BBVA Research

September 2026

Türkiye Economic Outlook

Research

Global Economic Outlook

Main messages

The global economy continues to grow, with higher but contained inflation and limited financial stress. AI demand, defense spending and inflation-focused central banks are helping offset global headwinds, including escalating Middle East tensions, which have further pushed energy prices up, and fueled the ongoing trend of rising long-term yields.

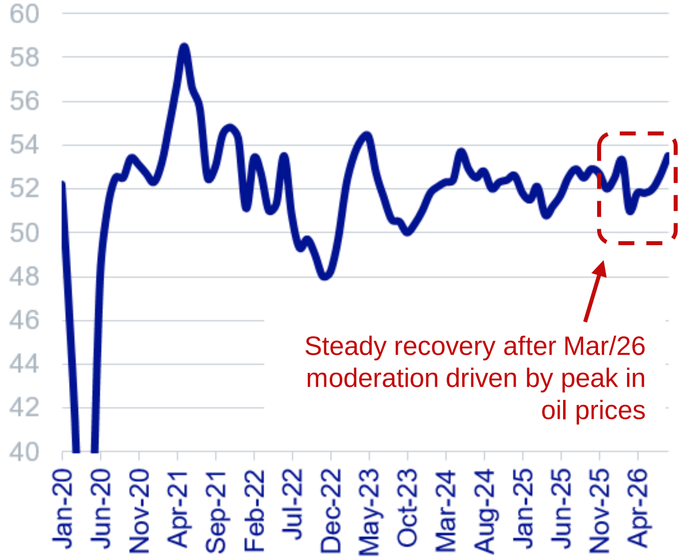
Growth prospects remain broadly unchanged. In the US, GDP growth will likely stay just above 2%, while in China it is forecasted to keep converging down toward 4%. In the Eurozone, this year's outlook has improved on stronger incoming data, but prospects for next year remain largely stable despite higher oil prices, rates and inflation.

Commodity prices will keep inflation under pressure in the short run. Still, inflation could ease next year if tensions in Iran subside as assumed in our baseline scenario. Tighter monetary conditions should also help contain inflation: Policy rates are likely to soon reach 4.25% in the US and 2.75% in the Eurozone.

Uncertainty remains very high. Escalation in the Middle East or in Ukraine, weather shocks, policy uncertainty, rising public debt and sovereign yields, protectionism, AI and other factors could eventually erode global resilience and trigger macro and financial instability. Higher oil prices for longer would make inflation and rates edge higher.

The global economy has remained resilient despite multiple shocks, which have lately shown little sign of abating

GLOBAL COMPOSITE PMI
(HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)



GLOBAL HEADWINDS

- geopolitical fragmentation, conflicts
- energy and commodity shocks
- climate shocks
- rising public debt and long-term yields
- policy uncertainty
- protectionism
- China's structural slowdown
- ageing

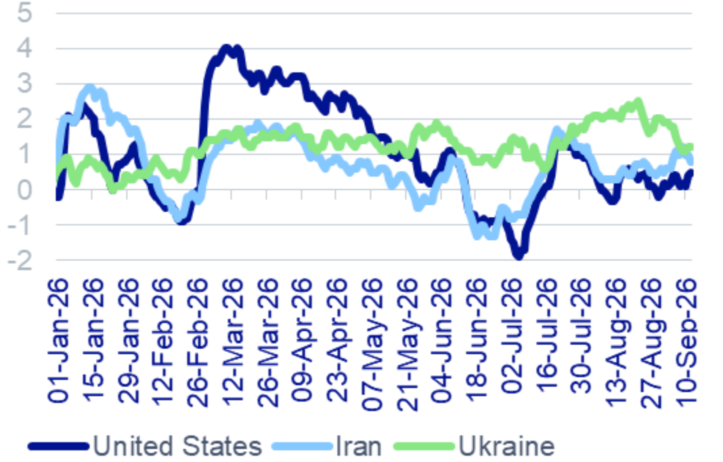
GLOBAL TAILWINDS

- AI adoption
- defense spending
- inflation-focused central banks
- solid private balance sheets
- fiscal impulse
- resilient labor markets
- supply-chain reconfiguration
- green investment, energy diversification

Source: BBVA Research based on data from Haver, JP Morgan, S&P.

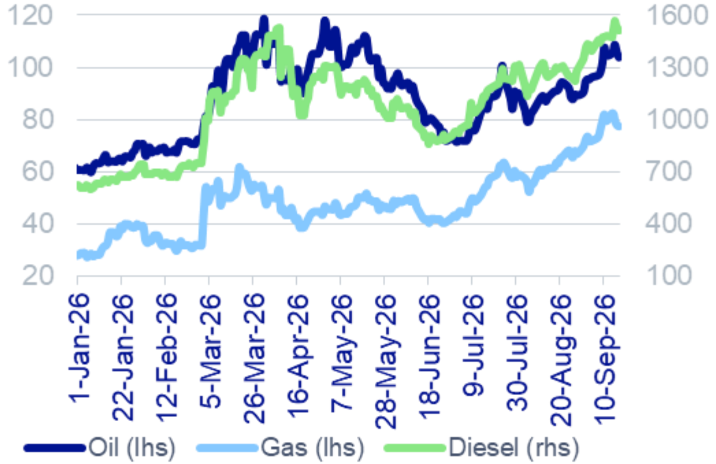
US-Iran tensions escalated again, with conflict spreading to the Red Sea, pushing up energy prices and uncertainty

GEOPOLITICAL RISK INDEX
(AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

BRENT, EUROPEAN GAS AND DIESEL PRICES(*) (USD PER BRENT BARREL; EUROS PER MWh, USD PER METRIC TONS)

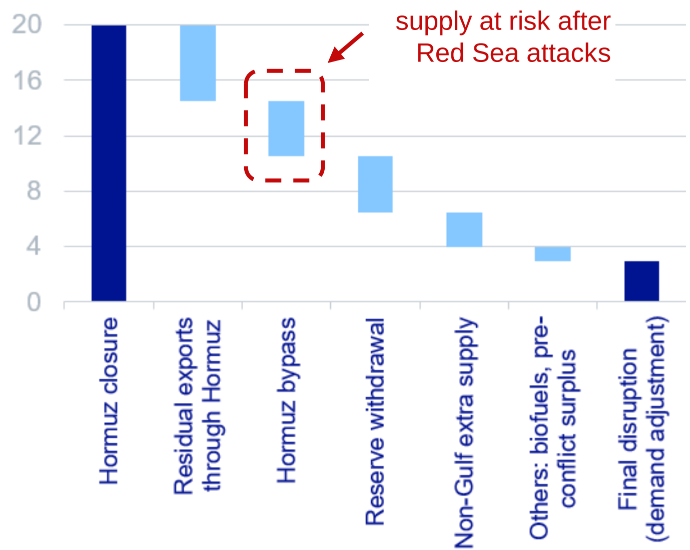


(*) Diesel: low sulphur gas oil future (ICE Futures Europe)
Source: BBVA Research based on data from Haver

US-Iran diplomacy stalled over ceasefire terms and control of Hormuz; Washington then intensified economic pressure by expanding sanctions on Iran's allies. Fighting has since resumed, with the Houthis attacking alternative oil routes in the Red Sea.

Supply disruptions persist, with some offsetting factors now at risk, adding volatility to energy prices

OIL MARKET BALANCE: AUG/26
(MILLION BARRELS A DAY)

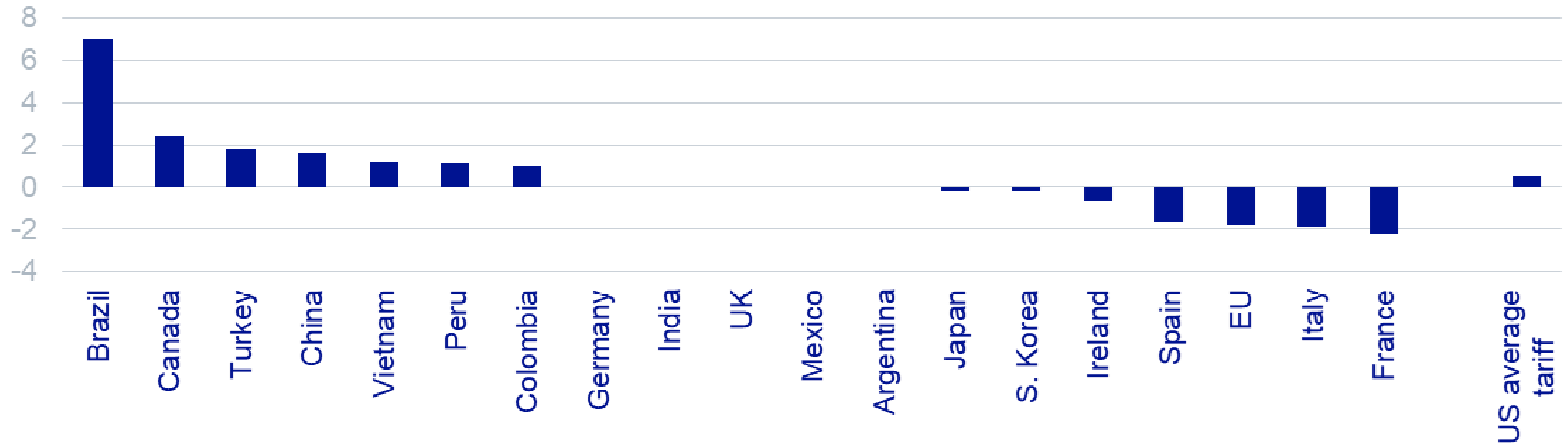


- **Despite data uncertainty, there are signs that oil exports through Hormuz have increased**, due to a larger flow of oil from US allies
- **Bypassing routes through the Red Sea have helped cushion supply losses**, but escalating attacks in the region have caused fresh disruptions; their closure is seen to raise oil prices by up to $20/b
- **Reserve liberation, particularly by China, continues to provide support**, but non-linearity risks remain in place
- **Increasing production by other countries**, especially in the Americas, is also preventing oil prices from moving even higher

Source: BBVA Research

Tariffs: The recent changes leave the average US tariff mostly unchanged, despite varying effects across countries

US STATUTORY TARIFFS: CHANGES DUE TO THE EXPIRATION OF "UNIVERSAL" TARIFFS (BASED ON SECTION 122), ADOPTION OF "FORCED LABOR" TARIFFS (BASED ON SECTION 301) AND IMPLEMENTED NEW TARIFFS ON CANADA AND BRAZIL (*) (PP)

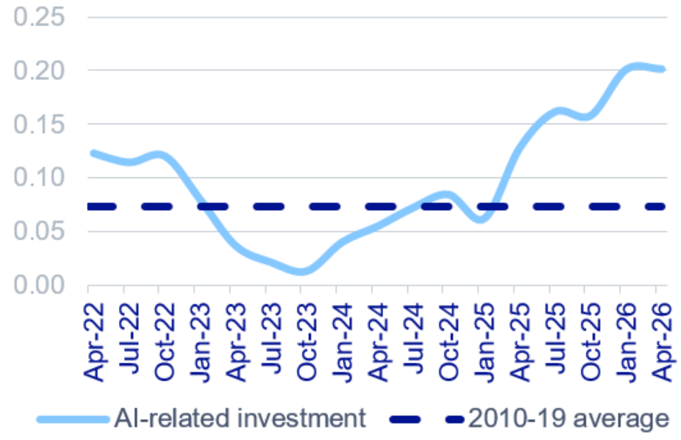


(*) Does not consider higher tariffs on Canadian cars, trucks, automobiles parts and steel announced to take place on January 2027
Source: BBVA Research

The average effective US tariff is likely to remain close to 7%; extra US tariffs scheduled to be effective next year would raise Canada's average tariff by 2pp to 6pp, depending on whether the new targeted goods will still benefit or not from USMCA-related exemptions .

