2Q25 GDP growth surprised to the upside. 2025 GDP growth could easily reach 3.5-4%

## GARANTI BBVA MONTHLY GDP NOWCAST (QoQ, 3M MOVING AVERAGE)



## GARANTI BBVA MONTHLY GDP NOWCAST (YoY, 3M MOVING AVERAGE)

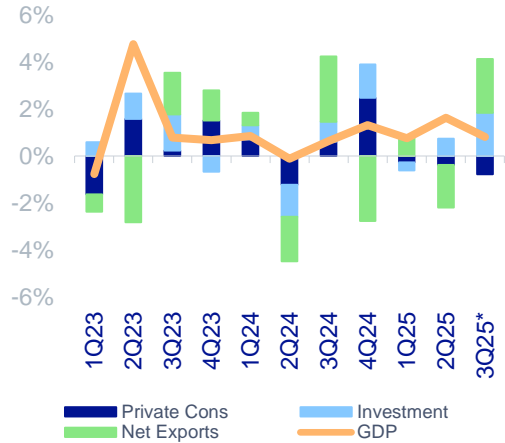


Source: TURKSTAT, CBRT and Garanti BBVA Research

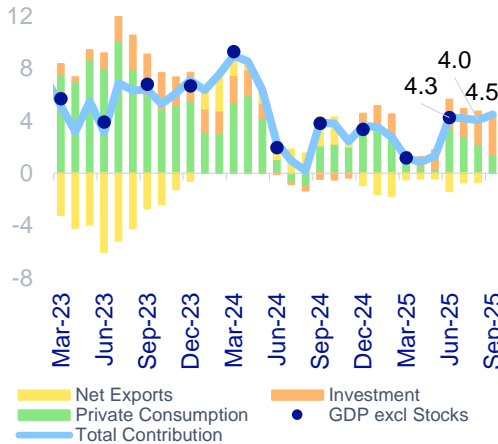
**We nowcast 0.5-1% quarterly GDP growth in 3Q25 with the early indicators, hard data as of July and soft indicators as of August, which could generate 4-4.5% y/y GDP growth in 3Q25.**

# Front-loaded imports disrupted the contribution from net exports in 2Q25, consumption decelerates further BBVA Research

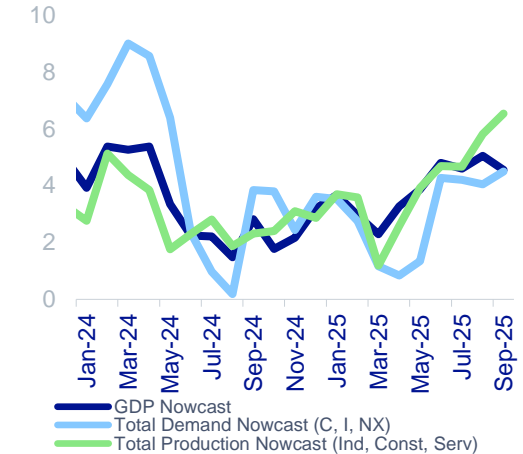
**GARANTI BBVA MONTHLY GDP**  
(DEMAND CONTRIBUTION, PP TO QOQ GDP)



**GARANTI BBVA MONTHLY GDP**  
(DEMAND CONTRIBUTION, PP TO YOY GDP)



**GARANTI BBVA MONTHLY GDP**  
(YoY, 3M MOVING AVERAGE)



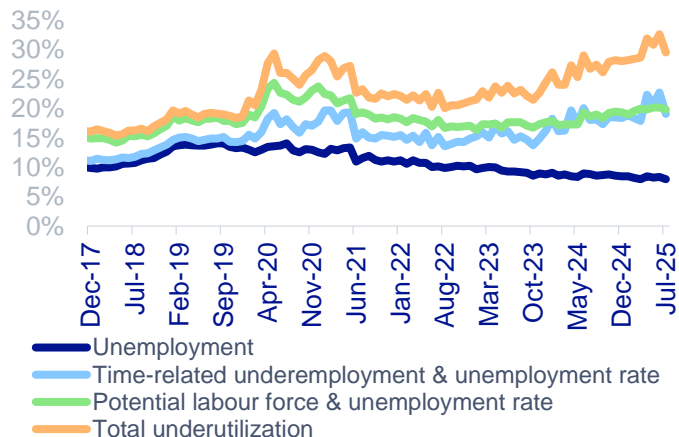
Source: TURKSTAT, CBRT and Garanti BBVA Research

