BBVA Research

JULY 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 have revised our year-end inflation projection to 30% (vs. 31%) and kept 2026-end foreacst at 21%, led by the most recent better than expected realizations. After the retreat in the cost of funding in June by 300 bps, we expect the monetary easing cycle to proceed with policy rate cuts starting in July, and ultimately reach 36% policy rate by the end of 2025.

## Risks

Uncertainties on Trump policies, geopolitical risks and increasing unknowns on domestic politics are near term risks on the Turkish economy, keeping us cautious.

Research

# Global Economic Outlook

# 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

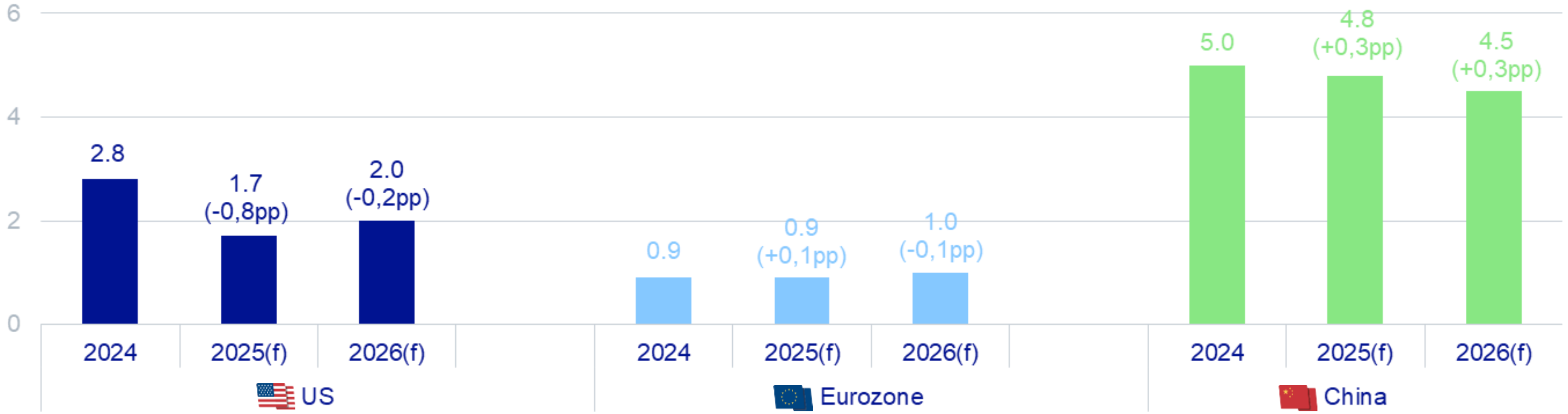
**Inflation is set to rebound in the US**, at least in the short-term, thanks to higher tariffs, but will be around 2% in Eurozone and low in China

**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

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

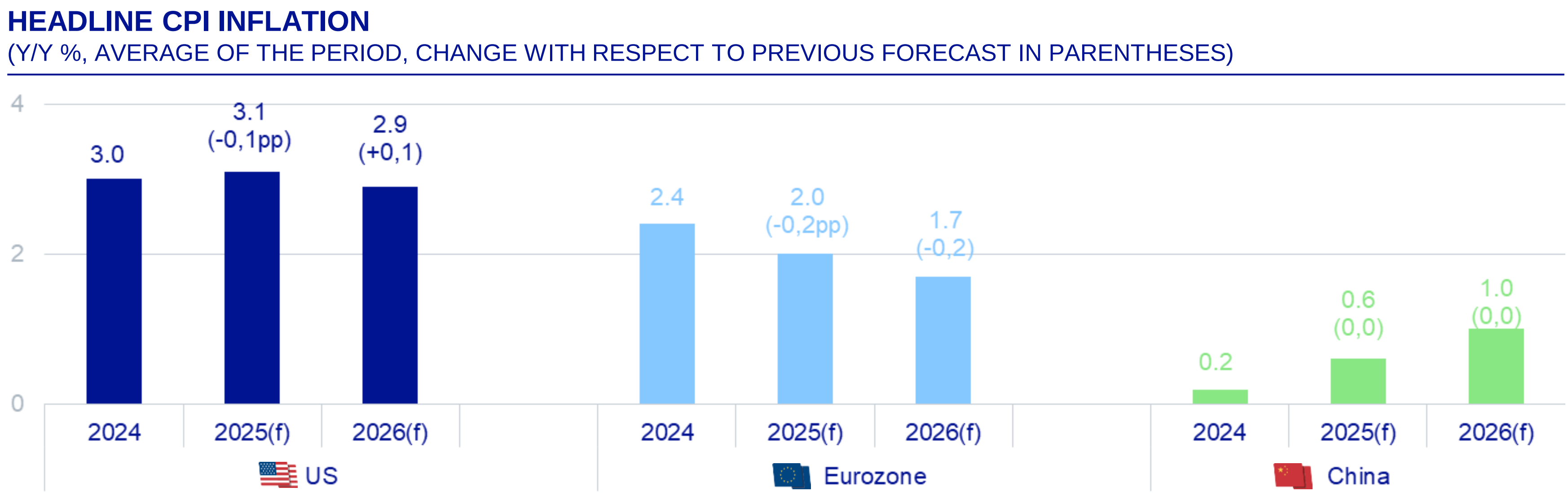
**GDP GROWTH (*)**
(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)




(*) 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**

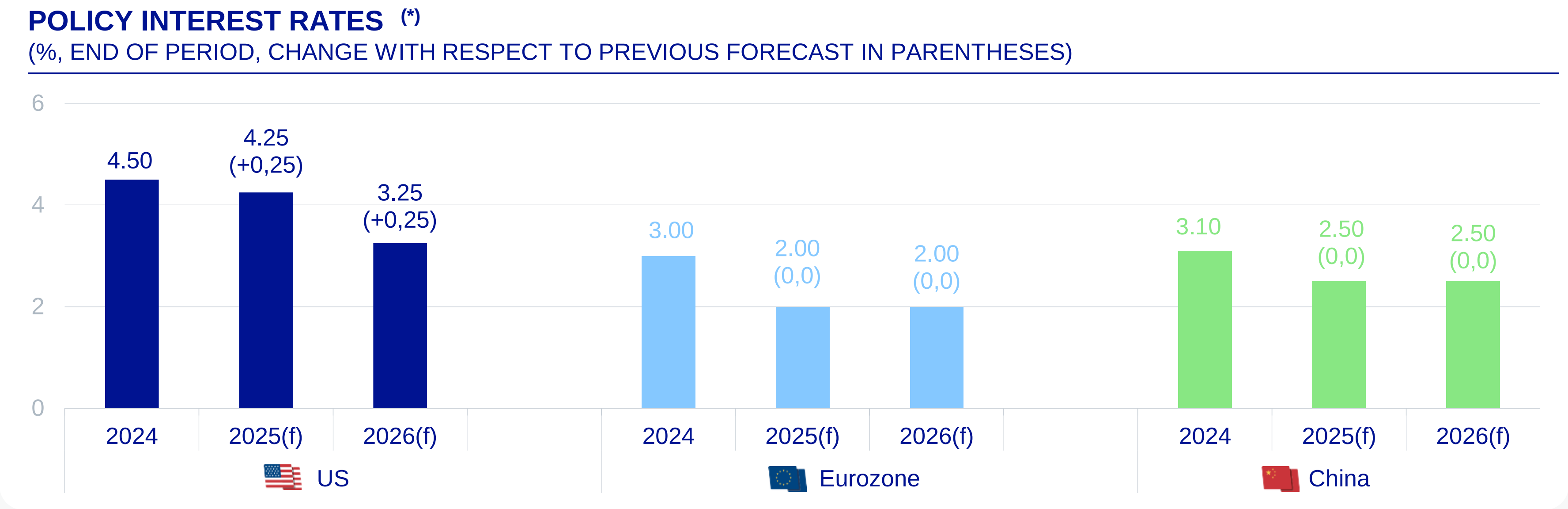
# Inflation is still likely to rebound in the US following tariff hikes, and to remain contained in the Eurozone and China




