

March 2026

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# Türkiye Economic Outlook

# Main messages

## Economic Policies



The conflict in the Middle East has already led to tighter financial conditions, where the monetary policy might be required to tighten further, depending on the pressure on the CBRT reserves. We calculate the CBRT's implicit FX reserves sales have reached above \$50bn (if exports & rediscount inflows also added) in March through the 25th (around \$35bn foreigners & \$15-20bn domestic corporates) with support from gold sales and swapping gold. Based on the duration and the depth of the impact from the war, we can see limited monetary easing and only mild fiscal support going ahead in the short term.

## Growth Outlook



The economy grew by 3.6% in 2025. We nowcast a moderate annual GDP growth of nearly 3% in 1Q26. Risks are tilted to the downside on our 4% GDP growth forecast for 2026. Longer and deeper the conflict, depending on the increasing external financing needs, a more severe trade-off on growth could happen.

## Inflation & Rates



Disinflation has already decelerated even before the conflict (median monthly CPI persistently above 2%). Given the elevated energy prices and supply disruptions, disinflation process could reverse, if we get closer to a riskier situation. Depending on different assumptions, year-end CPI will ultimately surpass 25%, requiring still a managed currency regime. We keep our USD/TRY forecast at 52 for end-2026 despite risks from a higher inflation and a wider current account deficit. The extent of the adjustment will be based on external balance pressure and growth trade-offs.

## Risks

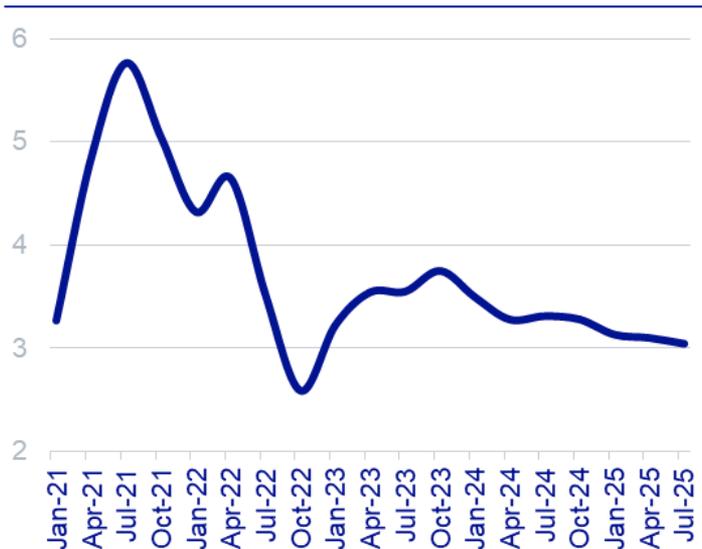


Much higher energy prices, tighter external financial conditions, capital outflows and risks on trade & tourism flows weigh down on the current account deficit. The recent strong depletion from the CBRT reserves and any unexpected trigger on dollarization of residents could fuel further the pressure on the currency. We are closely monitoring the evolution of the conflict and will revise our forecasts accordingly when we have some clarity.

# Global Economic Outlook

# Despite negative shocks, the world economy has showed resilience, backed by policy tailwinds and the AI boom

**GLOBAL GDP GROWTH: QUARTERLY**  
(Y/Y %, SEASONALLY ADJUSTED, CONSTANT PRICES)



Source: BBVA Research based on data from the IMF

**Global growth soft-landed** in 2025 despite deceleration fears, underpinned by several factors:

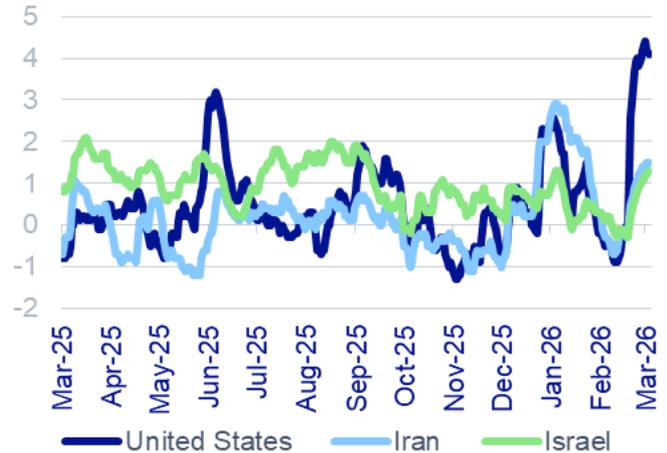
- limited impact of geopolitical tensions, protectionism and policy uncertainty, so far.
- fall in inflation and interest rates.
- weak USD.
- fiscal stimuli.
- AI spending.
- low energy prices.

**Early-2026 macro data is broadly positive**, but the **war in Iran** has increased uncertainty ahead.

# The outbreak of conflict in Iran has lifted energy prices from their lows, reinforcing global uncertainty and risks

## GEOPOLITICAL RISK INDEX

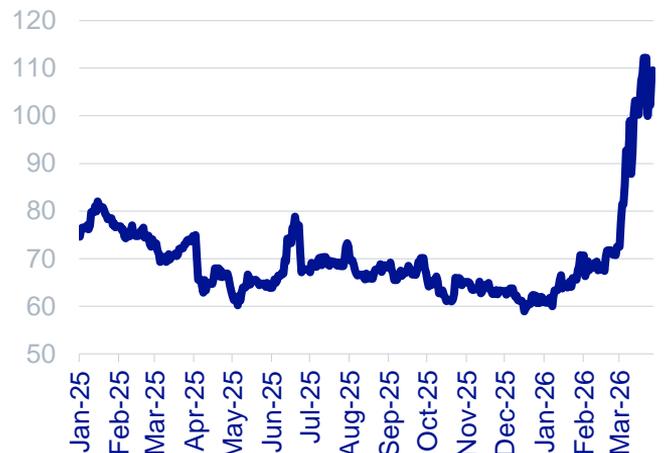
(HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

## BRENT PRICES

(USD PER BRENT BARREL)

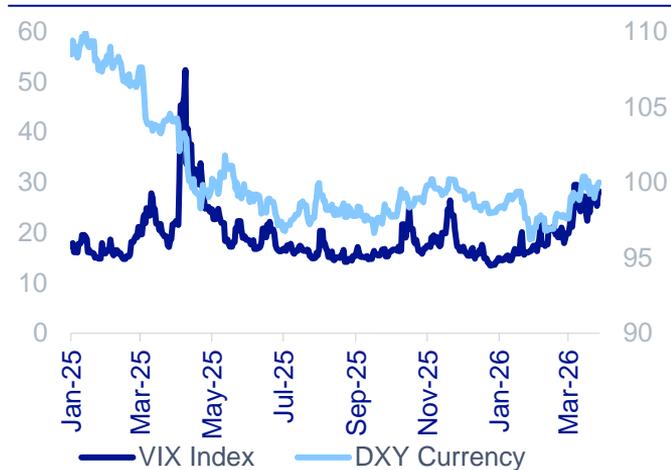


Source: BBVA Research based on data from Haver

**US-Israel attacks on Iran, and the ensuing escalation of the conflict reignited geopolitical tensions in the Middle East; energy prices have jumped amid production and transportation disruptions across the region**

# Market impact from Middle East tension has started to strengthen with the sell-off in sovereign bonds

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



Source: BBVA Research based on data from Haver

**US SOVEREIGN YIELDS**  
(%)

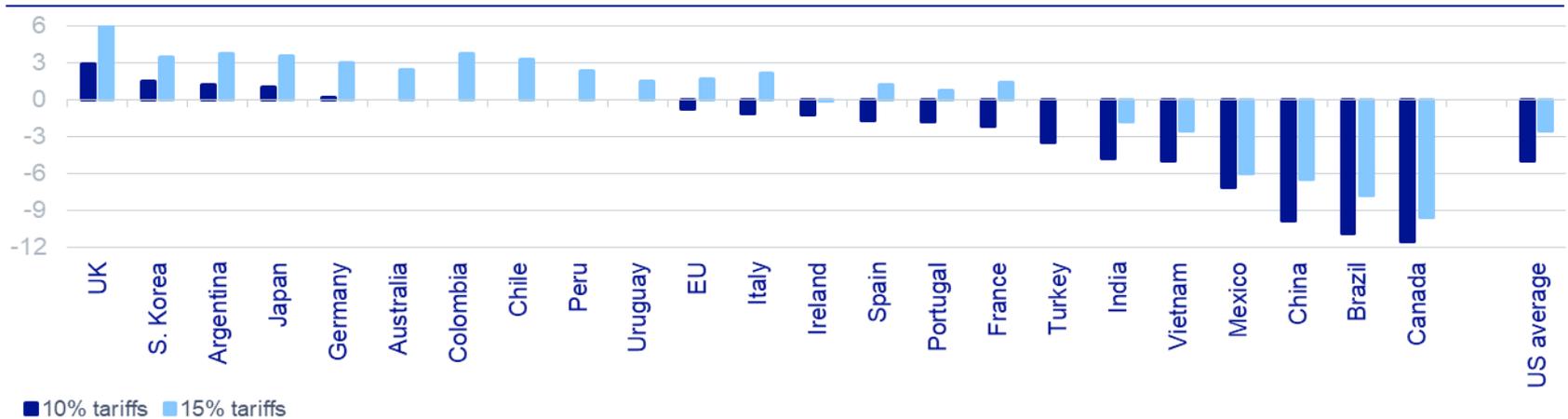


Source: BBVA Research based on data from Haver

**Following initial attacks on Iran, volatility has increased, the USD has appreciated, and US yields rose as inflation fears outweigh safe haven demand; markets are now pricing a hold or a hike this year from the FED and at least three rate hikes from the ECB**

# US tariffs continue at historically high levels despite the decline following the IEEPA-tariffs overruling

US STATUTORY TARIFFS: CHANGE DUE TO THE SHIFT FROM IEEPA TO SECTION 122 (\*) (PP)



(\*) These estimations are based on 2024 trade flows. They assume that previously announced trade deals do not remain in place.  
Source: BBVA Research

**Statutory US tariffs fell somewhat, from an overall level around 15%, following the announcement of new import duties, based on Section 122 of the Trade Act of 1974, to replace overruled reciprocal and fentanyl tariffs; these temporary duties could be eventually replaced by more permanent ones**

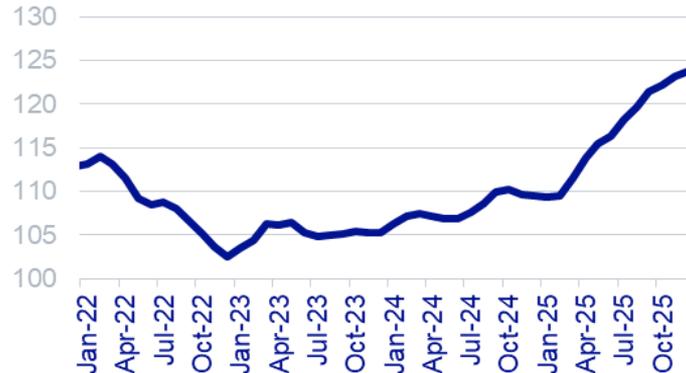
# Tariff-related uncertainty persists but appears to be a diminishing source of concern; Iran conflict is on the radar