**Domestic demand stays the main driver in the demand components of the GDP, yet being led by mostly investment due to reconstruction activities. After its strong support in 2Q25 GDP, our supply side annual GDP nowcast signals a continuing but decelerating contribution from stocks in 3Q25.**

# Headline unemployment rate stays historically low at 8%, with structural changes in employment composition

## UNEMPLOYMENT RATE

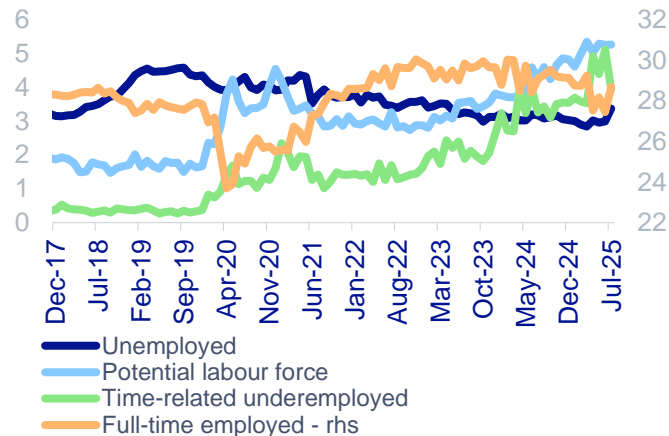
(%, SEAS)



Source: TURKSTAT and Garanti BBVA Research

## NUMBER OF EMPLOYED & UNDERUTILIZED

(SEAS, MILLION PEOPLE)

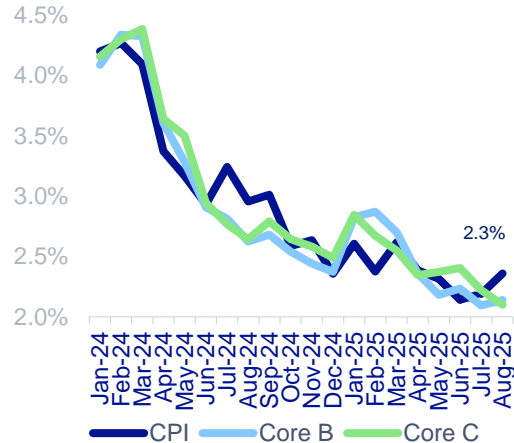


Source: TURKSTAT and Garanti BBVA Research

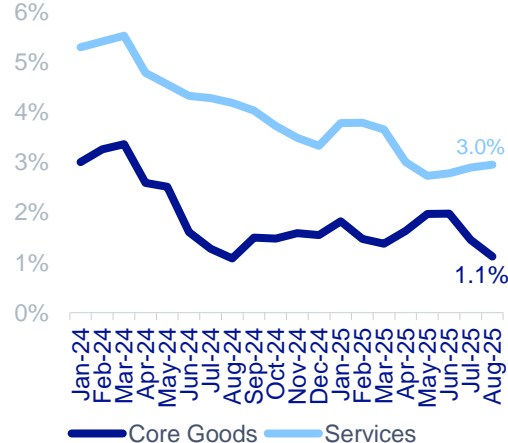
**Number of full time employed has been coming down since March 2024, which has been compensated mostly by the number of people working less or part time (time-related underemployed).**

# Higher Aug CPI than expected due to food inflation and stickiness in services prices, with risks for Sep as well BBVA Research

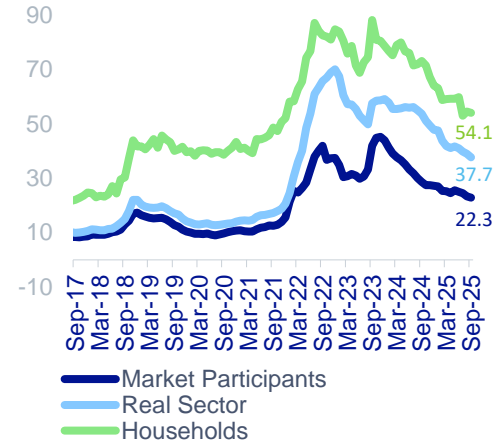
**TREND CPI INDICATORS**  
(SA MoM, 3M AVG)