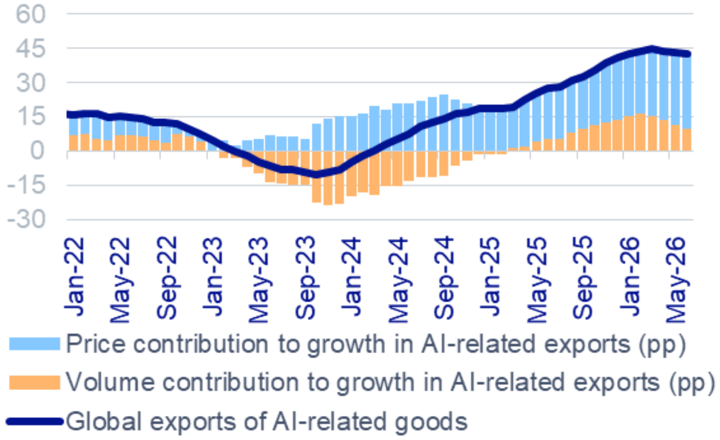
Increasing AI investment in the US is supporting demand in the country and abroad, putting pressure on AI prices

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

GLOBAL EXPORTS OF AI-RELATED GOODS
(Y/Y%, 12-MONTH MOVING AVERAGE)

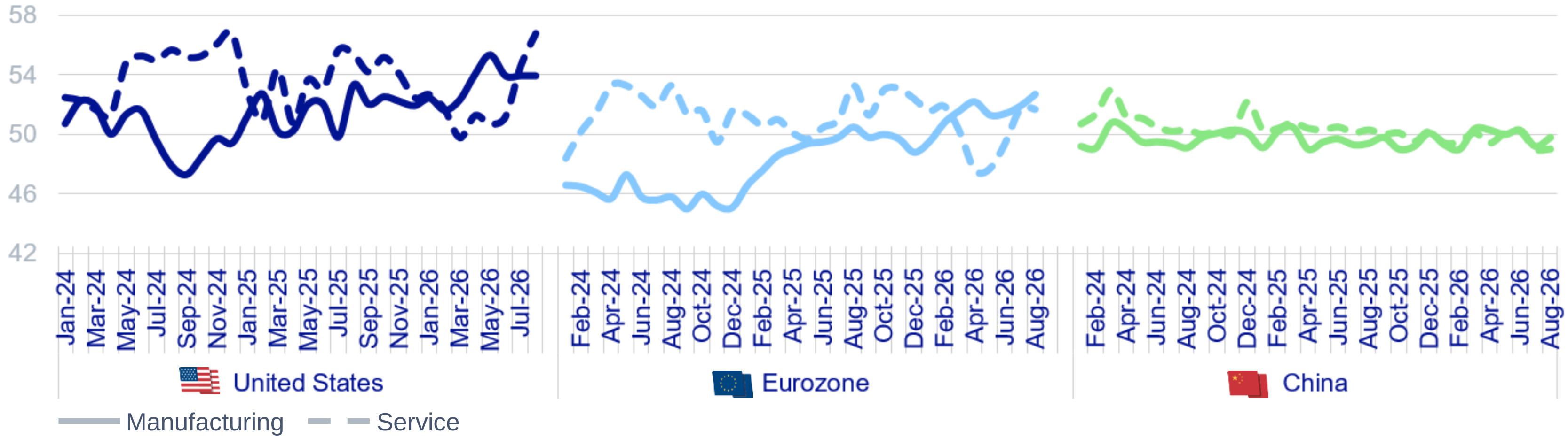


(*) AI-related goods exports include key inputs at the 6-digit level (energy and power, the semiconductor ecosystem, AI hardware, and connectivity) used in AI production.
Source: BBVA Research based on data from UN Comtrade, China's GAC, and Taiwan Customs.

Extraordinary AI demand is also putting strong pressure on related prices, potentially creating risks to global inflation.

High-frequency indicators reinforce the view that growth is still robust in the US and is improving in Europe

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

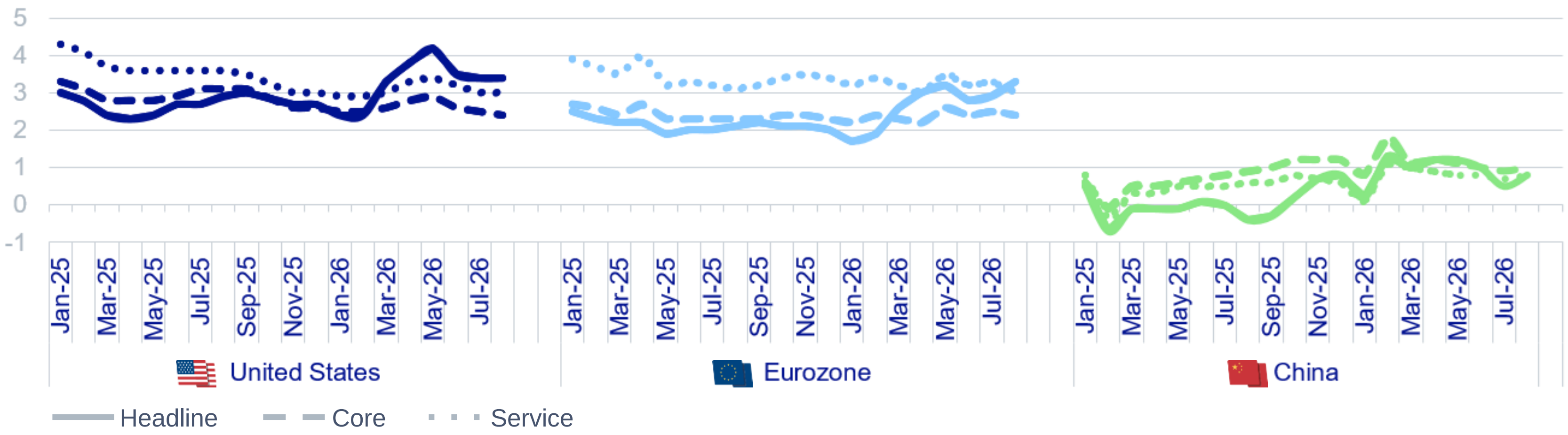


Source: BBVA Research based on data from Haver

2Q26 GDP surprised to the upside in the Eurozone, supported by resilient consumption and stronger net exports, but disappointed in the US despite robust domestic demand, and mainly in China despite very strong exports.

Inflation is running above 3% both in the US and in the Eurozone amid higher energy prices and resilient demand

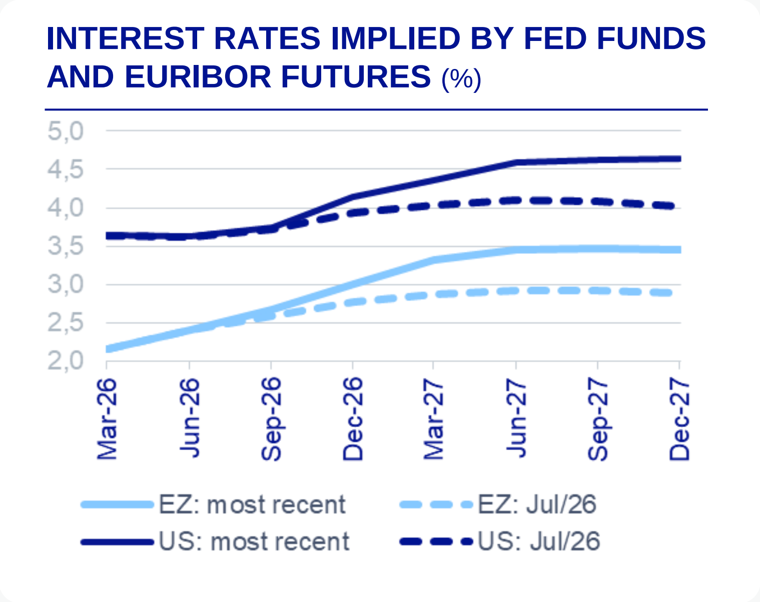
CPI INFLATION: HEADLINE, CORE AND SERVICE (Y/Y %)



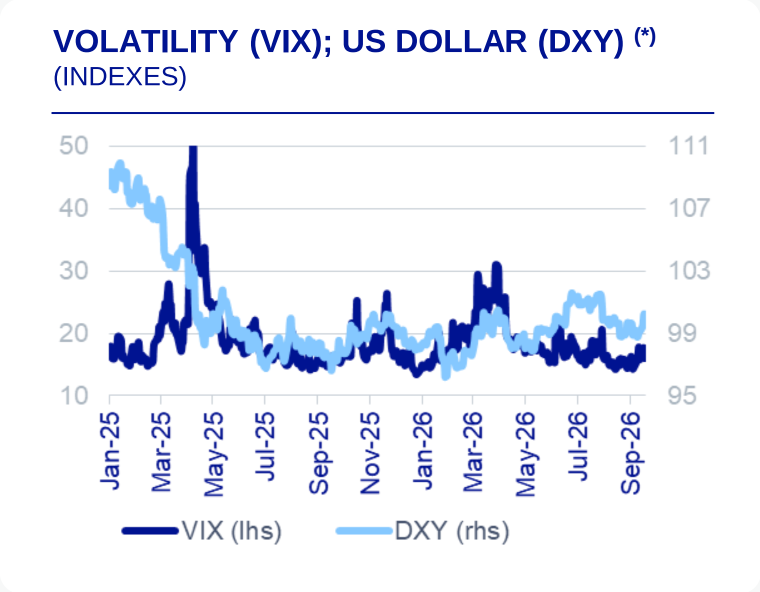
Source: BBVA Research based on data from Haver

Although headline inflation continues to be under pressure, core and service figures have exhibited a (timid) downward trend over the last few months, which suggest no significant second-order effects from the commodity shock so far.

Markets expect both the Fed and the ECB to continue tightening monetary conditions ahead



Source: BBVA Research based on data from Haver

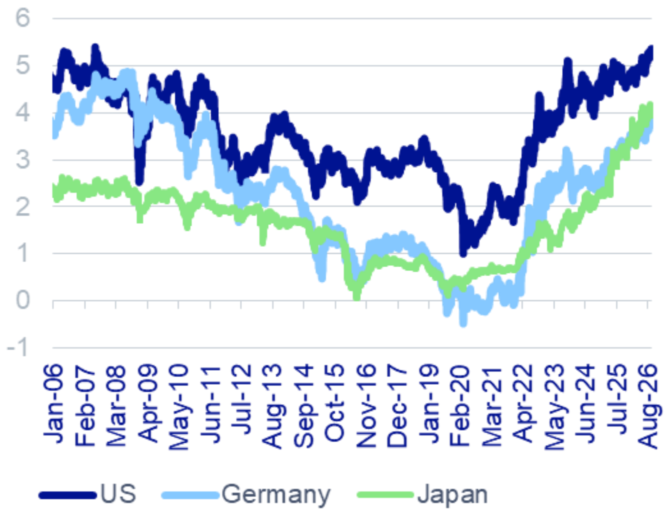


(*) A higher DXY represents a stronger US dollar
Source: BBVA Research based on data from Haver

The ECB and the Fed, amid considerable uncertainty over the decision, have recently raised rates to 2.5% and 4.0%, respectively, with markets pricing in further hikes; the VIX has remained subdued, while the US dollar has appreciated somewhat.

