

June 2026

Türkiye Economic Outlook

Main messages

Economic Policies



Following the latest developments in domestic politics, political uncertainty may remain elevated; however, we do not expect a rushed snap election. Accordingly, our baseline scenario assumes a continued commitment to the disinflation program in the near term. While selective easing is likely to continue, we expect the overall policy mix to remain restrictive. We evaluate a narrowed room for monetary easing and only a mild fiscal support will be likely going ahead. The CBRT may pursue further rate cuts while increasingly relying on macroprudential measures.

Growth Outlook



1Q26 GDP growth was realized 2.5% y/y as expected, and we observe further moderation as of May, but not at an alarming level yet. It seems the authorities' tendency to maintain growth at nearly 3% is largely being preserved, considering the CBRT's recent pause decisions, latest incentives for exporters, and new credit packages. Assuming a slight recovery in 2H26 amid a resolution in the Middle East conflict, we revised our GDP growth forecast to 3% for 2026 (previously at 4%).

Inflation & Rates



Considering high energy prices for longer, and potential second-round effects amid a pro-growth bias and unanchored inflation expectations, we revised our year-end inflation forecast to 30%, following the April upward CPI surprise. We expect the CBRT funding rate to gradually normalize in September and converge to the policy rate in October, which would remain at 37% by year-end. We keep our USD/TRY forecast at 52 (<2% m/m nominal depreciation) for end-2026. We expect higher real rates for longer with tougher macro-pru measures to maintain a strong currency in the short term.

Risks



In our baseline scenario, we assume a «temporary» resolution before July 2026 (bringing a moderation in energy prices as of 2H26). Yet, in a riskier scenario, higher energy prices, tighter external financial conditions and risks on trade & tourism flows would weigh down on current account deficit together with net error and omission outflows; where we expect the trade-off would materialize as a slower growth (not the exchange rate).

Global Economic Outlook

Main messages

Global economic activity remains resilient



despite higher inflation and some (limited) financial tightening stemming from the conflict in Iran, which has been lasting more than initially anticipated. The ongoing AI boom and other tailwinds continue to sustain global growth.

Growth will be weaker than previously forecasted, particularly in Europe.



However, a sharp slowdown will likely be avoided, assuming energy prices moderate from 2H26 and severe energy supply disruptions do not trigger non-linear effects.

Inflation will be higher than expected, above 3% in both the US and Europe in 2H26.



Still, absent second-round effects, it should moderate in 2027. The Fed is likely to keep rates unchanged until at least mid-2027, while the ECB is expected to adjust rates slightly upward going forward.

Risks are large and tilted to the downside.

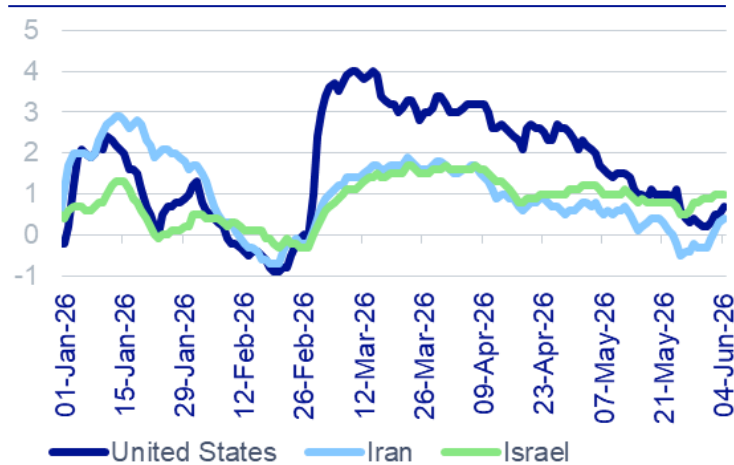


Oil reserve withdrawals have so far cushioned demand, but this buffer is temporary and vulnerabilities will increase if the conflict persists. Beyond geopolitics, potential risks also stem from AI, US policies, and sovereign debt markets, among others.

The US-Iran conflict keeps energy prices high and volatile, despite some easing and hopes for a deal

GEOPOLITICAL RISK INDEX

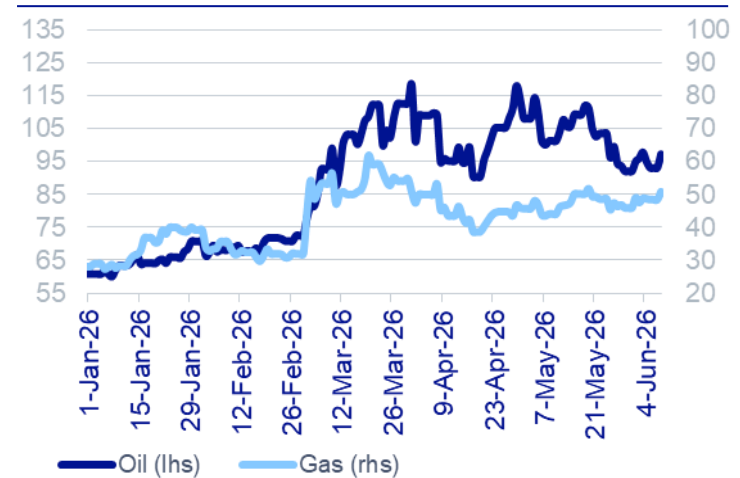
(AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

BRENT AND EUROPEAN GAS PRICES

(USD PER BRENT BARREL; EUROS PER MWh)

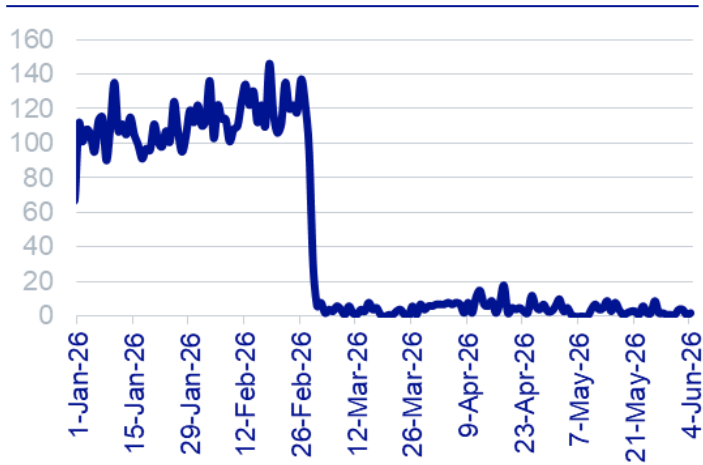


Source: BBVA Research based on data from Haver

While a deal to end the US–Iran conflict may be within reach, the situation remains highly complex and uncertain, with non-negligible risks of more persistent tensions

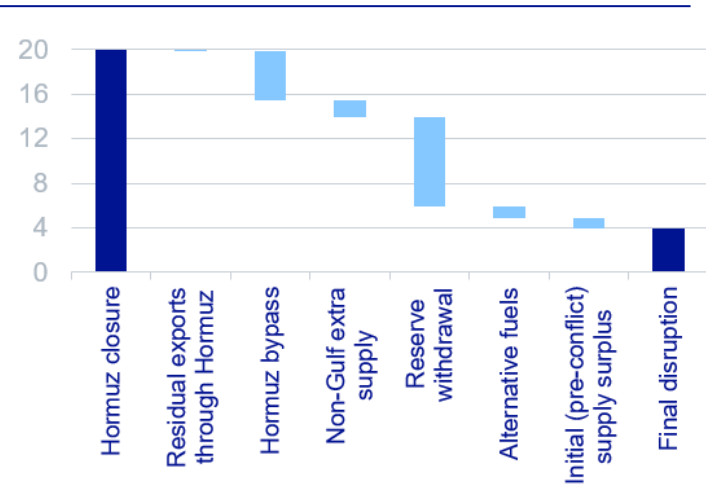
Factors offsetting oil disruptions are insufficient and temporary; a prolonged war poses large, non-linear risks

TRANSIT THROUGH STRAIT OF HORMUZ
(NUMBER OF VESSELS)



Source: BBVA Research based on data from Haver

SHORT-TERM OIL MARKET BALANCE
UNDER A STRAIT OF HORMUZ CLOSURE
(MILLION BARRELS A DAY)



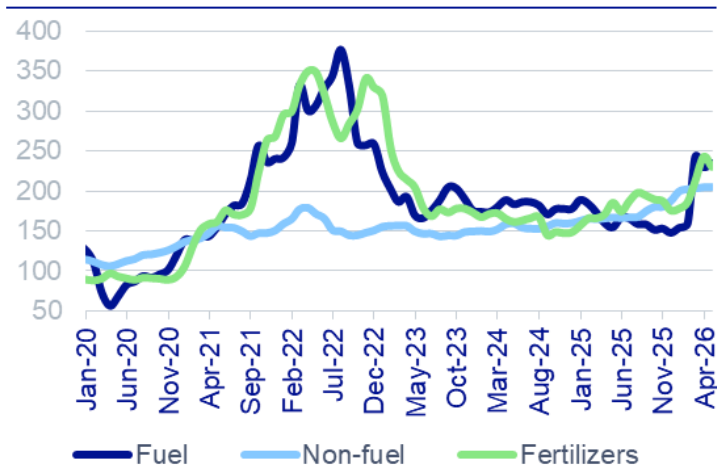
Source: BBVA Research

With the Strait of Hormuz practically closed, countries have been relying on reserve withdrawals to avoid sharper demand adjustments, but concerns are that inventories may be depleted over the next few months

Beyond oil and gas prices, the Iran conflict is affecting some non-energy inputs and stressing supply chains

COMMODITY PRICES

(SPOT PRICES, INDEXES: 2016=100)



Source: BBVA Research based on data from IMF

GLOBAL SUPPLY CHAIN PRESSURE INDEX

(STANDARD DEVIATIONS FROM AVERAGE VALUE)



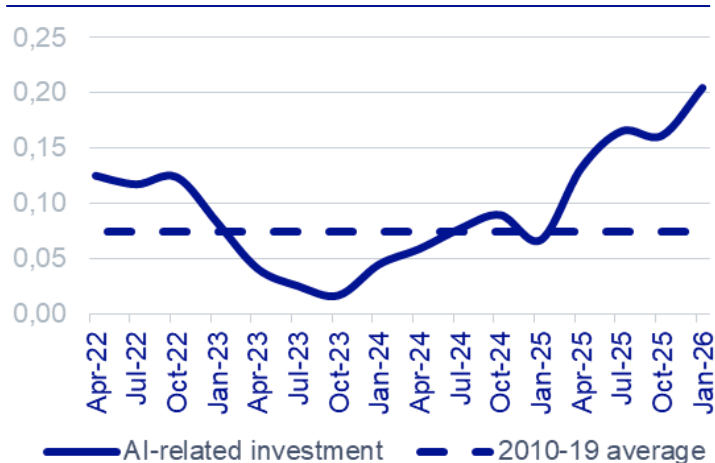
Source: BBVA Research based on data from the NY Fed

Fuel and fertilizer prices have risen more than after Russia's invasion of Ukraine in 2022, adding pressure on other input prices and disrupting supply chains; however, commodity prices and bottleneck pressures remain generally below levels seen four years ago; lower oil-use intensity helps mitigate the shock impact

Despite the Iran conflict, growth and market sentiment are being sustained by the AI boom and other tailwinds

US: AI-RELATED INVESTMENT (*)

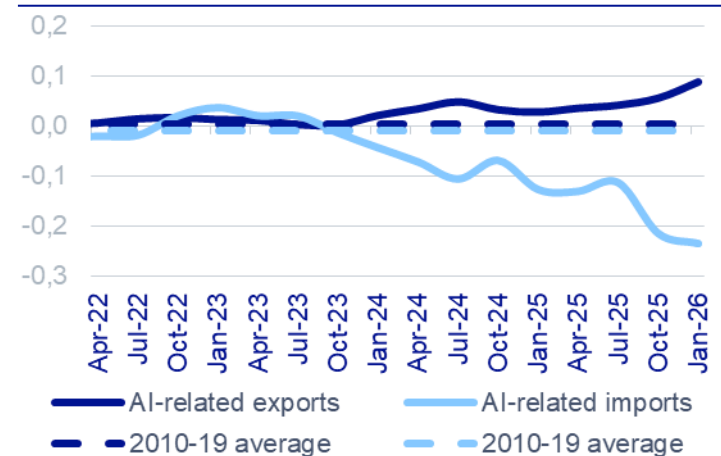
(CONTRIBUTION TO QUARTERLY GDP GROWTH;
FOUR-QUARTERS MOVING AVERAGE: PP)