**ECONOMIC POLICY UNCERTAINTY INDEX: US** (HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

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



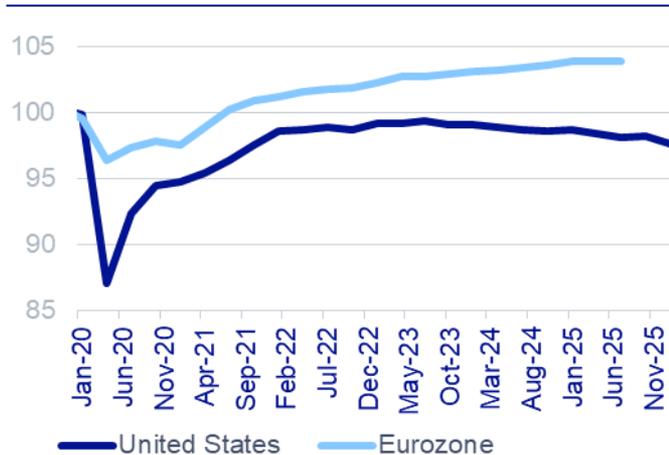
Source: BBVA Research based on data from Haver

**Global trade has been resilient, particularly in China, but also in the US; the incipient impact of higher tariffs is being offset by factors such as import frontloading effects, effective tariffs below statutory levels, and the boom in AI-related imports**

# Lower immigration could be contributing to lower employment in the US; wages, however, continue to ease

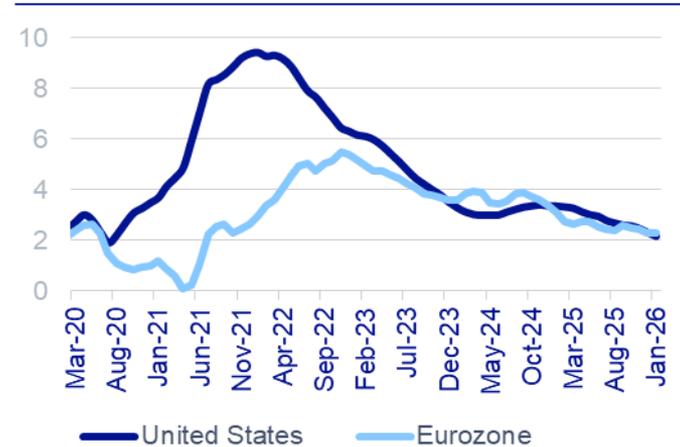
## EMPLOYMENT-POPULATION RATIO (\*)

(INDEX: 2019 AVERAGE = 100)



## NOMINAL WAGES

(Y/Y %, 3-MONTH MOVING AVERAGE)



(\*) US: 16 years and over; EZ: from 15 to 74 years.

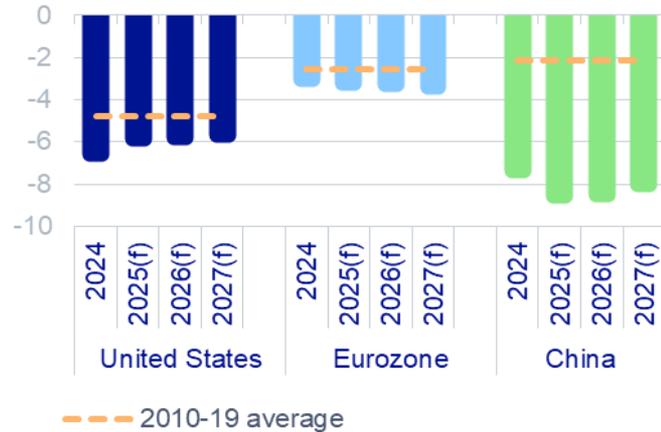
Source: BBVA Research based on data from Fred and Eurostat

Source: BBVA Research based on data from Indeed

**The US unemployment rate has fallen more recently (4.4% in Feb/26), yet low fire & low hire remains the key problem reducing dynamism in the labor market; in the Eurozone, it continues at low levels (6.2% in Dec/25) and real wages are growing at a positive rate**

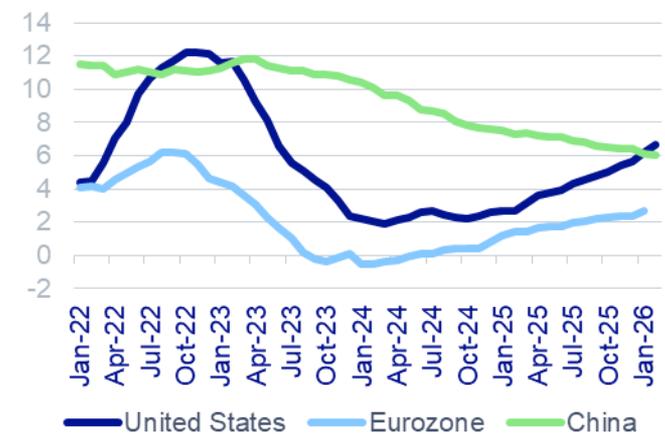
# Economic policies are providing a significant cyclical support to economic activity

**FISCAL BALANCE (\*)**  
(% OF GDP)



(f): forecast  
 (\*) Forecasts by BBVA Research for the Eurozone, by the CBO for the US and by the IMF for China.  
 Source: BBVA Research based on data from the IMF

**BANKING CREDIT: STOCK**  
(Y/Y %)

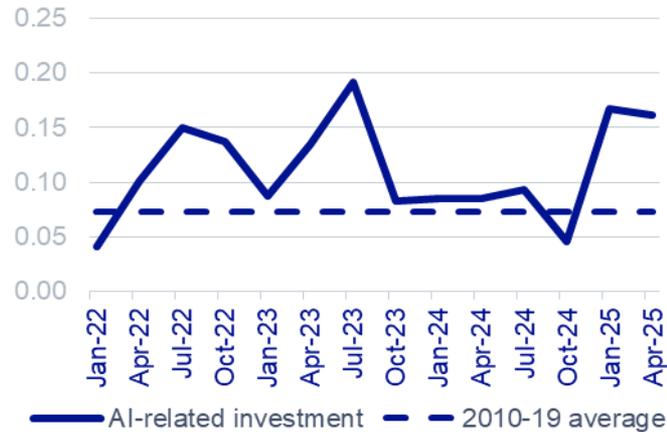


Source: BBVA Research based on data from FRED and Eurostat

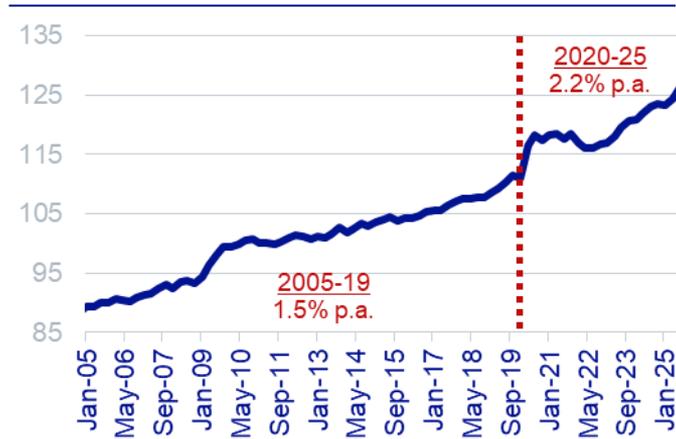
**Supportive fiscal policies remain in place, led by defense spending in the Eurozone and tax cuts (partially offset by tariff revenues) in the US; policy rates have fallen by 175 bps in the US and 200bps in the Eurozone since mid-2024, contributing to growth resilience**

# AI spending has been one of the main drivers of US growth

**US: AI-RELATED INVESTMENT (\*)**  
(CONTRIBUTION TO GDP GROWTH; 12-MONTHS  
MOVING AVERAGE: PP)



**US: LABOR PRODUCTIVITY PER HOUR**  
(INDEX: 2005-2019 AVERAGE = 100)



(\*) AI-related investment defined as investment in information processing and investment in softwares.

Source: BBVA Research based on data from FRED and US Census Bureau

Source: BBVA Research based on data from FRED

**AI-adoption has been contributing to investment and private consumption (due to wealth effects from AI-equity gains); AI-related imports are also increasing**

# 2025 growth was higher than expected; preliminary data suggest that dynamism persisted at the start of 2026

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

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

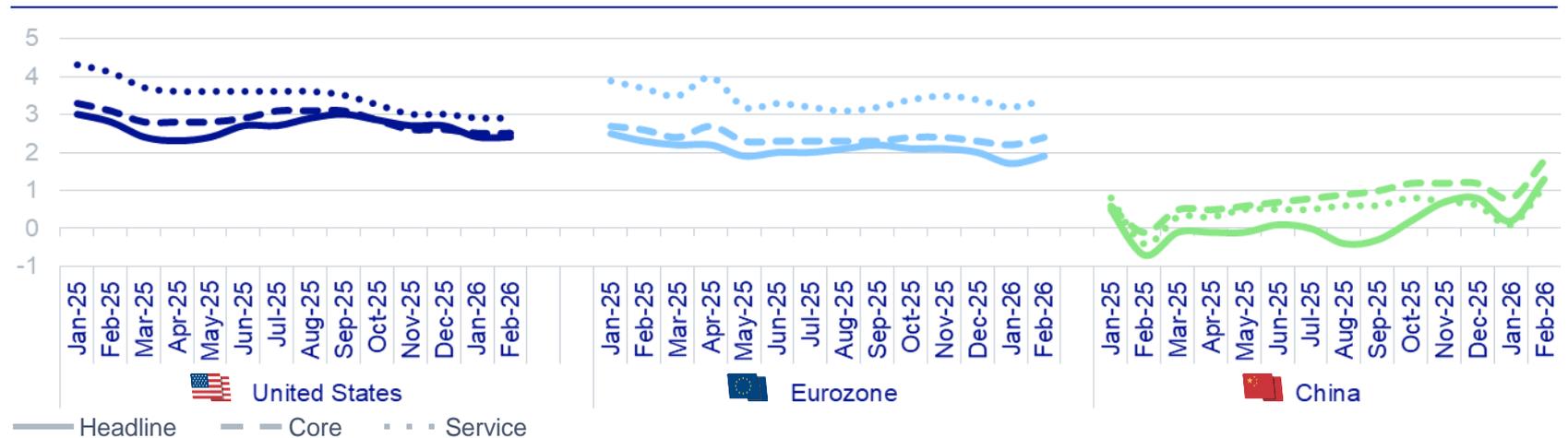


(\*) 1Q26: BBVA Research forecasts  
Source: BBVA Research based on data from Haver and China's NBS

**Growth has been backed mostly by domestic demand and the service sector in the US and the Eurozone; external demand has been key to keep growth relatively stable in China**

# Inflation has in general moderated more than expected ahead of the recent surge in energy prices

CPI INFLATION: HEADLINE, CORE AND SERVICE (Y/Y %)