Long-term sovereign yields continue to rise globally, prompting a policy response from the US Treasury

30-YEAR SOVEREIGN YIELDS
(%)

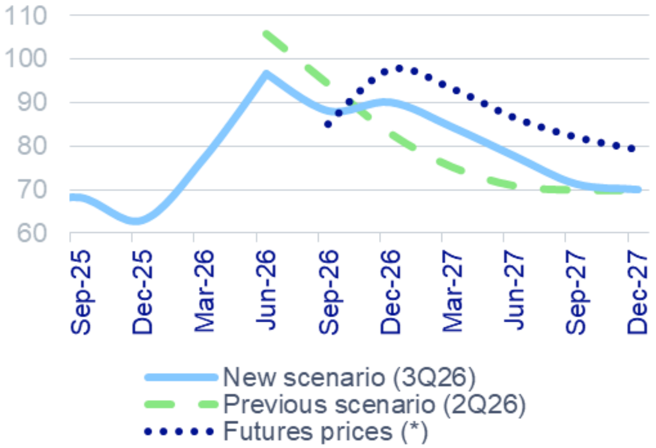


- **Long-term sovereign yields have continued to trend up, accelerating recently,** due to higher inflation and policy rates, large public financing needs, private bond issuance (mostly AI-related) and higher term premia
- **The US Treasury has tried to contain the trend** by increasing bond buybacks and supporting the yen, while seeking to limit Japan's sales of US Treasuries
- **The moves had only limited impacts** as they don't structurally address the drivers of their upward trend; moreover, they may eventually clash with Fed's goals
- **Higher Fed rates may help contain inflation expectations,** eventually easing pressures on long-term yields

Source: BBVA Research based on data from Haver

Our scenario assumes that oil prices will be contained and decline gradually next year, despite risks

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



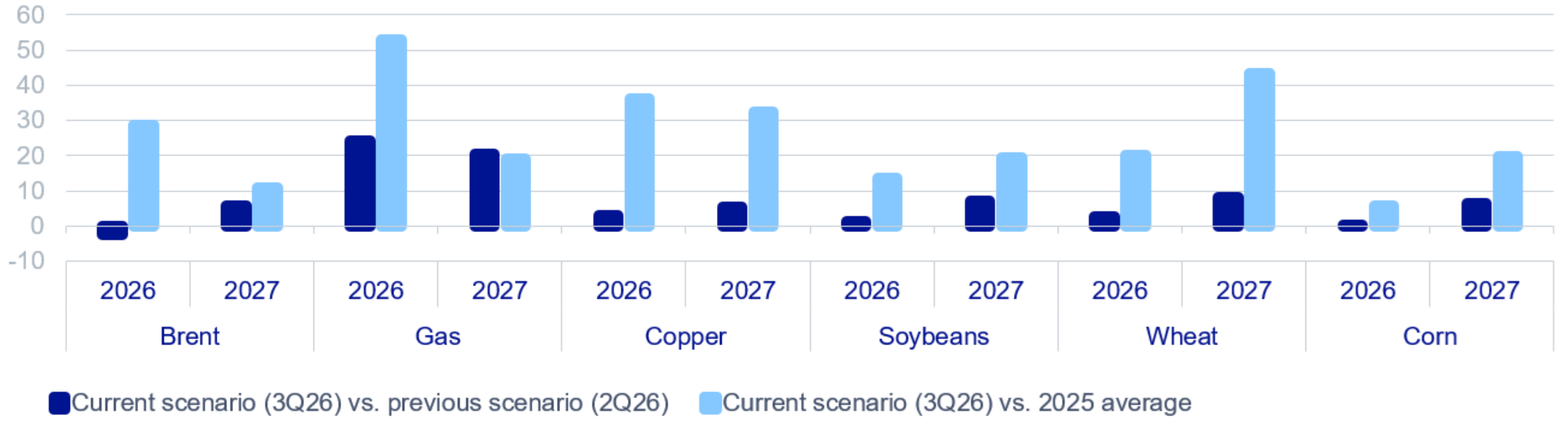
	2026 average	2027 average
New baseline scenario (3Q26)	88	76
Previous baseline scenario (2Q26)	90	72

(*) As of September 17, 2026.
Source: BBVA Research based on data from Haver

- **With Hormuz transit constrained for longer, prices are assumed to be slightly higher** than the previous assumption, although they were below the previous forecast in 3Q26
- **The new scenario is still consistent with a gradual improvement of energy flows** through Hormuz moving forward
- **Upside risks** to the oil baseline are relevant as tensions could avoid a reopening of the Strait, severely hit bypassing routes through the Red Sea and trigger nonlinearities
- **But oil prices could decline faster than forecast** if eventually a new deal is reached

Commodity prices will be supported not only by geopolitical tensions, but also by weather shocks and AI demand

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

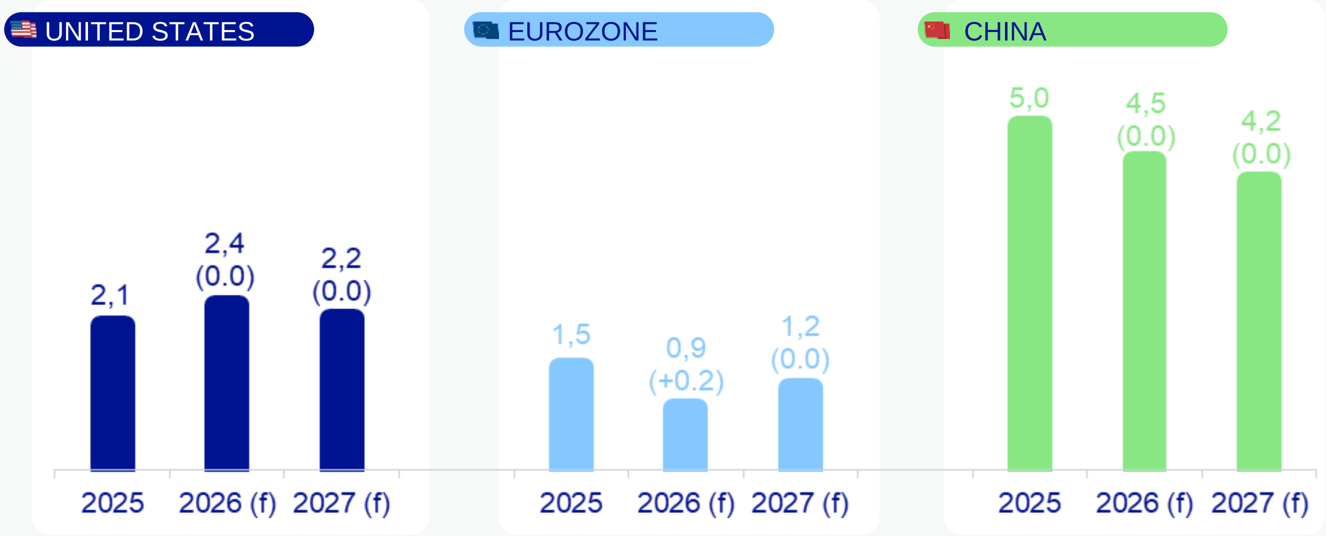


Source: BBVA Research

While the Middle East conflict is pushing up a broad range of input prices (notably energy and fertilizers), further pressure will come from low inventories (gas), the Russia-Ukraine war (now hitting wheat exports), weather shocks (El Niño and hot weather in the EU and US) and resilient demand (particularly AI-related demand for copper, energy and other inputs) .

Broadly unchanged GDP forecasts despite a better outlook for Europe this year, supported by stronger incoming data

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



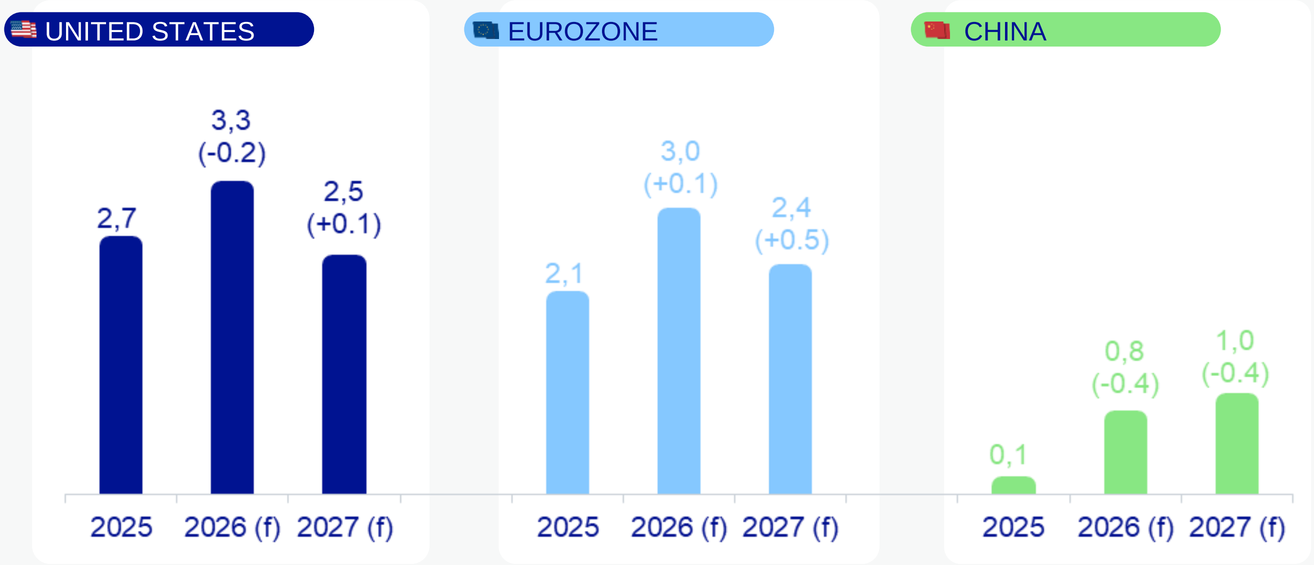
Growth is expected to be slightly above 2% in the US and converge to 4% in China, despite 2Q26 negative surprises.

In **Europe,** the impact of higher interest rates will be mostly offset by the effects of a weaker euro

(*) After expanding by 3.5% in 2025, global GDP is still forecast to grow by 3.1% in 2026 and by 3.3% in 2027 (unchanged figures).
(f): forecast.
Source: BBVA Research

Commodity prices and demand resilience will help to keep inflation under pressure, at least in the short-run

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



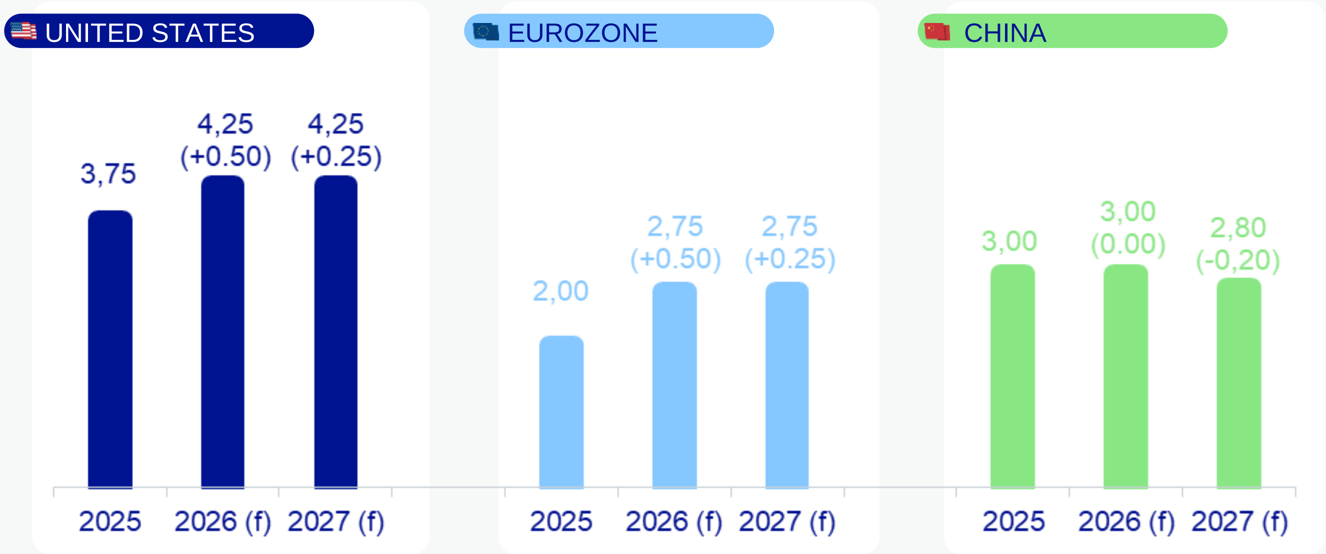
Inflation will remain high, above previous expectations in Europe, amid higher energy prices and resilient growth