(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**

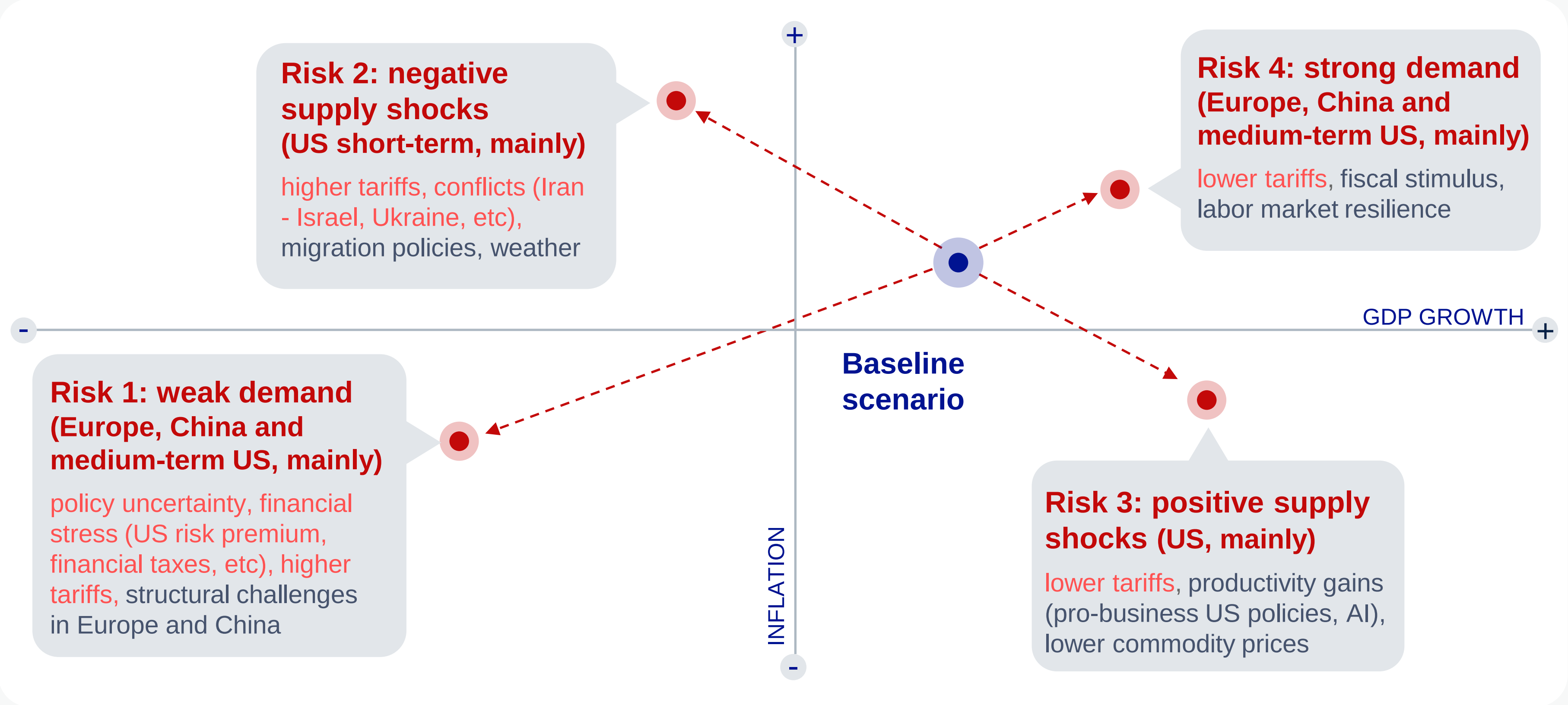
# The Fed will keep rates unchanged for longer given tariff uncertainty; ECB monetary tightening is (likely) over




(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: policy uncertainty and higher risk premium in the US, protectionism, and geopolitical tensions



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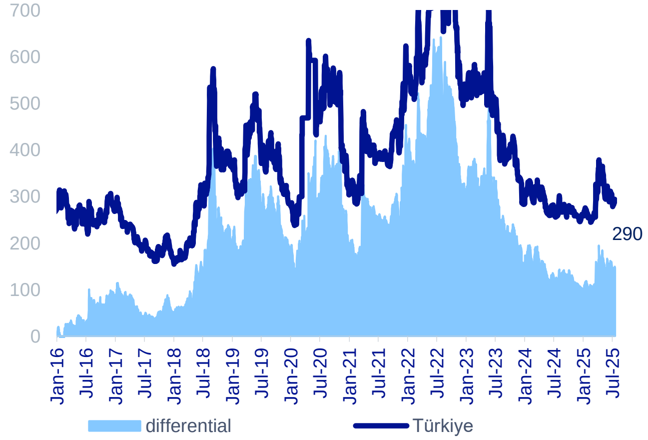
# Türkiye Economic Outlook

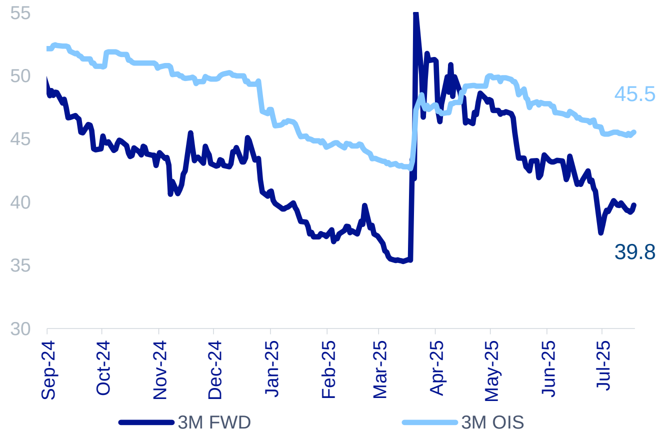
# Turkish financial markets have calmed down further amid the delayed court hearing on CHP convention