**TREND CORE C INFLATION**  
(SA MoM, 3M AVG)



**CBRT SURVEY ONE-YEAR AHEAD  
INFLATION EXPECTATIONS (% YOY)**



Source: TURKSTAT and Garanti BBVA Research

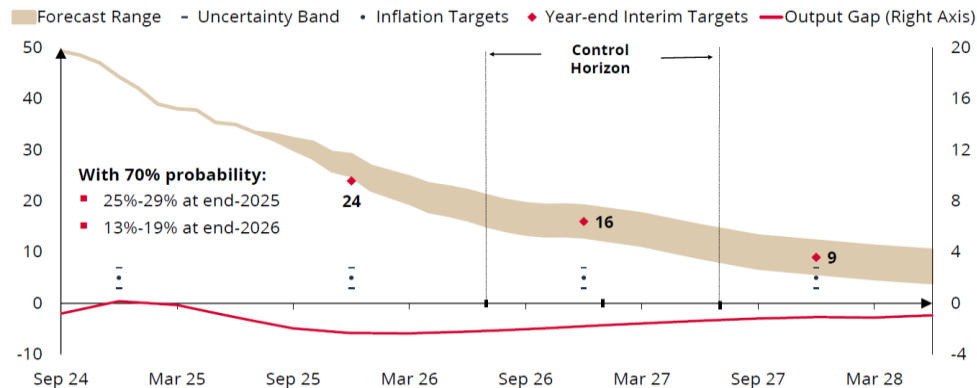
Source: TURKSTAT and Garanti BBVA Research

Source: TURKSTAT and Garanti BBVA Research

**Given the reduced room for real appreciation going ahead, there is the risk of sticking to 1.5-2% monthly CPI trend after 1Q26, which will require the continuation of restrictive stance.**

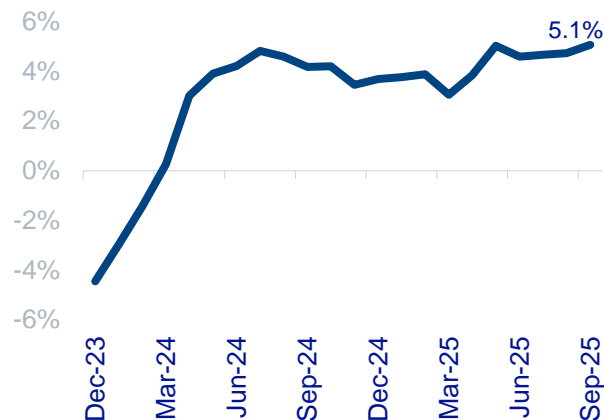
# The CBRT acknowledges the higher inertia than their expectations, yet they push for more aggressive targets

## CBRT INFLATION PROJECTIONS (YOY)



Source: CBRT

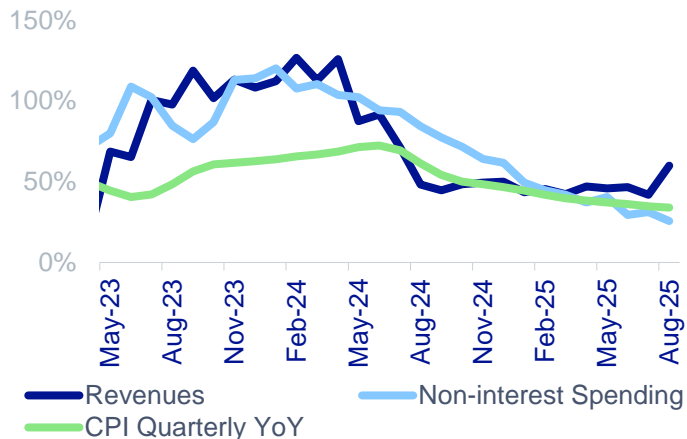
## MARKET PARTICIPANTS 12M AHEAD REAL RATE EXPECTATIONS (YOY)



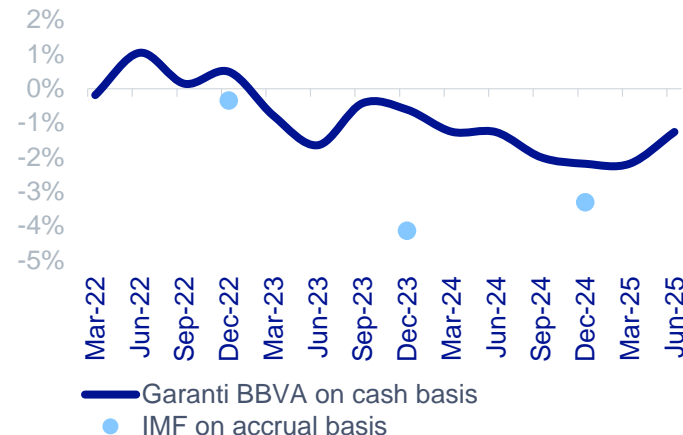
**Given next years' aggressive interim targets, much higher real rates would be required compared to the markets' 12-month ahead expectation of around 5pp, which could translate into a stronger trade-off on growth that is not seen in the CBRT output gap forecasts.**