It is forecast to ease next year, with core prices staying contained, provided energy prices decline as assumed

(f): forecast.
Source: BBVA Research

Fed and ECB are now expected to deliver one final hike this year and keep rates unchanged next year

POLICY INTEREST RATES (*)
(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



Policy rates will be higher than previously expected to address increasingly challenging inflation risks

Further tightening will likely be limited, if inflation eases as expected during 2027, but risks are tilted upwards

(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research

Risks remain in place given ongoing conflicts, weather shocks, high public debt, protectionism, AI…

GLOBAL ECONOMY: MAIN RISKS AROUND BBVA RESEARCH BASELINE SCENARIO

Many factors create upside risks to inflation

NEGATIVE SUPPLY SHOCKS

escalation of Iran-US war (reserve depletion, non-linearities), **weather shocks** (El Niño, climate change), **geopolitical tensions**, protectionism, ageing

STRONG DEMAND

AI (demand), fiscal stimulus, defense spending, robust labor markets and private balance sheets

GDP GROWTH

INFLATION

WEAK DEMAND

financial stress (**sovereign debt markets**, **equity correction**, private credit, shadow banking), uncertainty, structural challenges in Europe and China

POSITIVE SUPPLY SHOCKS

faster normalization of energy markets, productivity gains (mainly due to **AI,** in the medium term)

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Türkiye Economic Outlook

Main messages

Economic Policies

The macroeconomic consequences of the most recent shock through investment funds warrant close monitoring. We continue to assume that economic policies will remain supportive of the authorities' commitment to the stabilization program. We expect monetary policy to remain restrictive, with high real rates supporting the attractiveness of TL savings and leaving limited room for monetary easing in the short term. Any fiscal and credit support is likely to be targeted. Faster-than-expected rate cuts could renew inflationary pressures and increase reliance on macroprudential measures.

Growth Outlook

1H26 GDP growth decelerated to 2.5% y/y, and we nowcast around 3% y/y growth for 3Q26 based on the latest available information. The faster moderation in economic activity and rising NPLs could reinforce the case for policy easing. We maintain our GDP growth forecast at 3% for 2026, with risks slightly to the downside. For 2027, assuming a prudent policy mix alongside selective policy support ahead of the election, we forecast GDP growth of 3.5-4%.

Inflation & Rates

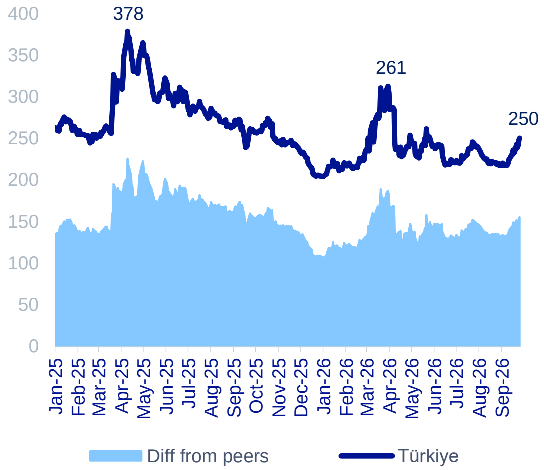
Amid still high energy prices, pro-growth tendencies and unanchored inflation expectations, we maintain our year-end inflation forecast at 30%, with risks slightly to the upside. We forecast 2027 CPI inflation to be closer to the upper end of the 25-30% range, reflecting uncertainties stemming from recent supply disruptions and expected fiscal and credit impulses of around 1% of GDP, as envisaged in the MTP. We maintain our view of a 1.5–2% m/m nominal depreciation pace in USDTRY, requiring ex-post real rates of at least 4–5% in the short term.

Risks

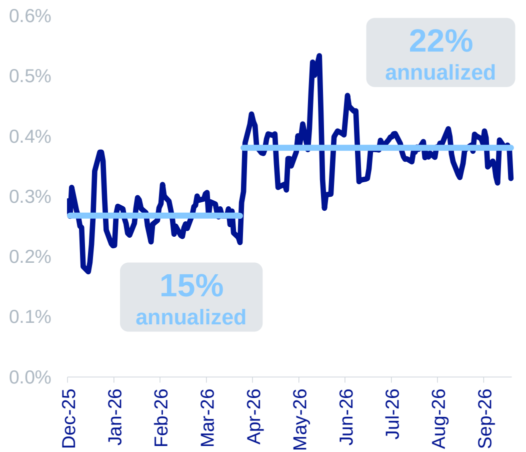
In our baseline scenario, we assume a moderation in energy prices ($90 on average in 4Q26 and $76 in 2027) and elections in early 2028, with targeted policy support concentrated in 2H27 and 1Q28. We expect historically high real rates to be maintained for longer, alongside continued macroprudential measures to support currency stability in the short term. We expect the exchange rate policy to remain a key anchor for financial stability, requiring the maintenance of strong reserve buffers to absorb potential shocks.

Global risk off mood has moved up risk premium but still to a limited extent, no change in depreciation pace

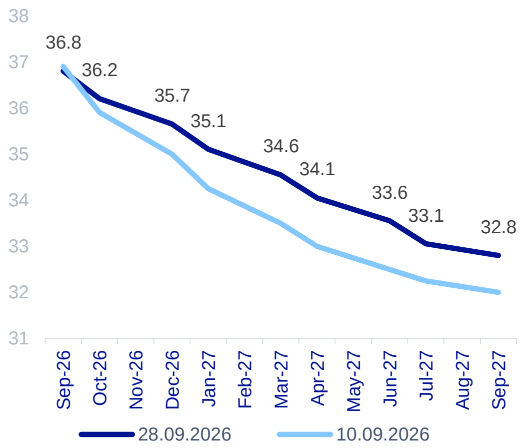
TÜRKİYE VS. EM 5-YEAR CDS
(BASIS POINTS)



USDTRY NOMINAL CHANGE
(5-day average)



OIS MARKET PRICING ON CBRT FUNDING RATE (%)

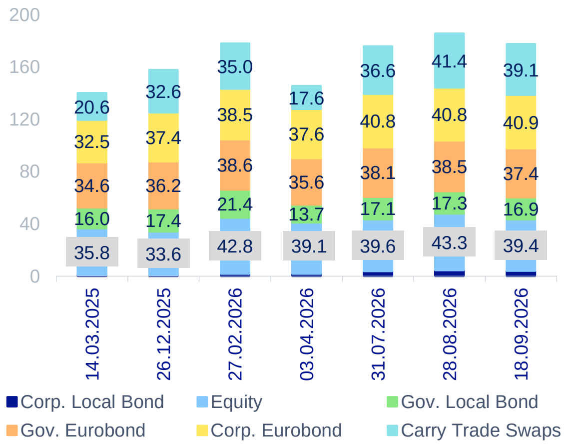


Source: Bloomberg and Garanti BBVA Research

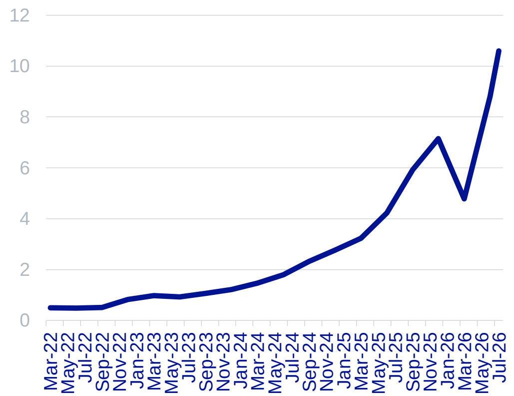
The pace of USDTRY nominal depreciation is preserved at 22% annualized. Rate cut expectations from the CBRT stay conditional to the stress in the global financial markets, yet the recent domestic shock through the investment funds could increase the scope for monetary easing.

The sell-off of foreigners ($30-35bn) in March was more than offset by August. Dollarization remains contained

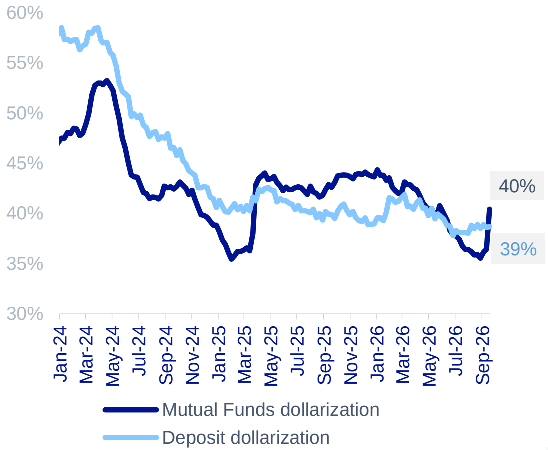
FOREIGNERS EXPOSURE* TO TR FINANCIAL ASSETS** ($USbn)



FOREIGNERS' EXPOSURE TO INVESTMENT FUNDS ($USbn, monthly stock position from IIP)



RESIDENTS' DOLLARIZATION RATIO (%)



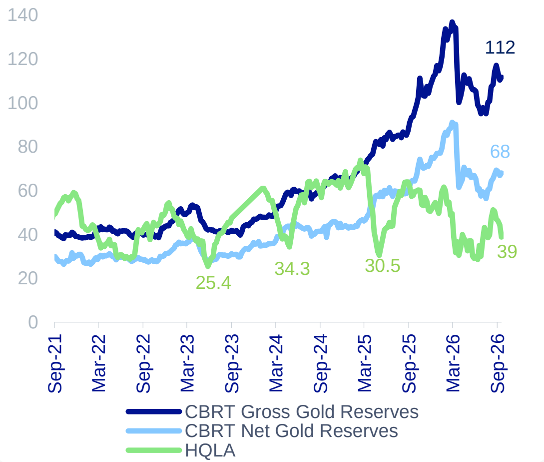
** Excluding local banks' external subsidiaries*
*** Including only the outright purchases in Government local bonds*

Source: CBRT and Garanti BBVA Research

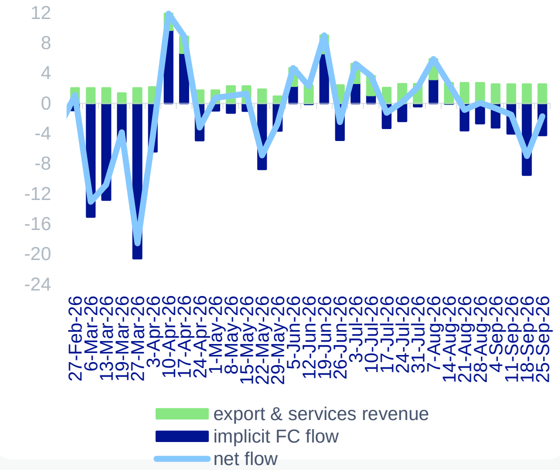
The foreigners' total exposure to Turkish assets reached 180-190bn$ as of September 18th, including investment funds. Following the recent liquidity crunch due to the crisis in funds, dollarization pressures remain contained, most of the exit from funds flow into TL deposits.