(*) AI-related investment defined as investment in information processing, investment in softwares and investment in data centers.
Source: BBVA Research based on data from FRED and US Census Bureau

US: AI-RELATED EXPORTS AND IMPORTS (*)

(CONTRIBUTION TO QUARTERLY GDP GROWTH;
FOUR-QUARTERS MOVING AVERAGE: PP)

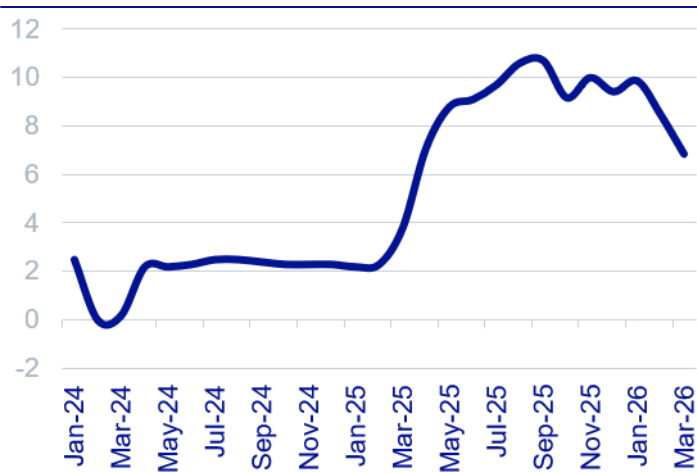


(*) AI-related exports (imports) defined as exports (imports) of computer, peripherals and parts and of telecommunications, computer, and information services.
Source: BBVA Research based on data from US Census Bureau

AI is boosting economic activity through investment, trade and consumption (due to wealth effects), mainly in the US; other tailwinds include fiscal stimuli (reinforced by recent mitigatory measures), defense spending, robust labor markets, sound private balance sheets, and demand for green products

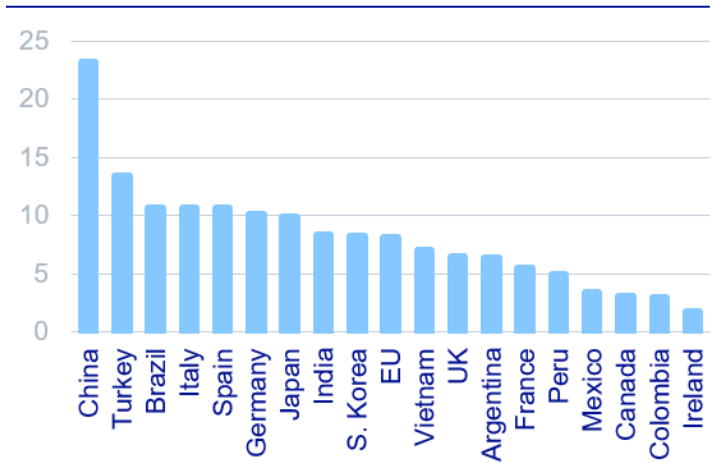
US tariffs decline, but recent developments indicate new protection measures are likely ahead

US EFFECTIVE TARIFF (PP)



Source: BBVA Research based on data from the USITC

US EFFECTIVE TARIFF: MARCH, 2026 (PP)



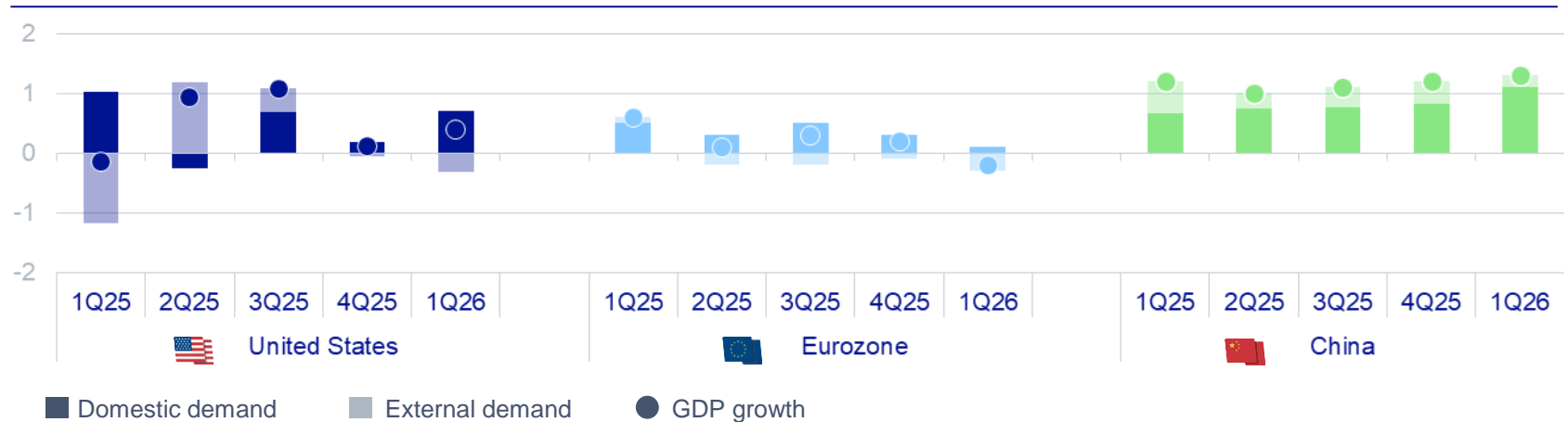
Source: BBVA Research based on data from the USITC

The US government has signaled it may raise tariffs on EU automobiles by 10pp to 25% and has indicated that new tariffs of at least 10%, under Section 301 of the Trade Act of 1974, could replace the temporary 10% universal levies announced after the legal suspension of reciprocal and fentanyl tariffs

Growth was weaker in 1Q26, with stagnation in the Eurozone and more resilience in the US and China

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH

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

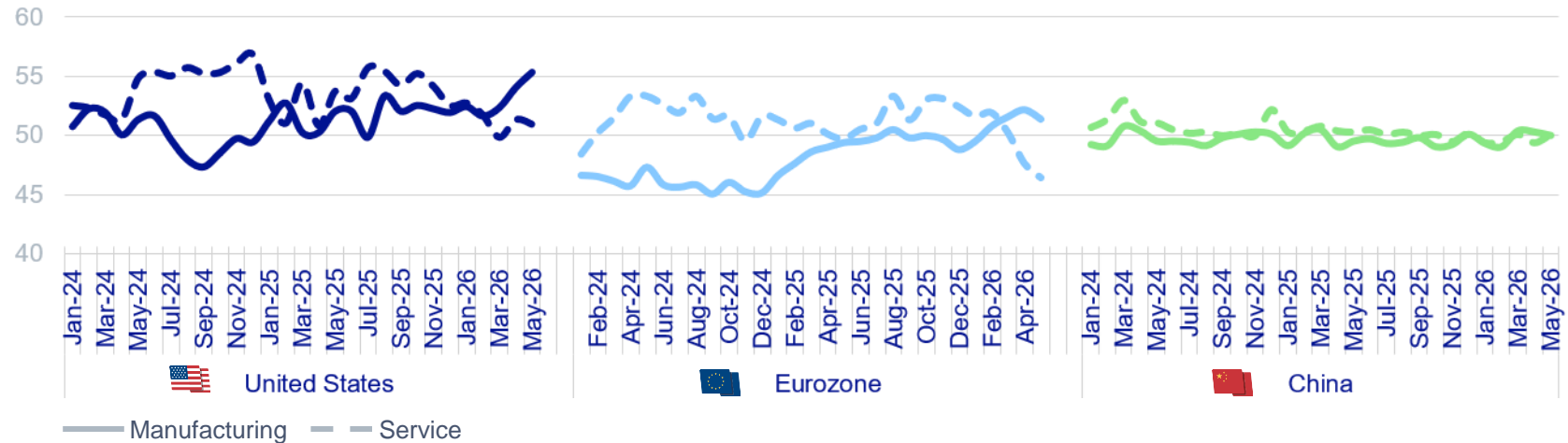


Source: BBVA Research based on data from Haver

Consumption moderation and weak net exports weighed on US and Eurozone growth in 1Q26, with AI-driven investment providing support in the former; in China, domestic demand remains constrained by the housing market adjustment, although exports continue to provide support

High-frequency data point to an impact of Iran war on activity, particularly in services and in Europe

PMI INDICATORS (HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)

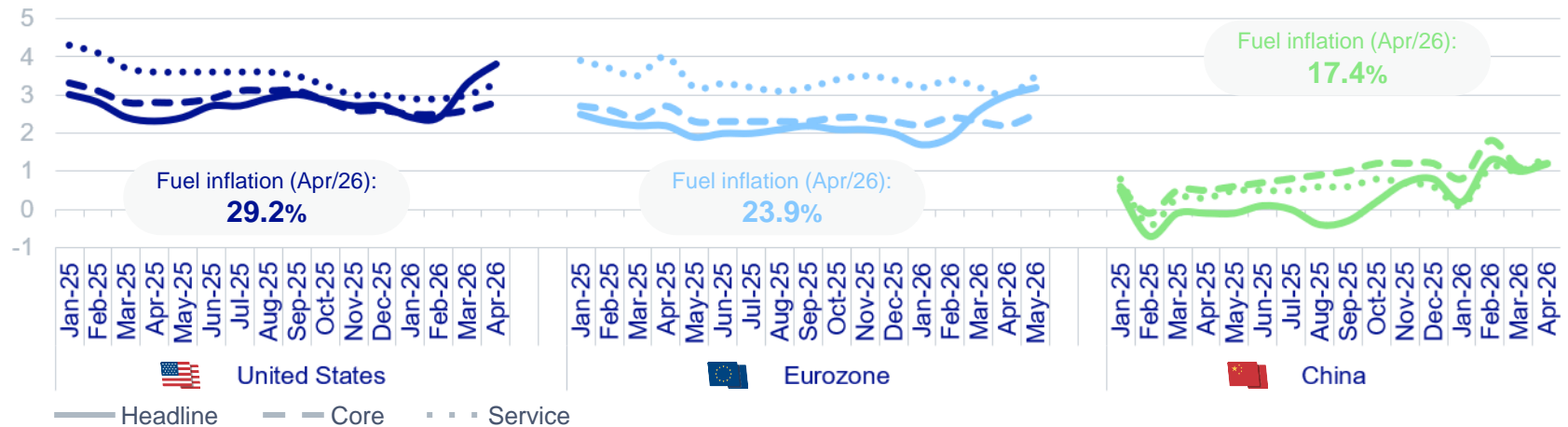


Source: BBVA Research based on data from Haver

Manufacturing continues to improve, possibly reflecting the AI adoption boom; labor market data point to resilience, and even some improvement in the US, while soft indicators are increasingly concerning in Europe

Inflation has accelerated after recent surge in energy prices, with no clear second-round effects, so far

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

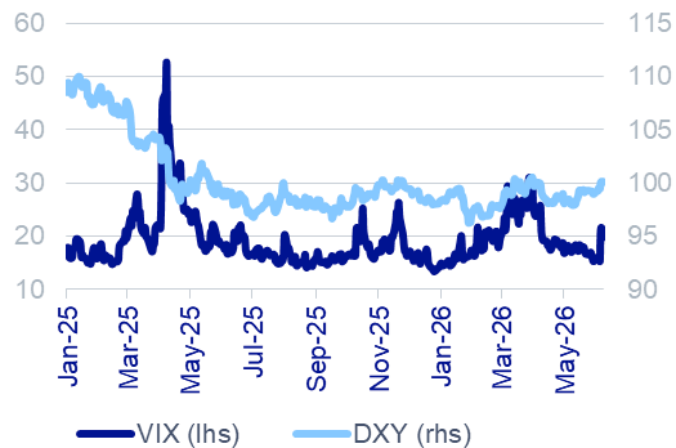


Source: BBVA Research based on data from Haver

Core inflation has increased slightly since tensions in Iran began; wages continue to grow significantly less than in previous years, despite some persistence; short-term inflation expectations have risen lately, but long-term expectations remain broadly anchored

