Research

JUNE 2025

Türkiye Economic Outlook

Main messages

Economic policies

We evaluate a widening room for the continuation of policies prioritizing the fight against inflation until at least late 2026. However, the sensitivity remains on growth and employment outlook, potentially generating a policy mix where monetary stance staying relatively tighter compared to our early March baseline scenario and fiscal policy not being able to be tightened as targeted in the Medium Term Program (MTP).

Growth outlook

We keep our GDP growth forecasts the same, given the strong 1Q25 performance, potential quasi-fiscal policies (such as the extension of Credit Guarantee Fund limits) and no dramatic impact from weaker external demand (Eurozone containing a recession). We forecast 3.5% GDP growth for 2025 and 4% for 2026.

Inflation and rates outlook

We had already revised our inflation projections to 31% (vs. 29%) for end 2025 and 21% (vs. 20.5%) after the twin shocks of mid-March and early April, staying prudent on top of uncertainties about the level of real rates, food inflation and administrative prices. We expect the monetary easing cycle to support a continued normalization of funding cost towards the policy rate -as seen since June 10th- and to proceed with policy rate cuts starting in July, ultimately reaching 36% by the end of 2025.

Risks

We evaluate the balance of risks on our forecasts tilted to the downside for growth and inflation, which would also weigh down on our exchange rate and interest rate forecasts. Yet, uncertainties on Trump policies, recent upsurge in geopolitical risks and increasing unknowns on domestic politics are near term risks on the Turkish economy, keeping us cautious.

BBVA Research

Global Economic Outlook

Global economy under pressure by US policies

High US tariffs; although lower on China, they are larger than assumed on others, and a greater source of uncertainty

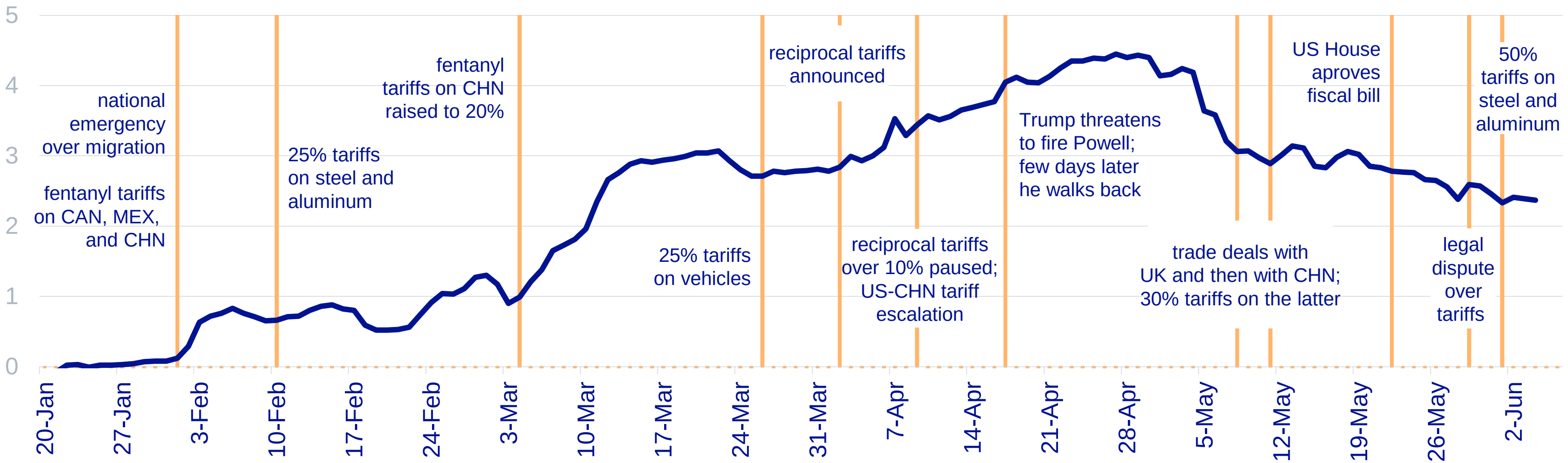
Resilient growth; confidence deteriorated, but the impact of tariffs on activity and inflation is limited, so far

Larger US risk amid increasing concerns on fiscal accounts and uncertainty on US policies

Weaker USD, higher long term yields, and a cautious Fed; policy rates fell further in China and Europe

Uncertainty remains in place

BBVA RESEARCH ECONOMIC POLICY UNCERTAINTY INDEX (*)
(28-DAY MOVING AVERAGE, AVERAGE SINCE 2017 EQUALS TO ZERO)

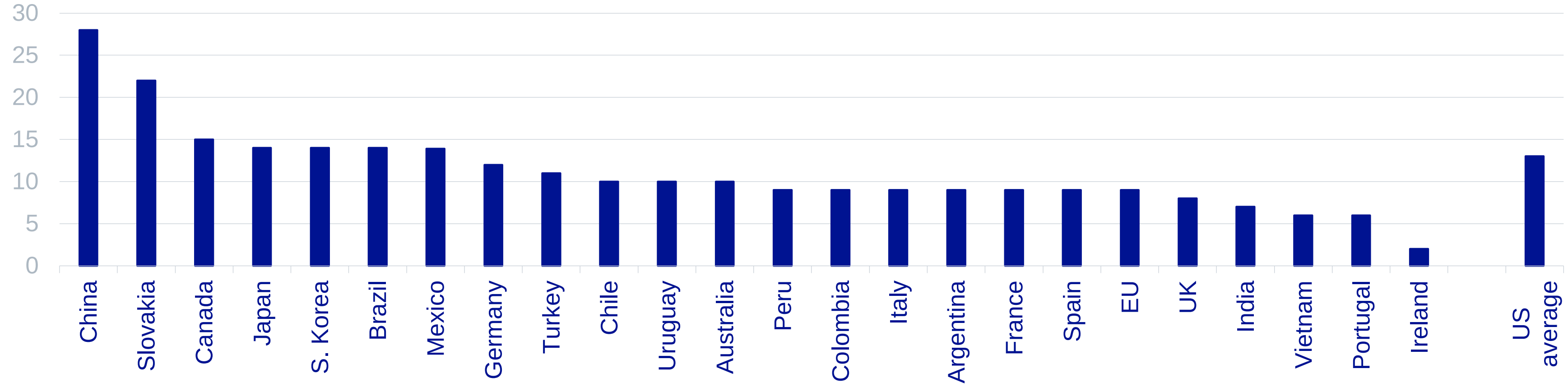


(*) Last available data: June 4, 2025
Source: BBVA Research.

US tariffs have risen sharply and erratically

US TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 UNTIL JUNE 9, 2025 (*)

(PP)

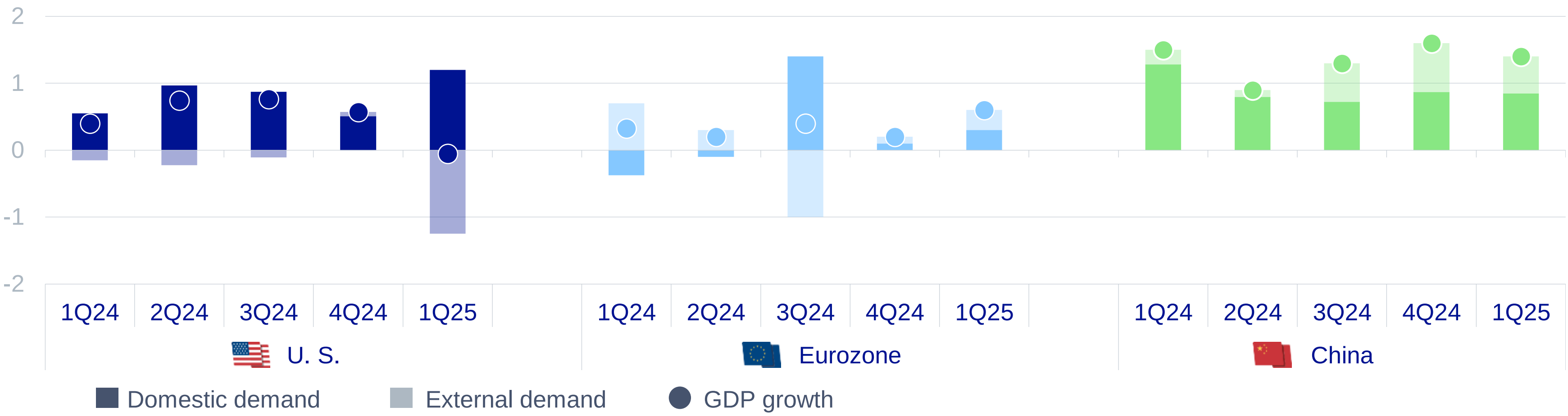


(*) Based on i) 25% tariffs on vehicles and vehicles parts and 50% tariffs o aluminum and steel (lower rates for the UK, Mexico and Canada), ii) 0% tariffs on pharmaceutical goods, oil, copper and selected electronic goods, iii) fentanyl tariffs on China, Mexico and Canada, and iv) 10% reciprocal tariffs.
Source: BBVA Research.

After some de-escalation, US tariffs rose again in late May/25, with levies on steel and aluminum reaching 50%; trade negotiations continue, and disputes over the legal validity of the tariffs remain unresolved

GDP stagnated in the US and grew by more than expected in the EZ and China in 1Q25 amid preemptive trade flows

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)

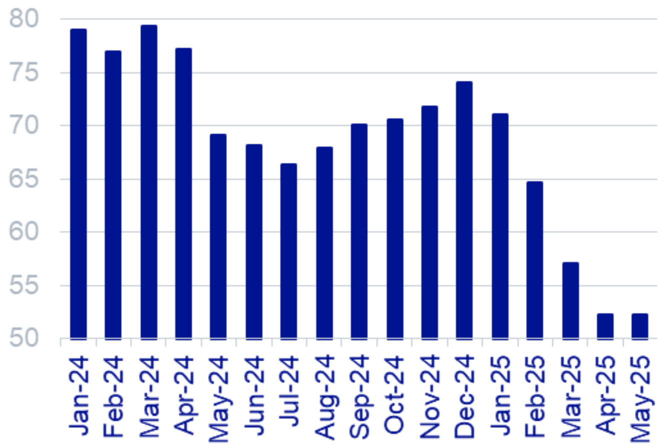


Source: BBVA Research based on data from Haver and China's NBS.