Net inflows during summer has reversed since Sep and the volatility in gold prices weighs down on the CBRT reserves

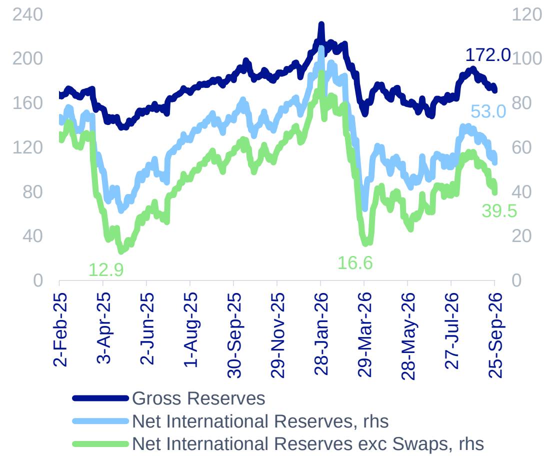
CBRT GOLD RESERVES & HQLA* ($USBN, as of Sep 18th)



CBRT WEEKLY RESERVE FLOWS ($USBN)



CBRT INTERNATIONAL RESERVES ($USBN)

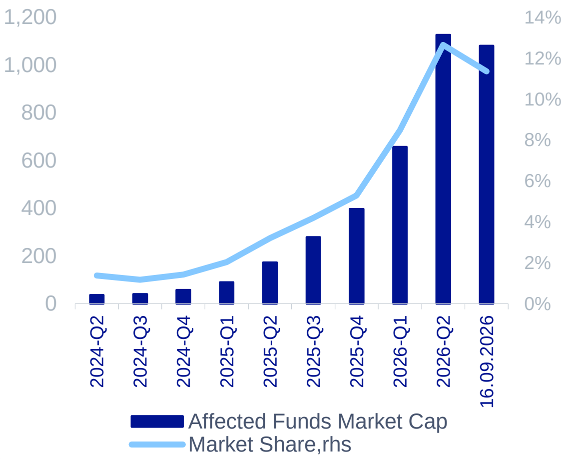


* High quality liquid foreign assets excluding IMF SDR & CB swaps
Source: CBRT and Garanti BBVA Research.

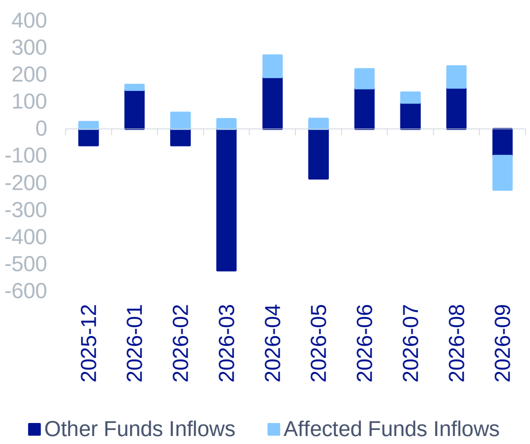
We calculate the net outflow in the week ending by Sep 18th due to liquidity crunch near 7bn $, which decelerated to almost 2bn$ last week. Maintaining strong reserve buffers is likely to remain key for absorbing potential shocks, while the exchange rate remains a key policy anchor .

The volume of funds with price distortions had grown significantly this year, largely due to valuation effects.

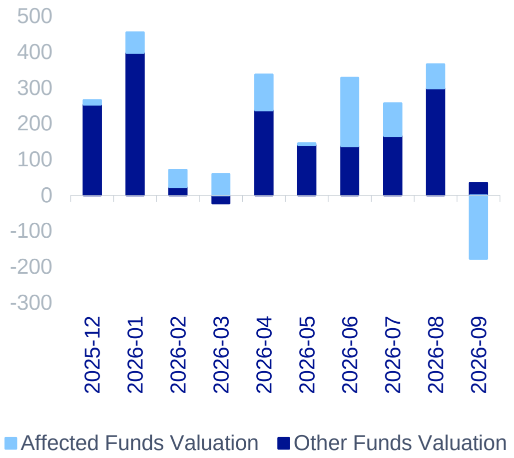
MARKET CAP & SHARE EVOLUTION IN LIQUIDATED FUNDS (TL BN, %)



NET FLOWS IN LIQUIDATED FUNDS (TL BN, monthly, as of Sep 16th)



VALUATION IN LIQUIDATED FUNDS (TL BN, monthly, as of Sep 16th)



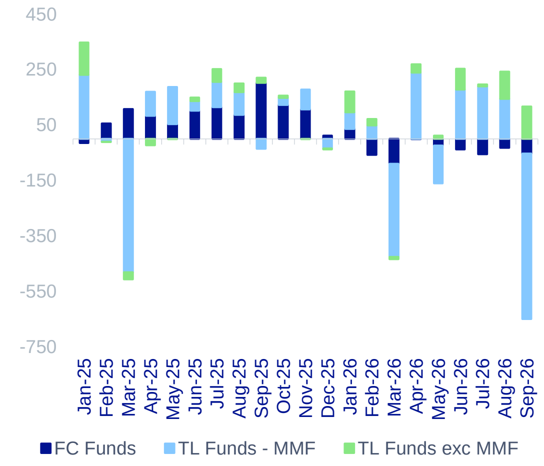
Source:CBMT, TEFAS and Garanti BBVA Research

* Affected funds are comprised of Tera, Bulls, Atlas, Pusula, Hedef, A1, Pardus Portfolio Management Companies

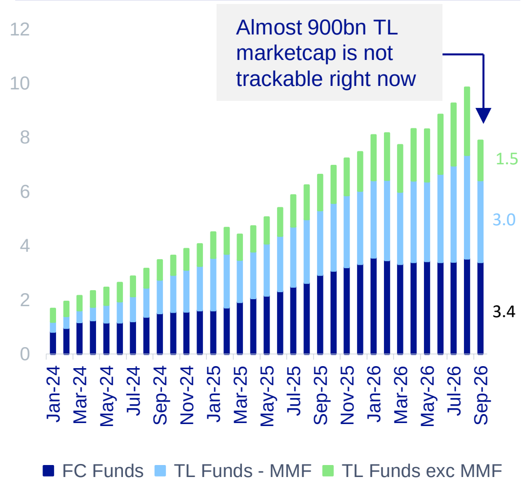
The size of affected funds had reached above 1 trillion TL (10-12% share in total) by the end of June, of which nearly 900bn TL will be liquidated according to the steps announced by the CMB.

The funds turmoil triggered ~TL 600bn in net outflows from TL funds by Sep 25, excluding funds liquidated after Sep 15

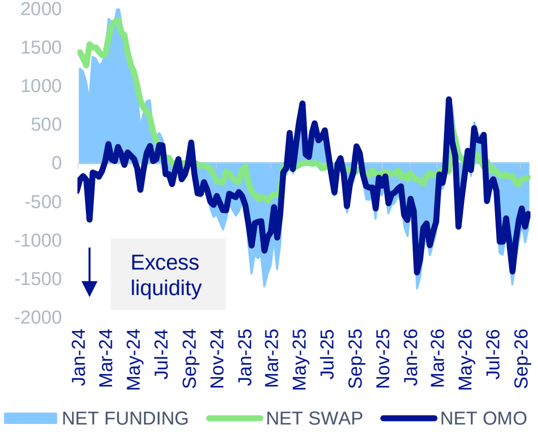
NET FLOWS* IN INVESTMENT FUNDS** (TL BN, monthly, as of 25th Sep)



SIZE OF INVESTMENT FUNDS** (TL TRN as of 25th Sep)



CBRT FUNDING & TL LIQUIDITY (bn TL)



Source: CBRT, TURKSTAT, TEFAS and Garanti BBVA Research

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

*** We are not able to track fully the funds activity after Sep 15th since some funds shift to monthly valuations. Affected funds (Tera, Bulls, Atlas, Pusula, Hedef, A1, Pardus Portfolio Management) are excluded since Sep15th*

Assuming zero market value for affected funds that did not publish prices, the total market cap decline approaches 2 trillion TL. Recovery rates during liquidation will be key going forward.

Direct fiscal costs appear manageable, but second-round macro-financial effects warrant close monitoring

WHAT IS KNOWN SO FAR

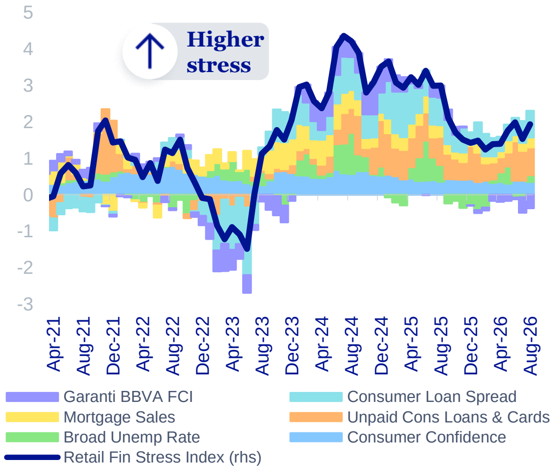
- 455,758 persons and nearly 900bn TL assets (almost 20bn$, 1% of GDP) have been affected. Around 1/3 accounts for MMFs related with those funds.
- 131 funds will be liquidated in the next 6 months with operations held by Isbank and Ziraat Bank.
- According to the distribution of assets in the so-called funds on Sep 17th, we calculate a possible recovery ratio of around15-20%.

POTENTIAL MACRO EFFECTS

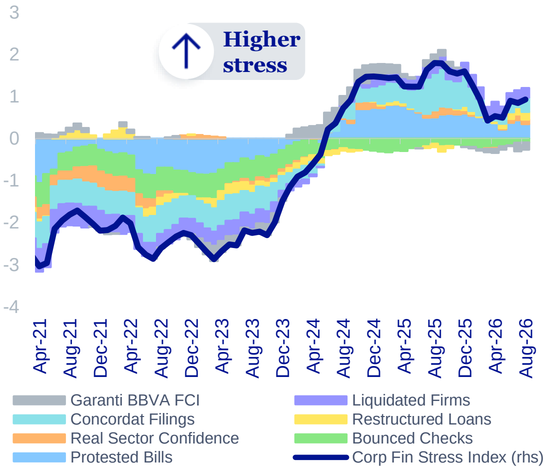
- Impaired access to savings and potential realized losses could temporarily weaken domestic demand.
- Downward demand pressure could be reinforced via increasing NPL flows driven by leveraged savings in so-called funds.
- Eased TL liquidity conditions and limited alternatives among TL assets could reduce TL deposit rates and increase the scope for monetary easing.
- This might reduce TL funding costs of banks, whereas cost of risk (CoR) would increase.
- Dollarization hasn't been triggered so far; yet any change of perception among locals should be watched.
- The ongoing regulatory adjustment may eventually improve investability, while remaining uncertainties could delay foreign inflows.

Financial stress levels keep a slight upward trend, pushing up retail NPL more clearly

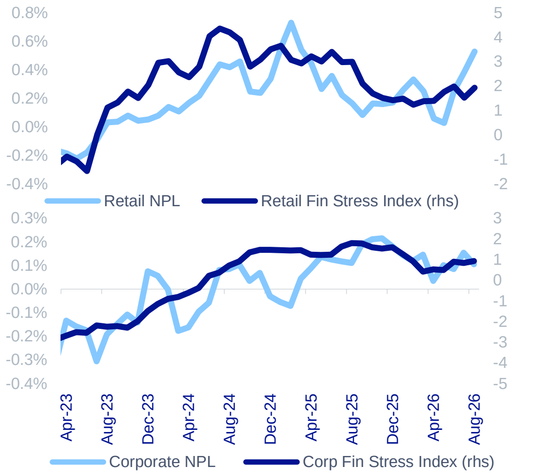
RETAIL FINANCIAL STRESS*
(factor & contributions)



CORPORATE FINANCIAL STRESS*
(factor & contributions)



FINANCIAL STRESS & NPL RATIOS
(factor vs 3M change)

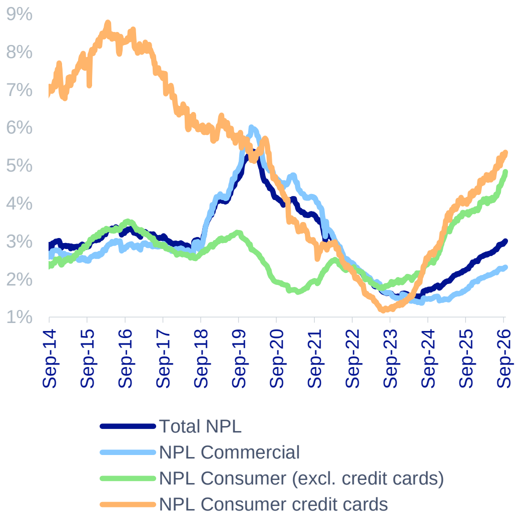


Source: CBRT and Garanti BBVA Research.
* See here for the methodology and more detailed information.