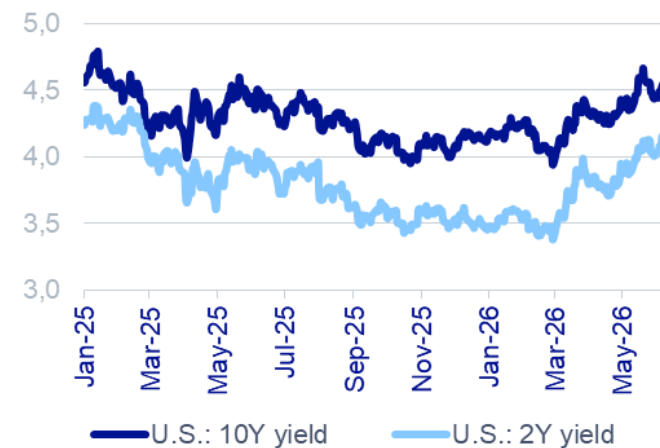
Market sentiment remains benign, but sovereign yields continue to trend up on inflation and fiscal concerns

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



Source: BBVA Research based on data from Haver

US SOVEREIGN YIELDS
(%)

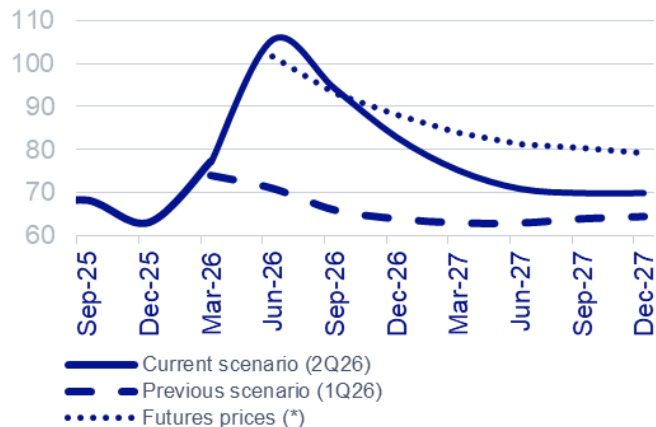


Source: BBVA Research based on data from Haver

Markets are now pricing in a 25bp rate hike by the Fed and two additional rate hikes by the ECB this year

Our baseline assumes a more adverse and persistent shock from the war in Iran, although not a disruptive one

BRENT PRICES: BBVA RESEARCH FORECASTS, FUTURES PRICES (USD/BARREL)



	2026 average	2027 average
2Q26 Baseline scenario	90	72
1Q26 Baseline scenario	69	64

- **More prolonged tensions than anticipated**, consistent with Hormuz reopening around mid-year.
- **Slow normalization of energy prices:**
 - geopolitical risk premium to remain in place.
 - affected production infrastructure.
 - slow logistical normalization.
 - strategic reserves rebuilding.
- **Some factors could favor low energy prices:**
 - UAE exit from OPEC risks spurring price war.
 - potential lifting of sanctions on Iran.
- **Higher prices of non-energy inputs and supply bottlenecks** add to the energy shock.

(*) As of the beginning of June 2026.
Source: BBVA Research based on data from Haver

Commodity prices are expected to remain higher than previously anticipated and above 2025 levels over 2026-27

COMMODITY PRICE FORECASTS, COMPARED TO PREVIOUS FORECASTS AND 2025 LEVELS
(%, ANNUAL AVERAGES)



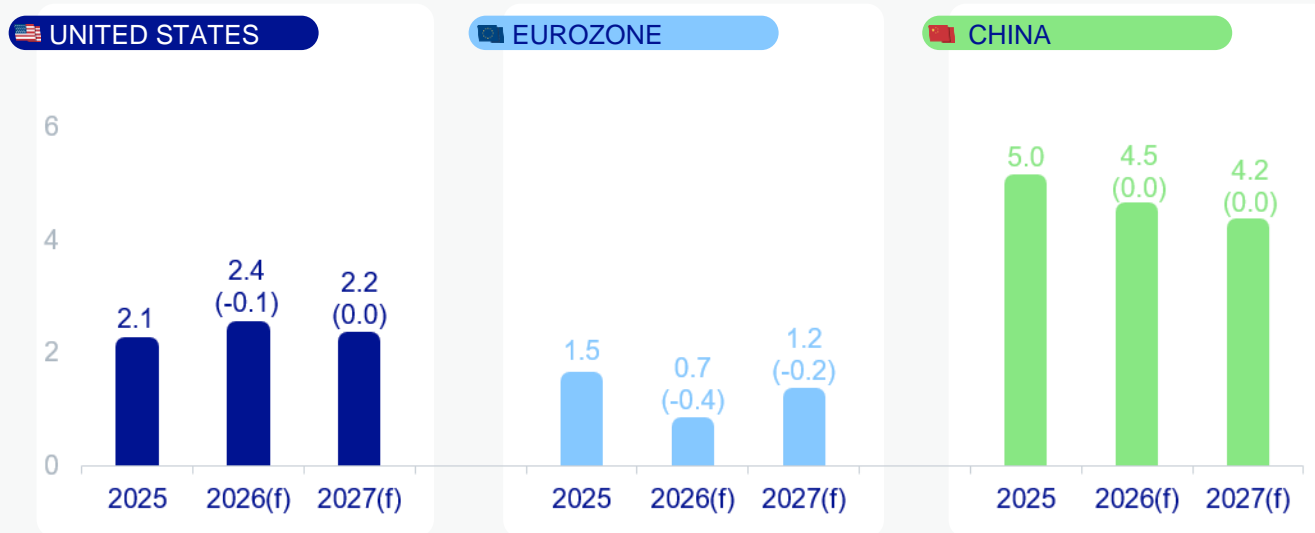
Source: BBVA Research

Higher energy prices tend to raise other commodity prices through higher production costs and demand for biofuels; in addition, the Hormuz closure also directly disrupts the global supply of fertilizers, sulfur, helium, and other critical inputs, further increasing food and metal prices

Growth will stay firm in the US and China but weaker in the EZ; a sharp slowdown will be avoided if the war does not drag on

GDP GROWTH (*)

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



Weaker-than-expected 1Q26 data and a prolonged conflict lead to a slight downgrade of US growth and a larger cut to the Eurozone forecast; China's slowdown outlook remains unchanged despite strong exports and resilient activity

(*) After expanding by 3.5% in 2025, global GDP is forecast to grow by 3.1% in 2026 (0.1pp lower than the previous forecast) and by 3.3% in 2027 (unchanged from the previous forecast).

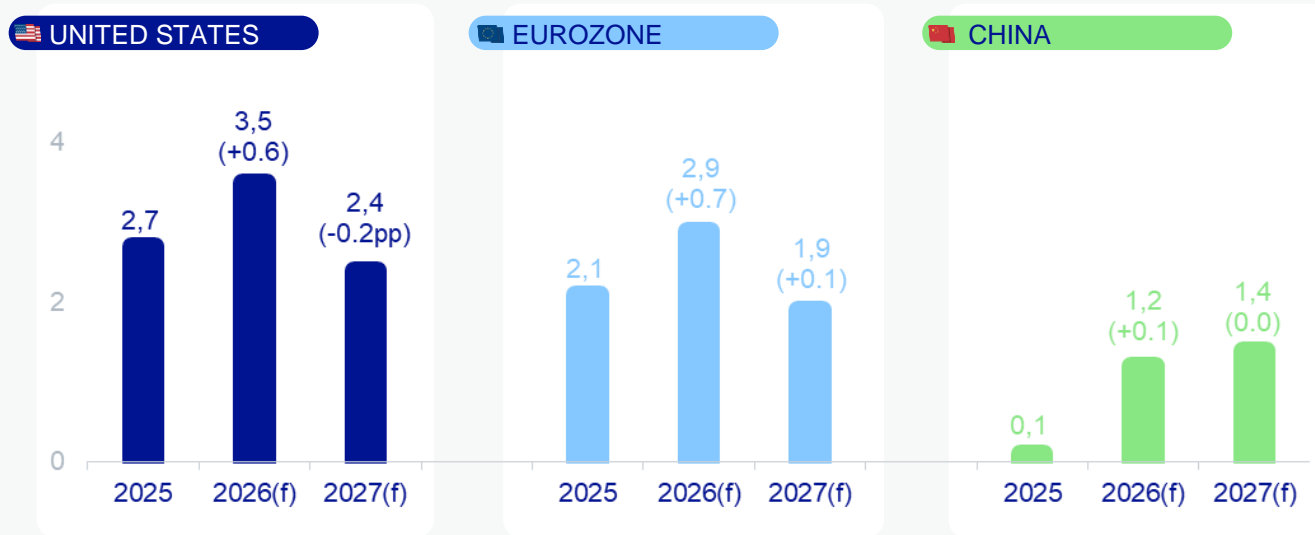
(f): forecast.

Source: BBVA Research

Inflation might ease in 2027 in absence of widespread second-round effects

HEADLINE CPI INFLATION

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



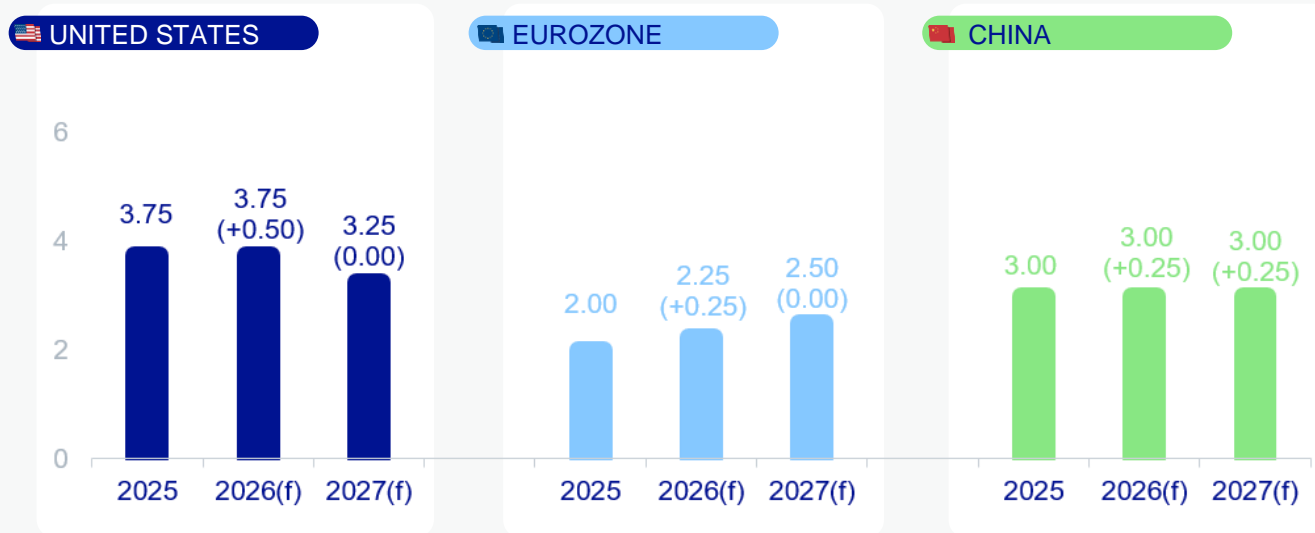
Inflation forecasts have been revised upwards in response to adverse incoming data and expectations of higher energy and food prices; with limited second-round effects, core inflation will be within 2% and 3% in the US and the EZ; upside risks if the Strait of Hormuz remains closed for an extended period

(f): forecast.
Source: BBVA Research

Inflation pressures make central banks more cautious, leading to higher-than-expected rates, mostly in 2026

POLICY INTEREST RATES (*)

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



Policy rates are now expected to remain unchanged until mid-2027 in the US and longer in China; the ECB, facing a sharper growth-inflation trade-off, is expected to bring forward a rate hike

(f): forecast.