Ahead of tariffs, imports and inventories increased sharply and private consumption weakened somewhat in the US; exports performance helped to sustain growth in China and the Eurozone

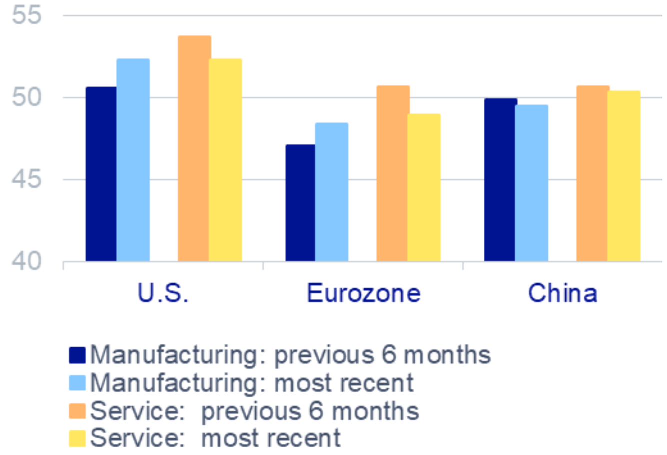
Growth remains relatively resilient, but there are incipient signs of tariff effects on activity

US CONSUMER SENTIMENT
(INDEX)



Source: BBVA Research based on data from Survey of Consumers, University of Michigan

PMI INDICATORS: 2H24 AVERAGE AND MOST RECENT DATA (*) (MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)

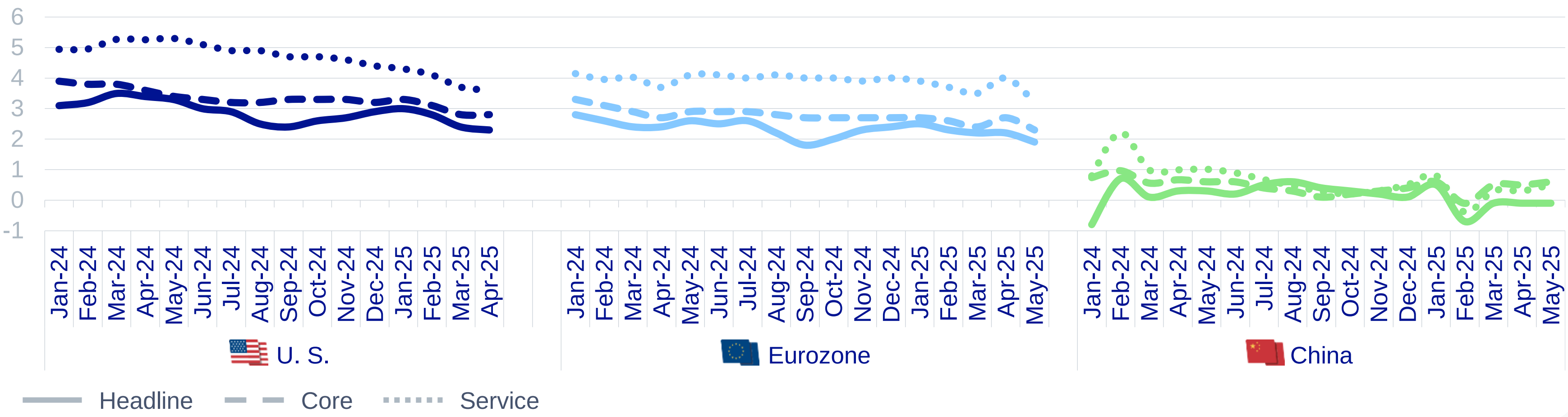


(*) Most recent data: May 2025.
Source: BBVA Research based on data from Haver.

Confidence has deteriorated and services have weakened, while manufacturing has benefited from lower interest rates and pre-tariffs trade surge; labor markets are losing some of their steam, but remain strong

Inflation has eased more than expected lately; limited effects of tariffs so far

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

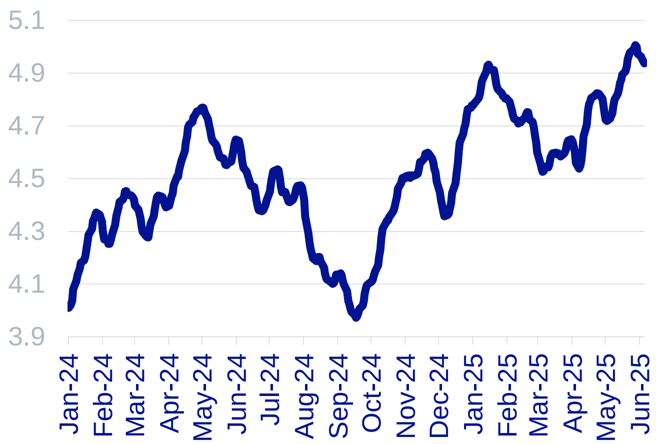


Source: BBVA Research based on data from Haver.

Contained demand pressures and lower energy prices have contributed to a moderation in inflation, which remains over 2% in the US (but not in the Eurozone anymore), to some extent due to still pressured service prices

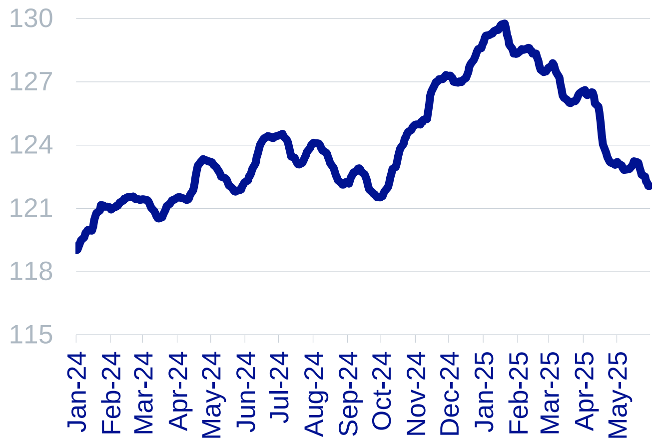
The US risk premium has edged higher, weighing on long-term yields and the dollar

YIELDS ON US 30-YEAR SOVEREIGN BONDS (*) (%, 7-DAY MOVING AVERAGE)



(*) Last available data: June 5, 2025
Source: BBVA Research based on data from the Fed

NOMINAL BROAD US DOLLAR INDEX (*)
(INDEX: JAN/06=100; 7-DAY MOVING AVERAGE)

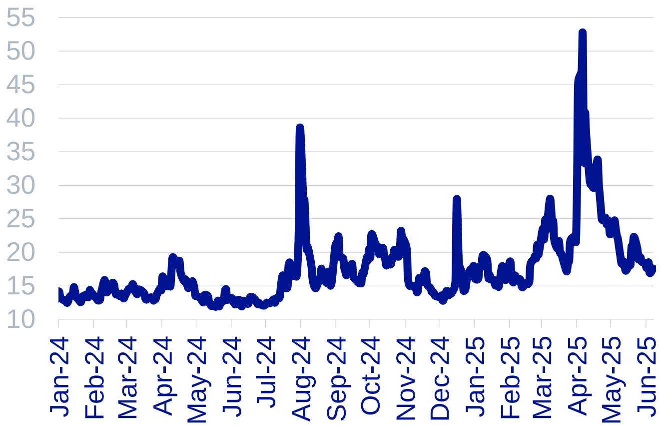


(*) A weighted average of the foreign exchange value of the U.S. dollar against currencies of a broad group of major U.S. trading partners. Last available data: May 30, 2025
Source: BBVA Research based on data from the Fed

Policy uncertainty, prospects of larger fiscal deficits, threats to the Fed independence, talks about a dollar devaluation, a potential tax on foreign investors, among other factors, have pushed US risk up

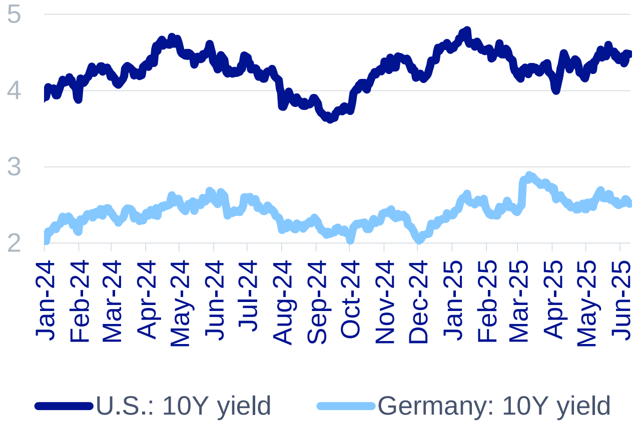
Financial volatility has eased more recently, after having surged in April, but remains elevated

EQUITY VOLATILITY: VIX (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

SOVEREIGN YIELDS (*)
(%)

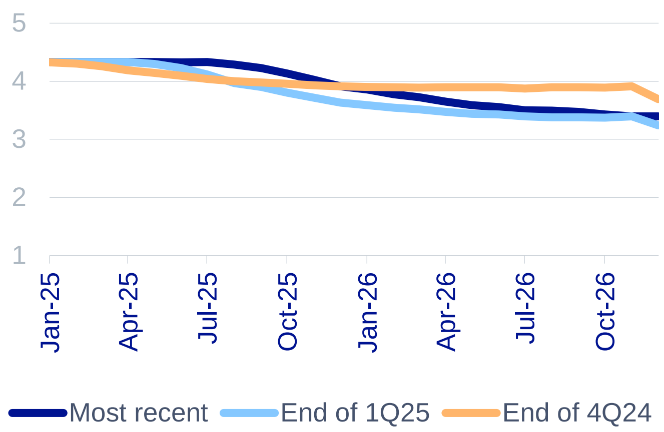


(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

Upward pressure on 10-year sovereign yields due to rising risk premium in the US and fiscal spending prospects in the EZ, to some extent offset by growth concerns, mainly in the Eurozone