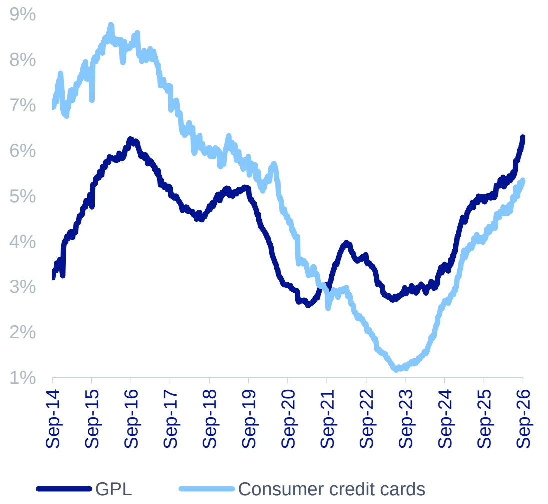
Wide credit spreads and continued concordat filings are keeping financial stress elevated across both consumers and corporates.

The overall NPL ratio still remains historically low, yet retail NPL, particularly the ratio in GPL calls for caution

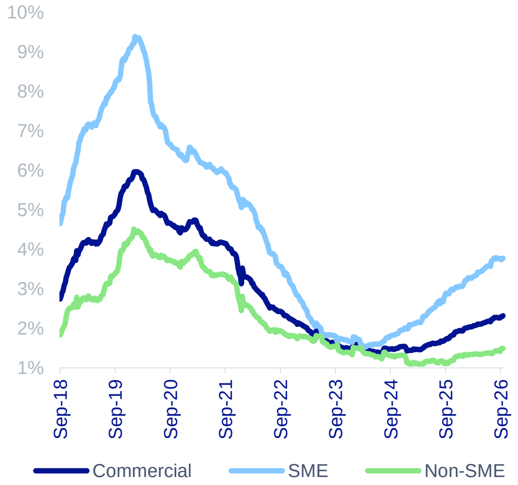
NPL RATIO IN SUBSEGMENTS
%



NPL RATIO, CONSUMER LOANS
%



NPL RATIO IN COMMERCIAL LOANS
%

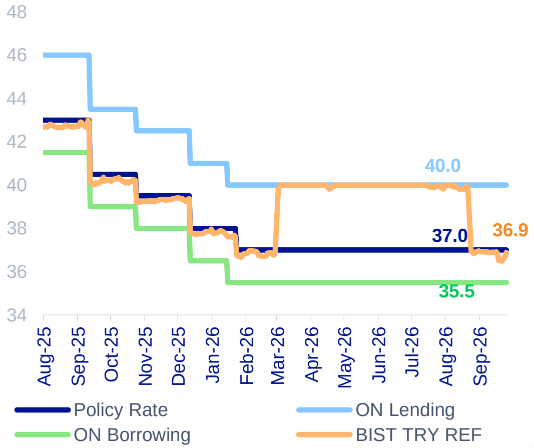


Source: BRSA and Garanti BBVA Research.

The recent faster acceleration in the NPL ratio of GPLs might require additional restructurings, which would be brought forward amid the pressures following the stress in funds.

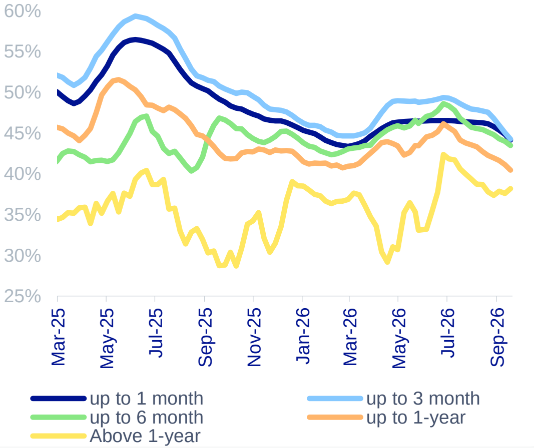
The return to 1 week repo was sooner than expected, resulting in a similar decline in TL deposit rates since then

CBRT INTEREST RATES & BIST TL REF RATE
(%, SIMPLE)



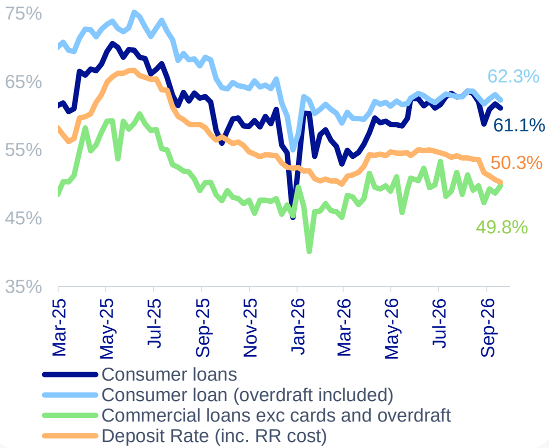
Source:CBRT and Garanti BBVA Research

TL DEPOSIT INTEREST RATES
(%, 4-WEEK AVG, FLOW, COMPOUND)



Source:CBRT and Garanti BBVA Research

TL DEPOSIT & LOAN INTEREST RATES
(%, WEEKLY, FLOW, COMPOUND)

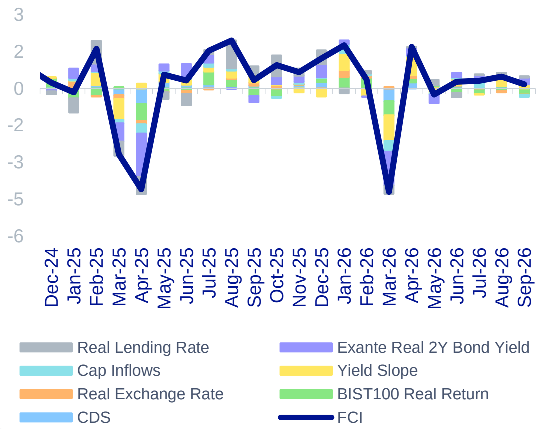


Source:CBRT and Garanti BBVA Research

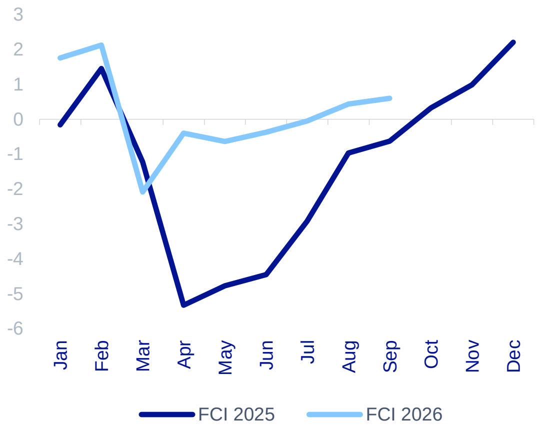
Despite the decline in TL deposit rates following the normalization of the CBRT toward the policy rate, the credit growth caps limit a comparable decline in TL loan rates.

Financial conditions stayed closer to neutral in 3Q26, despite the CBRT funding-rate normalization

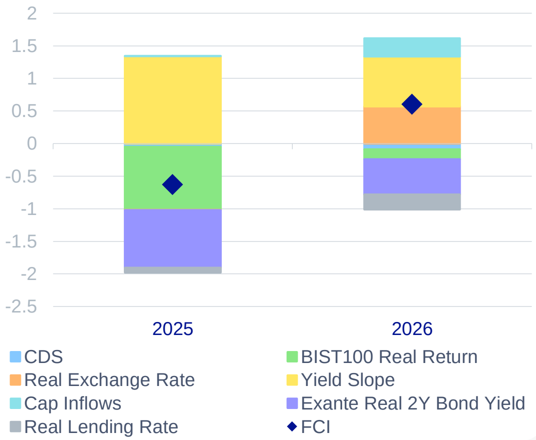
GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI)
(STANDARDIZED, + EASING, - TIGHTENING)



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



GARANTI BBVA FCI
(CUMULATIVE FIRST 9 MONTHS, STANDARDIZED, + EASING, - TIGHTENING)

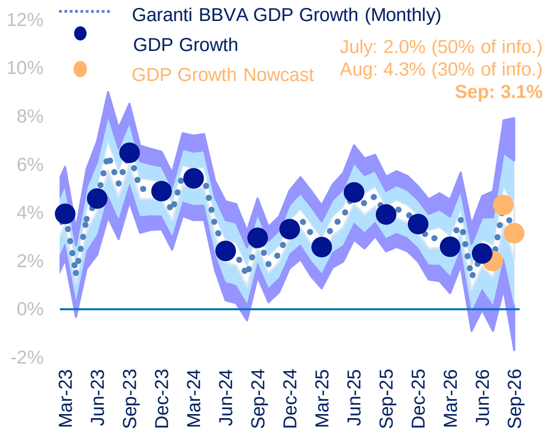


Source: CBRT, Bloomberg, TURKSTAT and Garanti BBVA Research.

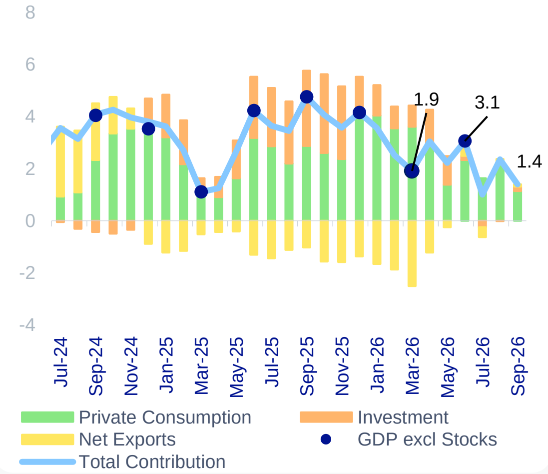
Amid the CBRT's lowering funding rate by 300bps –back to the policy rate- in late August, financial conditions have not changed meaningfully since then; led by higher real lending rates, macroprudential regulations and tighter external financing conditions.