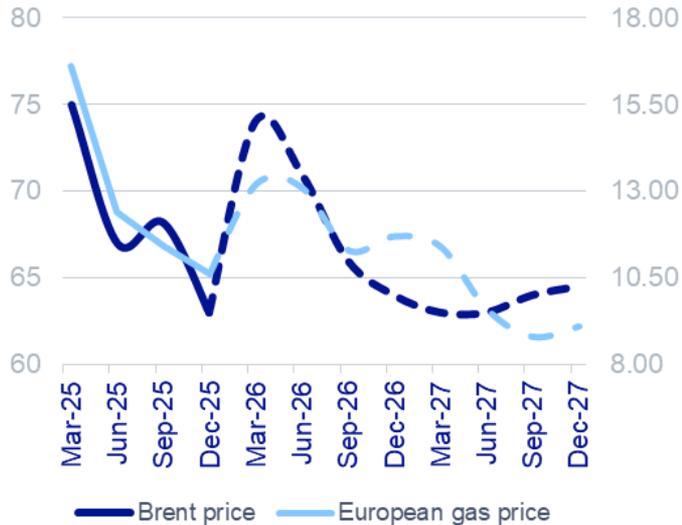


Source: BBVA Research based on data from Haver

**Inflation moderation was driven by low energy prices ahead of the conflict in Iran, smaller pressure from service (mainly shelter) prices in the US, and controlled goods inflation in the Eurozone**

# Middle East tensions: a temporary conflict may have limited macroeconomic impact, but uncertainty is increasing

**ENERGY PRICES: BBVA RESEARCH FORECASTS** (BRENT: USD/BARREL, GAS: USD/MMBtu; QUARTERLY AVERAGES)



Source: BBVA Research based on data from Haver

The war in Iran can affect the global economy through different channels: i) higher energy prices, ii) supply disruptions, iii) financial risk-off, and iv) weaker confidence.

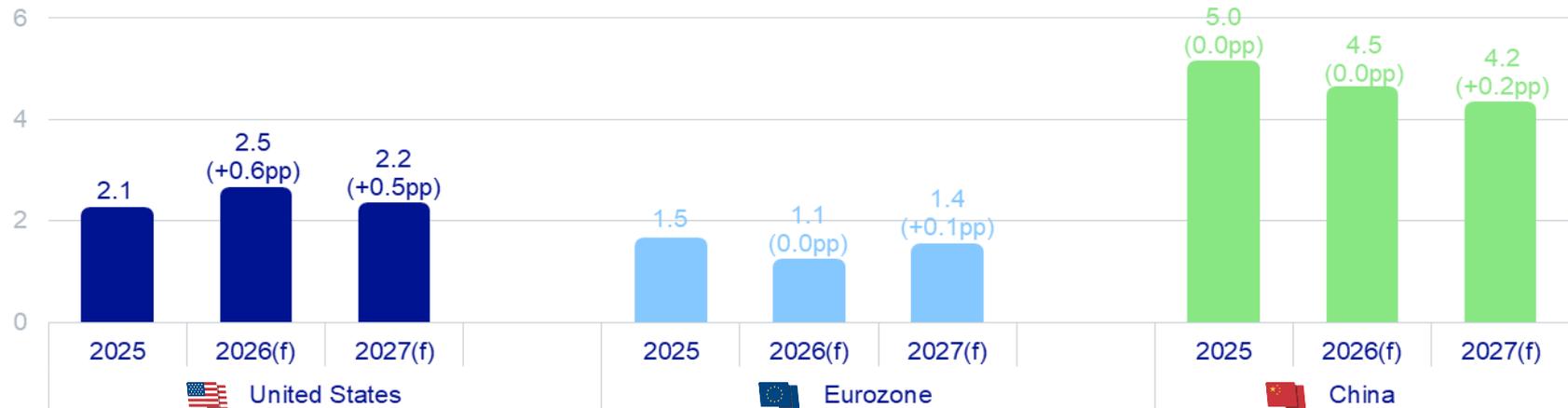
Measures to reduce the transmission of global energy prices to domestic markets and support economic activity are increasing.

A short war would allow energy prices, financial conditions and confidence to normalize soon, limiting negative effects on inflation and growth.

A more prolonged conflict would imply a sharp negative shock to the global economy, mainly for net energy importers (Europe, China) and riskier assets (particularly in emerging markets).

# Global growth is likely to remain dynamic, driven by policy tailwinds and AI, at least if the Iran war proves to be short-lived

**GDP GROWTH (\*)** (% , CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(\*) Global GDP is forecast to grow 3.2% in 2025, 3.2% in 2026 and 3.3% in 2027, respectively 0.0pp, 0.1pp and 0.1 higher than the previous forecasts.

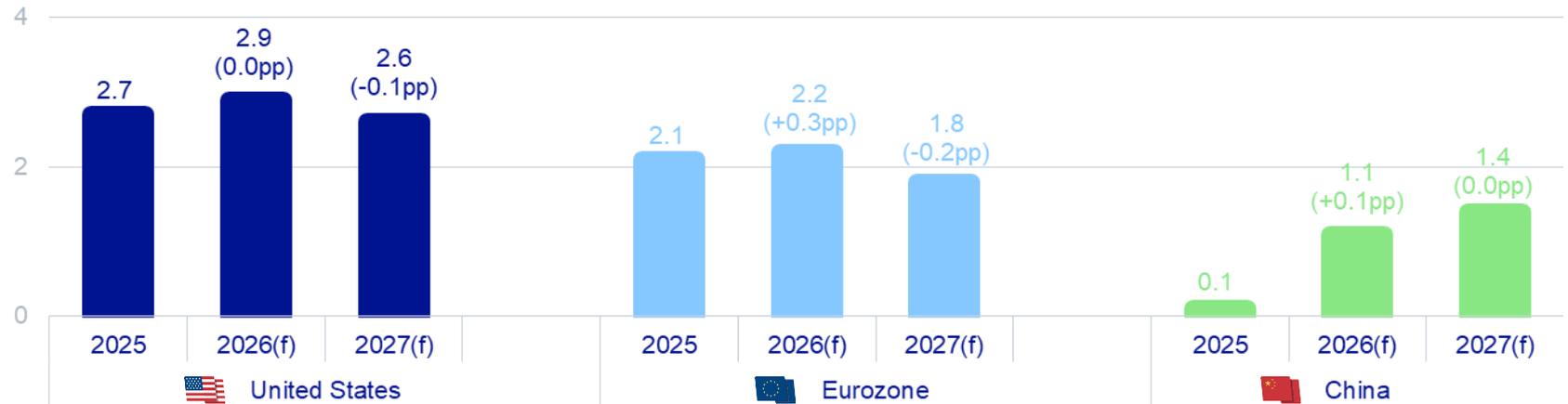
(f): forecast.

Source: BBVA Research

**Incoming data and expectations of a larger AI-driven contribution support growth prospects, especially in the US, and offset the negative effects of a temporary rise in energy prices, which weighs more on the Eurozone than on the US or China**

# Inflation will remain relatively high in the US, and is likely to be above 2% in the Eurozone and to edge up in China

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

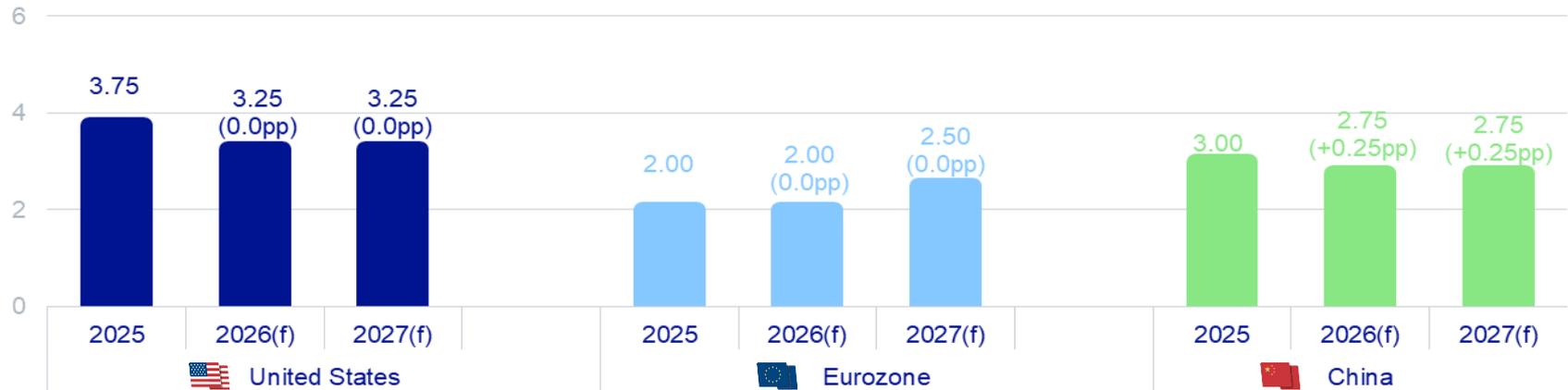


(f): forecast.  
Source: BBVA Research

**Energy prices, resilient demand, US tariff pass-through, sticky euro-area services inflation, and China's "anti-involution" drive, among other factors, are likely to keep global inflation under pressure**

# Higher energy prices could call for further caution on rates, especially if they prove persistent

**POLICY INTEREST RATES (\*)** (% , 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

**A more prolonged war in Iran would lift inflation and weaken demand, posing a dilemma for central banks, which would nonetheless be more likely to turn hawkish, especially the Fed, given greater inflation concerns in the US**

# Risks are mostly tilted to the downside

Main risks	Main potential impacts
<b>Geopolitical tensions</b>	<ul style="list-style-type: none"><li>— Iran: prolonged high energy prices, supply disruptions, financial tensions, emigration flows.</li><li>— Ukraine war, US-China rivalry, China-Japan, Venezuela.</li></ul>
<b>AI</b>	<ul style="list-style-type: none"><li>— higher demand, GDP growth and inflation due to AI spending (short-term).</li><li>— higher productivity and potential GDP (medium-term).</li><li>— wealth effects on private consumption driven by AI equities.</li></ul>
<b>US policies and institutions</b>	<ul style="list-style-type: none"><li>— monetary policy miscalibration: inflation persistence vs. recession risks.</li><li>— erosion of Fed independence: lower policy rates, higher inflation, weaker USD, financial volatility.</li><li>— impairment of checks and balances.</li></ul>
<b>Debt and credit markets</b>	<ul style="list-style-type: none"><li>— large public debt: sovereign crises, fiscal dominance leading to higher inflation.</li><li>— credit markets: commercial real estate, shadow banking, leveraged credit, Middle-East exposure.</li></ul>
<b>Protectionism</b>	<ul style="list-style-type: none"><li>— higher costs and lower trade volumes: weaker global growth.</li><li>— fragmentation, supply-chain re-routing: relative price shocks, productivity drag.</li></ul>
<b>Labor supply</b>	<ul style="list-style-type: none"><li>— tighter labor supply on migration curbs and ageing: wage/inflation persistence.</li></ul>
<b>China's slowdown</b>	<ul style="list-style-type: none"><li>— structural growth deceleration, housing market crisis, deflation.</li></ul>
<b>Climate change</b>	<ul style="list-style-type: none"><li>— extreme events: price spikes, output disruptions.</li><li>— transition investment, adjustment costs.</li></ul>