# We observe an increasing effort on fiscal consolidation since April, resulting in a negative fiscal impulse BBVA Research

## CASH REVENUES & NON-INTEREST SPENDING (% 3M YoY)



## CYCLICALLY ADJUSTED PRIMARY BALANCE (ANNUALIZED, % GDP)



Source: Garanti BBVA Research

**Cash primary deficit to GDP came down to 0.5% of GDP in August from 2.1% in Dec24 and 2.3% in Mar25, led by moderating non-interest spending below inflation trend and still strong tax revenues.**

# MTP forecasts become more conservative on near term growth forecasts, a good sign for disinflation

	MTP (2026-2028)						Previous MTP (2025-2027)		
	2023	2024	2025	2026	2027	2028	2025	2026	2027
GDP Growth (% annual)	5.1%	3.2%	3.3%	3.8%	4.3%	5.0%	4.0%	4.5%	5.0%
Unemployment Rate (avg.)	9.4%	8.8%	8.5%	8.4%	8.2%	7.8%	9.6%	9.2%	8.8%
USDTRY (avg.)	23.7	32.8	39.6	46.6	50.7	53.8	41.9	44.4	46.9
Consumer Inflation (eop)	64.8%	44.4%	28.5%	16.0%	9.0%	8.0%	17.5%	9.7%	7.0%
Foreign Trade Balance (bn\$)	-106	-82	-93	-96	-99	-102	-89	-95	-98
Foreign Trade Balance/GDP	-9.4%	-6.2%	-5.9%	-5.8%	-5.6%	-5.4%	-6.1%	-5.8%	-5.5%
Current Account Balance (bn\$)	-40.5	-10.0	-22.6	-22.3	-20.5	-18.5	-29.3	-26.3	-23.1
Current Account Balance/GDP	-3.6%	-0.8%	-1.4%	-1.3%	-1.2%	-1.0%	-2.0%	-1.6%	-1.3%
CG Primary Balance/GDP	-2.6%	-1.9%	-0.3%	0.0%	0.3%	0.5%	0.0%	0.3%	0.6%
CG Budget Balance/GDP	-5.2%	-4.9%	-3.6%	-3.5%	-3.1%	-2.8%	-3.1%	-2.8%	-2.5%
Earthquake Spending (% GDP)	3.6%	1.8%	0.8%	0.8%	0.4%	0.3%	0.9%	0.7%	0.6%

**We understand the negative fiscal impulse of this year might become neutral in 2026, assuming the cash balance will gradually converge to the accrual basis budget balance.**

# We assume the baseline as a controlled scenario with the continuation of restrictive policies in the ST

**Growth stays moderate**, with domestic demand, particularly consumption kept relatively modest, led by restrictive policies prioritizing disinflation in the short term.



**Disinflation continues but with still challenges**, keeping us prudent due to persistence in certain services items, and uncertainties about food inflation and real rates.



**On currency**, the gap for real appreciation has already narrowed down. The abundant level of reserves and a relatively higher real rate in the ST will provide buffers.

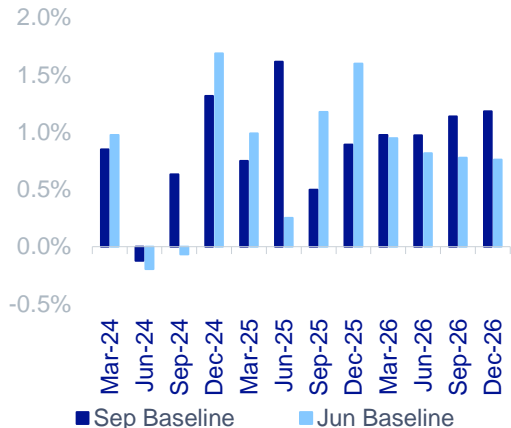


**On policy stance**, we expect the CBRT to likely maintain rate cuts but reduce its pace with an increasing reliance on macro-prudential measures for longer. We assume almost a neutral fiscal stance in 2026, in line with the MTP.