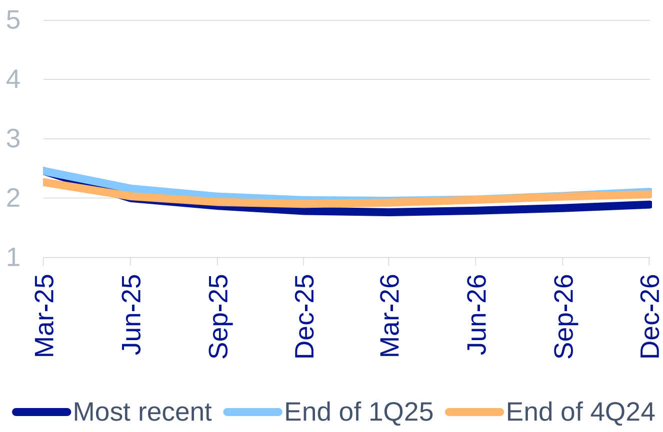
Despite lower inflation, the Fed remains cautious and markets see limited room for extra easing in the short run

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



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

EZ: IMPLICIT RATE IN EURIBOR FUTURES (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

The likely impact of tariffs on inflation has backed the Fed's decision to keep rates unchanged lately; The ECB cut rates to 2% in Jun/25 and suggested that, despite large uncertainty, the easing cycle is nearly over

Global Baseline: Protectionism and uncertainty will hit the global economy; stimulus will support China and Eurozone

Growth will moderate, faster than forecast in the US although tariffs may be lower than expected; policy stimulus will support China and Europe

Inflation is set to rebound in the US, at least in the short-term, thanks to higher tariffs, but will be around 2% in Eurozone and low in China

A cautious Fed will keep rates on hold through year-end; ECB's easing cycle is likely over, but extra cuts are dependent on tariffs

Market volatility will likely persist amid lasting uncertainty and rising US risk, potentially hitting the dollar

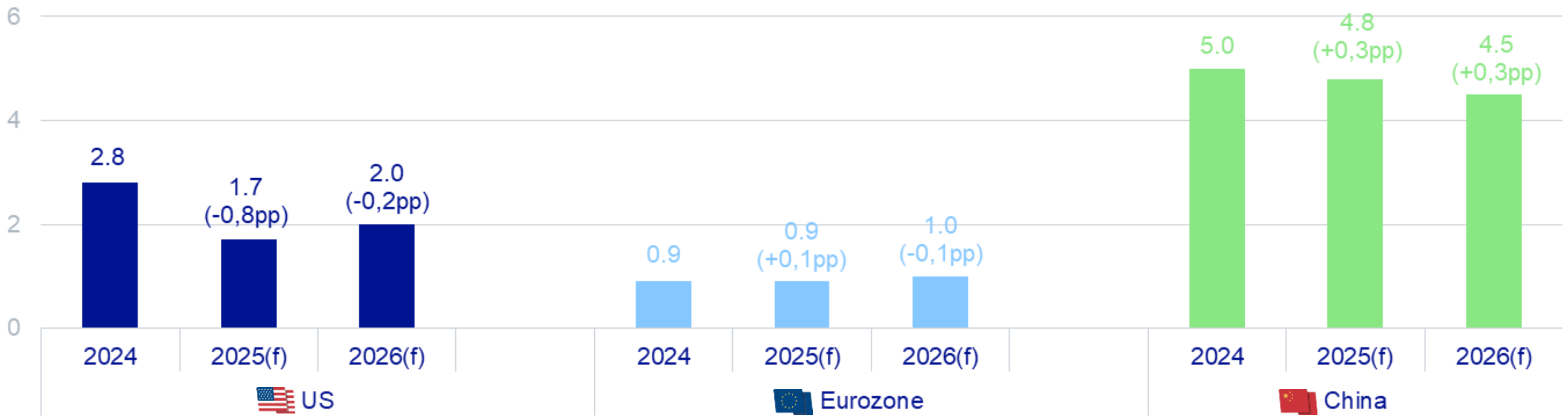
Prospects for US policies: baseline scenario assumptions

BBVA Research baseline scenario on main US policies

Tariffs	**Higher for longer uncertainty, although lower levies on China would imply smaller US average tariffs than anticipated**. Working assumption: around 30% on China, 10% on Mexico/Canada, average of current (as of end of May) and reciprocal (as of "Liberation day") tariffs for others, implying a 13pp increase in the overall US tariffs (vs. 60% on China and 10% on others, which implied a 17pp increase in US tariffs, assumed in 1Q25).
Fiscal Policy	**Potentially larger fiscal deficits**, driven by significant tax cuts and limited offsetting revenue, will likely weigh on US yields and the dollar.
Monetary and FX Policy	**Higher-than-expected noise** will help keep market volatility and US assets under pressure. Still, the Fed is expected to maintain its independence, and the dollar should remain the dominant global reserve currency.
Other policies	**Migration policies will not have a significant impact on labor markets** in the forecast horizon. No shocks related to foreign and regulatory policies are being assumed.

Growth prospects have deteriorated in the US, but not in China or the Eurozone

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



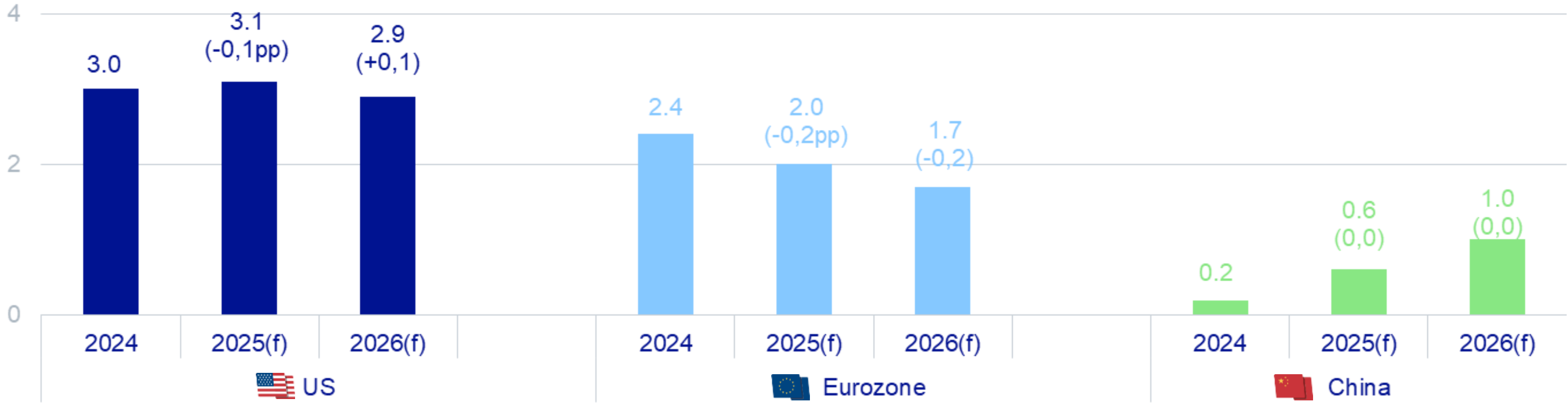
(*) Global GDP grew by 3.4% in 2024 and is forecast to expand by 3.0% in 2025 and 3.1% in 2026, respectively three and two decimal points below the expected in 1Q25.
(f): forecast.
Source: BBVA Research

Weaker US growth on higher uncertainty, weaker 1Q25 data (to be partially offset by a 2Q25 rebound); growth will be backed by lower US tariffs and economic stimuli in China, and by defense and infrastructure spending as well as by lower inflation and interest rates in the Eurozone

Inflation is still likely to rebound in the US following tariff hikes, and to remain contained in the Eurozone and China

HEADLINE CPI INFLATION

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

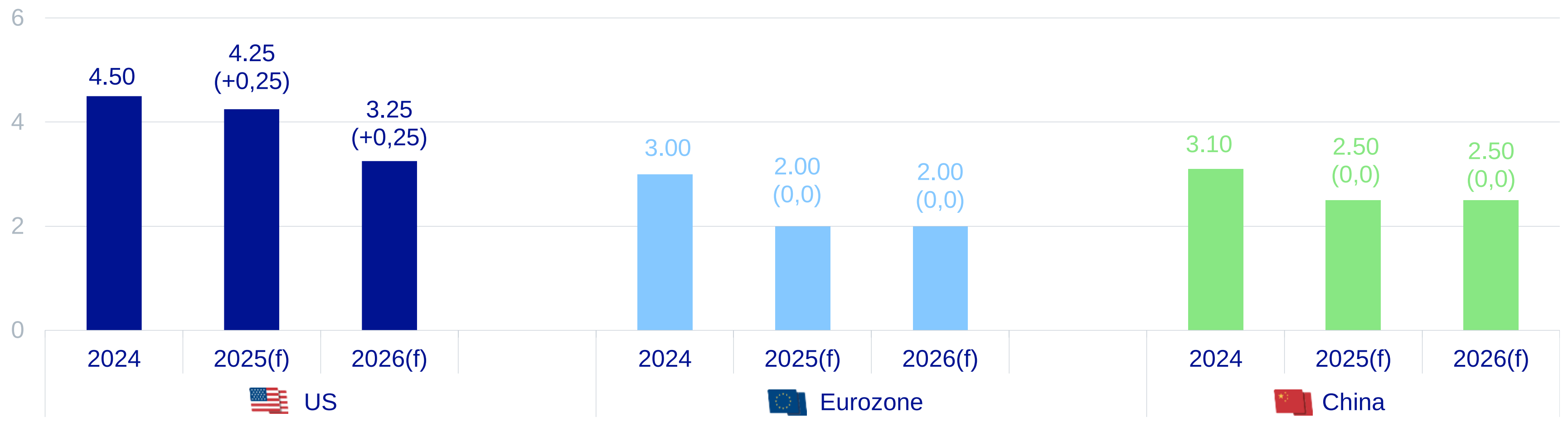


(f): forecast.
Source: BBVA Research

Lower energy prices and weak demand pressures support controlled inflation, except in the US, where tariffs are likely to raise production costs—at least in the short term; a stronger euro is also likely to keep price pressures limited in Europe