**TÜRKİYE VS. EMEA PEERS 5-YEAR CDS**
(LEVEL)




Source: Bloomberg and Garanti BBVA Research

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

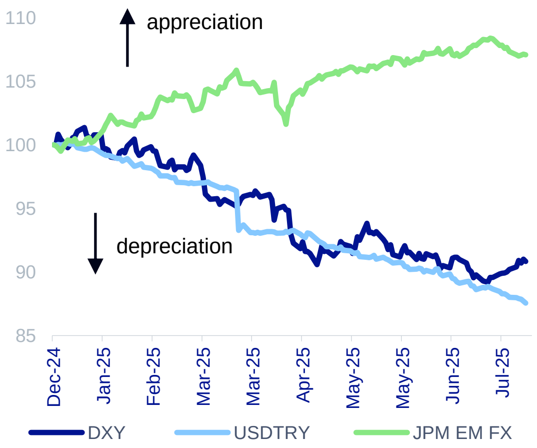



Source: Bloomberg and Garanti BBVA Research

**After the shocks in March-April, the measures taken by CBRT and the diminishing global trade uncertainty have helped a stabilization in financial markets. The effects from the Middle East tension and the political noise from CHP allegations are to be watched out.**

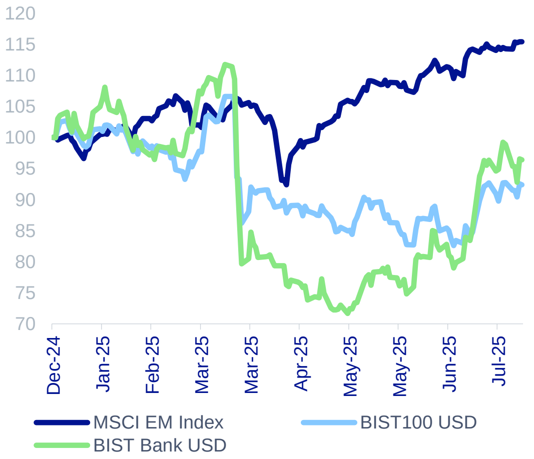
# Inflows to TL assets gain pace with offshore demand in mostly ST maturities. Banking stocks fueled by rate cut expectations

## EM CURRENCIES & DXY
(31.12.2024=100)



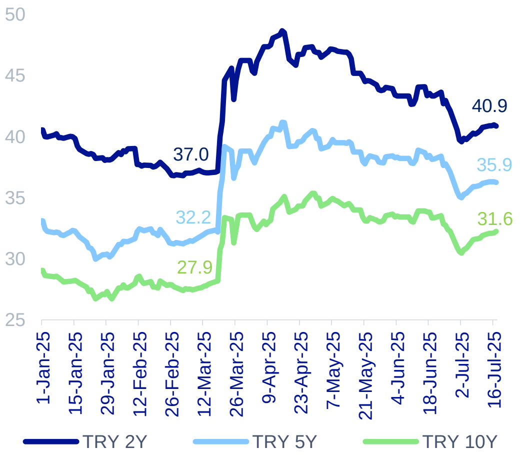

Source: Bloomberg and Garanti BBVA Research

## MSCI & BIST EQUITY
(31.12.2024=100)




Source: Bloomberg and Garanti BBVA Research

## TRY SOVEREIGN YIELD CURVE
(%)




Source: Bloomberg and Garanti BBVA Research

**The CBRT continues to allow an orderly nominal depreciation with a high level of prudence especially for the level of USDTRY (not the currency basket) as being the benchmark for the overall sentiment.**

# Foreigners increase their exposure to TR assets slowly, waiting for more positive inflation realizations

## FOREIGNERS EXPOSURE IN TR ASSETS*

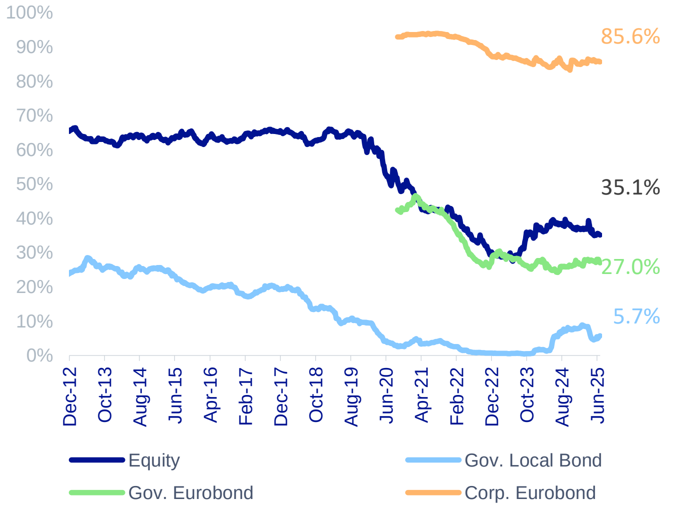
($USbn)

| Foreigners Portfolio (bn$) | Equity | Gov. Local Bond** | Corp. Local Bond | Gov. Eurobond | Corp. Eurobond | Carry Trade Swaps |
|---|---|---|---|---|---|---|
| Dec-21 | 18.4 | 3.2 | 0.2 | 35.0 | 30.6 | 3.5 |
| Dec-22 | 28.8 | 1.1 | 0.1 | 28.4 | 22.8 | -18.6 |
| **May-23** | **21.5** | **1.0** | **0.1** | **27.4** | **18.8** | **-5.2** |
| Dec-23 | 29.5 | 2.2 | 0.1 | 33.5 | 22.7 | -4.7 |
| Dec-24 | 33.8 | 13.6 | 0.4 | 33.7 | 30.3 | 22.8 |
| **Mar-25 (Mar 14th)** | **35.8** | **16.0** | **0.7** | **34.6** | **32.5** | **36.5** |
| **Apr-25 (May 2nd)** | **27.8** | **8.5** | **0.3** | **32.1** | **31.2** | **22.6** |
| May-25 | 27.6 | 10.4 | 0.5 | 33.1 | 31.2 | 27.8 |
| **Jun-25 (Jun 27th)** | **28.6** | **11.3** | **0.8** | **32.8** | **31.5** | **29.0** |

** Excluding local banks' external subsidiaries*
** Including only the outright purchases in Government local bonds*
Source: CBRT and Garanti BBVA Research

## FOREIGNERS SHARE IN TR ASSETS*

(%)