GDP growth remains moderate, higher energy prices & latest demand shock raise downside pressure on activity

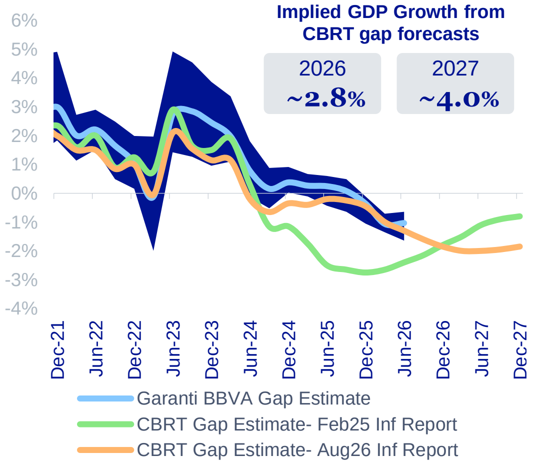
GARANTI BBVA GDP GROWTH NOWCAST
(% 3M YOY)



GDP NOWCASTS: DEMAND SUBCOMPONENTS
(% 3M YOY)



OUTPUT GAP PROJECTIONS
(DEVIATION FROM POTENTIAL OUTPUT)

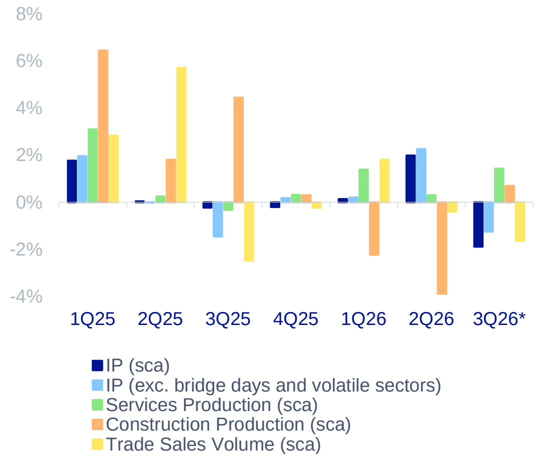


Source: TURKSTAT and Garanti BBVA Research

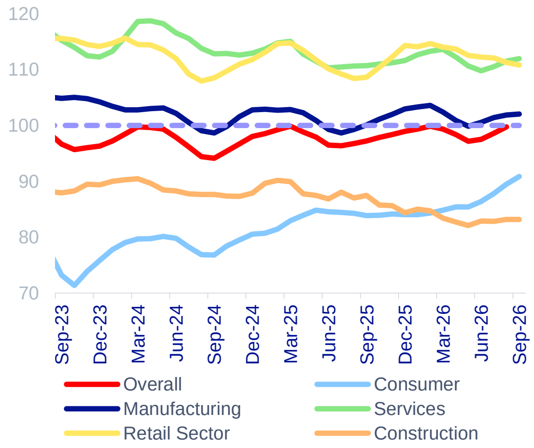
1H26 GDP growth decelerated to 2.5% y/y, and we nowcast around 3% y/y growth for 3Q26. Domestic demand moderates further, with a clearer adjustment in private consumption.

We nowcast services' contribution to accelerate, while construction activity could support 3Q26 GDP

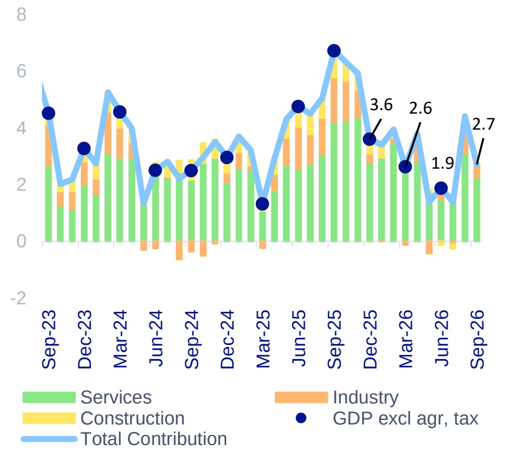
SECTORAL PRODUCTION INDICES
(% QOQ, SA)



SECTORAL CONDIFENCE INDICES
(3M AVG, SA)



GDP NOWCASTS: PRODUCTION SUBCOMPONENTS
(% 3M YOY)

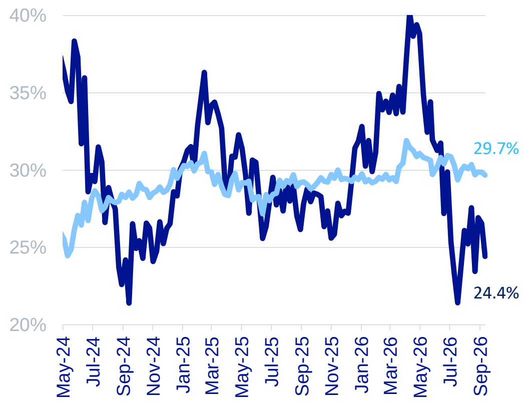


Source: TURKSTAT and Garanti BBVA Research
*as of July 2026

On a quarterly basis, hard data so far indicate an acceleration in services activity and a rebound in construction, while pointing to somewhat a correction in industrial production following its strong performance in 2Q26.

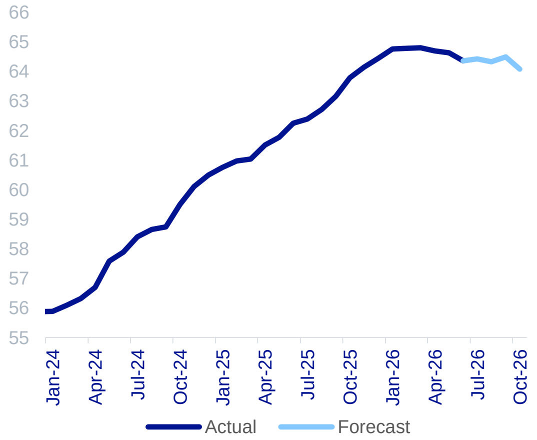
Credit growth is relatively weaker, tourism still performs well, reducing the pressure on the CA deficit

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



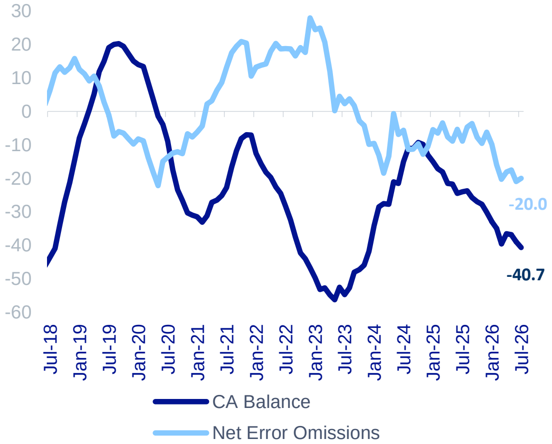
Source: TURKSTAT and Garanti BBVA Research

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



Source: TURKSTAT and Garanti BBVA Research

CA BALANCE & NET ERROR OMISSIONS
(12M SUM, $USbn)

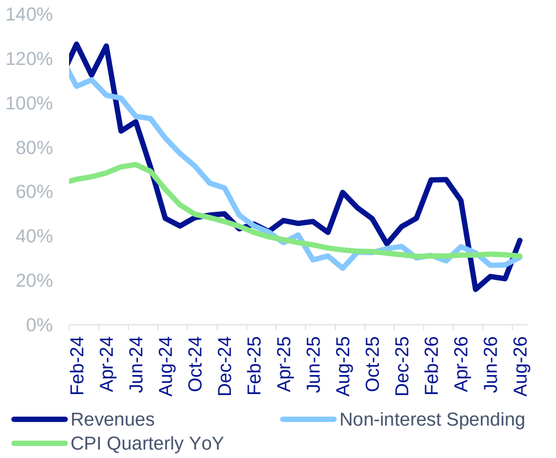


Source: TURKSTAT and Garanti BBVA Research

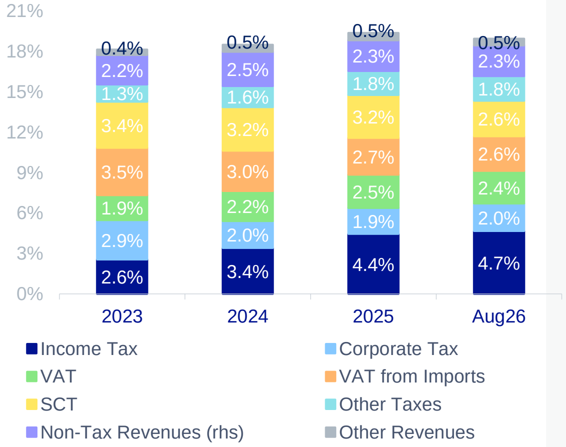
Although high commodity prices lead to a worsening in CA deficit, substitution effects on exports, slower domestic demand, and the resilience of the tourism revenues limit a harsher external adjustment, reducing the pressure on the exchange rate.

Fiscal performance signals still supportive revenues and disciplined expenditures

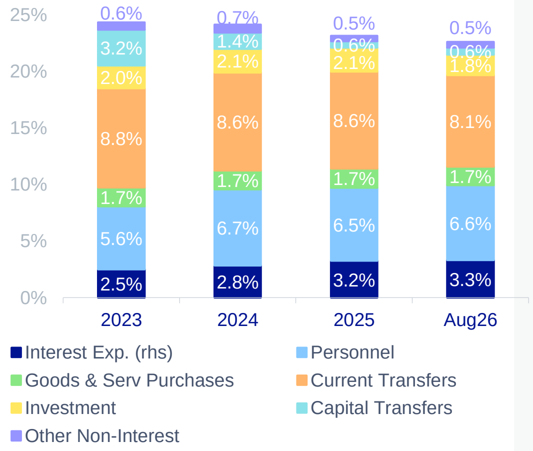
CASH REVENUES & NON-INTEREST SPENDING (% 3M YoY)



CG BUDGET REVENUES COMPOSITION (% GDP)



CG BUDGET SPENDING COMPOSITION (% GDP)

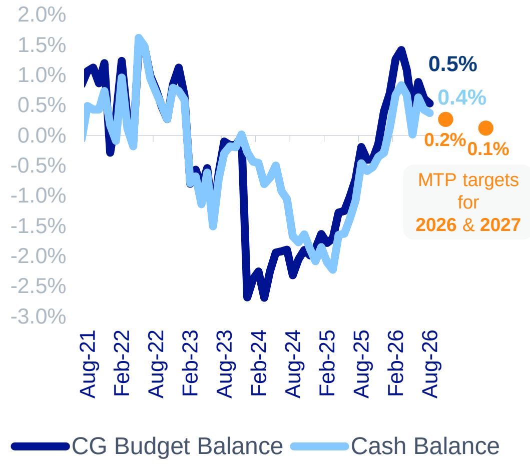


Source: Treasury, TURKSTAT and Garanti BBVA Research

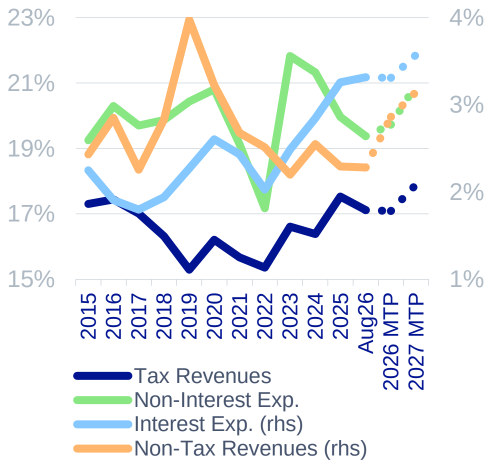
Tax revenues are still supported by a better collection of income taxes and still moderate economic activity, while expenditures are kept under control via lower spending in mostly capital transfers and investment.