The Fed will keep rates unchanged for longer given tariff uncertainty; ECB monetary tightening is (likely) over

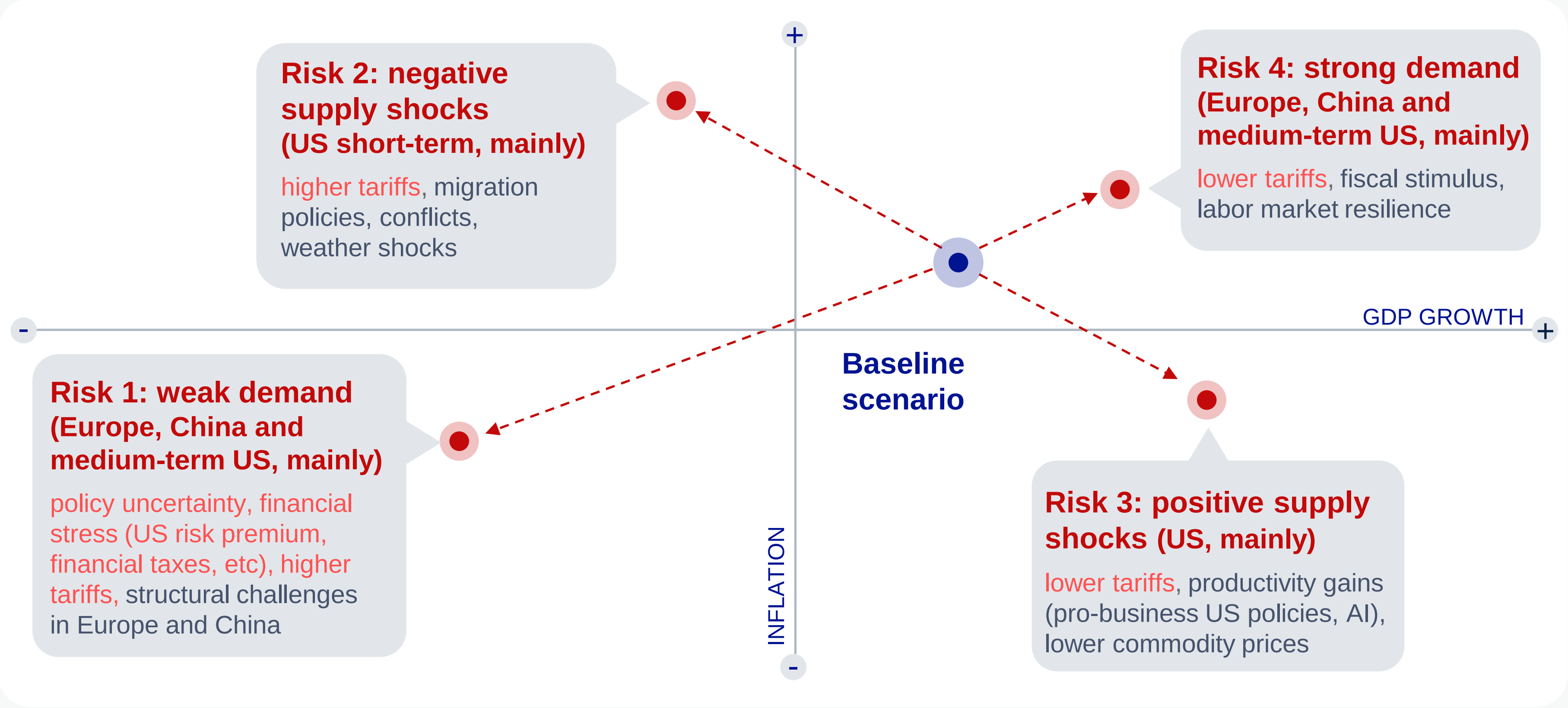
POLICY INTEREST RATES (*)
(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



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

The Fed is forecast to cut rates once this year (in 4Q25), but the easing cycle would continue in 2026, at least if inflation rebound on tariffs proves to be temporary; in the Eurozone, rates are forecast to remain at 2%, but growth concerns and controlled inflation could pave the way for extra cuts

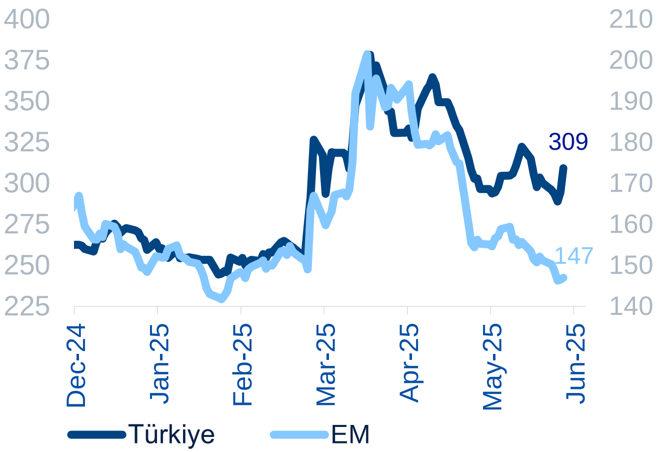
Risks: mainly on greater uncertainty and rising US risk premium; tariff risks are also higher, but more balanced



Türkiye Economic Outlook

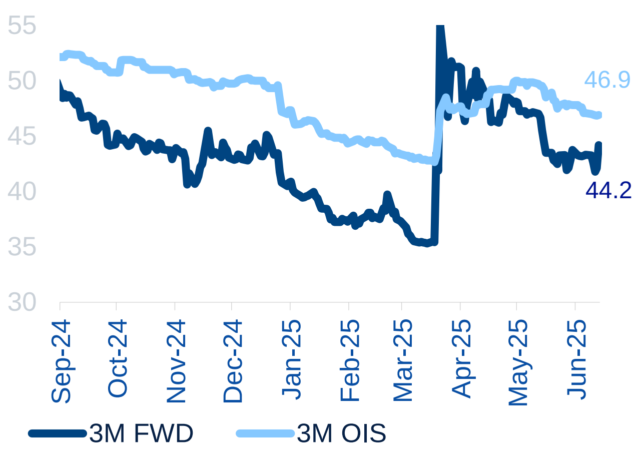
Tightening steps of the CBRT and improving global mood have helped financial markets stabilize after twin shocks

TÜRKİYE VS. EM PEERS 5-YEAR CDS
(LEVEL)



Source: Bloomberg and Garanti BBVA Research

ONSHORE & OFFSHORE TL RATES
(%, 3M FWD and 3M OIS RATES)

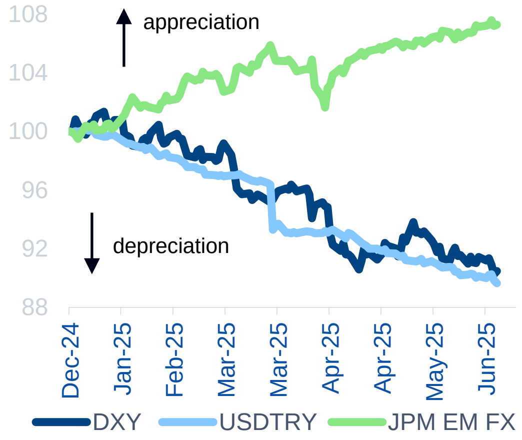


Source: Bloomberg and Garanti BBVA Research

Following the mid-March domestic shock, the CBRT has taken timely and market- friendly measures by raising cost of funding and adding new macro-prudential policies to contain risks on both price and financial stability. Yet, recently growing dispute in Middle East weighs on the sentiment.

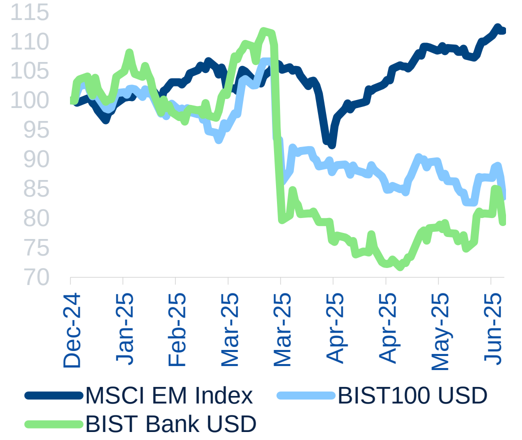
Inflows to TL assets gain pace with offshore demand in ST maturities. Banking stocks supported by rate cut expectations

EM CURRENCIES & DXY
(31.12.2024=100)



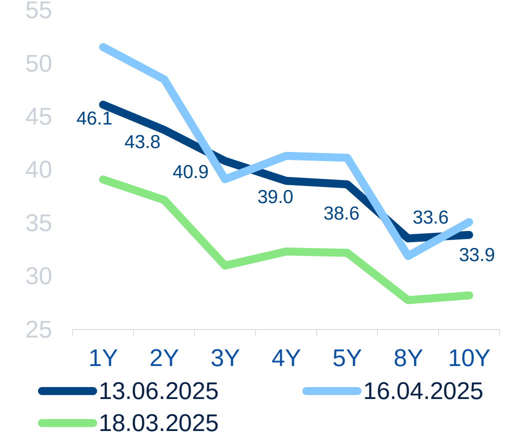
Source: Bloomberg and Garanti BBVA Research

MSCI & BIST EQUITY
(31.12.2024=100)



Source: Bloomberg and Garanti BBVA Research

TRY SOVEREIGN YIELD CURVE
(%)