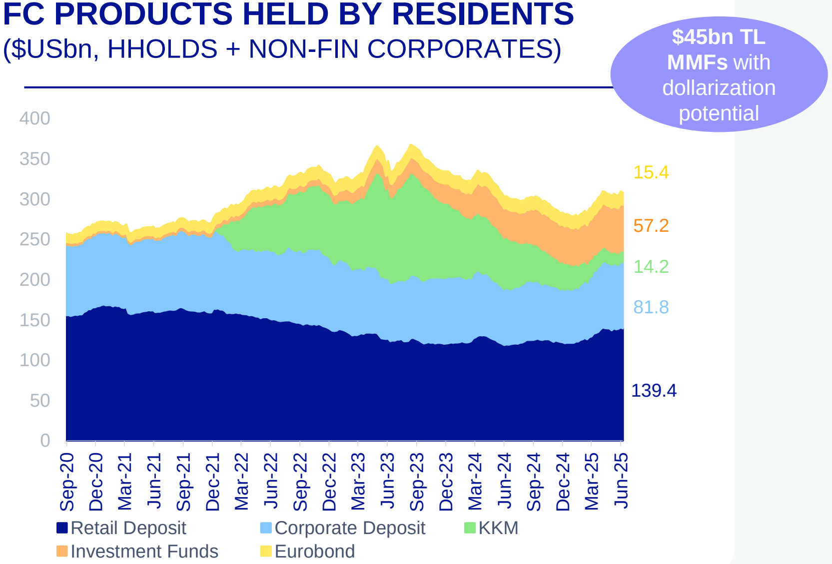



** Excluding local banks' external subsidies*
** Including only the outright purchases in Government local bonds*
Source: CBRT and Garanti BBVA Research

**We calculate nearly one third of the outflows seen between mid-March and May have been received back till June 27th ($USbn 33.7bn vs. $USbn 11.5bn with only outright purchases).**

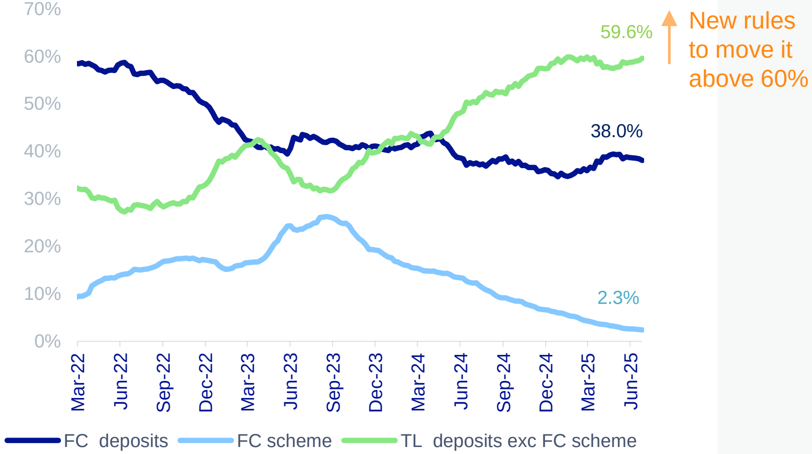
# Authorities become alert about the substantial increase in the size of the funds on financial stability concerns

## FC PRODUCTS HELD BY RESIDENTS
($USbn, HHOLDS + NON-FIN CORPORATES)




Source: CBRT and Garanti BBVA Research

## BANKING SECTOR DEPOSITS
(% SHARE IN TOTAL)

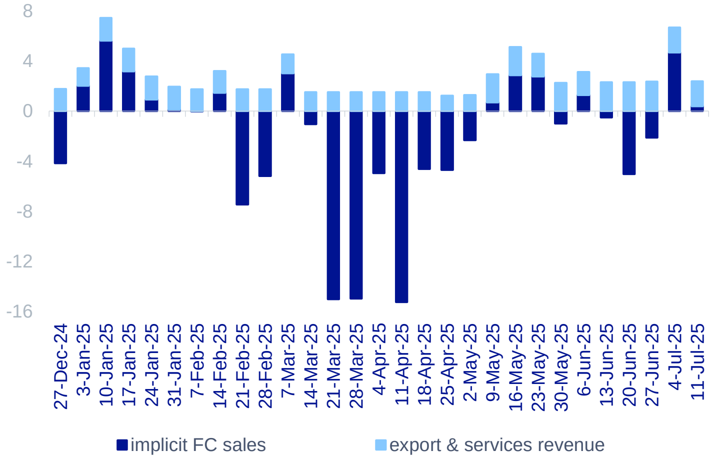



Source: CBRT and Garanti BBVA Research

**The CBRT evaluates there is a little more room to increase the TL deposit ratio above 60%, by which they will not allow a fast decline in TL deposit rates during the rate cutting cycle.**

# We expect the recovery in reserves -being weaker than expected till early July- to gain pace modestly during summer

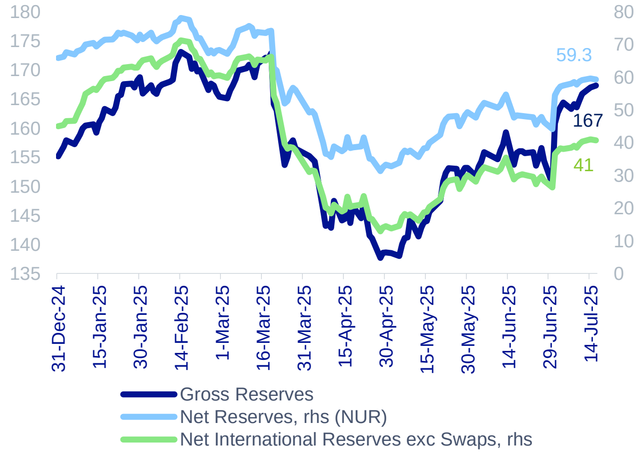
## CBRT RESERVES NET WEEKLY FLOWS*
($USbn)




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

Source: CBRT and Garanti BBVA Research

## CBRT INTERNATIONAL RESERVES
($USbn, as of 16th of July)

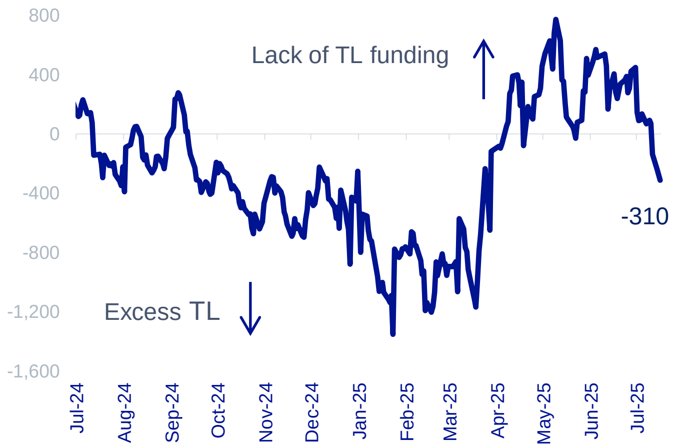



Source: CBRT and Garanti BBVA Research

**The CBRT aims not to accumulate reserves aggressively, possibly allowing the currency to move more freely in two directions, with a potential asymmetry to the upside (only a slight downward bias on our 2025 end USDTRY forecast of 45, depending on the inflation outlook).**