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

Source: BBVA Research

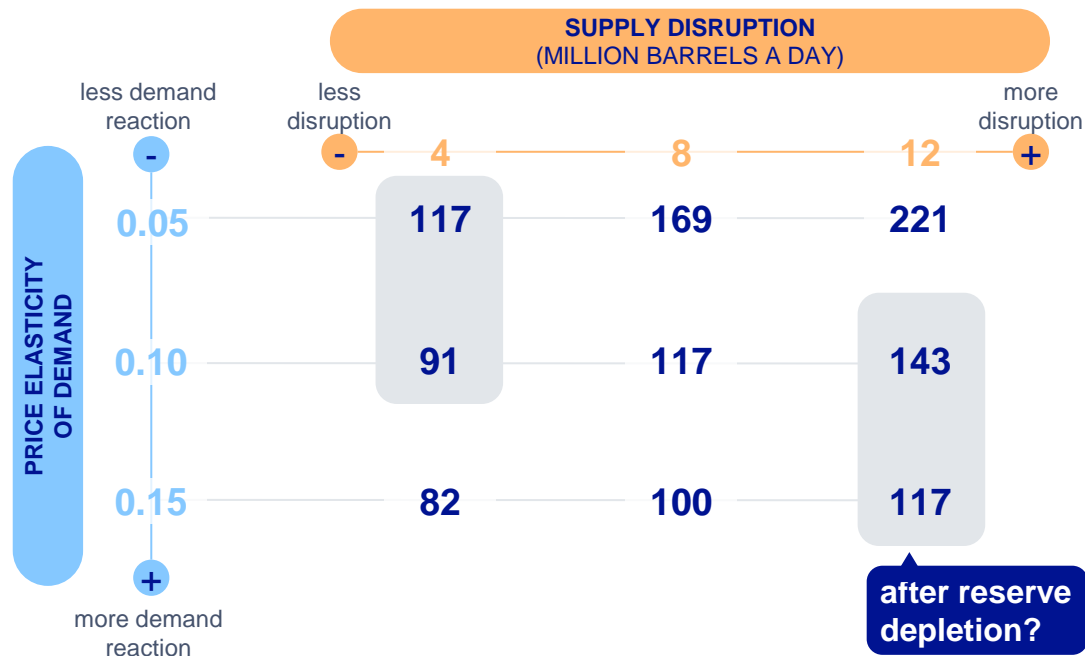
Risks

If the conflict persists, inventory depletion could push oil prices sharply higher and trigger non-linear effects

Risks go beyond geopolitics:

1. AI: two-sided,
2. US policies and institutions: Fed, tariffs, mid-term elections,
3. Financial stability: sovereign debt markets, private credit, equity correction, shadow banking;
4. China: structural slowdown, housing market, deflation;
5. Others: climate change, demographics

OIL PRICES WITH DIFFERENT COMBINATIONS OF SUPPLY DISRUPTIONS AND DEMAND PRICE ELASTICITY (*) (US DOLLARS PER BARREL)

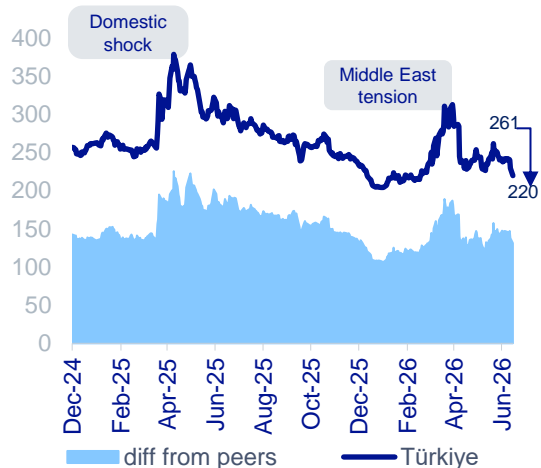


(*) Based on an equilibrium oil price of \$65.
Source: BBVA Research

Türkiye Economic Outlook

Markets show limited reaction to the CHP congress ruling. CBRT defends the lira, avoiding a domestic confidence shock

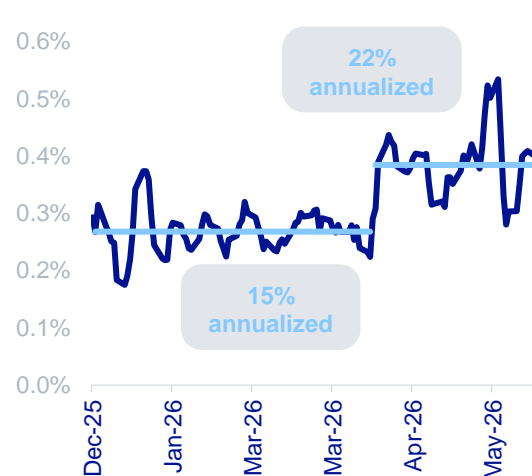
TÜRKİYE VS. EM 5-YEAR CDS (BASIS POINTS)



OFFSHORE AND ONSHORE TRY RATES (%)



USDTRY NOMINAL CHANGE (% weekly, 5-day moving average)

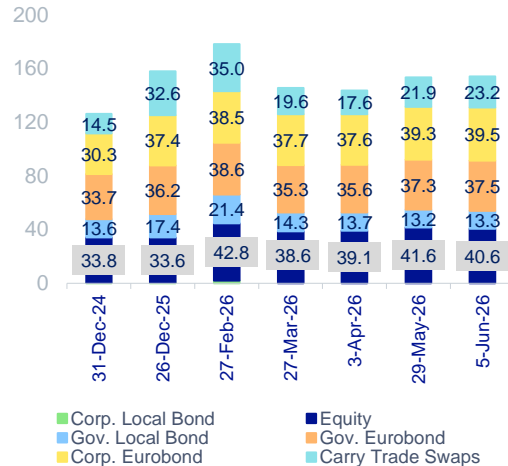


Source: Bloomberg and Garanti BBVA Research

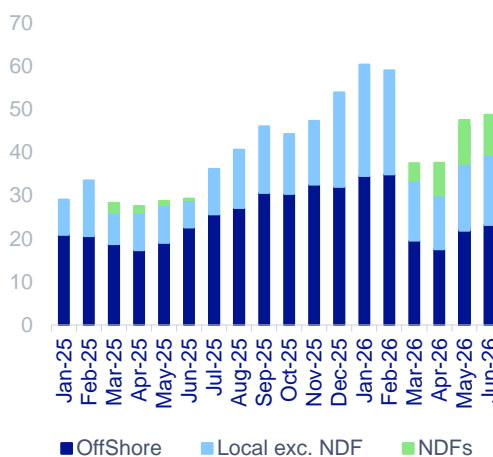
The pace of nominal depreciation has accelerated since mid-April, moving from 15% to 22% annualized. The pace of carry flows has already lost pace (also driven by the intention of the CBRT), we saw limited FC demand from residents (only corporates) after domestic volatility in late May.

Sell-off of foreigners was \$30-35bn in March, \$10bn came back till early June (lower exposure of foreigners)

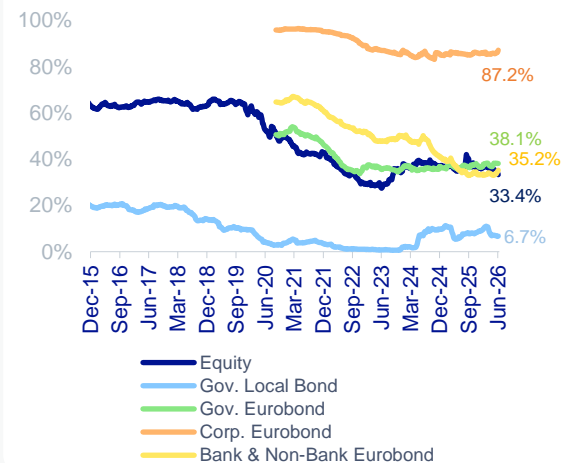
FOREIGNERS EXPOSURE* TO TR FINANCIAL ASSETS (\$USbn)**



TOTAL DERIVATIVE POSITIONS (\$USbn, as of June 5th)



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



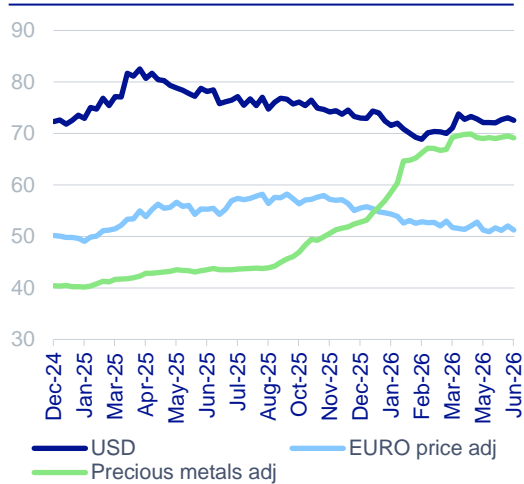
* Excluding local banks' external subsidiaries
 ** Including only the outright purchases in Government local bonds

Source: CBRT and Garanti BBVA Research

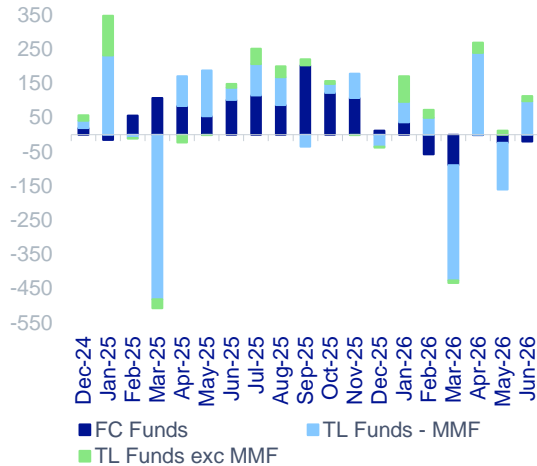
The total carry position including locals had declined to \$30bn as of April 3rd (close to \$59bn by end Feb), which has recovered to \$40bn by June 5th. The share of foreigners in local Government bonds appears to stabilize at nearly 7% since early April.

Demand for FC & precious metals stays standstill, keeping appetite for TL savings

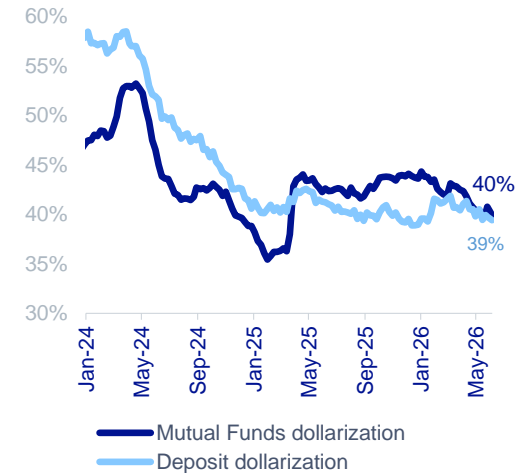
FC DEPOSITS VOLUME OF RESIDENTS (BN USD)



NET FLOWS IN INVESTMENT FUNDS (TL BN, monthly, as of June 12th)



RESIDENTS' DOLLARIZATION RATIO* (%)



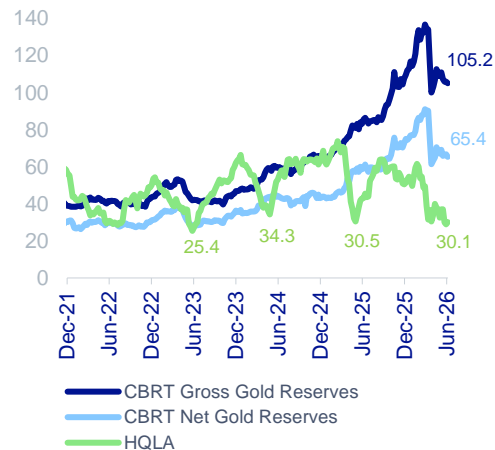
Source: CBRT, TURKSTAT, TEFAS and Garanti BBVA Research

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

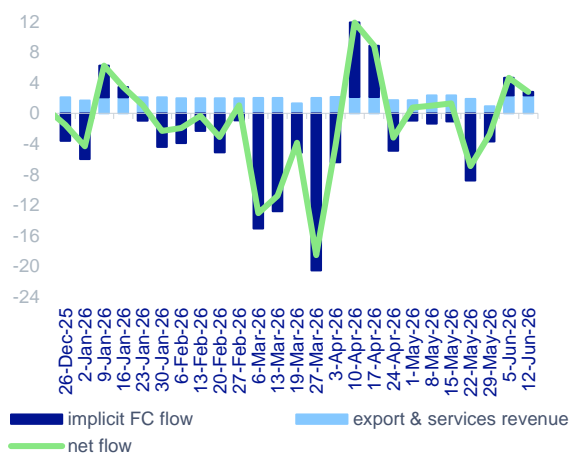
Net outflows from the money market funds in March had reversed with strong inflows in April. However, since then, net flows into MMFs have weakened due to volatility in TL sovereign bond market. Yet, dollarization ratio remains at around 40% in both mutual funds and deposits.