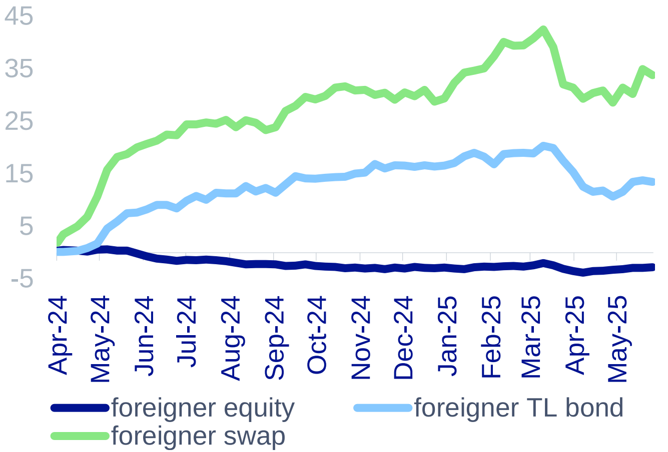


Source: Bloomberg and Garanti BBVA Research

The heavy depletion from the CBRT reserves in the beginning and financial conditions getting much tighter later have helped Turkish lira stabilize. Foreigners increase their inflows in shorter maturities and residents again switch to TL more clearly after the April MPC meeting

We estimate one third of the foreigners' outflows in Mar-Apr have been taken back in May, supporting the CBRT reserves

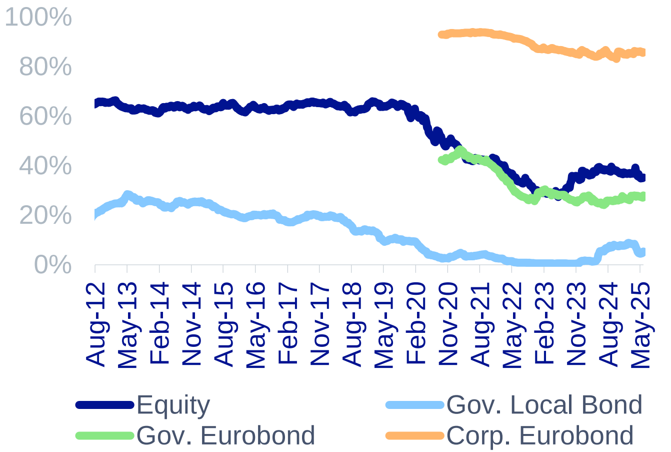
FOREIGN CURRENCY FLOWS*
($USbn, CUMULATIVE SINCE END MARCH 2024)



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

Source: CBRT and Garanti BBVA Research

FOREIGNERS SHARE IN TR ASSETS*
(%)

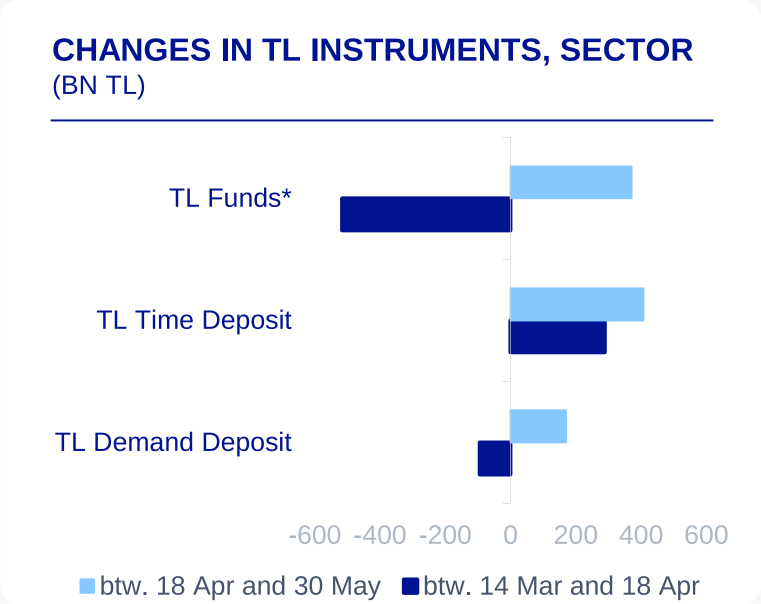


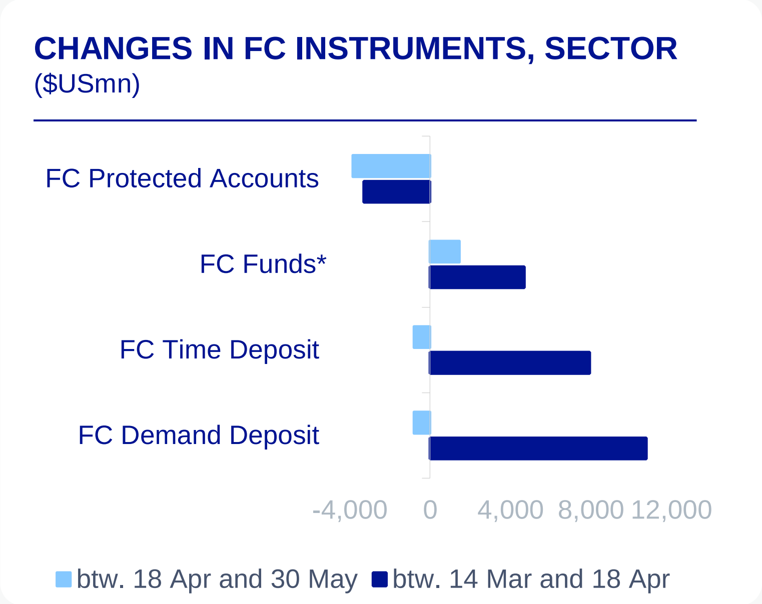
** Including only the outright purchases in Government local bonds*

Source: CBRT and Garanti BBVA Research

We calculate nearly $9bn portfolio (only outright) and carry trade inflows from the offshore investors in May, making almost one third of the outflows seen between mid-March and May.

We observe an increasing exposure from both corporates and retailers to TL assets, particularly TL deposits





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

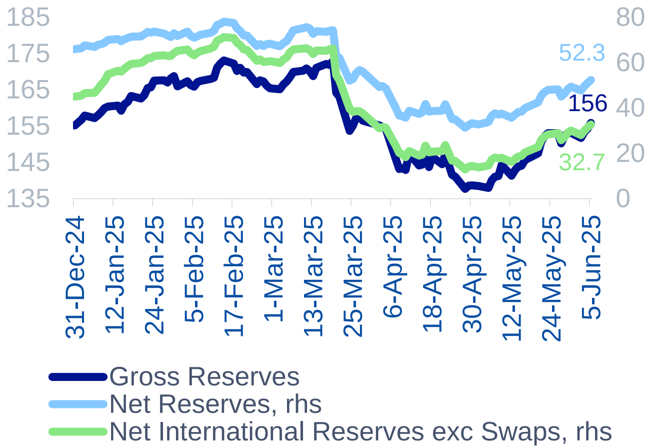
Source: TEFAS, BRSA, CBRT and Garanti BBVA Research

Source: TEFAS, BRSA, CBRT and Garanti BBVA Research

The volatility in the returns of money market funds (MMFs) after February has been contained by the monetary tightening and TL REF bond purchases of the CBRT, which has again initiated inflows to TL MMFs

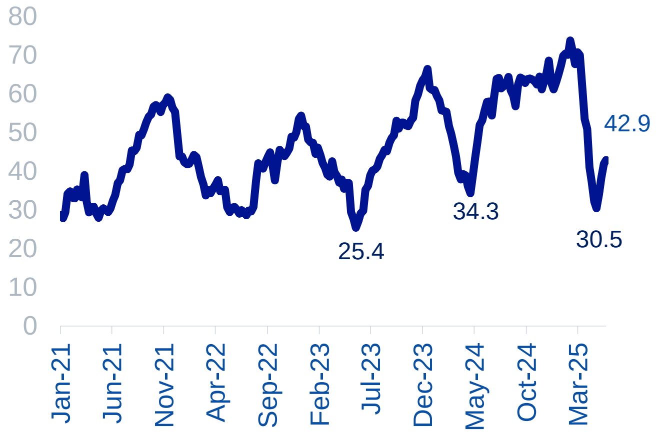
The depletion from the CBRT reserves stopped by end April and the accumulation of reserves has started to accelerate

CBRT INTERNATIONAL RESERVES
($USbn)



Source: CBRT and Garanti BBVA Research

CBRT HIGH QUALITY LIQUID FOREIGN ASSETS* ($USbn)



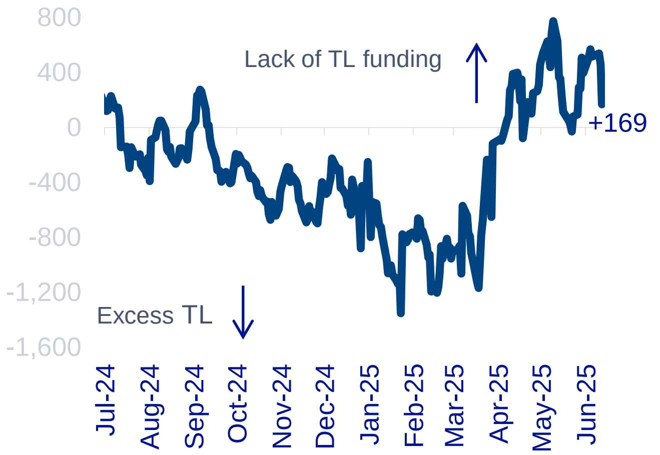
** Excluding gold reserves, CB swaps and IMF SDR contribution*

Source: CBRT and Garanti BBVA Research

We estimate above 50bn$ (60bn$ net) intervention from the CBRT from mid-March till May, where the majority has been used for the foreigners’ demand.