# The CBRT is more careful about reserves purchases in order not to allow ON TL rates to come much below policy rate

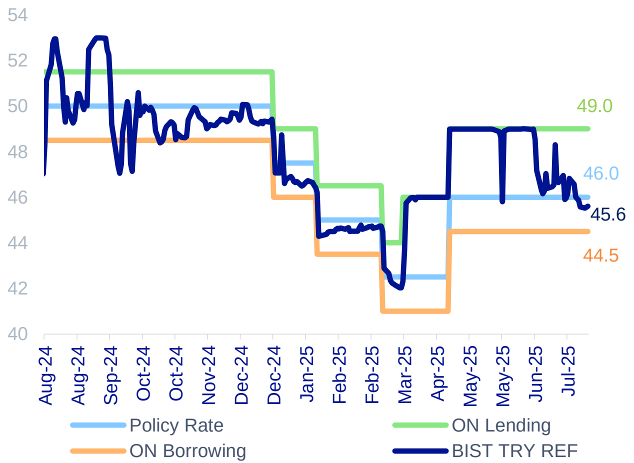
## NET CBRT FUNDING
($USbn, as of 16th of July)




* *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 (%, SIMPLE)

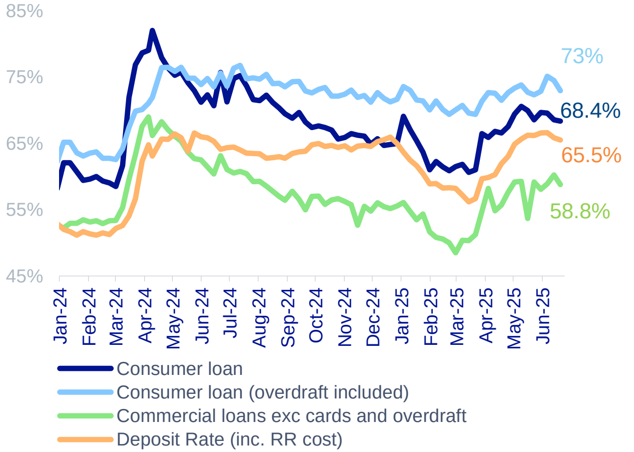



Source: CBRT and Garanti BBVA Research

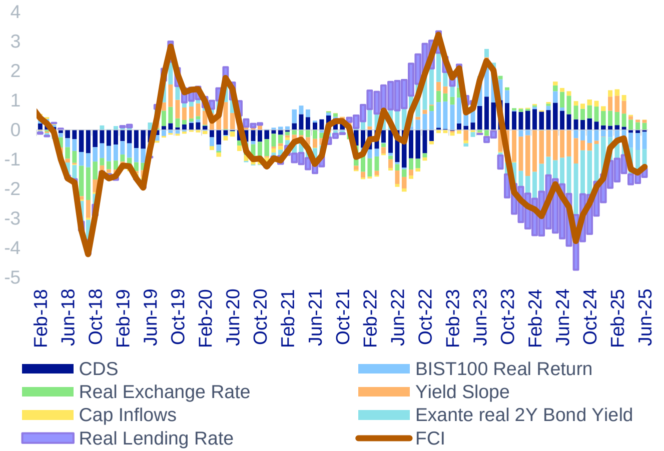
**The CBRT reserves purchases and Treasury's cash flow has started to generate excess TL liquidity since last week (with ON TL rates coming slightly below 46%, the policy rate).**

# Financial conditions remain tight but have started to ease limitedly with rate cut expectations

## LOAN AND DEPOSIT INTEREST RATES
(%, SECTOR, WEEKLY FLOW, COMPUND)




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



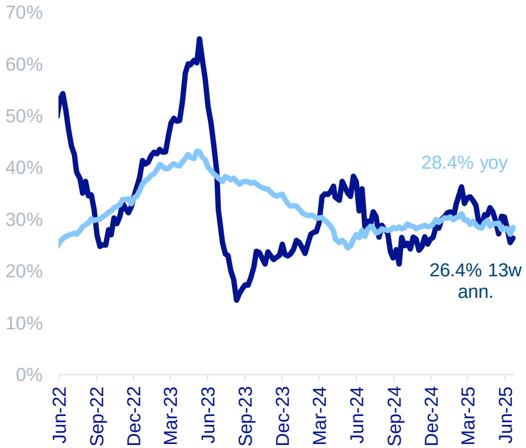

Source: TURKSTAT, CBRT, Bloomberg and Garanti BBVA Research

Source: TURKSTAT, CBRT and Garanti BBVA Research

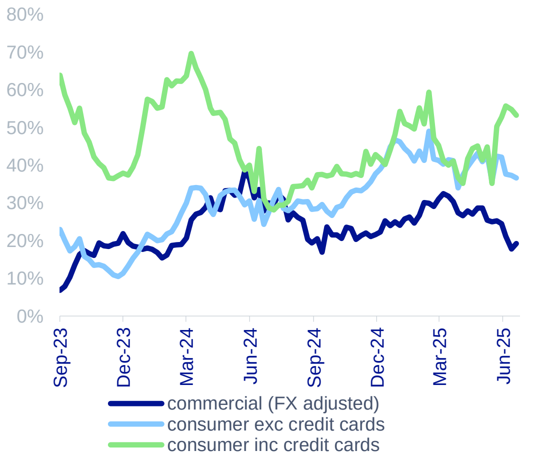
**The recent ease in the cost of funding (down to 46% from 49%) have been reflected to loan rates only to a small extent because of the constraints from deposit rules.**

# Banks try to compensate credit growth with non-capped items despite tight financial conditions and growth caps

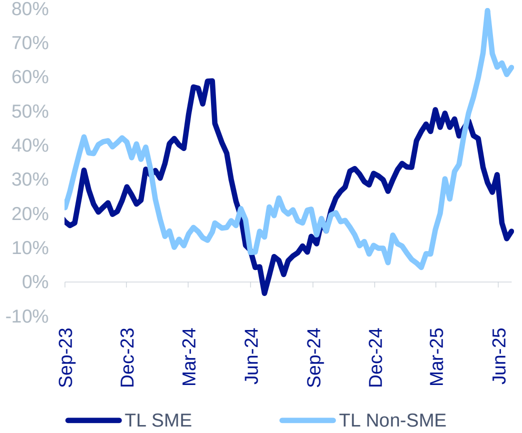
## TOTAL CREDIT GROWTH (FX ADJ)
13 WEEK ANNUALIZED & YOY




## CREDIT GROWTH (FX ADJ COMMERCIAL & TL CONSUMER)
13 WEEK ANNUALIZED




## TL COMMERCIAL CREDIT GROWTH
13 WEEK ANNUALIZED

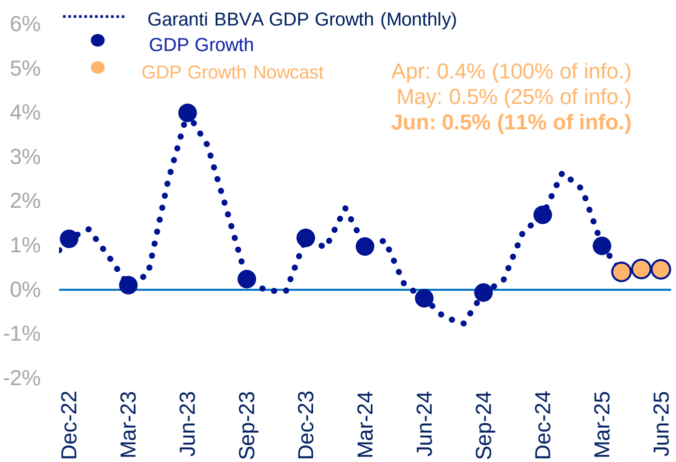



Source: BRSA and Garanti BBVA Research

**Although the slowdown in credit growth is welcomed in terms of economic rebalancing, continuing higher growth rates in consumer loans contain a clearer adjustment in domestic demand.**