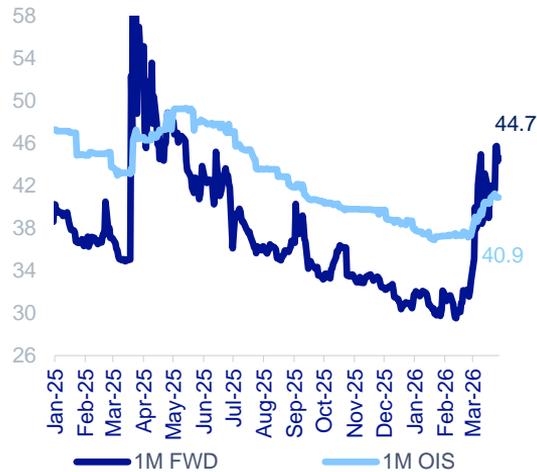
# Türkiye Economic Outlook

# The global risk-off mood has erased the favorable gap for carry trade flows

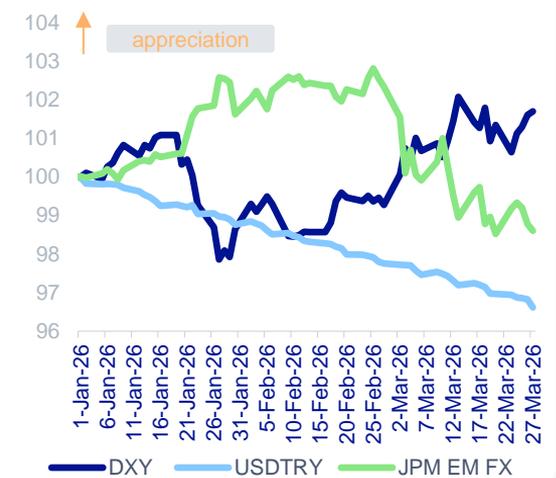
## TÜRKİYE VS. EM 5-YEAR CDS (BASIS POINTS)



## OFFSHORE AND ONSHORE TRY RATES (%)



## DXY INDEX vs. USDTRY & EM CURRENCIES (31.12.2025=100)



Source: Bloomberg and Garanti BBVA Research

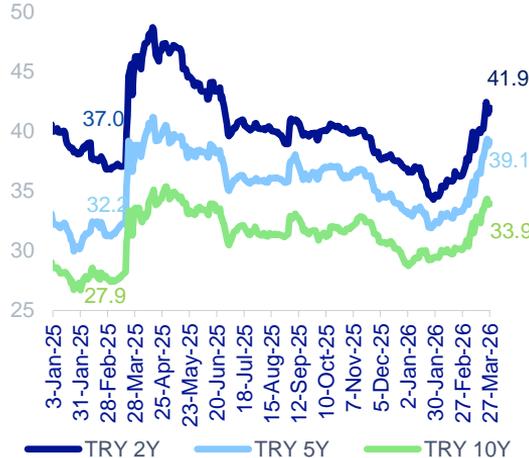
**Türkiye's 5-year CDS premium has most recently reached 300 bps, while appetite for carry has disappeared despite the orderly real appreciation of the currency.**

# The sell-off in Turkish sovereigns has intensified while more radical losses are seen in banking equity indices

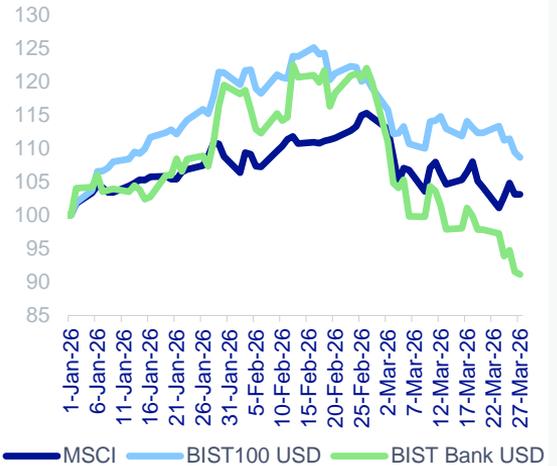
**USD SOVEREIGN YIELD CURVE (%)**



**TRY SOVEREIGN YIELD CURVE (%)**



**MSCI & BIST INDEX (IN USD)  
(31.12.2025=100)**

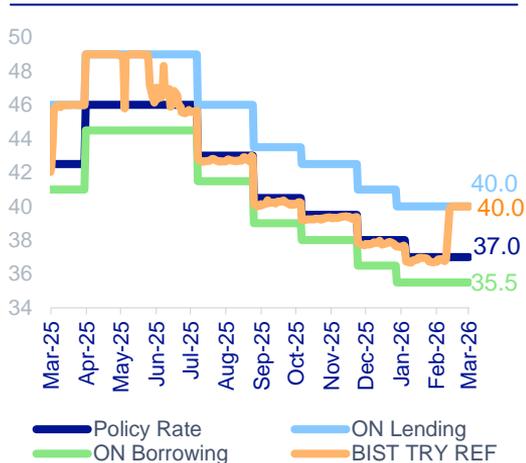


Source: Bloomberg and Garanti BBVA Research

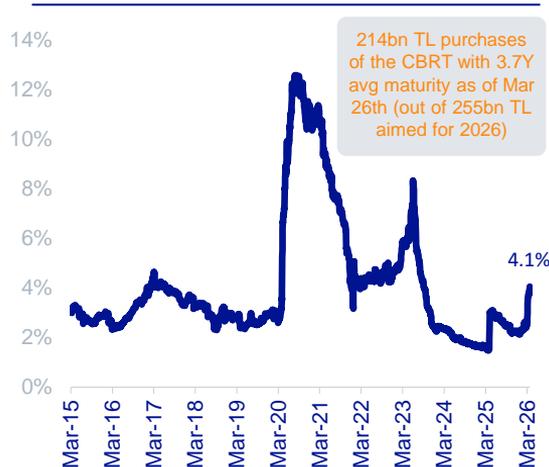
**The spreads have widened in Eurobonds, while the long end of the TL sovereign curve (10-year) has most recently moved to 34% yield.**

# The CBRT reacted proactively and raised the cost of funding with effective sterilization of excess TL liquidity

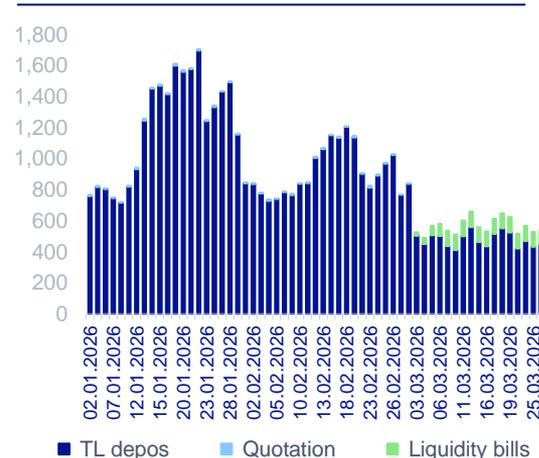
## CBRT INTEREST RATE CORRIDOR & ON TRY REF RATE (%)



## CBRT TRY SOVEREIGN BOND HOLDINGS / ASSETS (%)



## CBRT STERILIZATION VOLUME (BN TL)

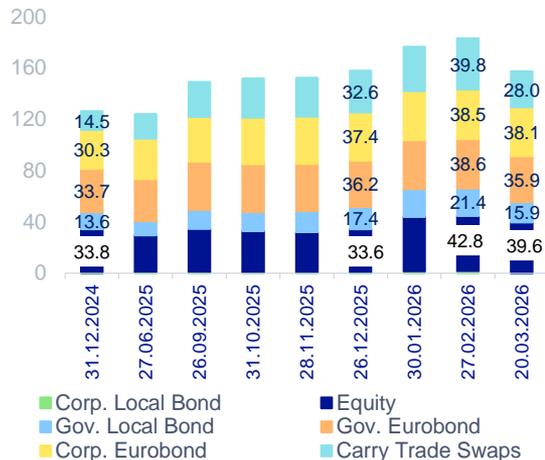


Source: CBRT and Garanti BBVA Research.

**The CBRT supported TL sovereign bond market in the early days of the conflict (by purchasing ST liquidity bills) to keep orderly functioning and preventing a sharp fall in returns of MMFs.**

# Total sell-off of foreigners has reached around \$35bn as of mid this week (\$20-25bn carry + \$10-15bn equity & bond)

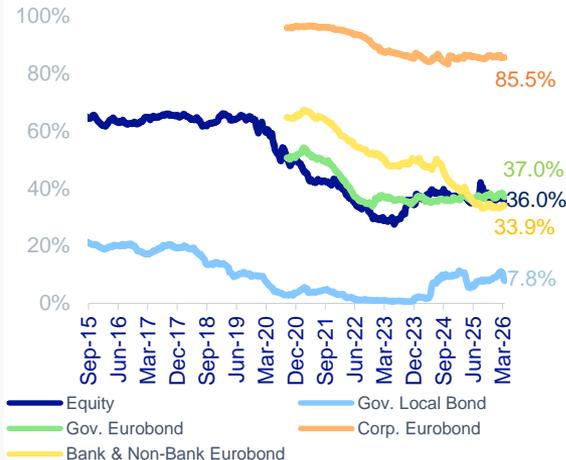
**FOREIGNERS EXPOSURE\* TO TR FINANCIAL ASSETS\*\* (\$USbn)**



**TOTAL DERIVATIVE POSITIONS (\$USbn, as of March 20th)**



**FOREIGNERS' SHARE IN TR FINANCIAL ASSETS (% in total)**



\* Excluding local banks' external subsidiaries

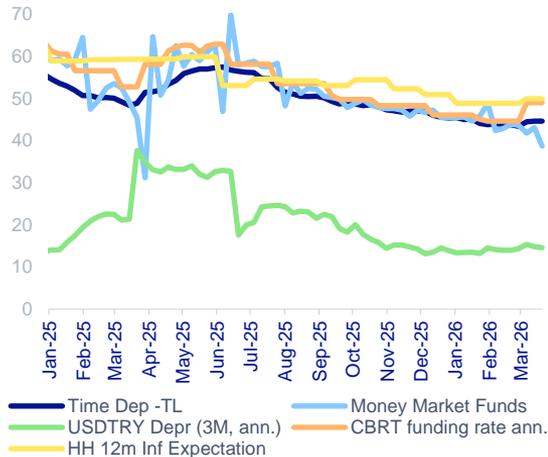
\*\* Including only the outright purchases in Government local bonds