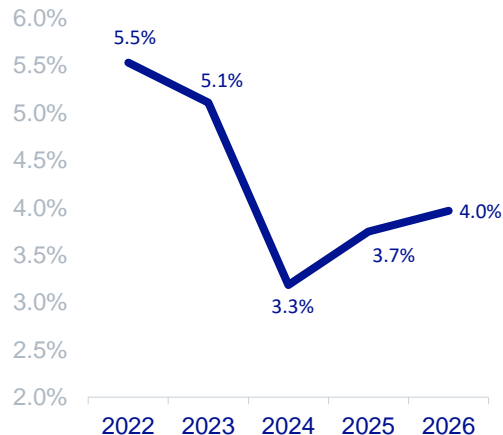


# We remain prudent and keep our previous 2026 GDP growth forecast of 4%

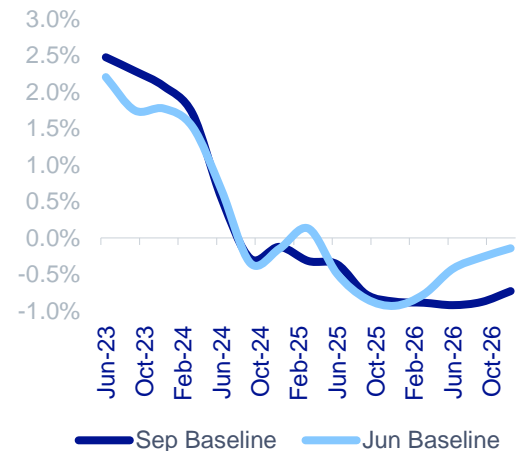
## GDP GROWTH FORECASTS (% QOQ)



## GDP GROWTH FORECASTS (% YOY)



## OUTPUT GAP FORECASTS (% DIFFERENTIAL WRT POTENTIAL)



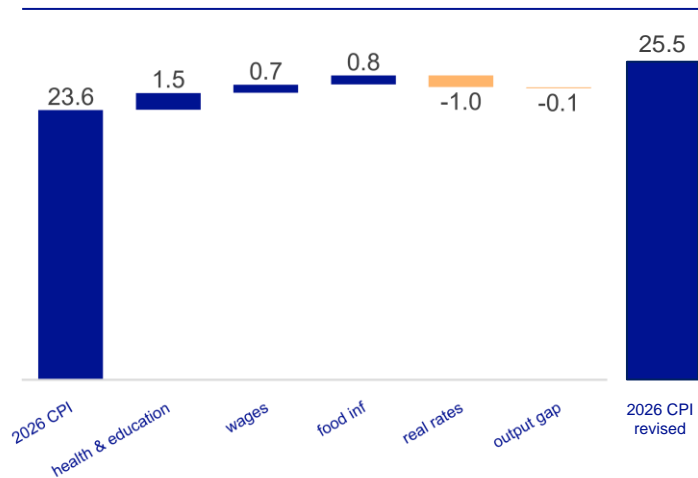
Source: TURKSTAT and Garanti BBVA Research

**Given the 2Q25 upward GDP growth surprise, the output gap got closer to the neutral level, which we assume to reverse again with some deceleration in 2H25.**

# We introduce persistence on inflation in 2026, requiring a more restrictive monetary stance in the ST

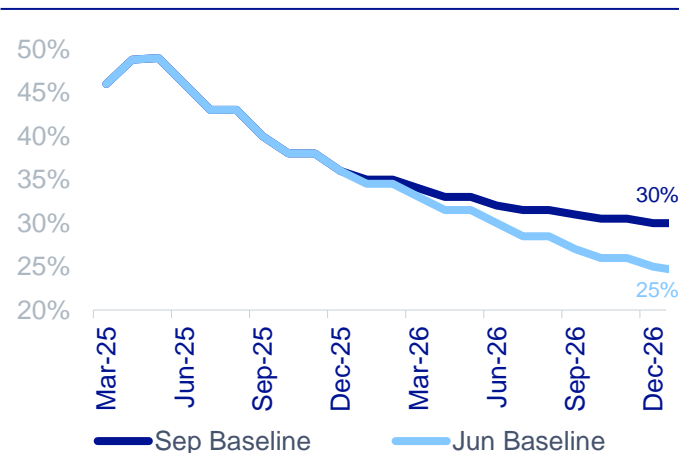
## 2026 CPI REVISION

(% YOY)



## CBRT FUNDING RATE EXPECTATIONS

(%, SIMPLE)