The CBRT continued to squeeze TL liquidity until this week, leading the cost of funding to be realized above policy rate

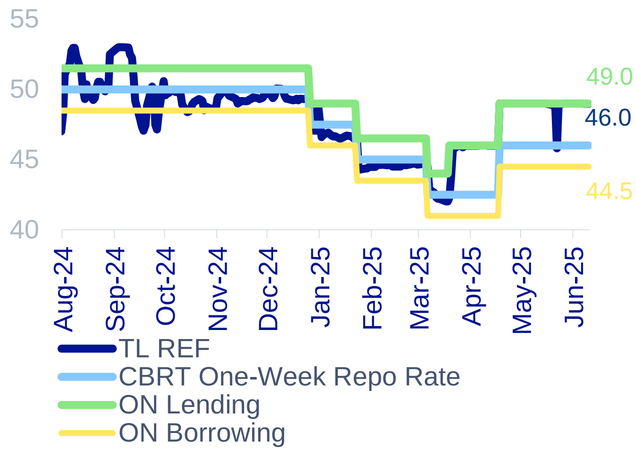
NET CBRT FUNDING
(BN TL AS OF 10TH OF JUNE)



* *Negative refers to excess TL liquidity, positive refers to the funding need of the market*

Source: CBRT and Garanti BBVA Research

CBRT FUNDING RATE & BIST TRY REF RATE (%)

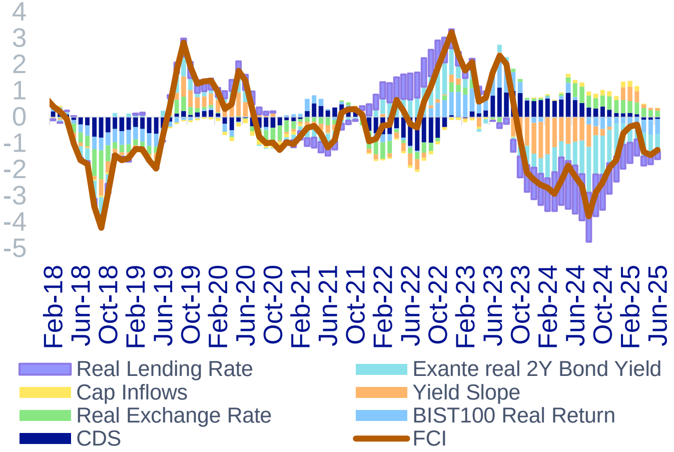


Source: CBRT and Garanti BBVA Research

After the CBRT has become a net FC buyer from the market, it started to sterilize excess TL liquidity with depo auctions. TL REF stayed closer to the current ON lending rate of the CBRT (49%) until June 12th, when the majority of the CBRT funding has started to switch to one-week repos.

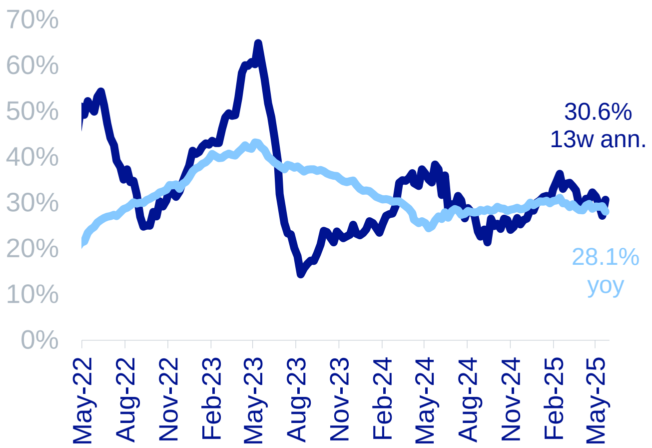
Financial conditions are now much tighter. Yet, credit growth remains closer to 30% in both trend and annual growth

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



Source: TURKSTAT, CBRT, Bloomberg and Garanti BBVA Research

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

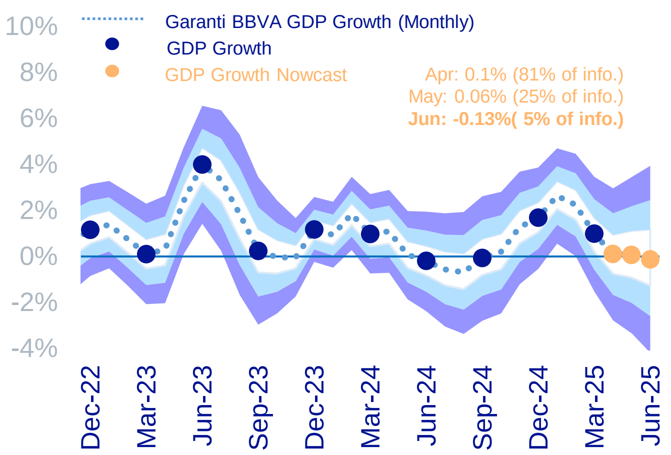


Source: TURKSTAT, CBRT and Garanti BBVA Research

Monetary stance continues to be supported by macroprudential measures with RR restrictions, deposit and credit rules. Credit growth caps keep monthly loan growth below inflation, though the sector tries to compensate growth via non-capped items.

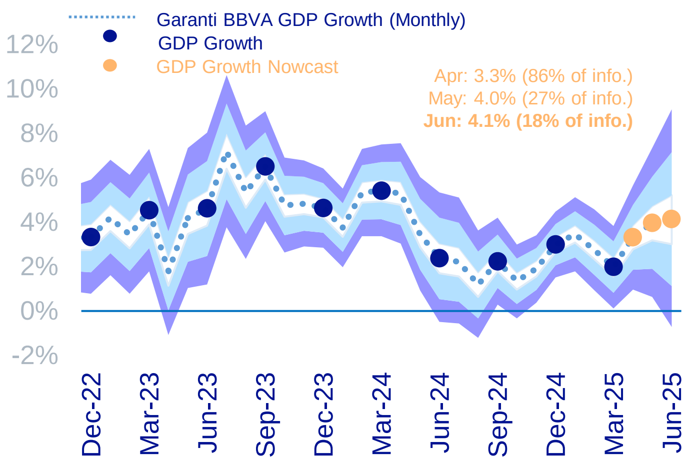
We nowcast a slow-down nearing QoQ growth of 0% in 2Q25, yet with an acceleration in YoY GDP on calendar day effects

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



Source: TURKSTAT, CBRT and Garanti BBVA Research

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

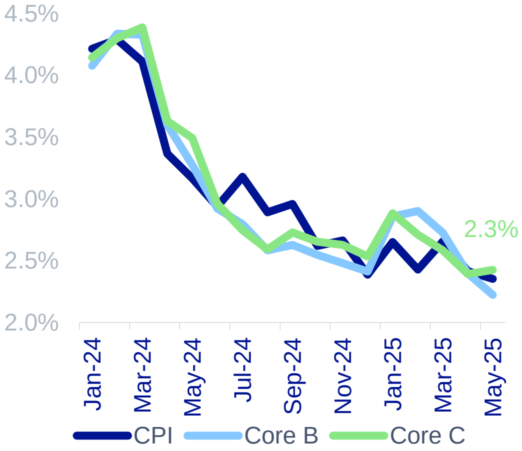


Source: TURKSTAT, CBRT and Garanti BBVA Research

The economy grew by 1.0% q/q in 1Q25, decelerating from 1.7% q/q in 4Q24, which had followed two quarters of mild contractions. Tight financial conditions and strong carry impact from the previous quarter seem to have dragged down domestic demand in 1Q25.

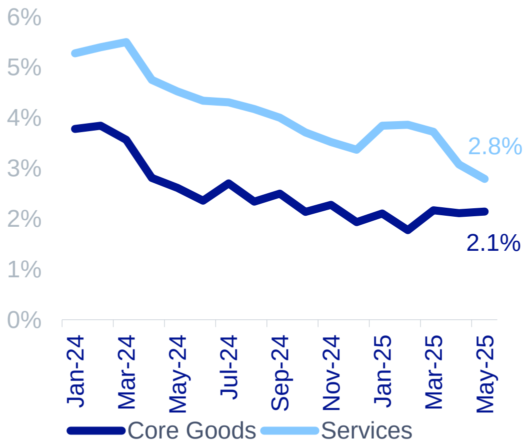
CPI trend fell to 2.3% in May, led by a correction in food CPI, lower global energy prices and tighter financial conditions

TREND CPI INDICATORS
(SA MoM, 3M AVG)



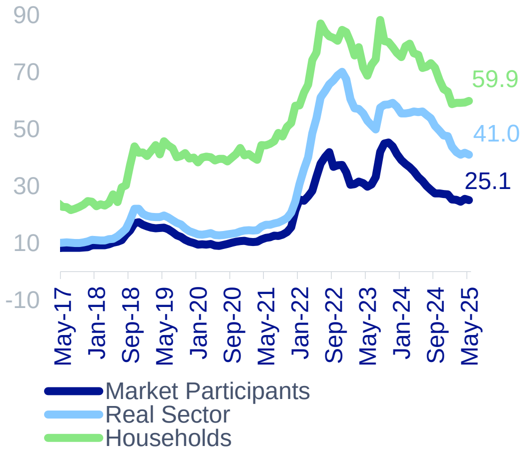
Source: TURKSTAT and Garanti BBVA Research

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



Source: TURKSTAT and Garanti BBVA Research

CBRT SURVEY ONE-YEAR AHEAD INFLATION EXPECTATIONS (%)

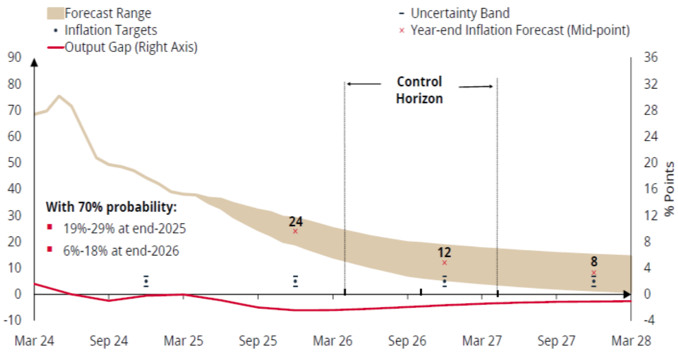


Source: TURKSTAT and Garanti BBVA Research

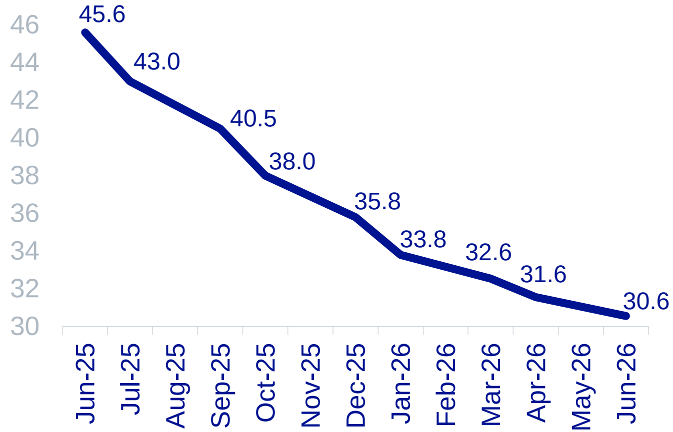
Both downside and upside risks are at play, imposing uncertainties on the near-term inflation outlook. Tight financial conditions, cautious monetary stance and weakening domestic demand will help the disinflation process.