The CBRT has been able to accumulate reserves since June, partially compensating the losses in late May

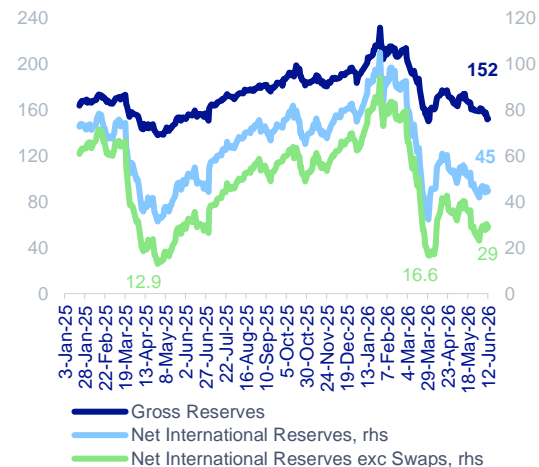
CBRT GOLD RESERVES & HQLA* (\$USBN, AS OF JUNE 5TH)



CBRT WEEKLY RESERVE FLOWS (\$USBN)



CBRT INTERNATIONAL RESERVES (\$USBN, AS OF JUNE 12TH)

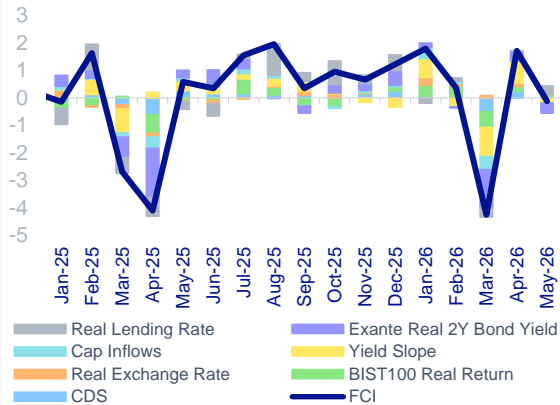


* High quality liquid foreign assets excluding IMF SDR & CB swaps
Source: CBRT and Garanti BBVA Research.

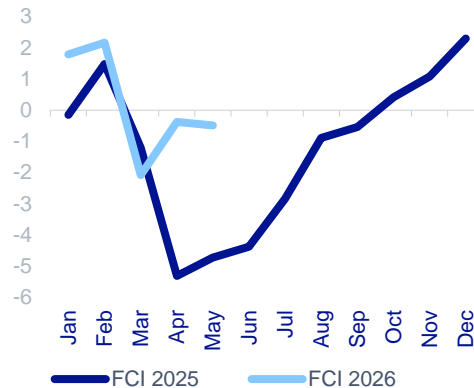
The CBRT had sold 60bn\$ implicitly in March, the inflows in April had reversed due to the CHP congress nullity decision in late May, which has again resumed in June. Balance of risks remains highly fragile due to increasing external financing needs.

Higher inflation expectations and deeper real appreciation keep financial conditions closer to neutral

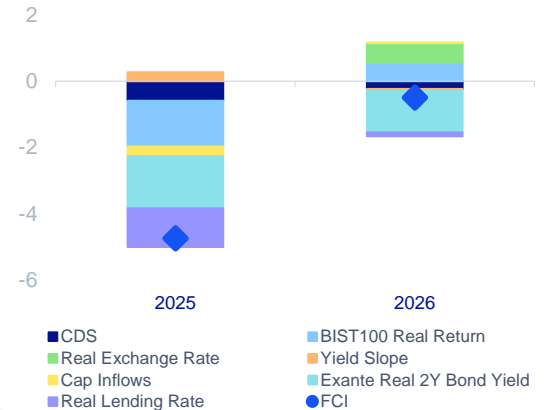
GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI)
(STANDARDIZED, + EASING, - TIGHTENING)



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



GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI) (CUMULATIVE FIRST 5 MONTHS, STANDARDIZED, + EASING, - TIGHTENING)

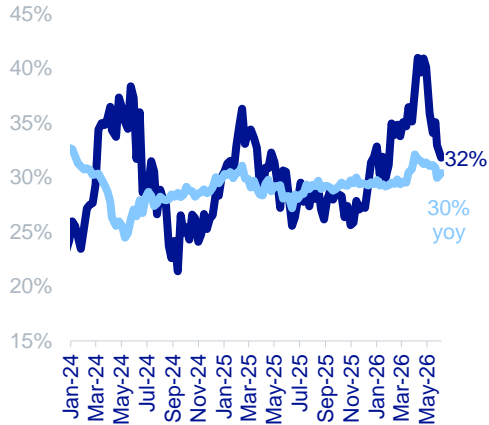


Source: CBRT, Bloomberg, TURKSTAT and Garanti BBVA Research.

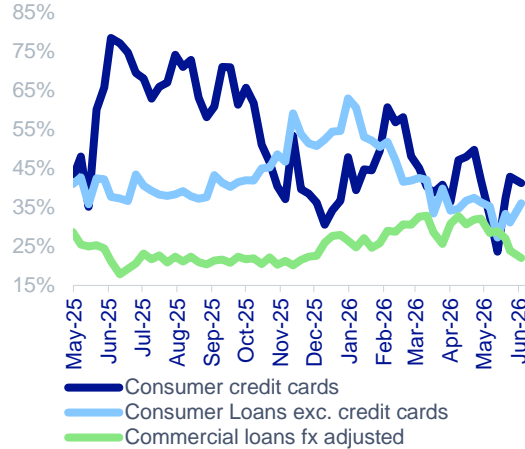
The tightening in financial conditions had reversed in April but was neutralized again in May following new tightening measures, reducing the momentum of credit growth.

Credit growth decelerates further, led by additional squeeze in credit growth caps

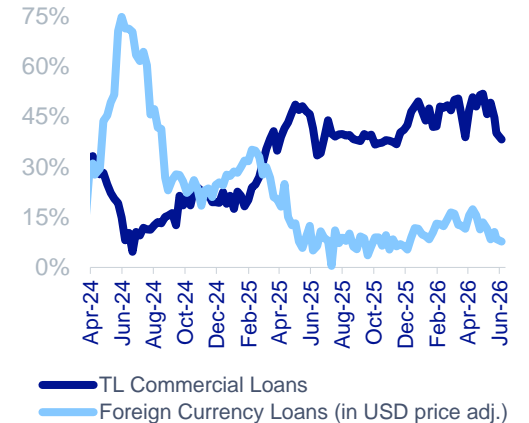
TOTAL CREDIT GROWTH (FX ADJ) 13 WEEK ANNUALIZED & YOY



CREDIT GROWTH SEGMENTS 13 WEEK ANN.



COMMERCIAL LOANS 13 WEEK ANNUALIZED, DEPOSIT BANKS

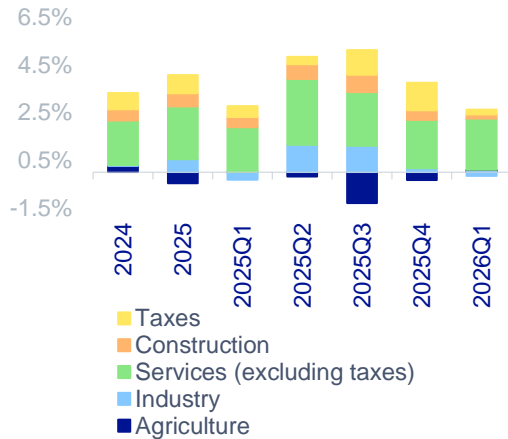


Source: BRSA and Garanti BBVA Research.

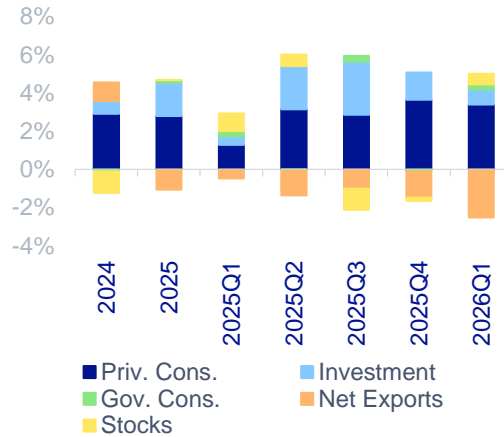
The deceleration in credit growth is observed in both consumer and commercial lending, where TL commercial lending is supported by most recent credit packages for SMEs and non-capped items.

The economy grew by 2.5% y/y in 1Q26 and continued to lose momentum on a quarterly basis

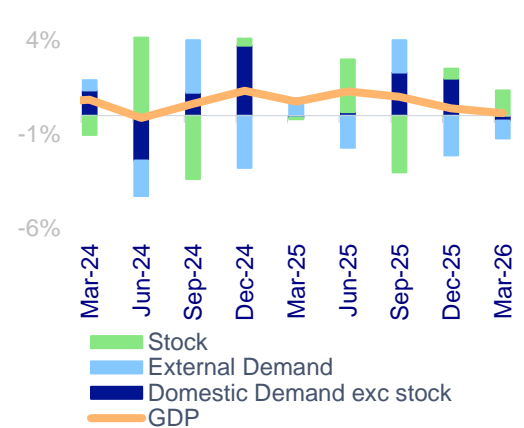
GDP GROWTH COMPOSITION
(ANNUAL, PP)



GDP GROWTH COMPOSITION
(ANNUAL, PP)



GDP GROWTH COMPOSITION
(QUARTERLY, PP)

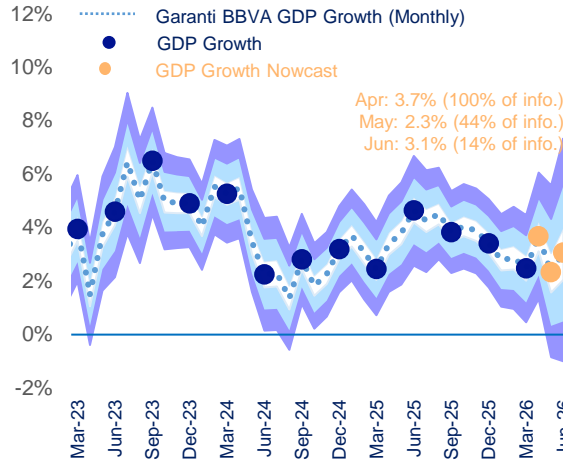


Source: TURKSTAT and Garanti BBVA Research.

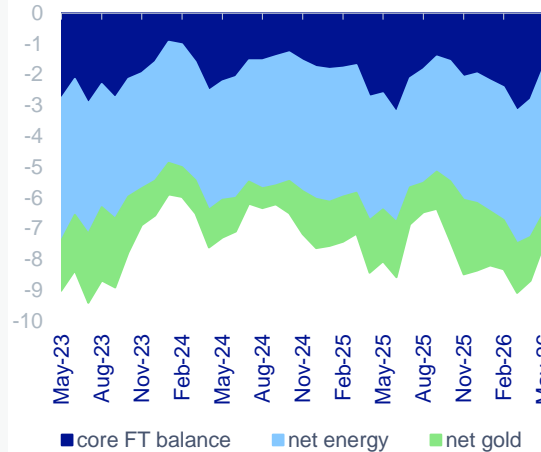
Production remains weak amid moderating demand conditions. While sectorial growth (excluding taxes and subsidies) has gained some momentum, the recovery appears unbalanced.