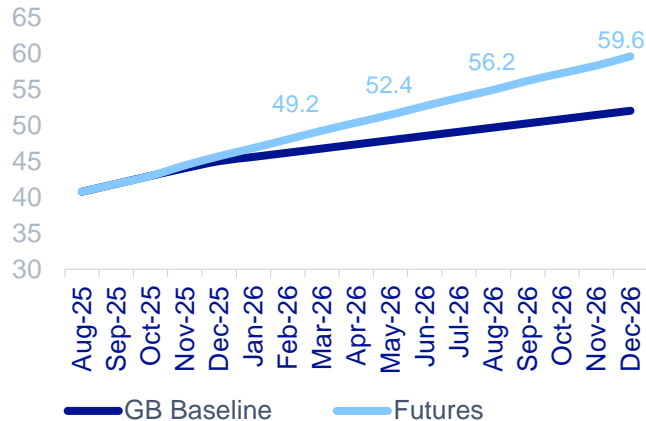


Source: TURKSTAT and Garanti BBVA Research

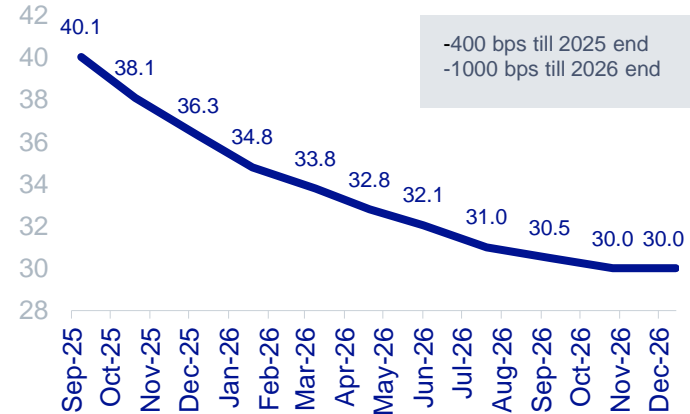
**The CBRT reduces the pace of cuts further in 2026 with an increasing reliance on macro-prudential measures for longer: deposit rules & FC credit caps to continue throughout 2026, TL commercial credit growth caps to ease as of 2Q26 and retailer caps to ease as of 4Q26.**

# The CBRT cut the policy rate by 250bps in Sep, showing efforts to draw a balanced picture

USDTRY FUTURES  
(LEVEL)



MARKET PRICING ON CBRT FUNDING RATE  
(%)



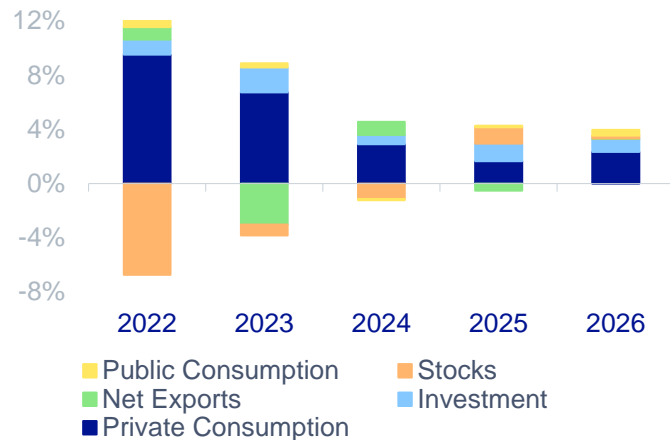
Source: TURKSTAT and Garanti BBVA Research

**We assume a similar strategy of beating forwards in 2026. We expect 200bps cuts in Oct and Dec to reach 36.5% policy rate by end 2025, followed by even slower rate cuts in 2026.**

# We assume private consumption staying much lower than its long term trend, keeping CA deficit moderate

## GDP GROWTH FORECASTS

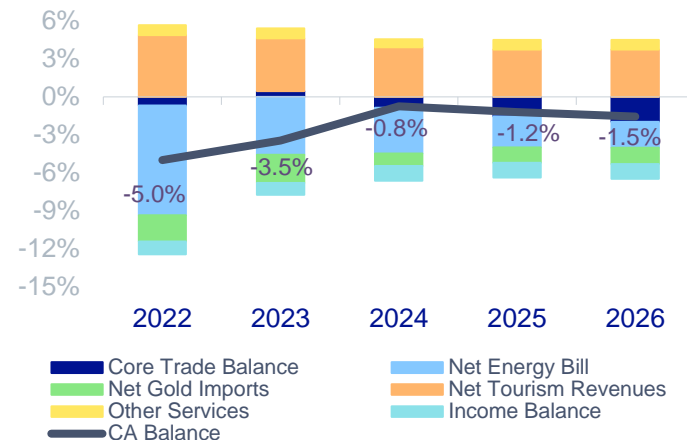
(PP ANNUAL CONTRIBUTION)



Source: TURKSTAT and Garanti BBVA Research

## CURRENT ACCOUNT DEFICIT FORECASTS

(% GDP)



Source: Garanti BBVA Research

**On the external side, we forecast current account deficit to be 1.2% of GDP in 2025 and 1.5% of GDP in 2026, which can be easily financed. We maintain our currency forecasts of 45 and 52 against the US dollar for the end of 2025 and 2026, respectively.**