The CBRT kept the inflation targets, with the point target of 24% and the forecast range of 19-29% for 2025

CBRT INFLATION PROJECTIONS
(YOY)



MARKET IMPLIED CBRT FUNDING RATE
(%)



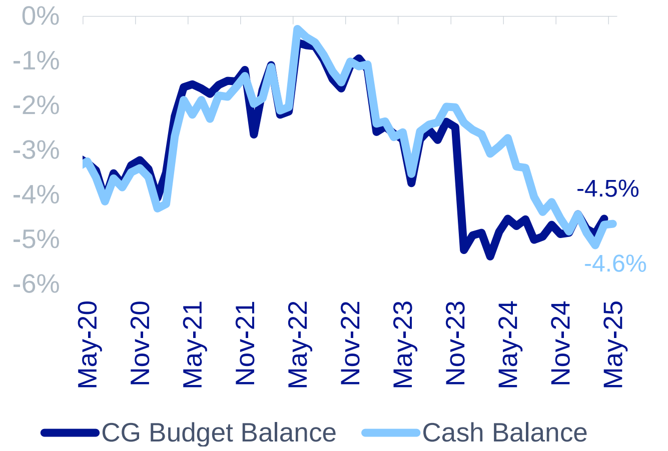
Source: CBRT<

Source: Bloomberg and Garanti BBVA Research

The CBRT made a slight upward revision to output gap projections, now suggesting a growth rate of around 3% for 2025 - a sign that a soft landing remains as the preferred scenario. Accordingly, the OIS curve currently prices nearly 46% CBRT rate for Jun, 40% for Sep and 36% for Dec

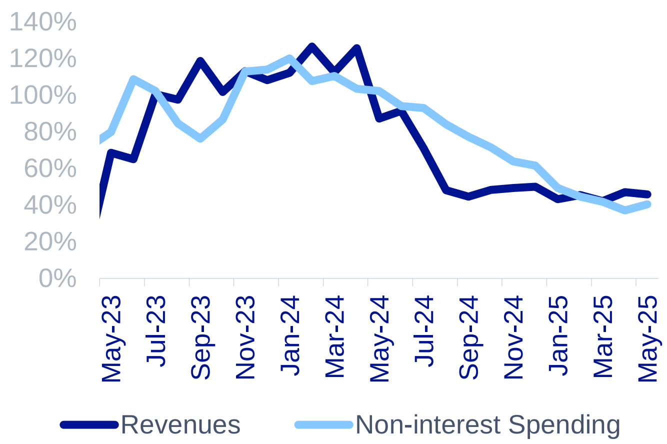
April & May cash balance signaled a lower pace of non-primary spending than the revenues

CENTRAL GOVERNMENT (CG) BUDGET & CASH BALANCE (% GDP)



Source: Treasury and Garanti BBVA Research

CASH REVENUES & SPENDING (3-MONTH YOY)



Source: Treasury and Garanti BBVA Research

On seasonal and calendar adjusted terms, the primary cash deficit improved in April-May compared to the average of 1Q25, implying efforts to preserve cash from the corporate tax revenues of 1Q25 ahead of a potential slow-down in tax revenues in the coming months.

We have revised our baseline with fine-tuning in exchange rate and inflation forecasts after twin shocks of Mar-Apr

Growth moderates but sensitivity remains on growth and employment outlook, adding support via CGF credits, differentiated credits, social policies and potentially less tighter fiscal stance

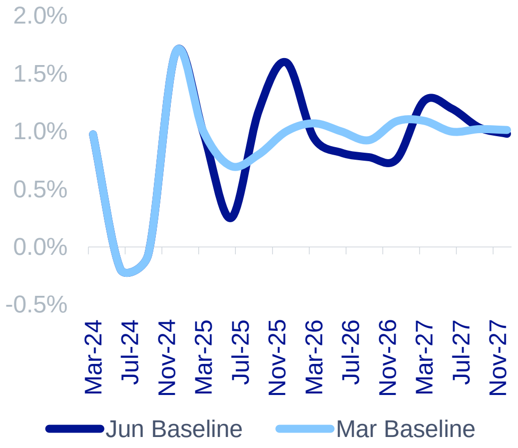
Inflation is set to decline with still a bumpy road ahead, keeping us prudent on our projections due to uncertainties about the level of real rates, food inflation (because of frost), energy and administrative prices

On currency, we evaluate the room for further real appreciation after summer has vanished with the inflation trend going below 2% and the downside pressure increasing over the industry

On policy stance, we assume monetary policy staying relatively tighter and fiscal policy not being able to be tightened as targeted with cash deficit to GDP at least at 4% (vs. <4% in early March baseline) in 2025

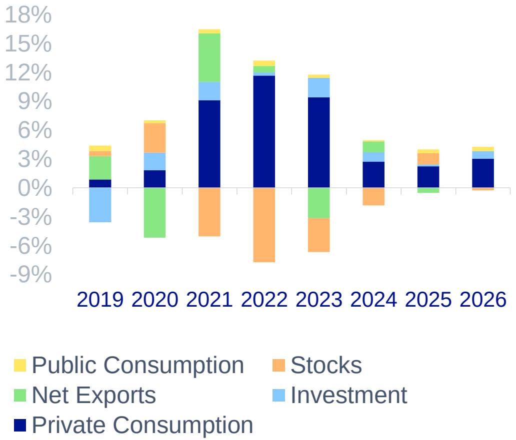
We forecast 3.5% GDP growth for 2025 and 4% for 2026, with no changes with respect to our March baseline

GDP GROWTH FORECASTS
(% QoQ)



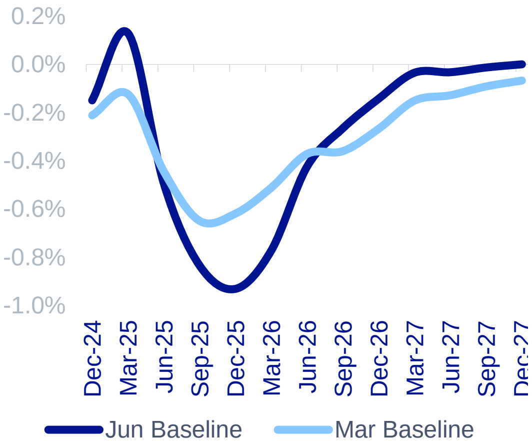
Source: TURKSTAT and Garanti BBVA Research

GDP GROWTH FORECASTS
(PP ANNUAL CONTRIBUTION)



Source: TURKSTAT and Garanti BBVA Research

OUTPUT GAP FORECASTS
(DIFF W/ POTENTIAL)

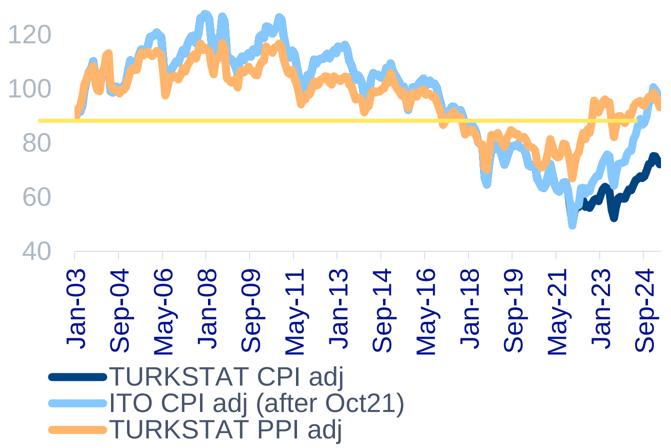


Source: TURKSTAT and Garanti BBVA Research

We keep our GDP growth forecasts the same, given the stronger than expected 1Q25 performance, potential quasi-fiscal policies (like CGF) and no dramatic impact from weaker external demand (Eurozone containing a recession).

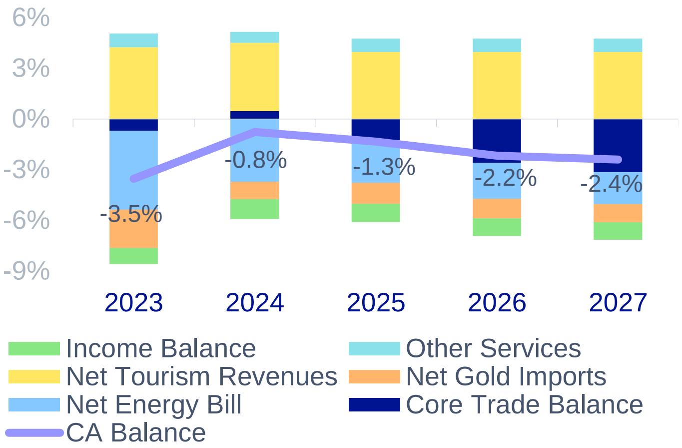
We evaluate the room for further real appreciation has vanished with the inflation trend going below 2%

REAL EFFECTIVE EXCHANGE RATE
(LEVEL, 2003=100)



Source: TURKSTAT, ITO and Garanti BBVA Research

CURRENT ACCOUNT DEFICIT FORECASTS
(% GDP)

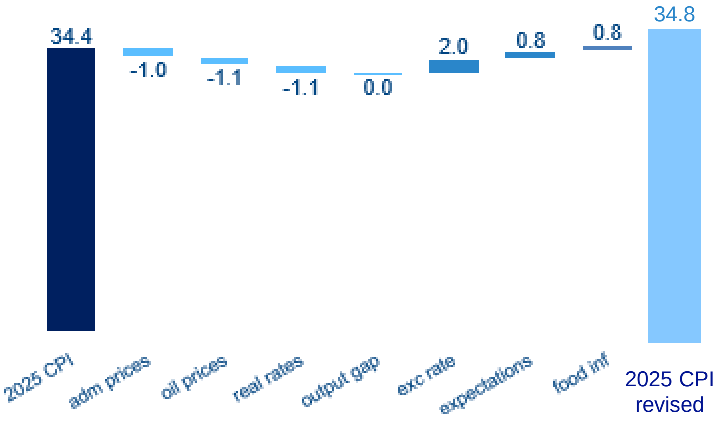


Source: Garanti BBVA Research

On the external side, we forecast current account deficit to be 1.3% of GDP in 2025 (vs. 0.8% by end 2024), which can be easily financed. We maintain our currency forecasts of 45 and 52 against the US dollar for the end of 2025 and 2026, respectively.