We observe further moderation in activity as of May, which still implies a weak positive q/q growth rate

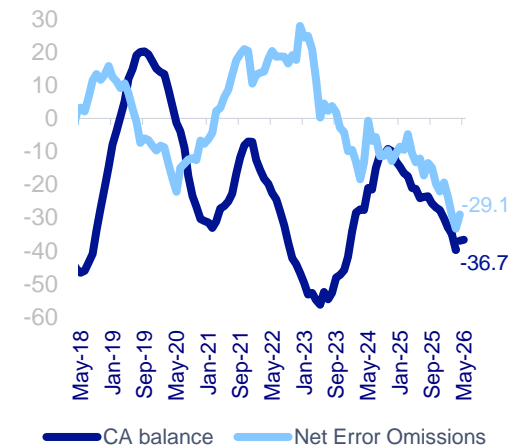
GARANTI BBVA MONTHLY GDP NOWCAST (YoY, 3M Mov. Avg.)



FOREIGN TRADE BALANCE (3MA, SCA, \$USbn)



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



Source: TURKSTAT and Garanti BBVA Research

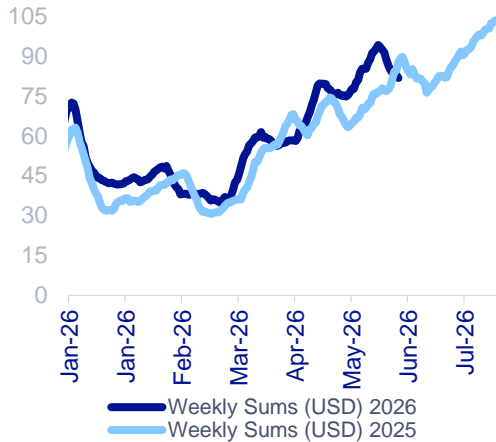
Source: TURKSTAT and Garanti BBVA Research

Source: CBRT and Garanti BBVA Research

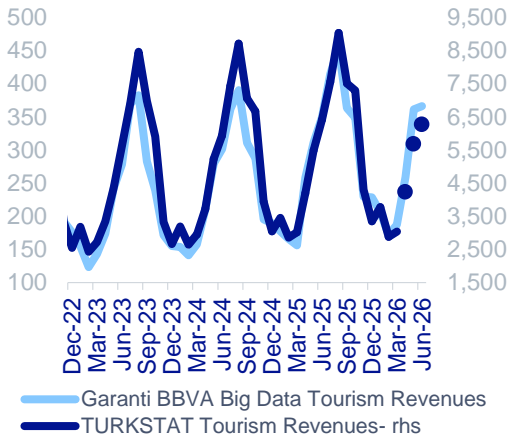
We nowcast GDP growth at around 2% y/y as of May. While activity may soften further with incoming May hard data, calendar effects should support a modest rebound in June, keeping 2Q26 q/q growth positive. Recent improvement in the trade deficit is unlikely to persist amid weaker external demand.

Tourism revenues still perform well, stabilization at around this year's target (\$65bn) continues

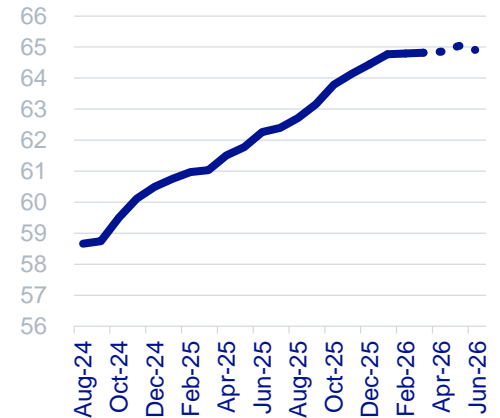
FOREIGNERS EXPENDITURES VIA GARANTI BBVA
(\$USmn, weekly transactions)



TOURISM REVENUES & GARANTI BBVA BIG DATA TOURISM REVENUES (\$USmn)



12M SUM TOURISM REVENUES IMPLIED BY GARANTI BBVA BIG DATA PROXY (\$USbn)



Source: TURKSTAT and Garanti BBVA Research

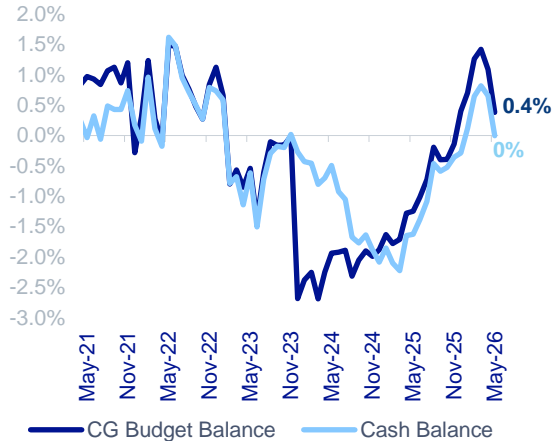
Source: TURKSTAT and Garanti BBVA Research

Source: Garanti BBVA Research

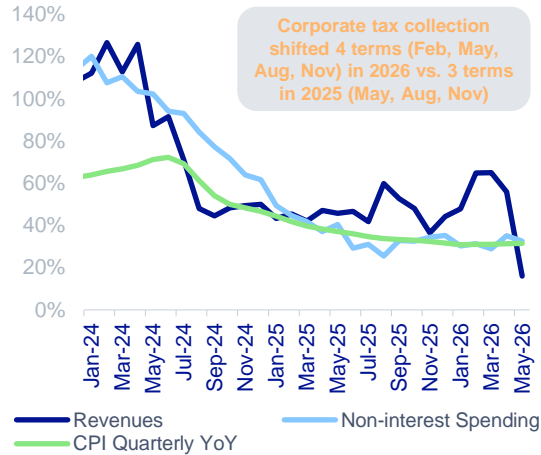
After an improving shift to a higher expenditures pattern from the Western countries following the pandemic, the composition again helps to support overall revenues.

Fiscal performance is affected by tax collection shifts, yet increasing external financing needs set the limit

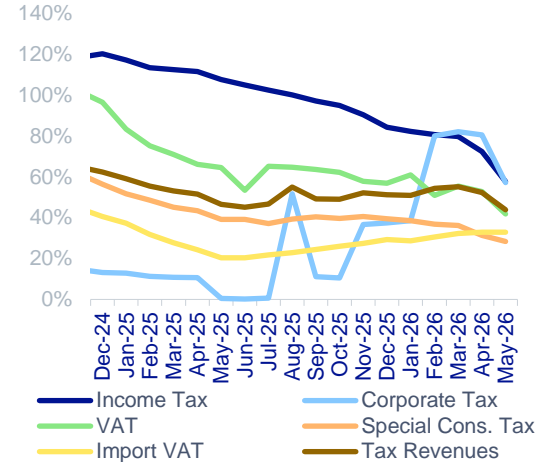
**CASH & ACCRUAL BASIS
PRIMARY BALANCE (% GDP)**



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



CG BUDGET TAX REVENUES (% 12M YoY)

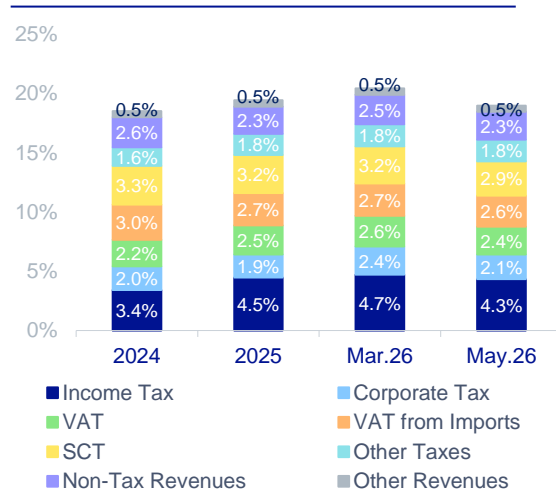


Source: Treasury, TURKSTAT and Garanti BBVA Research

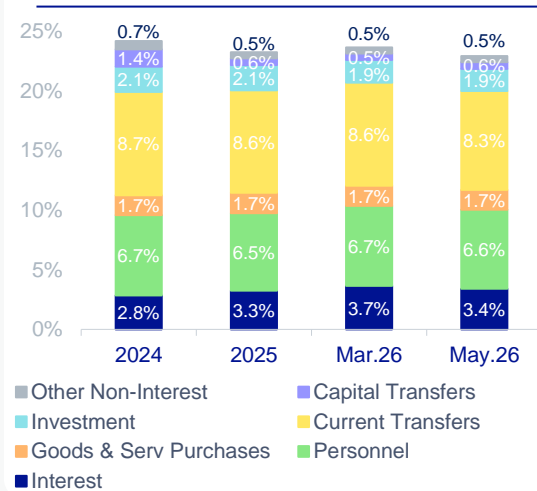
Even though cash balance implies some volatility in budget performance due to tax collection shifts, there is still available fiscal room to mitigate the negative impact of the conflict, conditional to the increasing external financing needs.

May's weaker revenues performance reflects calendar day effects, tax collection shifts & fuel pricing mech. losses

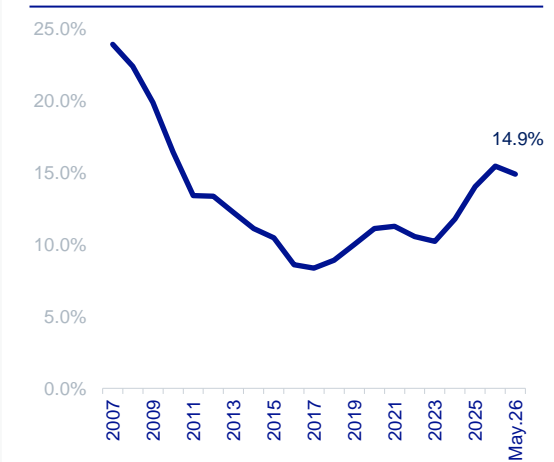
CG BUDGET REVENUES
(% GDP)



CG BUDGET EXPENDITURES
(% GDP)



SHARE OF INTEREST SPENDING
(% IN TOTAL EXPENDITURES)

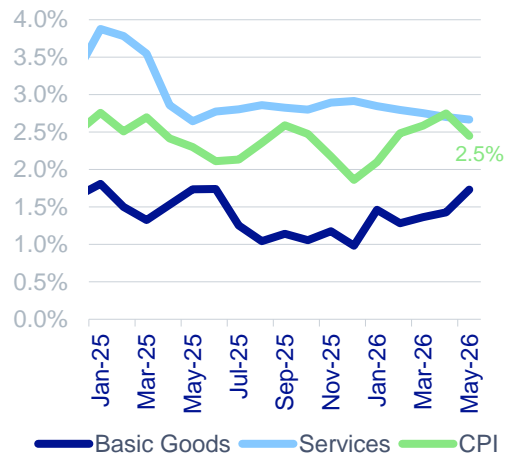


Source: Treasury, TURKSTAT and Garanti BBVA Research

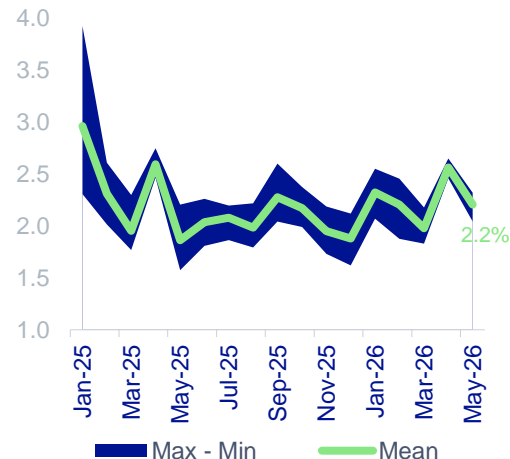
Long eid-holiday in late May, corporate & income tax collection shifts and the losses from the fuel pricing mechanism were the reasons behind a much weaker revenue performance in May. We still observe efforts to keep non-interest spending in a weakening pattern as a balancing factor.