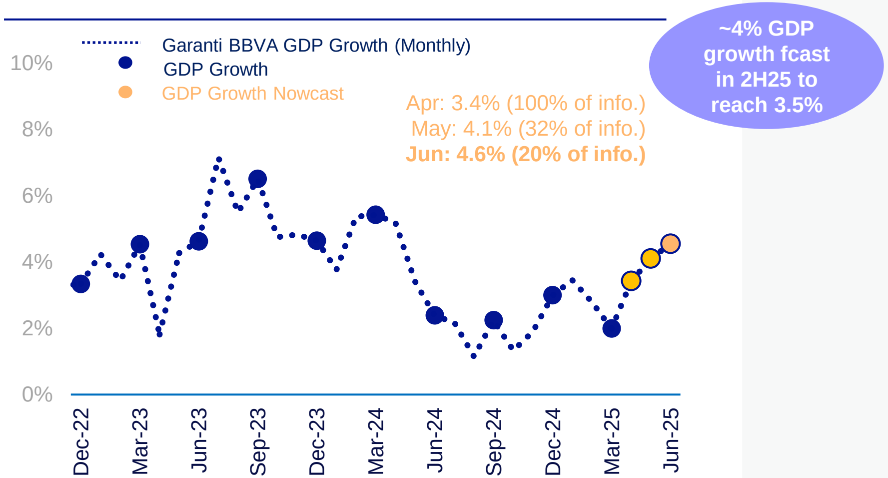
# We nowcast a slow-down to QoQ growth of 0.5% in 2Q25, yet with an acceleration in YoY GDP on calendar day effects

**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)

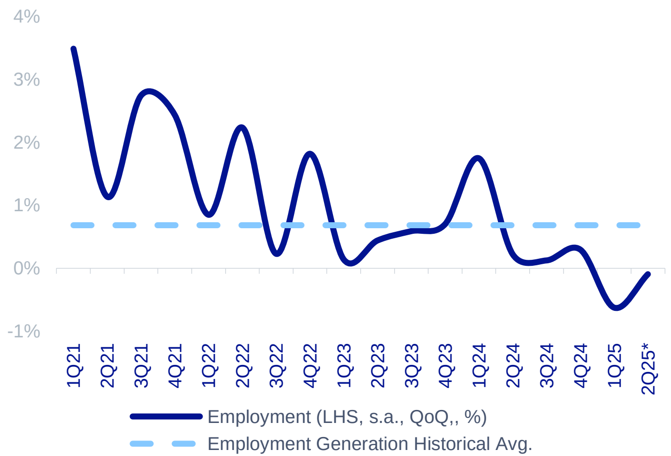



Source: TURKSTAT, CBRT and Garanti BBVA Research

**Our 2Q25 GDP growth nowcast is so far slightly better than the initial sharp adjustment signals from soft indicators (confidence), which we need to confirm with hard data going forward.**

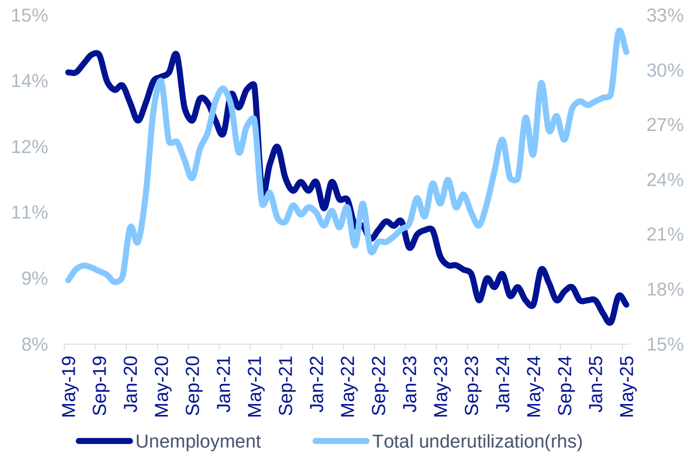
# The political goal remains to be affecting the employment outlook only smoothly. Headline UR is on the radar

## EMPLOYMENT GROWTH
(QOQ, SEAS)




* 2Q25 refers to Apr-May
Source: TURKSTAT and Garanti BBVA Research

## UNEMPLOYMENT RATE
(% SEAS)

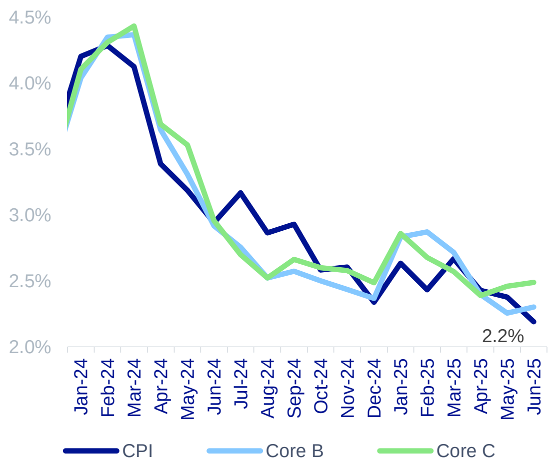



Source: TURKSTAT and Garanti BBVA Research

**Headline unemployment rates stays historically low but the quality of employment has been worsening since 2022.**

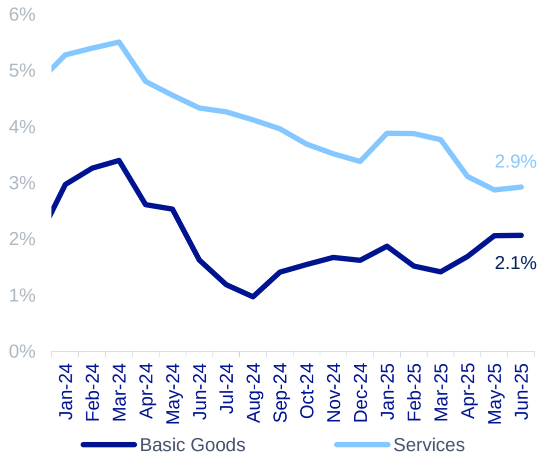
# Adjusted monthly CPI has stabilized at 2% as of June, leading to a further improvement in 3-month trend