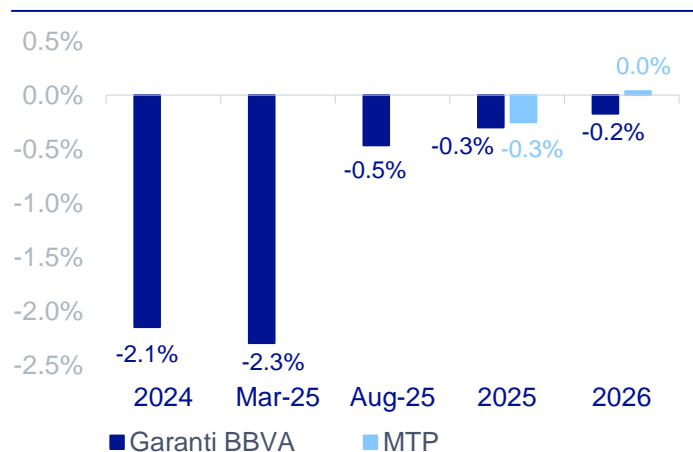
# Moderate CA deficit levels might keep further improvement in the CBRT reserves in the ST

US\$BN									Baseline	
	2019	2020	2021	2022	2023	2024	12M 2025 as of July	7M sum 2025	2025	2026
<b>External Financing Needs</b>	<b>37</b>	<b>75</b>	<b>50</b>	<b>82</b>	<b>81</b>	<b>50</b>	<b>65</b>	<b>49</b>	<b>58</b>	<b>65</b>
Current Account Balance	15	-31	-6	-46	-41	-10	-19	-21	-18	-25
Long-Term Credit Redemptions	52	45	44	35	39	39	46	28	40	40
Banks	31	26	26	23	22	25	30	18	25	25
Other	22	18	18	12	17	14	17	11	15	15
<b>Total Financing Sources</b>	<b>44</b>	<b>44</b>	<b>73</b>	<b>94</b>	<b>79</b>	<b>50</b>	<b>58</b>	<b>41</b>	<b>67</b>	<b>80</b>
Net FDI	6	4	6	9	5	5	5	3	5	5
Government Eurobond	5	2	-4	-4	5	0	-1	1	0	0
Other Portfolio Flows	-10	-12	-1	-16	0	7	-7	-5	0	7
Long-Term Credit Renewals	42	36	51	40	44	54	77	51	60	51
Government	1	1	2	3	3	3	3	2	3	3
Banks	23	21	24	17	25	35	48	33	38	32
Other	18	14	25	19	17	16	25	16	20	16
Short-Term Borrowing	-4	3	-2	0	6	15	-1	-9	0	2
Trade Credits	9	-2	5	1	5	0	4	0	5	5
Net Deposits	4	19	9	36	23	-14	0	5	5	10
Net Error and Omissions	-10	-8	10	29	-10	-18	-19	-5	-8	0
<b>Reserve Assets (Sources-Needs)</b>	<b>6</b>	<b>-32</b>	<b>23</b>	<b>12</b>	<b>-2</b>	<b>1</b>	<b>-7</b>	<b>-9</b>	<b>9</b>	<b>15</b>
<b>Rollover Ratios (renewals/redemptions)</b>										
Banks	74%	81%	94%	76%	115%	141%	164%	186%	150%	128%*
Other	85%	75%	136%	156%	97%	115%	149%	152%	130%	106%*

# After realizing around 1.5pp of GDP negative fiscal impulse in 2025, we might see a neutral stance in 2026

## BUDGET PRIMARY BALANCE\*

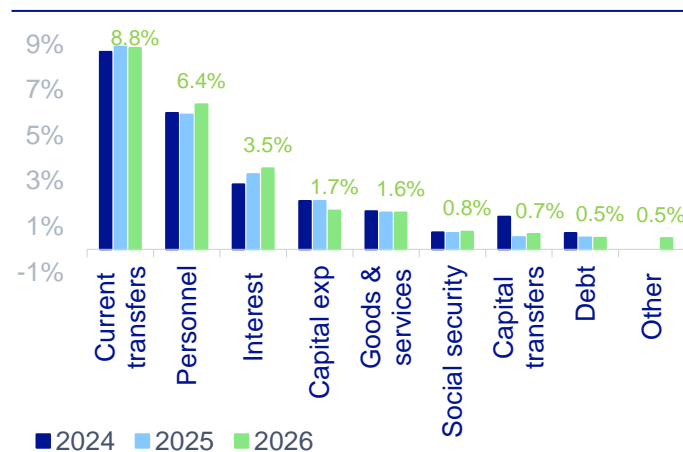
(% GDP)