May CPI didn't show further worsening after the unexpected price adjustments in April, CBRT turns dovish

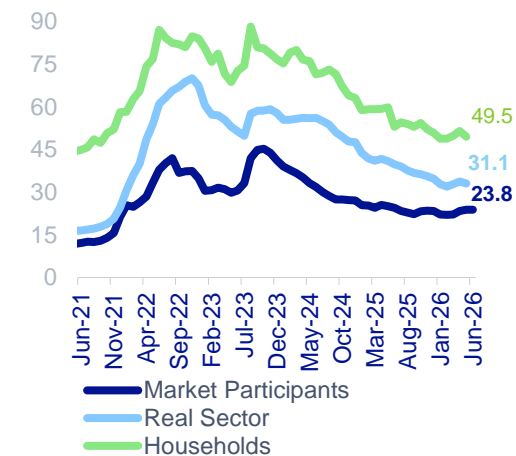
CPI SA ADJUSTED INDICATORS
(SA MoM, 3M AVG)



CPI UNDERLYING TREND INDICATORS (SA MoM)



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



Source: TURKSTAT and Garanti BBVA Research

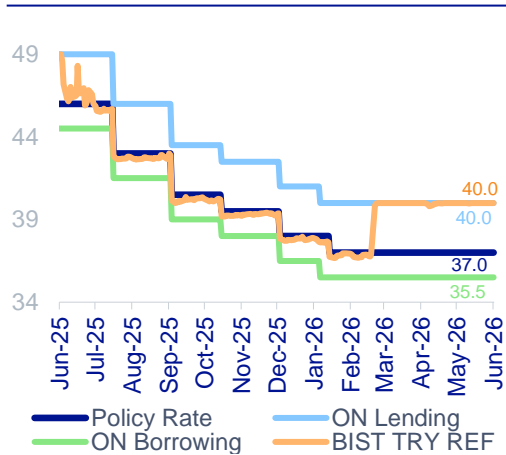
Source: TURKSTAT and Garanti BBVA Research

Source: CBRT and Garanti BBVA Research

We maintain our year-end inflation forecast at 30%. We now expect the CBRT to keep the funding rate at 40% at least through summer. If conditions allow, easing might resume in September, bringing the policy rate to 37% at most by year-end.

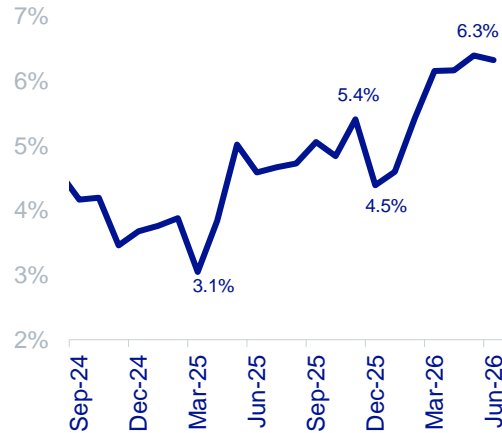
The CBRT appears comfortable with the current policy mix reinforced by tougher macro-prudential measures

CBRT FUNDING RATE & TRY REF RATE (% SIMPLE)



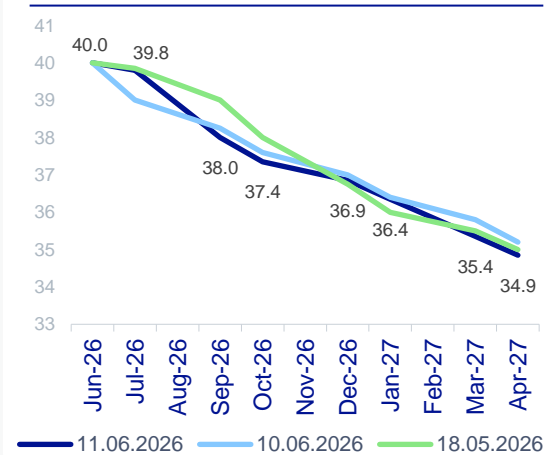
Source: CBRT and Garanti BBVA Research

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



Source: CBRT and Garanti BBVA Research

OIS MARKET PRICING ON CBRT FUNDING RATE (%)



Source: Bloomberg

The CBRT further tightened credit growth caps effective May 22. The easing bias conveyed in the latest MPC communication is likely to increase reliance on macroprudential measures going forward.

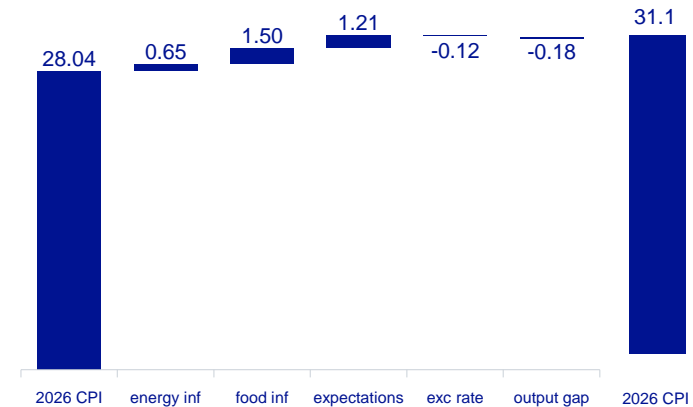
Following April upward CPI surprise, we revised our 2026 CPI forecast upward to 30%

BASELINE ASSUMPTIONS

- A more pro-longed supply shock with tighter external financial conditions
- Domestic authorities aim to keep a control with high real rates, macro-prudential measures and strong currency in the ST. The calibration of the policy mix continues as mildly pro-growth, requiring a calibration depending on the level of the external financing risks.
- We expect the CBRT funding rate to gradually normalize in September and converge to the policy rate in October, which would remain at 37% by year-end. We keep our USD/TRY forecast at 52 (<2% m/m nominal depreciation) for end-2026.
- We evaluate a narrowed room for monetary easing and only a mild fiscal support will be likely in the ST. Selective easing will be seen; however, policy mix will remain tight. The CBRT may pursue further rate cuts while increasingly relying on macroprudential measures, which, in our view, would further complicate the balance of risks.

REVISION ON 2026 CPI FORECAST

(% YOY average)

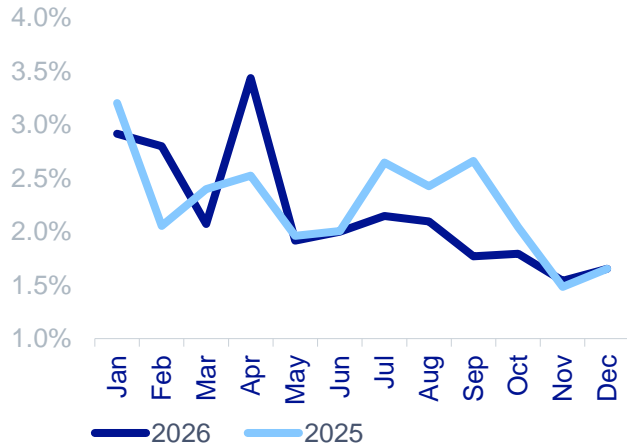


Source: TURKSTAT and Garanti BBVA Research

Given the increasing challenges on inflation outlook and the overall easing bias of the authorities, there is limited room for positive surprises that could support a sustained improvement in the inflation outlook in the short term.

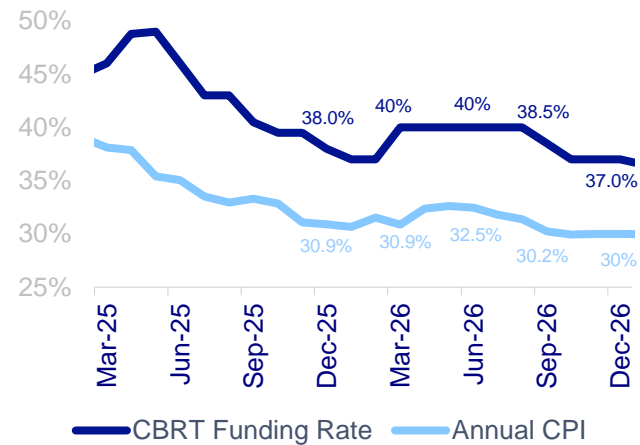
Selective easing will be seen; however, policy mix will remain tight

GARANTI BBVA CPI FORECASTS
(SA ADJUSTED MONTHLY)



Source: TURKSTAT and Garanti BBVA Research

GARANTI BBVA CPI & CBRT FUNDING RATE FORECASTS (YOY)



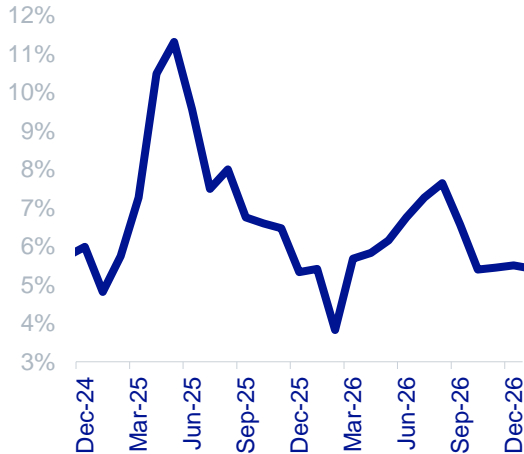
Source: TURKSTAT, CBRT and Garanti BBVA Research

We expect deposit rules and credit growth caps to last longer, with selective easing in certain segments, to help the economy in a targeted way.

The CBRT keeps an easing bias, yet a stronger currency will require high real rates & tougher macro-pru

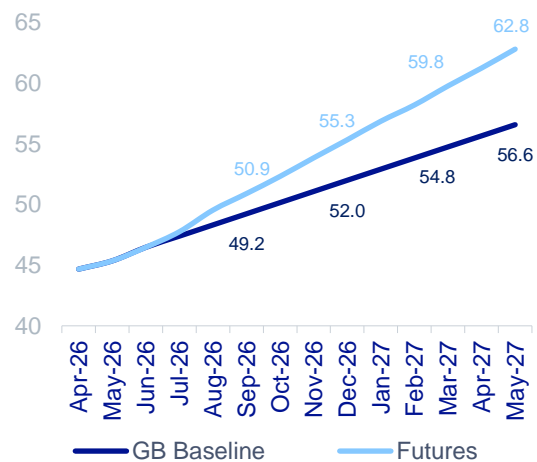
GARANTI BBVA EX ANTE REAL RATES FORECASTS

(% YOY, ADJ BY 3M AHEAD CPI)



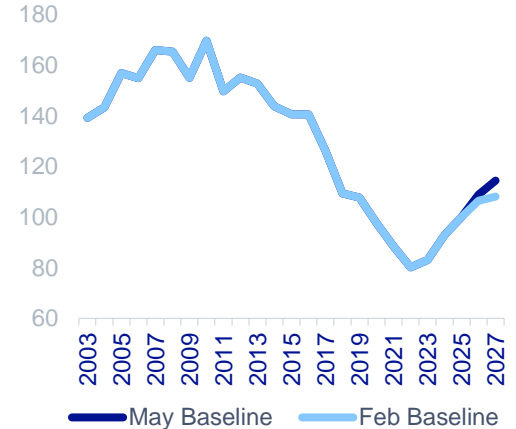
GARANTI BBVA FORECASTS & USDTRY FUTURES

(LEVEL)



REER FORECASTS

(LEVEL, 2025=100)



Source: TURKSTAT, CBRT and Garanti BBVA Research

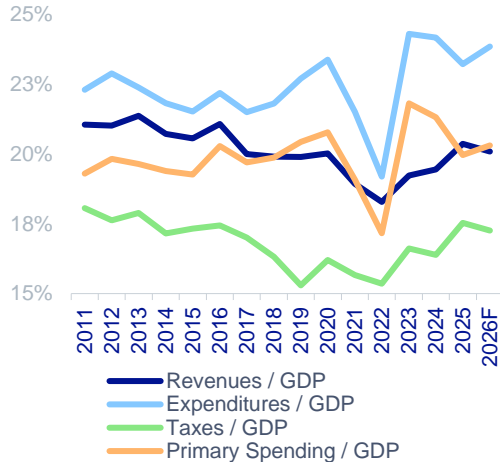
Source: Bloomberg and Garanti BBVA Research

Source: CBRT and Garanti BBVA Research

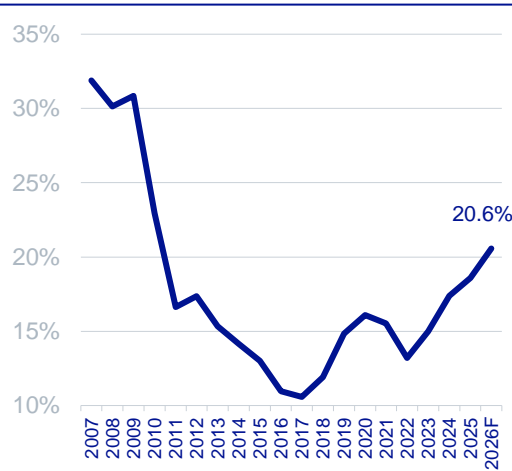
Real rates of 5-6% will likely be needed to maintain a continuing but slowing real appreciation trend in the currency. The strategy of beating forwards would be preserved but with weaker gains.