Source: CBRT and Garanti BBVA Research

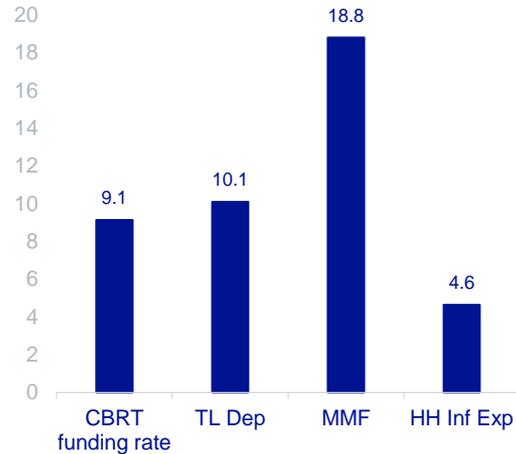
**The total carry position declined to \$43bn as of March 20<sup>th</sup> (close to \$59bn by end Feb), of which we estimate as \$28bn (\$15-20bn as of mid this week most probably) owned by foreigners. The share of foreigners in local Government bonds fell below 8% from 11% in mid-Feb.**

# The timely reaction of the authorities has prevented a domestic sentiment shock so far

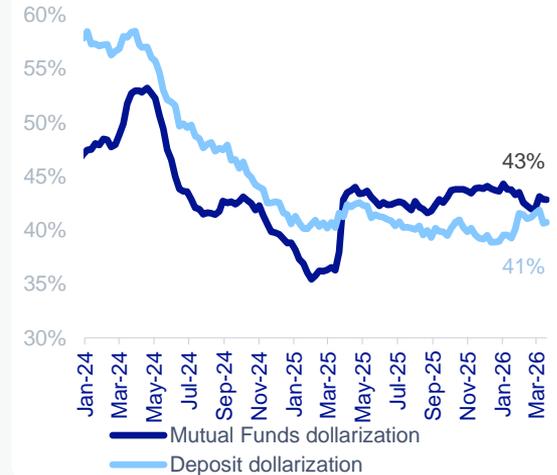
## RELATIVE RETURNS & EXPECTATIONS (% , annualized)



## DECREASE IN RATES (from July 19th to Mar 20th, compounded)



## RESIDENTS' DOLLARIZATION RATIO\* (%)



Source: CBRT, TURKSTAT and Garanti BBVA Research

Source: TEFAS and Garanti BBVA Research

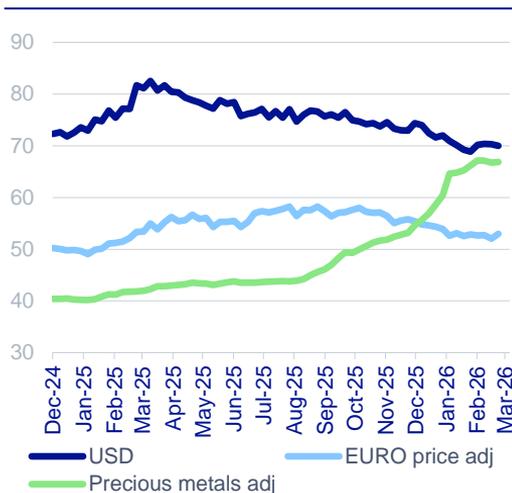
Source: TEFAS, BRSA and Garanti BBVA Research

\*\* FC Funds consist of FC Hedge Funds, Eurobond Funds and Precious Metals Funds

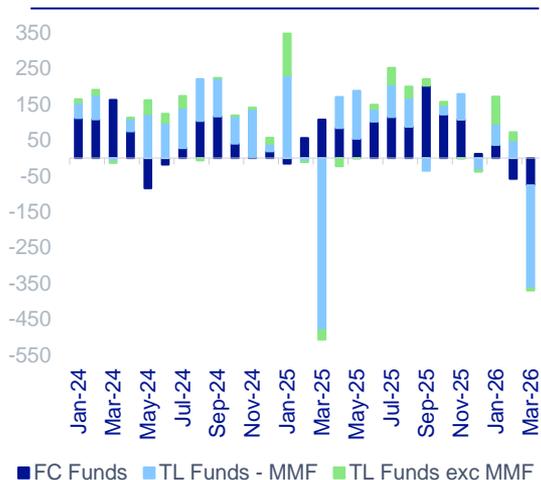
**The CBRT has suspended funding via one-week repos (policy rate staying at 37%), leading to cost of funding to move up to 40% (ON lending rate); while deposit rules keep TL savings still attractive despite the volatility in MMFs.**

# Dollarization of households stays under control

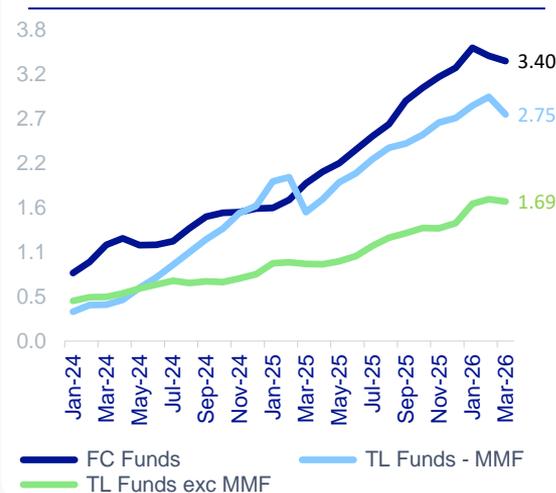
## FC DEPOSITS VOLUME OF RESIDENTS (BN USD)



## NET FLOWS IN INVESTMENT FUNDS (TL BN)



## VOLUME OF INVESTMENT FUNDS\* (TL TRN)



Source: CBRT, TURKSTAT, TEFAS and Garanti BBVA Research

\* FC Funds consist of FC Hedge Funds, Eurobond Funds and Precious Metals Funds

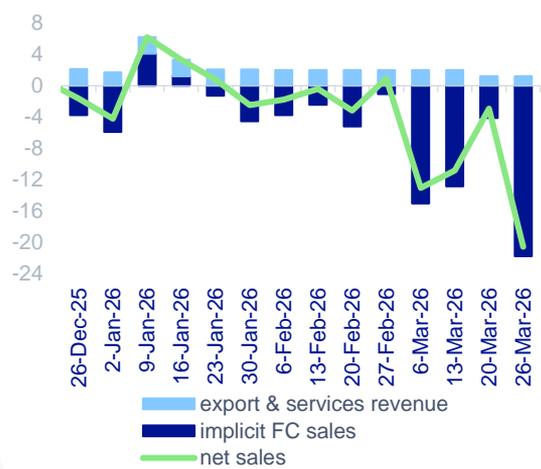
**We still calculate net outflows from the money market funds, but this time more limited compared to the last year's domestic March shock.**

# CBRT's implicit FX reserve sales reached above \$50bn in Mar as of 25th (\$35bn foreigners & \$15-20bn domestic corporates)

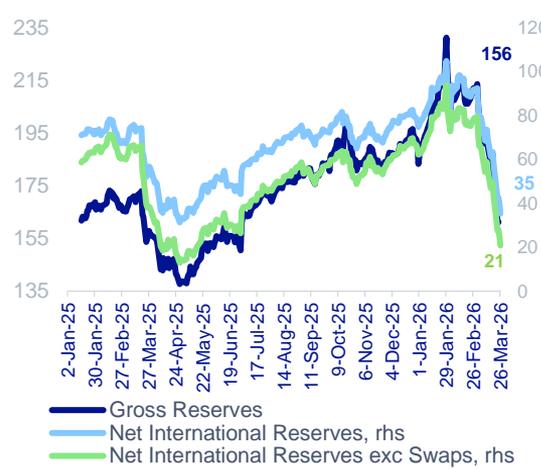
**CBRT GROSS GOLD RESERVES & HQLA\*** (\$USbn, as of Mar 20th)



**CBRT WEEKLY RESERVE FLOWS** (\$USbn, as of Mar 26th)



**CBRT INTERNATIONAL RESERVES** (\$USbn, as of Mar 26th)

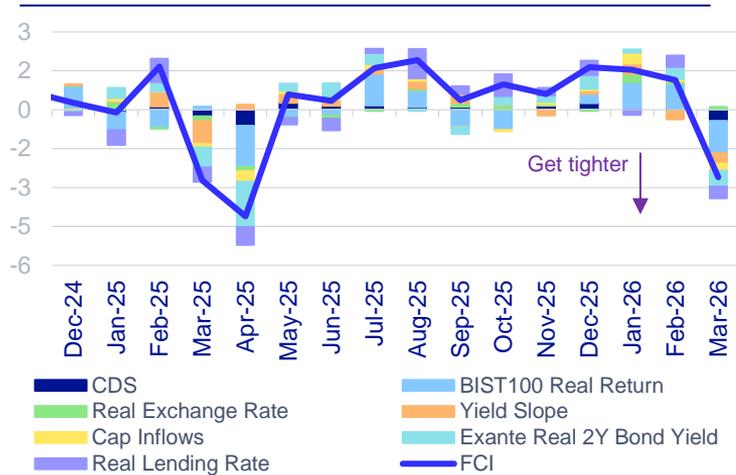


\* High quality liquid foreign assets excluding IMF SDR  
 \*\* 19 and 25 March refer to the cumulative four days and three days flow, respectively  
 Source: CBRT and Garanti BBVA Research.

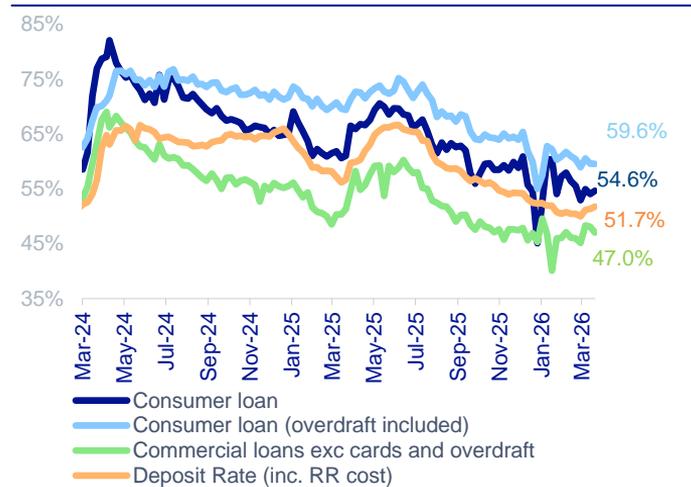
**The recent decline in international gold prices also weighs down on the CBRT reserves; we see gold sales & swapped gold to increase the high quality liquid foreign assets last week to be used this week.**

# Financial conditions tighten again; deposit rules reinforce the monetary tightness on TL deposit rates

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



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

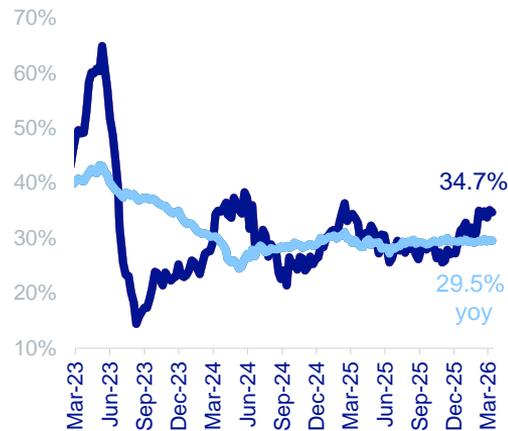


Source: CBRT, Bloomberg and Garanti BBVA Research

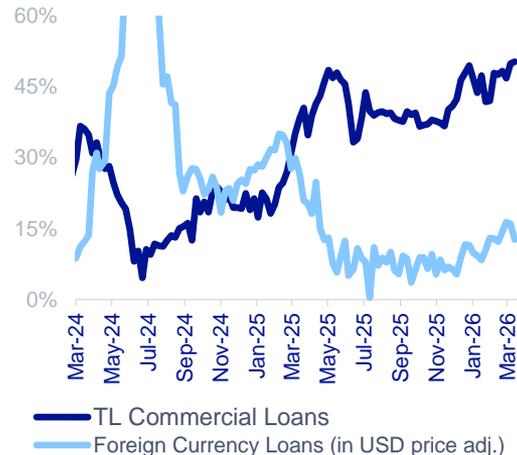
**With the upward move in deposit rates and the most recent sell-off in bond markets, credit interest rates will be pushed up further, particularly in commercial segment.**