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



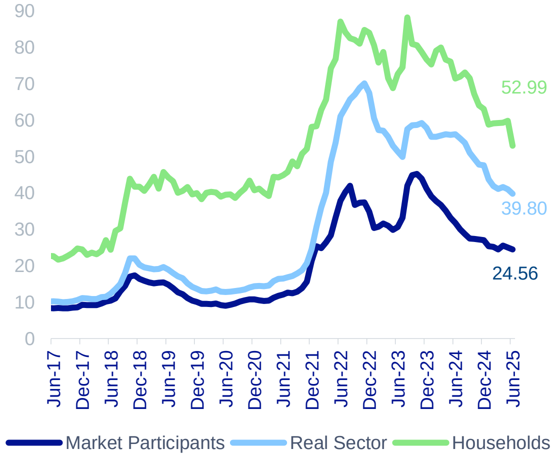

Source: TURKSTAT and Garanti BBVA Research

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




Source: TURKSTAT and Garanti BBVA Research

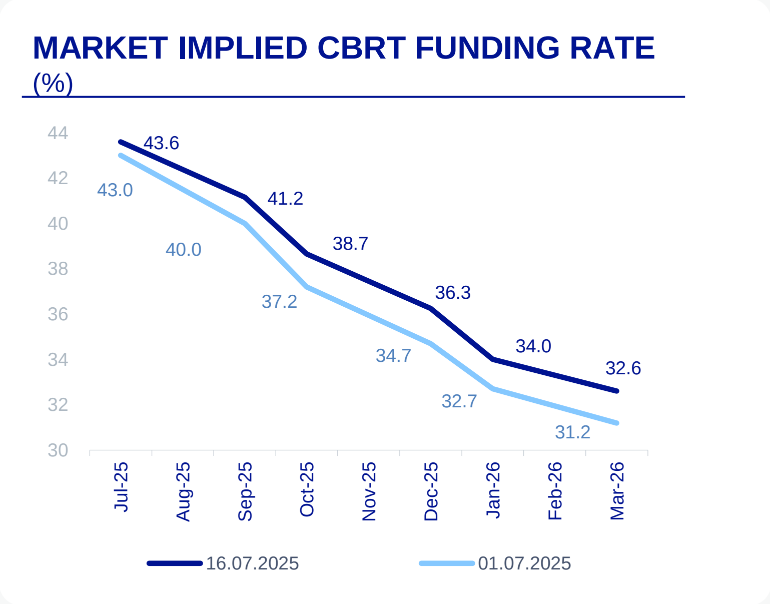
**CBRT SURVEY ONE-YEAR AHEAD INFLATION EXPECTATIONS** (%)




Source: TURKSTAT and Garanti BBVA Research

**We nowcast 2.5% m/m CPI in July, which will lead to a temporary increase in monthly trend. Given the last 3 months' positive surprises, we now forecast 30% year end CPI with risks tilted slightly to the downside if we see a more restrictive policy mix than expected.**

# The OIS curve currently prices 41% CBRT rate for Sep and 36% for Dec



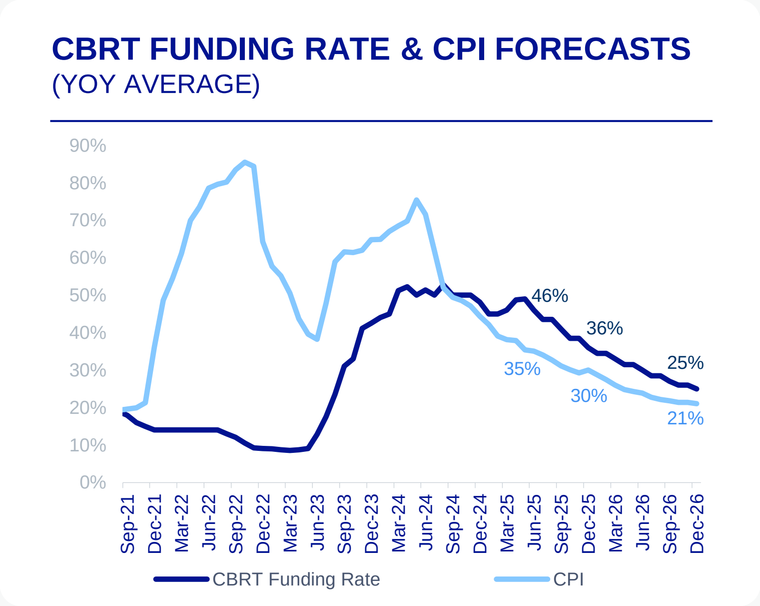

Source: Bloomberg and Garanti BBVA Research

**The CBRT communication:**

- A high level of prudence after Mar shock
- No complacency about the improving inflation trend
- Likelihood of slower rate cuts than the market is currently pricing (250bps for July)
- No rush to ease credit growth caps
- No aggressiveness to accumulate reserves rapidly, signaling a larger room for the currency to move in both directions
- Very careful about the USDTRY level (not EURTRY or currency basket) as an overall sentiment indicator

**The CBRT gives more hawkish signals, which have moved up the market expectations on CBRT rates in the last two weeks.**

# We expect the CBRT to 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.

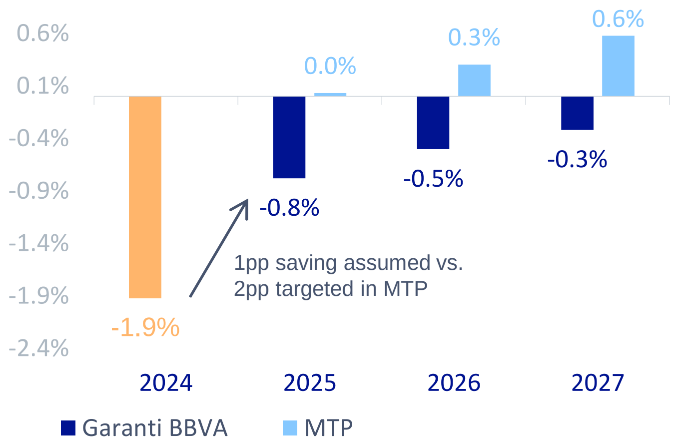
We assess the first option is more likely with a carefully calibrated rate-cutting cycle, depending on the inflation path and domestic politics.