\* Realizations are cash basis, 2025 and 2026 forecasts are on an accrual basis  
Source: Garanti BBVA Research, Treasury

## BUDGET SPENDING COMPOSITION

(% GDP, MEDIUM TERM PROGRAM)

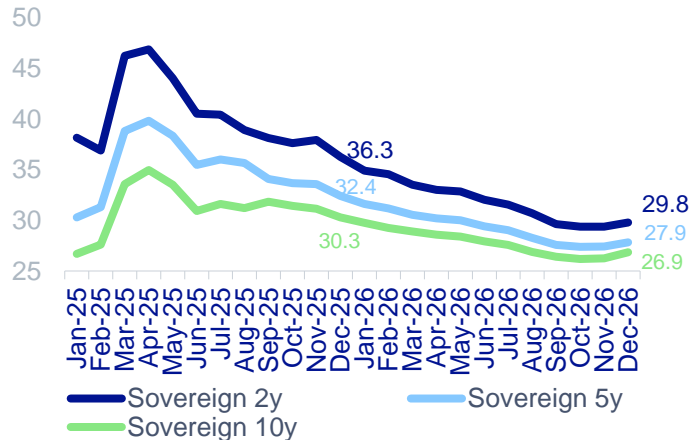


Source: Treasury

**The fiscal consolidation since April seems to be much more limited in 2026, as seen in the MTP.**

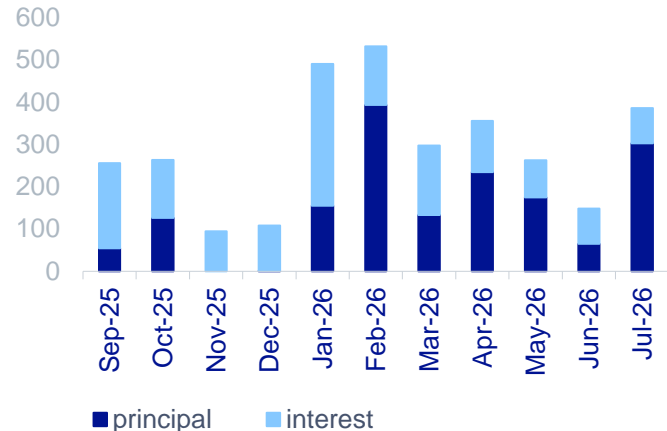
# The Treasury aims to reduce interest burden with ST issuances, yet the gains will depend on disinflation

## TL SOVEREIGN YIELD CURVE FORECASTS (% COMPOUND)



Source: Bloomberg and Garanti BBVA Research

## DOMESTIC DEBT REDEMPTION CALENDAR (BN TL)



Source: Treasury and Garanti BBVA Research

**Given the higher amount of interest payments accrued for next years compared to principal payments, it is crucial to reduce inflation to maintain fiscal sustainability.**

# Garanti BBVA

## Baseline Scenario

	2023	2024	2025	2026
GDP growth (avg)	5.0%	3.3%	<b>3.7%</b>	<b>4.0%</b>
Unemployment Rate (avg)	9.4%	8.7%	<b>8.4%</b>	<b>9.2%</b>
Inflation (avg)	53.9%	58.5%	<b>34.3%</b>	<b>25.5%</b>
Inflation (eop)	64.8%	44.4%	<b>30.0%</b>	<b>23.0%</b>
CBRT Cost of Funding (avg)	20.5%	49.6%	<b>43.3%</b>	<b>32.5%</b>
CBRT Cost of Funding (eop)	42.5%	47.5%	<b>36.5%</b>	<b>30.0%</b>
USDTRY (avg)	23.7	32.8	<b>40.0</b>	<b>48.8</b>
USDTRY (eop)	29.4	35.3	<b>45.0</b>	<b>52.0</b>
EURTRY (avg)	25.7	35.5	<b>45.4</b>	<b>58.4</b>
EURTRY (eop)	32.6	36.7	<b>52.9</b>	<b>63.3</b>
Current Account Balance (% GDP)	-3.5%	-0.7%	<b>-1.2%</b>	<b>-1.5%</b>
CG Primary Balance (% GDP)	-2.6%	-1.9%	<b>-0.3%</b>	<b>-0.2%</b>
CG Budget Balance (% GDP)	-5.1%	-4.7%	<b>-3.6%</b>	<b>-3.7%</b>

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