# Credit growth stabilized btw 34-35%. Impact of recent regulations is seen in consumer overdraft and credit cards

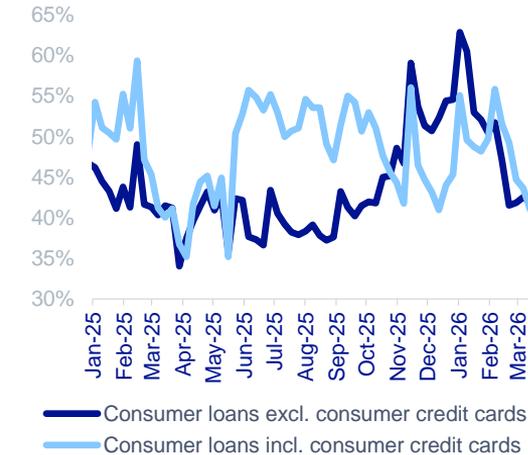
**TOTAL CREDIT GROWTH (FX ADJ)** 13 WEEK ANNUALIZED & YOY



**COMMERCIAL LOANS** 13 WEEK ANNUALIZED, DEPOSIT BANKS



**CONSUMER CREDIT GROWTH** 13 WEEK ANNUALIZED, DEPOSIT BANKS



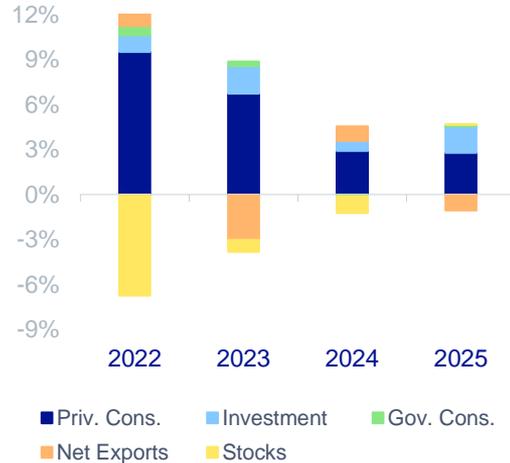
Source: BRSA and Garanti BBVA Research.

**Highly unanchored inflation expectations keep demand for consumer loans reducing sensitivity for price, yet most recent limitations on particularly overdraft loans have decelerated GPL loan growth.**

# GDP growth materialized as 3.6% in 2025, driven by mainly domestic demand

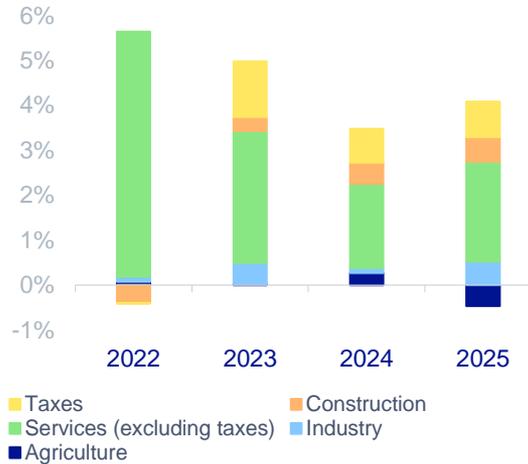
## GDP DEMAND COMPONENTS

(percentage point contribution)



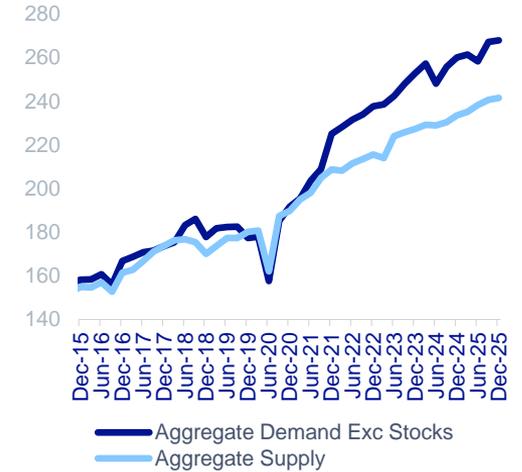
## GDP SECTORIAL COMPONENTS

(percentage point contribution)



## AGGREGATE DEMAND & SUPPLY

(Level, seas. & cal. adj., 2009=100)

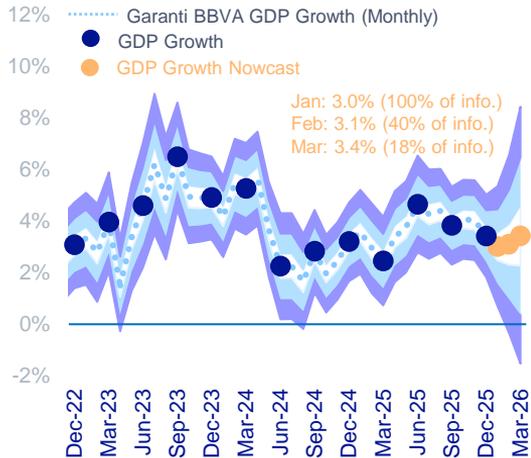


Source: TURKSTAT and Garanti BBVA Research

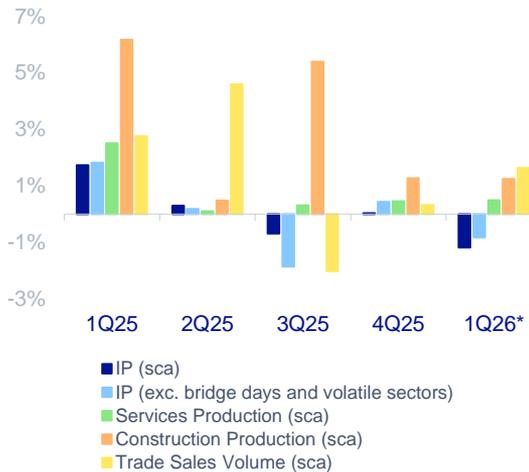
**Domestic demand was the main contributor to GDP growth in 2025, while services sector was the main engine on the sectorial side. The persistent gap between demand and supply leads to slow disinflation process.**

# Activity may stay moderate in 1Q26 on leading indicators but conflict poses downside risk going ahead

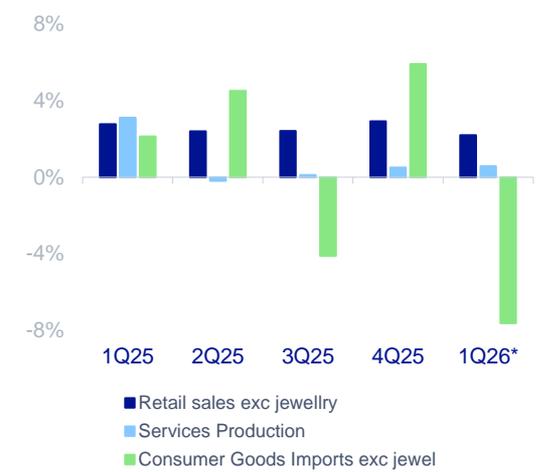
## GARANTI BBVA MONTHLY GDP NOWCAST (YoY, 3M Mov. Avg.)



## SECTORIAL PRODUCTION (volumes, QoQ growth)



## CONSUMPTION INDICATORS (QoQ growth)



\* Based on January data, consumption imports for Jan-Feb  
Source: TURKSTAT and Garanti BBVA Research

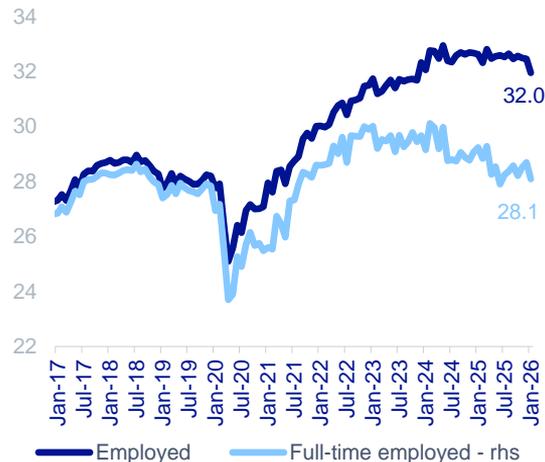
**Industrial growth remains weak; whereas services and construction sectors maintain a stable outlook in 1Q26 so far. Consumption indicators display some loss of momentum.**

# Labor force declines and the quality of employment worsens, yet unemployment rate is historically low

**EMPLOYMENT & LABOR FORCE PARTICIPATION RATIO (% , SA)**



**EMPLOYMENT LEVEL (MN PEOPLE, SA)**



**UNEMPLOYMENT RATE (SA %)**

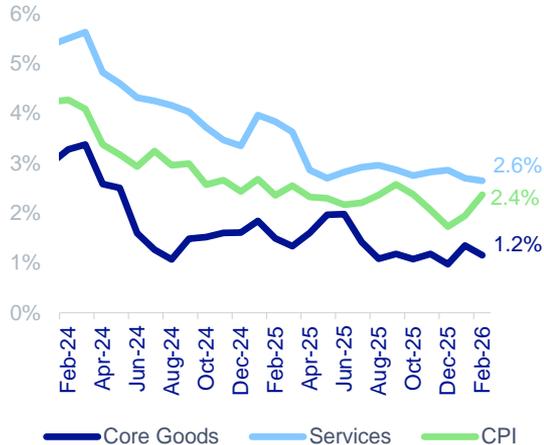


Source: TURKSTAT and Garanti BBVA Research

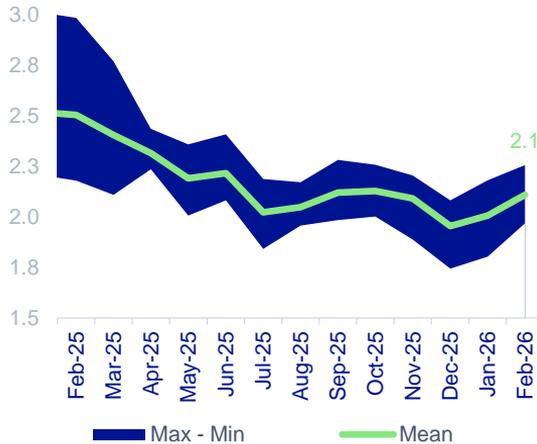
**The political preference to keep growth rates at moderate levels has reduced the pain but extended the adjustment period on employment, with long term effects via quality and discouraged workers.**