Source: Garanti BBVA Research

**We now expect 250bps cuts in the next four MPC meetings to reach 36% policy rate by end 2025 with a bias of more restrictive stance in the ST.**

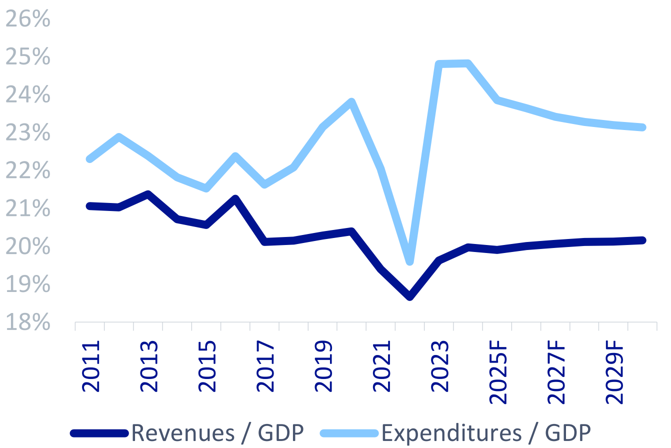
# We assume lower than targeted fiscal savings in 2025 keeping cash deficit to GDP at least at 4%

## CG PRIMARY BALANCE FORECASTS
(% GDP)




Source: Garanti BBVA Research

## CG BUDGET FORECASTS
(% GDP)

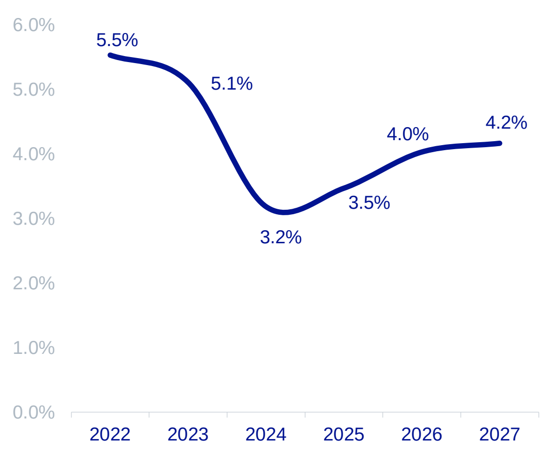



Source: Garanti BBVA Research

**Although 2Q25 cash balance signaled efforts not to give a new fiscal impulse, a cash deficit to GDP of at least 4% is more likely to happen by end 2025.**

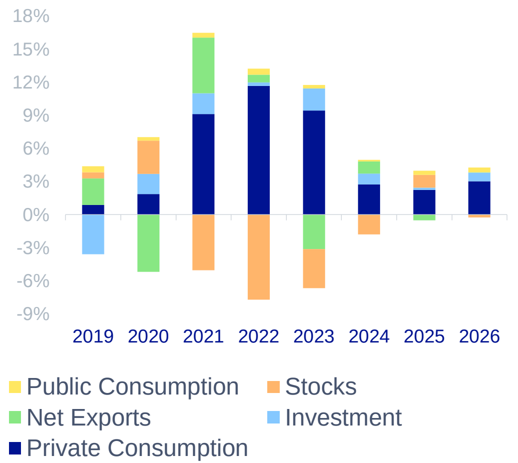
# We forecast 3.5% GDP growth for 2025 and 4% for 2026, with no changes with respect to our March baseline

## GDP GROWTH FORECASTS
(% YoY)



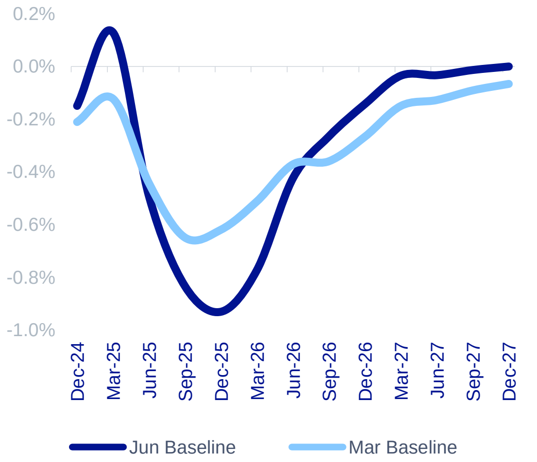

Source: TURKSTAT and Garanti BBVA Research

## GDP GROWTH FORECASTS
(PP ANNUAL CONTRIBUTION)




Source: TURKSTAT and Garanti BBVA Research

## OUTPUT GAP FORECASTS
(DIFF W/ POTENTIAL)

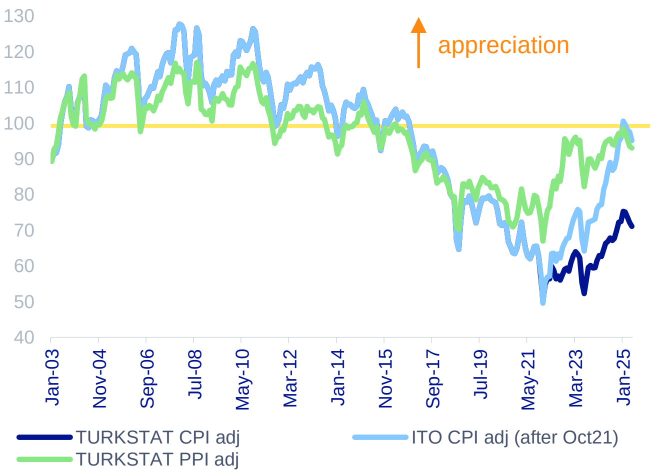



Source: TURKSTAT and Garanti BBVA Research

**We keep our GDP growth forecasts the same, given the strong 1Q25 performance, potential quasi-fiscal policies (like CGF) and no dramatic impact from weaker external demand. Risks are tilted to the downside for 2025 and to the upside for 2026.**

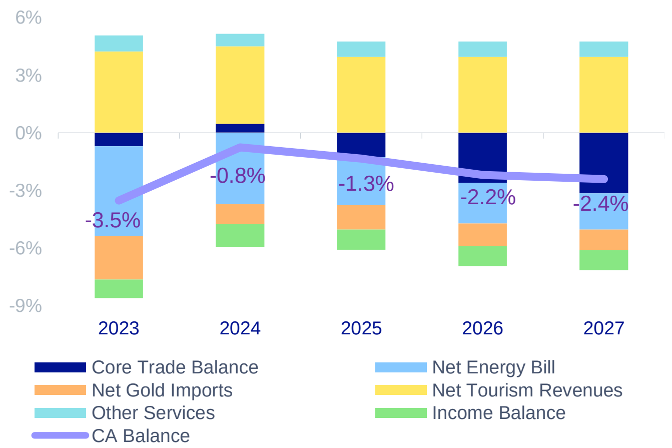
# We evaluate the room for further real appreciation has vanished with the inflation trend going below 2%

## 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.**

# 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) | 8.7% | 9.0% | 10.0% | 10.3% | 10.5% | 10.5% | 10.5% |
| Inflation (avg) | 58.5% | 34.2% | 23.6% | 18.9% | 16.7% | 15.4% | 15.2% |
| Inflation (eop) | 44.4% | 30.0% | 21.0% | 18.0% | 16.0% | 15.0% | 15.0% |
| CBRT Cost of Funding (avg) | 49.6% | 43.4% | 29.7% | 22.8% | 19.9% | 18.4% | 18.0% |
| CBRT Cost of Funding (eop) | 47.5% | 36.0% | 25.0% | 21.0% | 19.0% | 18.0% | 18.0% |
| USDTRY (avg) | 32.8 | 40.1 | 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 | 45.6 | 58.4 | 69.4 | 81.5 | 94.2 | 108.6 |
| EURTRY (eop) | 36.7 | 52.9 | 63.3 | 74.6 | 87.5 | 99.9 | 116.0 |
| Current Account Balance (% GDP) | -0.8% | -1.3% | -2.2% | -2.4% | -2.6% | -2.5% | -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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