Given the limitation from external financing needs, fiscal deficit may not deviate much from the MTP target

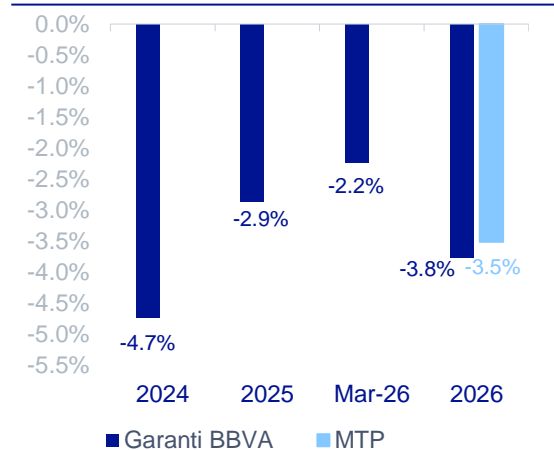
GARANTI BBVA CG BUDGET REVENUES & EXPENDITURES FORECASTS (% GDP)



INTEREST SPENDING / TAX REVENUES (%)



GARANTI BBVA CG BUDGET FORECASTS (% GDP)

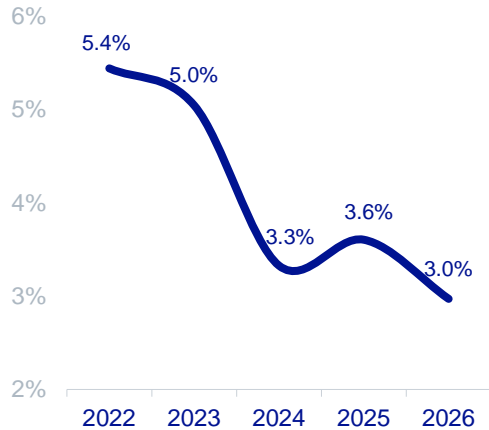


Source: Treasury, TURKSTAT and Garanti BBVA Research

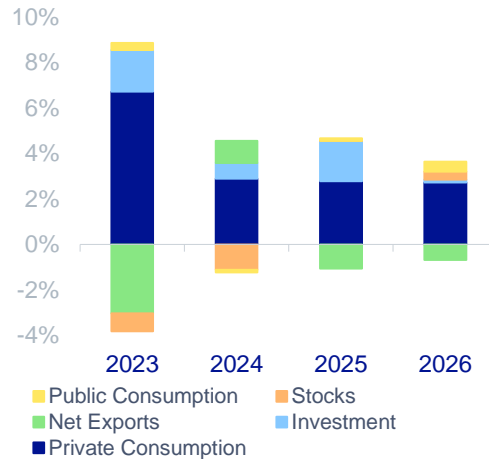
Even though the share of interest spending to tax revenues does not signal any alarming level yet, its recent acceleration and the need to keep rates high will weigh on the budget deficit going ahead.

We assume more targeted impulses generating more moderate growth rates in the short term

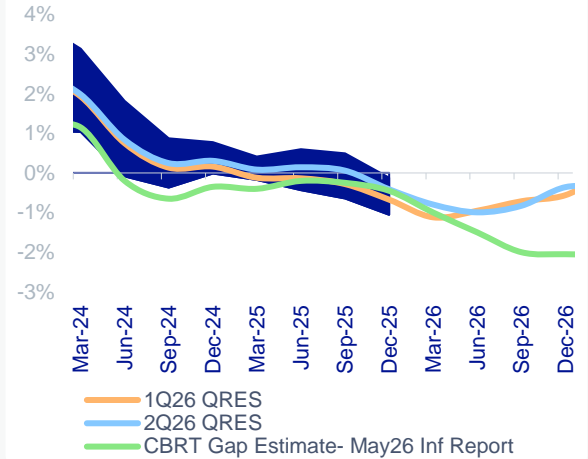
GDP GROWTH FORECASTS
(% YOY)



GDP GROWTH FORECASTS
(PP CONTRIBUTION TO YOY GROWTH)



OUTPUT GAP PROJECTIONS
(DEVIATION FROM POTENTIAL OUTPUT)

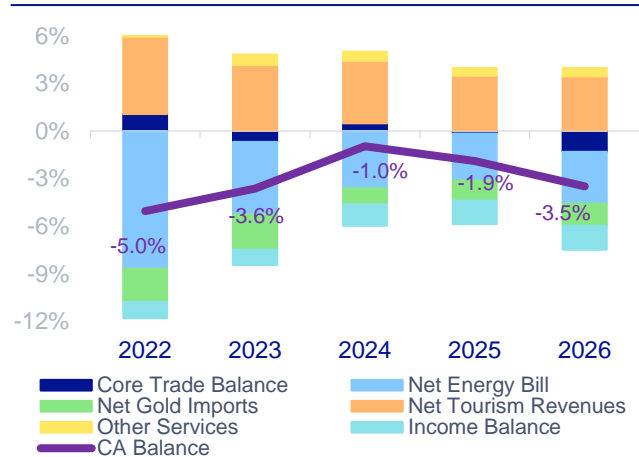


Source: TURKSTAT, CBRT and Garanti BBVA Research

The increasing external financing needs will limit an across-the-board easing; instead, we assume more specific impulses in a targeted way. Domestic demand will likely decelerate in 2026, driven by a weaker contribution from investment spending.

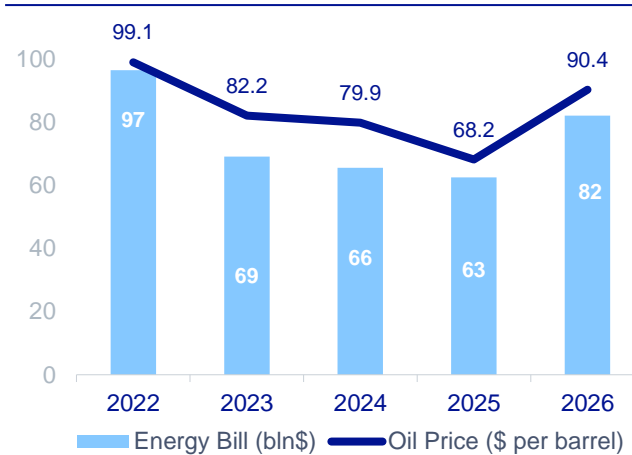
Weaker foreign demand and a higher energy bill led us to revise our CA forecasts to a wider deficit

GARANTI BBVA CURRENT ACCOUNT DEFICIT FORECASTS (% GDP)



Source: CBRT, TURKSTAT and Garanti BBVA Research

GARANTI BBVA ENERGY BILL FORECASTS (% GDP)

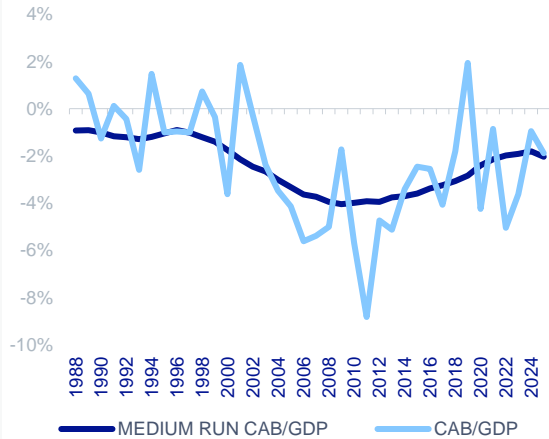


Source: Bloomberg, TURKSTAT and Garanti BBVA Research

The Middle East conflict poses downside risks to activity, exerting pressure on trade and the current account balance. If the impact from the war lasts longer with a deeper regional effect, current account dynamics and external financing needs would become increasingly critical.

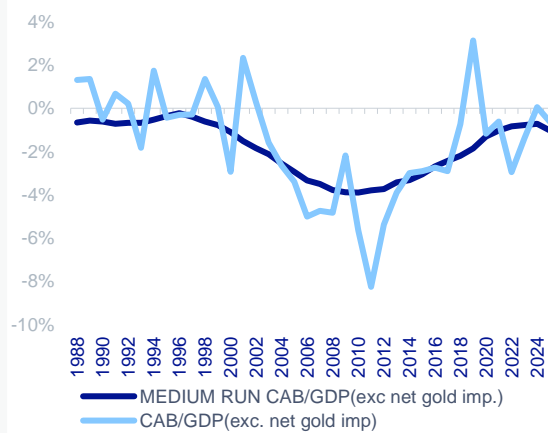
Our estimates suggest that Türkiye's structural current account balance has improved significantly since 2010

GARANTI BBVA MEDIUM RUN CAB ESTIMATES
(% GDP)



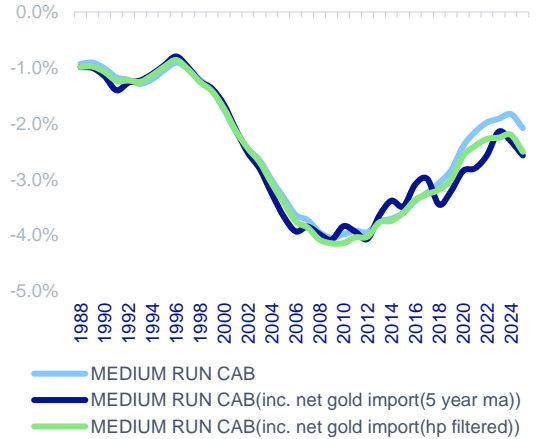
Source: CBRT, TURKSTAT and Garanti BBVA Research

CAB EXC. NET GOLD IMPORTS vs MEDIUM RUN CAB ESTIMATES
(% of GDP)



Source: CBRT, TURKSTAT and Garanti BBVA Research

GARANTI BBVA MEDIUM RUN CAB ESTIMATES
(% GDP)



Source: CBRT, TURKSTAT and Garanti BBVA Research

We estimate Türkiye's structural current account deficit at around 2.0% of GDP in 2025. However, unusually high net gold imports amid elevated inflation and uncertainty may distort the estimate, implying a deficit closer to 2.5% of GDP. Structural balance excluding gold imports stands at around -1.0% of GDP, suggesting scope for further improvement as macroeconomic fundamentals strengthen.

Garanti BBVA

Baseline Scenario

	2023	2024	2025	2026
GDP growth (avg)	5.0%	3.3%	3.6%	3.0%
Unemployment Rate (avg)	9.4%	8.7%	8.4%	8.6%
Inflation (avg)	53.9%	58.5%	34.9%	31.1%
Inflation (eop)	64.8%	44.4%	30.9%	30.0%
CBRT Cost of Funding (avg)	20.5%	49.6%	43.6%	38.6%
CBRT Cost of Funding (eop)	42.5%	47.5%	38.0%	37.0%
USDTRY (avg)	23.7	32.8	39.5	47.1
USDTRY (eop)	29.4	35.3	42.8	52.0
EURTRY (avg)	25.7	35.5	44.7	55.5
EURTRY (eop)	32.6	36.7	50.3	62.2
Current Account Balance (\$USbn)	-41.8	-13.0	-30.2	-62.8
Current Account Balance (% GDP)	-3.6%	-1.0%	-1.9%	-3.5%
CG Primary Balance (% GDP)	-2.6%	-1.9%	0.4%	-0.2%
CG Budget Balance (% GDP)	-5.1%	-4.7%	-2.9%	-3.8%

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