# CPI trend has worsened on food and early year price adj. even before the conflict. We nowcast 2.2% CPI for March

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



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



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



Source: TURKSTAT and Garanti BBVA Research

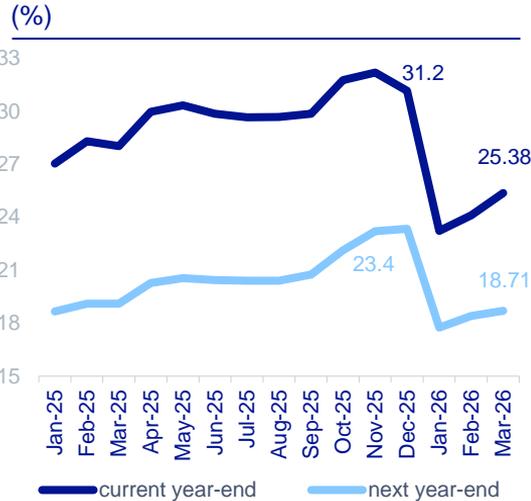
Source: TURKSTAT and Garanti BBVA Research

Source: CBRT and Garanti BBVA Research

**Persistent inflation trend above 2%, high inflation expectations, pressure on supply chains and still distorted pricing behavior add challenges on inflation outlook. Treasury has implemented a price mechanism on fuel prices by reducing the tax burden to partially offset its inflationary impact.**

# The CBRT has raised cost of funding by 3pp indirectly and moved market expectations upward with a hike in April

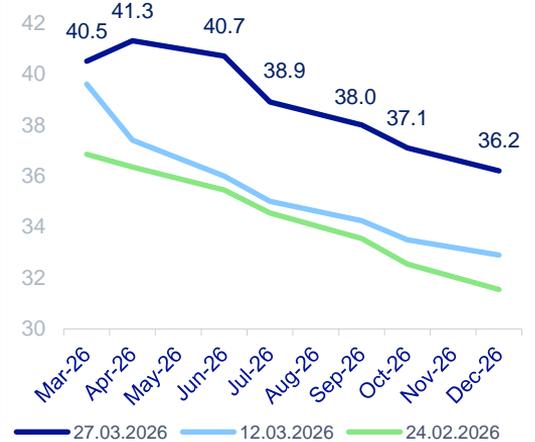
## MARKET PARTICIPANTS CPI EXPECTATIONS (%)



## MARKET PARTICIPANTS 12M AHEAD REAL POLICY RATE EXPECTATION (%)



## OIS MARKET PRICING ON CBRT FUNDING RATE (%)

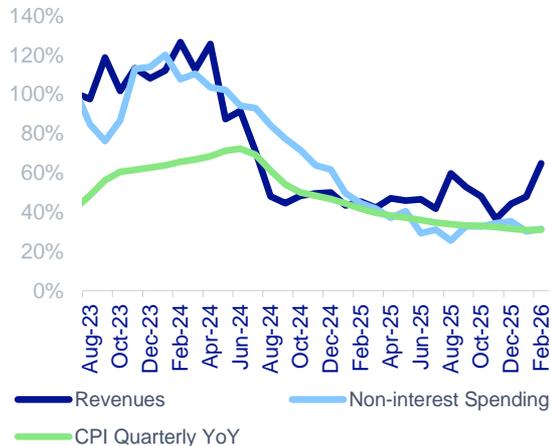


Source: Bloomberg, CBRT, TURKSTAT and Garanti BBVA Research

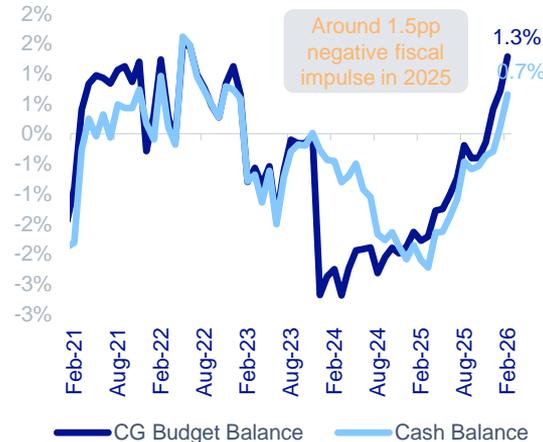
**Given the increasing stress in the region and potentially lasting longer inflationary impact, market pricings turn further hawkish, including the CBRT.**

# Primary cash balance has given even a stronger surplus in Feb, adding further room for fiscal maneuver

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



## CASH & ACCRUAL BASIS PRIMARY BALANCE (% GDP)



## DOMESTIC DEBT ROLL-OVER RATIO (%)



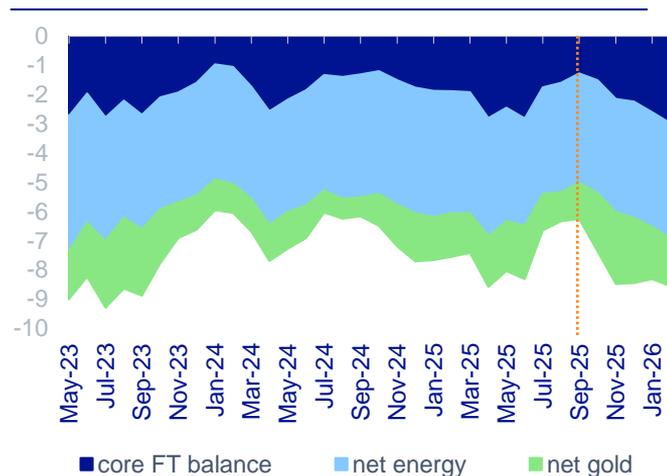
Source: Treasury, CBRT, TURKSTAT and Garanti BBVA Research

**Cash balance shows an available room to be used to mitigate the negative impact of the conflict in the region, depending on how far the impact from would go. The sliding scale system in fuel prices reduces the direct impact on inflation, leading to up to 0.6% of GDP effect on budget balance.**

# External balance has been worsening even before the conflict, raising concern with the hike in energy prices

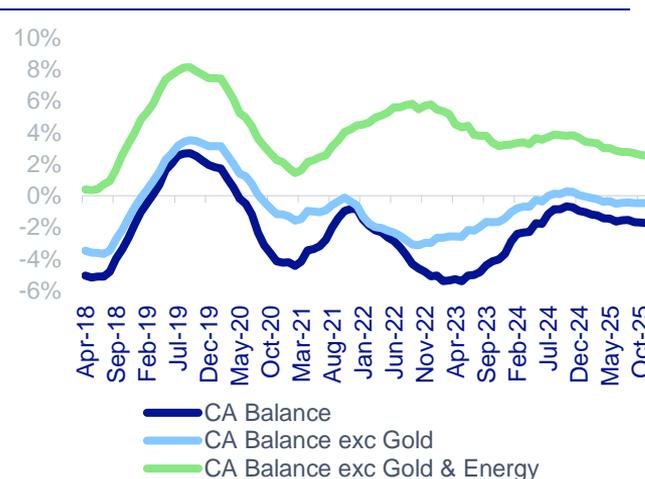
## FOREIGN TRADE BALANCE

(sea. and cal adj., 3M avg, \$USbn)



## CURRENT ACCOUNT BALANCE

(annualized, % of GDP)



Source: TURKSTAT and Garanti BBVA Research

**Based on our calculations, every %10 rise in energy prices causes a deterioration in CAB of around 0.3-0.4% of GDP in one year. This may increase stress on the CBRT reserves, if the conflict lasts longer with a slow adjustment in energy prices thereafter.**

# We construct our baseline on a short-lived conflict but add biases, depending on the duration and depth

**Growth remains modest** under a tighter policy mix, with limited monetary easing and only mild fiscal support. Longer and deeper the conflict, a trade-off on growth would happen.



**Disinflation** continues but at a slower pace than previously expected, driven by higher energy prices, supply disruptions, and unanchored inflation expectations.



**On currency**, we keep our USD/TRY forecast at 52 for end-2026 despite risks from higher inflation and a wider current account deficit. The extent of adjustment will depend on external balance pressures and growth trade-offs.



**On rates**, we expect the CBRT to stay tight until conflict-related uncertainty eases, additionally relying on macroprudential measures. Dollarization trend of residents will determine any need for further rate adjustments.



# Adverse geopolitical shocks increase uncertainty, leading to worse economic outlook & financial markets

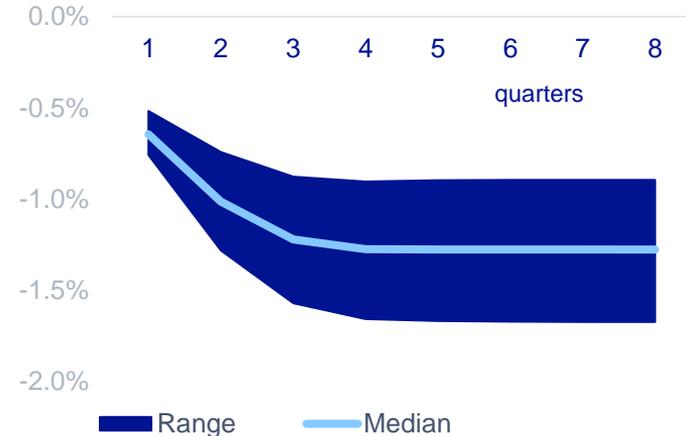
The cumulative response of macroeconomic variables to global geopolitical risk shock\* (%)



Source: Garanti BBVA Research

\* The response to one standard deviation global geopolitical risk shock, based on a Bayesian VAR model with monthly data (Jan10-Dec19). Geopolitical risk index (Caldara and Iacoviello)

The cumulative response of industrial production to oil supply shock\*\* (%)



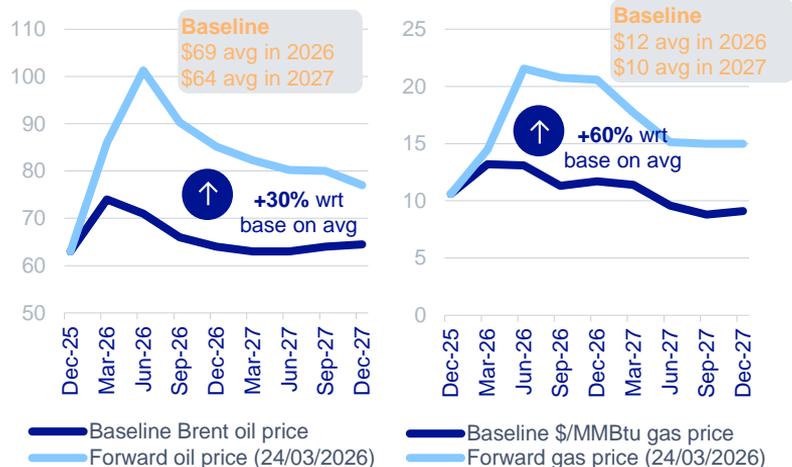
Source: Garanti BBVA Research

\*\* The cumulative response to 10% oil price hike stemming from oil supply shock, based on a Bayesian VAR model with monthly data (Jan10-Dec19). Oil supply shock series obtained from the study made by Kanzig, Diego (2021). Range displayed cumulative response between 35th and 65th percentiles