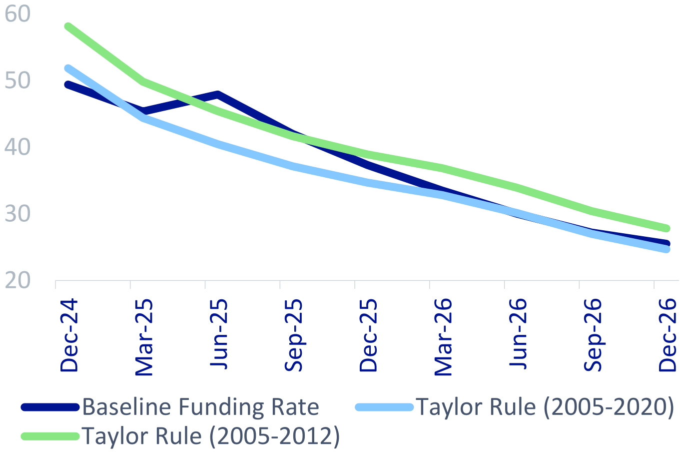
We had already revised our inflation projections to 31% (vs. 29%) for end 2025 and 21% (vs. 20.5%)

DECOMPOSITION ON CPI FCASTS REVISION
(YOY AVERAGE)



Source: Garanti BBVA Research

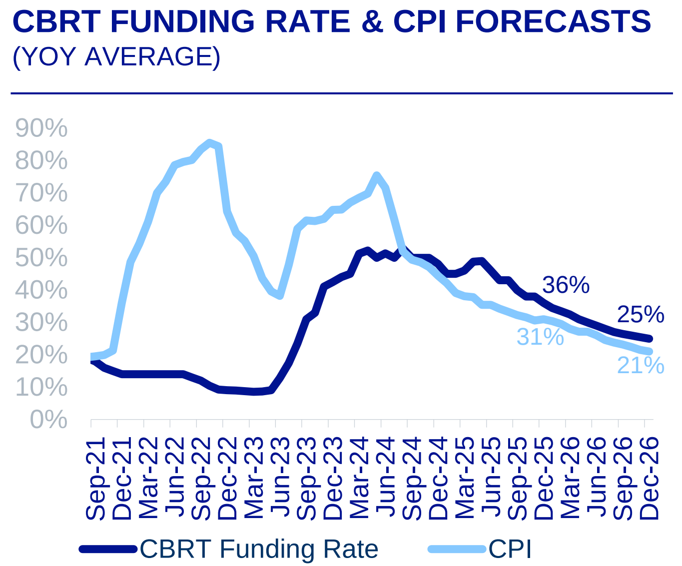
CBRT FUNDING RATE EXPECTATIONS
(% QUARTERLY AVERAGE)



Source: Garanti BBVA Research

Health price hike in early 2025 has been partially wiped out to be added later but not within this year. 25% natural gas price hike postponed to later. Uncertainties about food inflation during summer due to frost. No additional minimum wage hike assumed in 2H25.

We expect the CBRT to stay on hold in June MPC and have a carefully calibrated rate-cutting cycle starting as of July



The CBRT highlights two potential paths for future monetary stance:

- keeping real interest rates relatively high, while easing credit growth caps moderately - possibly in a targeted way, particularly towards SMEs.
- credit conditions staying tight for longer, while allowing for lower real rates over time.

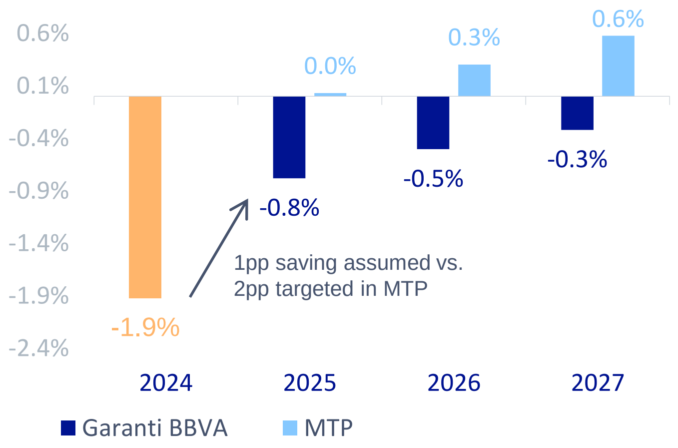
We assess it's more likely to initiate a carefully calibrated rate-cutting cycle starting as of July, at a time when real interest rates would be historically high.

Source: Garanti BBVA Research

We expect the monetary easing cycle to support a continued normalization of funding cost towards the policy rate -as seen since June 10th- and continue later with policy rate cuts of 300bps in July and Sep, and 200bps in Oct and Dec before reaching 36% by end 2025.

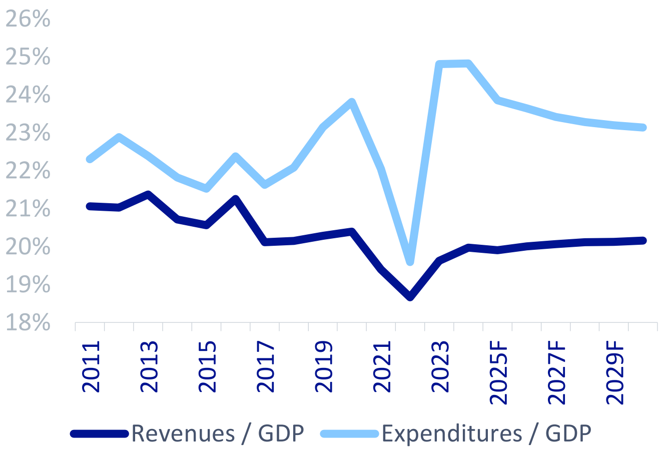
We assume lower than targeted fiscal savings in 2025 keeping cash deficit to GDP at least at 4%

CG PRIMARY BALANCE FORECASTS
(% GDP)



Source: Garanti BBVA Research

CG BUDGET FORECASTS
(% GDP)

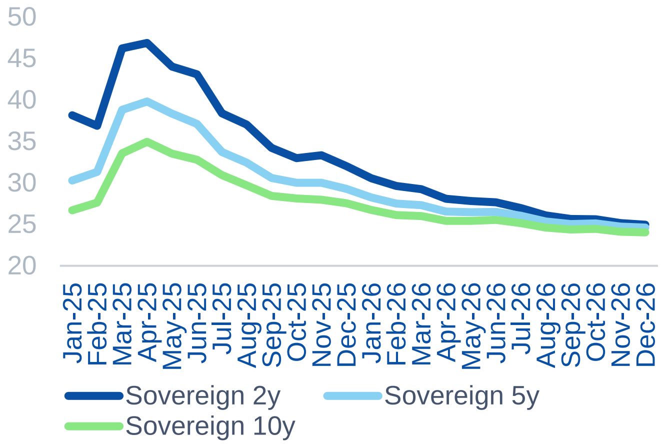


Source: Garanti BBVA Research

April-May cash balance signaled increasing efforts not to give new fiscal impulse to the economy. However, given the sensitivity on growth outlook, we assume cash deficit to GDP at least at 4% (vs. <4% previously) in 2025.

Reducing inflation is key as interest burden on fiscal accounts over the next years has increased substantially

TL SOVEREIGN YIELD CURVE FORECASTS
(% COMPOUND)



Source: Bloomberg and Garanti BBVA Research

DOMESTIC DEBT REDEMPTION CALENDAR
(BN TL)

Source: Treasury and Garanti BBVA Research

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

Garanti BBVA Baseline Scenario

	2024	2025	2026	2027	2028	2029	2030
GDP growth (avg)	3.2%	3.5%	4.0%	4.2%	4.2%	4.0%	4.0%
Unemployment Rate (avg)	8.8%	9.0%	10.0%	10.3%	10.5%	10.5%	10.5%
Inflation (avg)	58.5%	34.8%	25.2%	18.9%	16.7%	15.4%	15.2%
Inflation (eop)	44.4%	31.0%	21.0%	18.0%	16.0%	15.0%	15.0%
CBRT Cost of Funding (avg)	49.6%	43.1%	29.0%	22.0%	18.9%	18.0%	18.0%
CBRT Cost of Funding (eop)	47.5%	36.0%	25.0%	20.0%	18.0%	18.0%	18.0%
USDTRY (avg)	32.8	40.0	48.8	56.3	65.7	75.9	87.5
USDTRY (eop)	35.3	45.0	52.0	60.0	70.5	80.5	93.5
EURTRY (avg)	35.5	44.9	57.1	67.3	78.9	91.1	105.1
EURTRY (eop)	36.7	51.9	61.5	72.0	84.6	96.6	112.2
Current Account Balance (% GDP)	-0.8%	-1.3%	-2.2%	-2.4%	-2.5%	-2.4%	-2.4%
CG Primary Balance (% GDP)	-1.9%	-0.8%	-0.5%	-0.3%	-0.1%	0.0%	0.1%
CG Budget Balance (% GDP)	-4.9%	-4.0%	-3.6%	-3.3%	-3.2%	-3.1%	-3.0%

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