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DECEMBER 2025

Türkiye Economic Outlook

Main messages

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Economic Policies

We maintain our baseline as a controlled scenario with somewhat a restrictive policy mix in the short term. On monetary policy, we see a bias of rate cuts from the CBRT, making it relying on macro-prudential measures and more open to risks. The negative fiscal impulse of this year (~1.5pp GDP) will likely turn neutral in 2026 and only a limited support might be on disinflation via tax and administered price adjustments. There is no clear fiscal consolidation except for decelerating quake spending.

Growth Outlook

Economic activity slows down only mildly in 4Q25 as we nowcast a quarterly GDP growth of nearly 0.5% (vs. 1.1% q/q in 3Q25), corresponding to annually 3.8%, similar to the level seen in 3Q25. Staying parallel to our previous expectations, we maintain our GDP forecasts as 3.7% in 2025 and 4% in 2026, consistent with the still-resilient activity outlook.

Inflation & Rates

We expect year-end CPI to be around 31% y/y with a close to 1% monthly December CPI, and keep our call of 25% for 2026-end; where the CBRT would reduce the policy rate to up to 32%. We also keep our year end USD/TRY forecasts at 43 and 52 for 2025 and 2026, respectively, (<2% m/m depreciation) implying limited real appreciation going forward.

Risks

Global financial volatility affecting risk appetite and demand for EM assets, Trump policies particularly impacting Europe, and domestic political noise and much stickier than expected inflation trend are near term risks. We still construct our baseline with a disinflation trend but evaluate the balance risks evolving to a stickier inflation trend together with upside risks on the economic activity.

Global Economic Outlook

More balanced risks: rising odds of medium-term AI productivity gains amid persistent supply concerns

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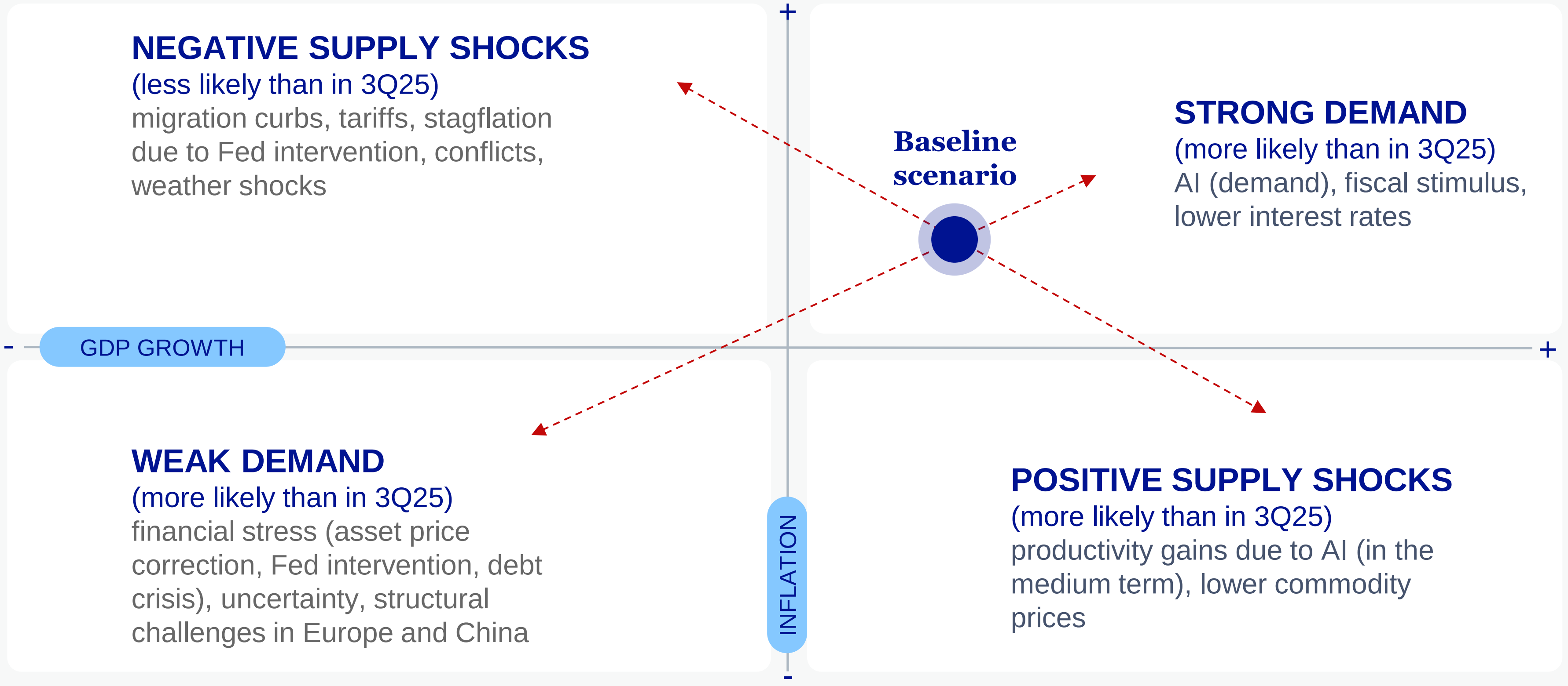
GLOBAL ECONOMY: MAIN RISKS AROUND BBVA RESEARCH BASELINE SCENARIO