**The war affects the economy not only through the energy channel but also, by increasing uncertainty, amplifies its overall impact on financial markets (with pressure on the currency as well, which the CBRT now tries to absorb via interventions from reserves) and the economic outlook.**

# Based on sensitivities, if the conflict is prolonged, the impact would be subdued activity with higher inflation

## GB ENERGY PRICE FORECASTS & FORWARD PRICES (LEVEL, USD)



## SENSITIVITIES WITH RESPECT TO ENERGY PRICE SHOCK\* (%)

The cumulative impact of %10 energy price shock in one year	
CPI	1-1.5pp (half of the impact with scale sliding pricing on fuel**)
CAB	0.3-0.4% of GDP (\$5-7bn)
Industrial Production**	0.9-1.7pp (0.2-0.3pp on GDP)

Source: TURKSTAT and Garanti BBVA Research,

\* Energy Prices include Brent and Natural Gas Prices with a weighted average according to consumption

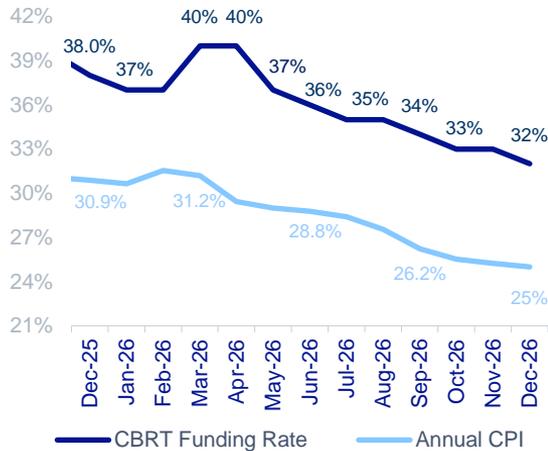
\*\* We calculate that the scale sliding mechanism could partially absorb the pressure up to \$110 per barrel Brent oil price

\*\* Increase in oil price is caused by a negative oil supply shock, which could be translated into a GDP impact with 20% value-added share of IP

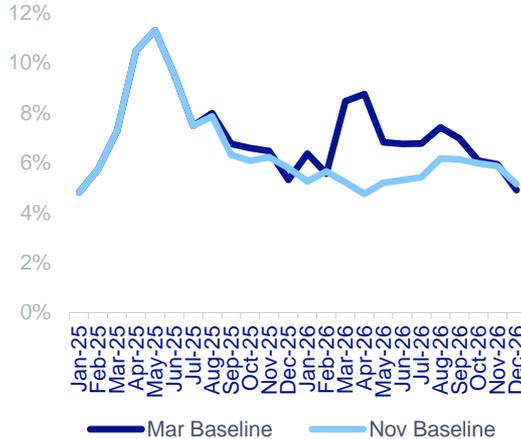
**We assume the policy mix can absorb pressures under a short-lived conflict baseline scenario. However, if the conflict is longer and deeper, it could lead to higher inflation, lower growth, and a further deterioration in the external balance.**

# Under the baseline with a managed control on currency, we forecast 25% year-end CPI and 32% policy rate

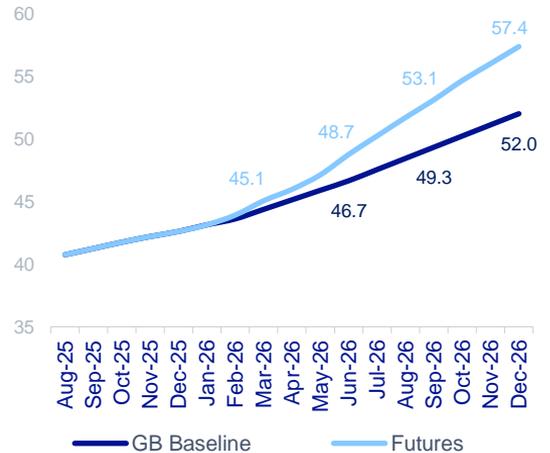
**GB CBRT FUNDING RATE & CPI FORECASTS** (% SIMPLE & YOY)



**EX ANTE CBRT REAL FUNDING RATES** (% YOY, ADJ BY 3M AHEAD CPI)



**GARANTI BBVA FORECASTS & USDTRY FUTURES** (LEVEL)

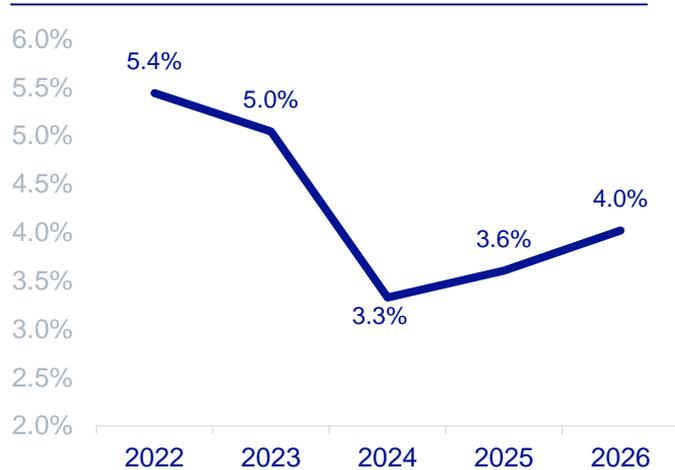


Source: Bloomberg, TURKSTAT and Garanti BBVA Research

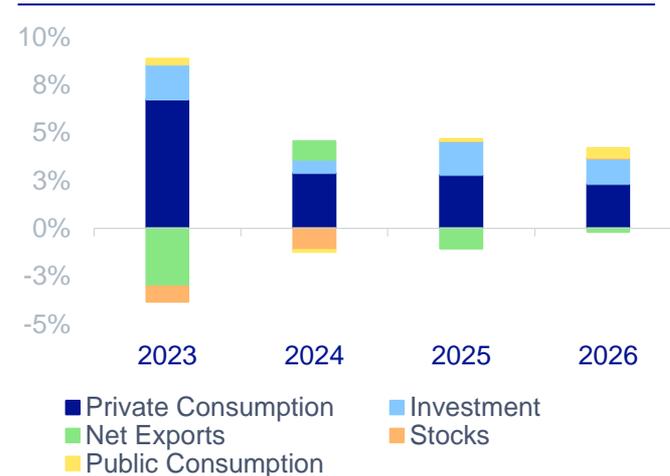
**However, we are increasingly concerned about recent conflict developments, which raise the risk of a slower normalization in supply disruptions. We add an upward bias to our inflation and rate forecasts, while expecting limited pressure on the currency if weaker growth is ultimately accepted.**

# If our baseline holds, we can observe a close to potential GDP growth with mildly supportive fiscal stance

**GARANTI BBVA GDP GROWTH FORECASTS (% YOY)**



**GARANTI BBVA GDP GROWTH FORECASTS (PP ANNUAL CONTRIBUTION)**

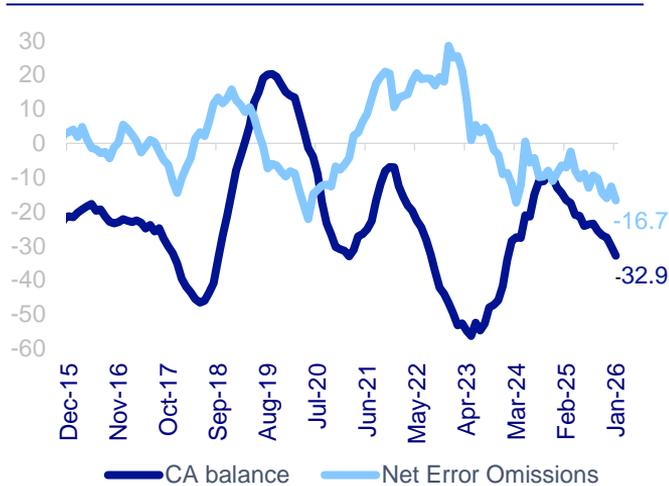


Source: TURKSTAT and Garanti BBVA Research

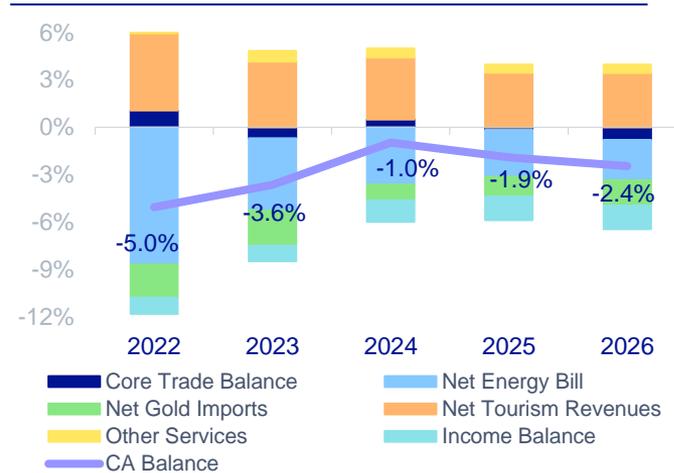
**The timing of the next election and the extension of the pre-election expansionary policies will be decisive on the impulse for 2027, which we will be clearer for our next update in June.**

# The revision in the current account methodology & higher energy prices weigh on our ST CA forecasts

**CURRENT ACCOUNT BALANCE & NET ERROR OMISSIONS (\$USbn)**



**GB CURRENT ACCOUNT DEFICIT FORECASTS (% GDP)**



Source: TURKSTAT and Garanti BBVA Research

**The conflict in Iran poses downside risks to activity, exerting pressure on trade and the current account balance. If the war lasts longer and has a deeper regional impact, current account dynamics and external financing needs would become increasingly critical.**

# Garanti BBVA Baseline Scenario

	2023	2024	2025	2026
GDP growth (avg)	5.0%	3.3%	3.6%	<b>4.0%</b>
Unemployment Rate (avg)	9.4%	8.7%	8.4%	<b>9.0%</b>
Inflation (avg)	53.9%	58.5%	34.9%	<b>28.0%</b>
Inflation (eop)	64.8%	44.4%	30.9%	<b>25.0%</b>
CBRT Cost of Funding (avg)	20.5%	49.6%	43.6%	<b>35.8%</b>
CBRT Cost of Funding (eop)	42.5%	47.5%	38.0%	<b>32.0%</b>
USDTRY (avg)	23.7	32.8	39.5	<b>47.3</b>
USDTRY (eop)	29.4	35.3	42.8	<b>52.0</b>
EURTRY (avg)	25.7	35.5	44.7	<b>55.7</b>
EURTRY (eop)	32.6	36.7	50.3	<b>62.2</b>
Current Account Balance (% GDP)	-3.6%	-1.0%	-1.9%	<b>-2.4%</b>
CG Primary Balance (% GDP)	-2.6%	-1.9%	0.4%	<b>0.1%</b>
CG Budget Balance (% GDP)	-5.1%	-4.7%	-2.9%	<b>-3.5%</b>

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