After its relatively tighter stance since Apr25, fiscal policy will turn supportive of at least 1pp of GDP in the ST

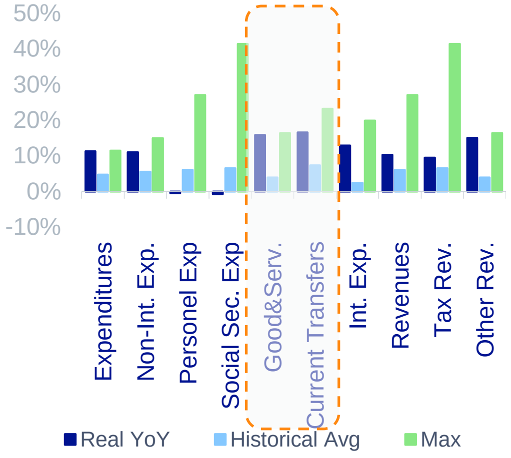
CASH & ACCRUAL BASIS PRIMARY BALANCE (% GDP)



CG BUDGET REVENUES & EXPENDITURES (% GDP)



2027 MTP BUDGET TARGETS GROWTH RATES (YOY REAL)

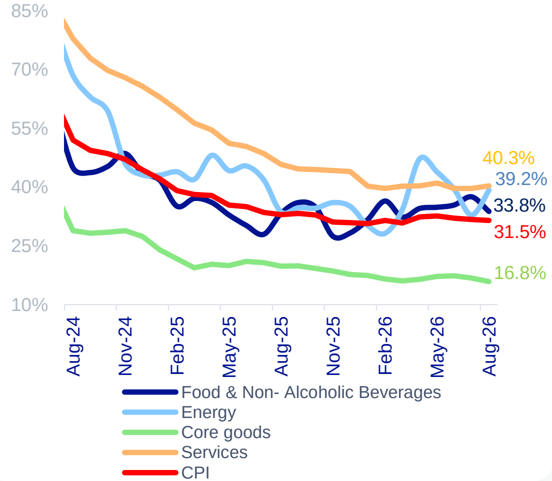


Source: Treasury, TURKSTAT and Garanti BBVA Research

The MTP signals a supportive fiscal stance in 2027, broadly consistent with our baseline assumptions around the electoral cycle. We forecast 3.5-4% budget deficit to GDP in 2027 (vs. 3.5% in MTP), after finishing this year with a deficit to GDP closer to 3%.

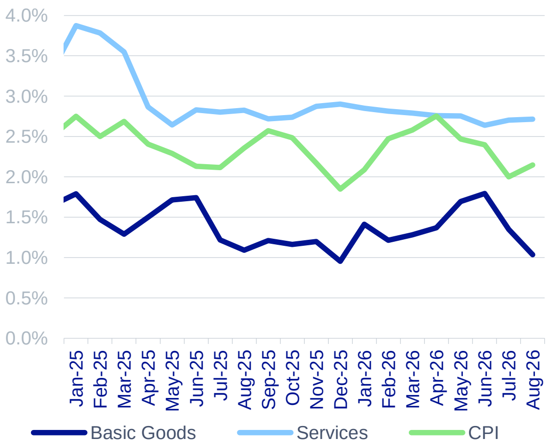
Monthly CPI trend has not come down persistently below 2%, unanchored inf expectations remain the main challenge

CONSUMER INFLATION
(YOY)



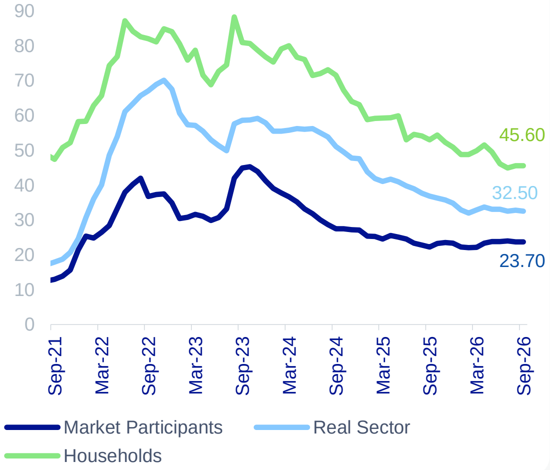
Source: TURKSTAT and Garanti BBVA Research

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



Source: TURKSTAT and Garanti BBVA Research

ONE-YEAR AHEAD INFLATION EXPECTATIONS (YOY)



Source: CBRT and Garanti BBVA Research

We maintain our year-end inflation forecast at 30% for 2026, with risks slightly tilted to the upside, depending on the energy prices. Given the tighter external financial conditions, renewed inflationary pressure from supply disruptions and the uncertainties on dollarization amid the domestic shock through funds, we now expect the CBRT to stay on hold in October MPC meeting.

Our baseline assumes elections in early 2028 and a controlled scenario geared toward financial stability

BASELINE SCENARIO ASSUMPTIONS

— A more pro-longed supply shock with tighter external financial conditions.

— Authorities maintain the stabilization program with high real rates, macro-prudential regulations and measures supporting currency stability in the short term. The calibration of the policy mix continues as mildly pro-growth.

— We maintain our view of a 1.5–2% m/m nominal depreciation pace in USDTRY, requiring ex-post real rates of at least 4–5% in the short term.

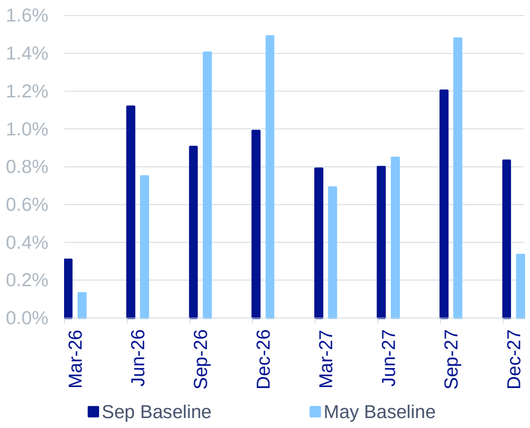
— We evaluate a narrow room for monetary easing and expect any fiscal & quasi-fiscal support to remain selective through social transfers, subsidized credit packages and income policies. The items so far we know: universal personal income (UPI) across the country, social houses aimed to be finished before summer 2027, employment subsidies aiming to reduce underutilized labor among youth, KOSGEB & CGF credits with a substantial interest subsidy, and defense industry spending (1.2% GDP in 2027-2029).

May26 Baseline assumptions: elections in late 2027, with wage hikes of Jan27 & Jul27, and fiscal & credit impulses of 2Q27 & 3Q27

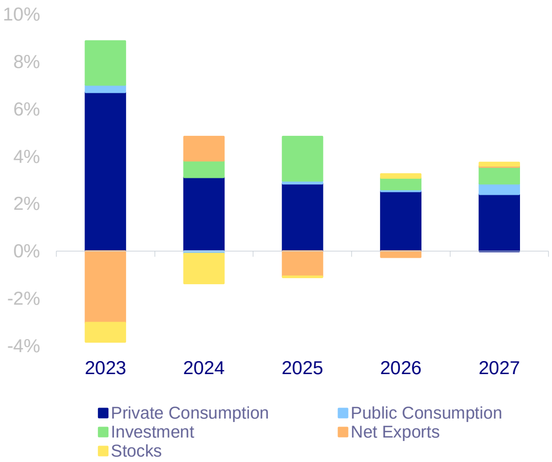
Sep26 Baseline assumptions: elections in early 2028, with a cumulative 36% wage hike in 2027 (30% min wage hike in only Jan), and fiscal & credit impulses with more bulk effects in 2H27 & 1Q28, 21% energy price hikes (electricity & gas) in 2Q27

We expect 3.5-4% GDP growth for 2027, following a level close to 3% in 2026

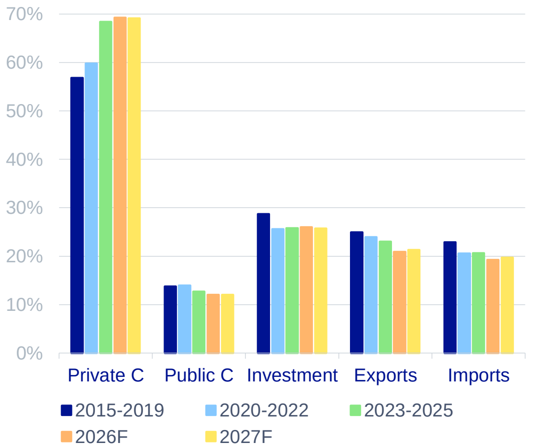
GDP GROWTH FORECASTS
(% QOQ)



GDP GROWTH FORECASTS
(% ANNUAL CONTRIBUTION)



GDP GROWTH FORECASTS
(% SHARE IN TOTAL)

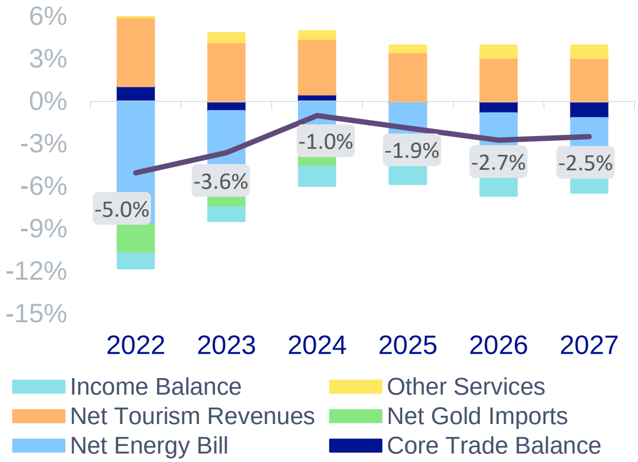


Source: TURKSTAT and Garanti BBVA Research

We assume selective policy support in the short term, resulting in an acceleration in activity toward potential growth without materially exceeding it.

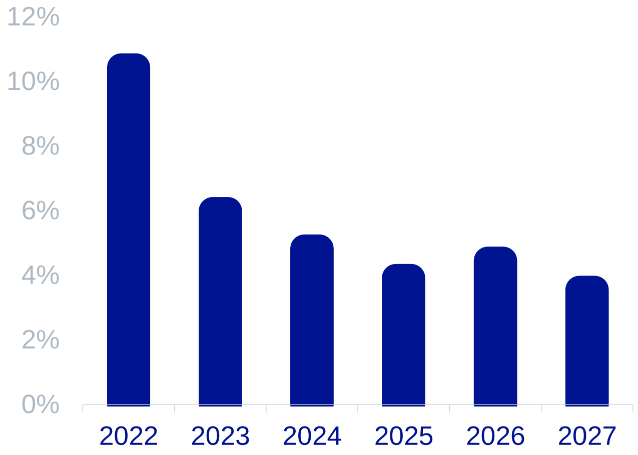
We revise our CA forecasts to a lower deficit, yet the developments about the conflict will remain key

GARANTI BBVA CURRENT ACCOUNT DEFICIT FORECASTS (% GDP)



Source: CBRT, TURKSTAT and Garanti BBVA Research

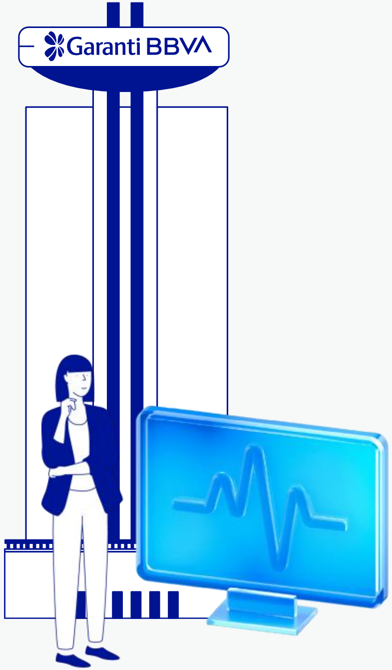
GARANTI BBVA ENERGY BILL FORECASTS (% GDP)



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.

Garanti BBVA Baseline Scenario



	2023	2024	2025	2026
GDP growth (avg)	5.0%	3.5%	3.7%	**3.0%**
Unemployment Rate (avg)	9.4%	8.7%	8.4%	**8.2%**
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%	**38.2%**
CBRT Cost of Funding (eop)	42.5%	47.5%	38.0%	**36.0%**
USDTRY (avg)	23.7	32.8	39.5	**47.0**
USDTRY (eop)	29.4	35.3	42.8	**52.0**
EURTRY (avg)	25.7	35.5	44.7	**54.5**
EURTRY (eop)	32.6	36.7	50.3	**60.2**
Current Account Balance ($USbn)	-41.8	-13.0	-30.0	**-49.2**
Current Account Balance (% GDP)	-3.6%	-1.0%	-1.9%	**-2.7%**
CG Primary Balance (% GDP)	-2.6%	-1.9%	0.4%	**0.1%**
CG Budget Balance (% GDP)	-5.1%	-4.7%	-2.9%	**-3.2%**

BBVA Research

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