Supply headwinds: US tariffs have recently declined, with effective rates in general below statutory levels

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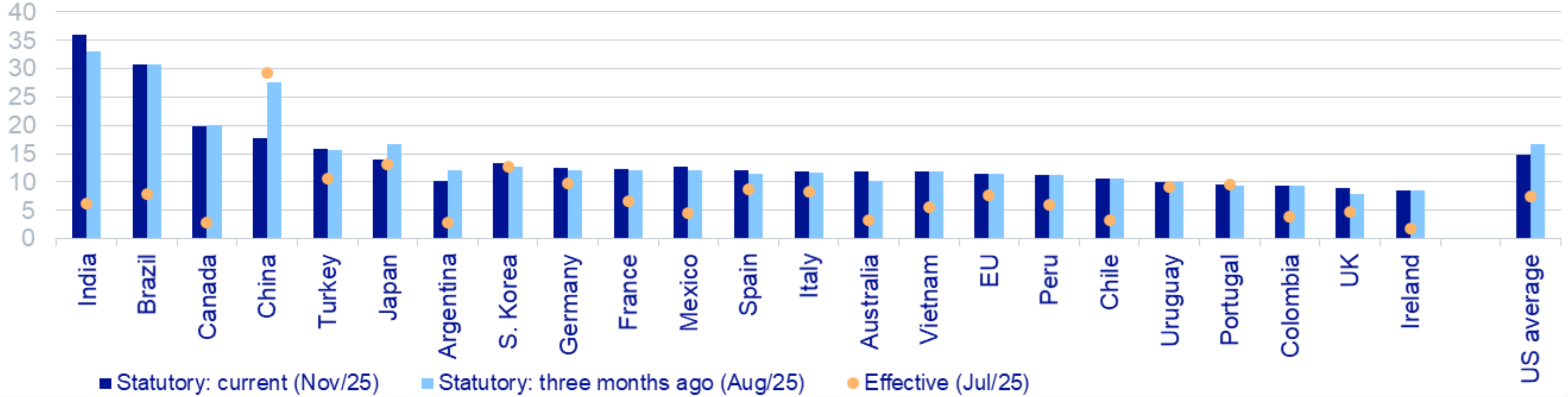
US STATUTORY AND EFFECTIVE TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 (*)

(PP)



(*) Statutory tariffs: BBVA Research calculation following recent trade deals and unilateral US announcements. Based on general tariffs set for each country (reciprocal and/or fentanyl), specific tariffs on some sectors (steel, aluminum, automobiles, autoparts, pharma...) and exempted goods (selected electronics, oil...). Sectoral weights are calculated according to 2024 trade flows. Does not include tariffs exceptions on agricultural goods announced recently. Effective tariffs: BBVA Research calculations (total US tariff revenues divided by total US imports, by country) based on data from the USITC.
Source: BBVA Research

US trade deals—including with China—and exemptions for some goods (mainly agricultural) imply lower tariff levels; yet uncertainty persists, mainly due to possible legal overruling of reciprocal and fentanyl tariffs

Our trade uncertainty trackers indicate easing tariff pressures, with readings moderating toward pre-2025 levels

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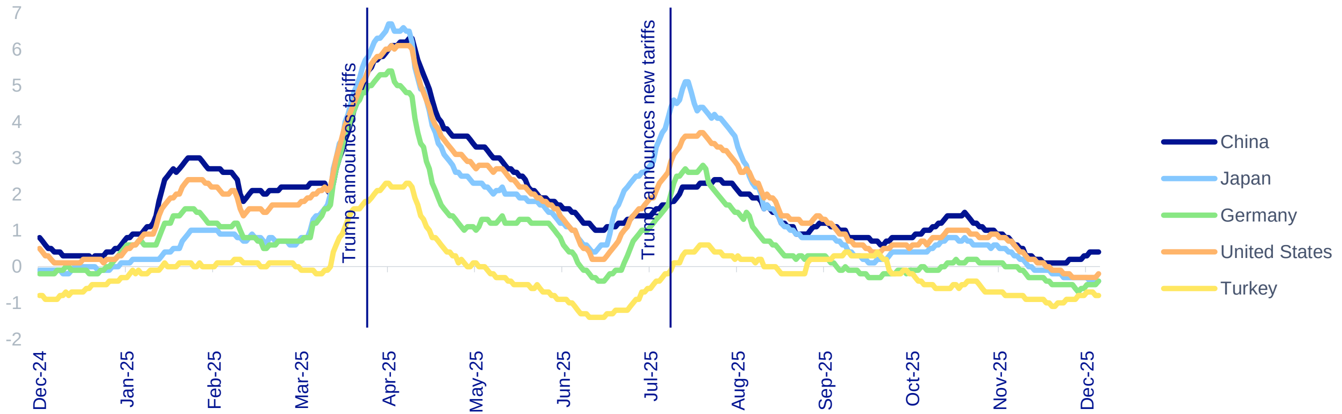
TRADE POLICY UNCERTAINTY INDEX

(Total media. 28-day weighted mov avg, normalized by its own history)



Source: BBVA Research, https://bigdata.bbvaresearch.com/

Delays and temporary suspensions (like China semiconductor tariffs) show less immediate shock and space for negotiations.

Growth forecasts have been revised slightly to the upside, mostly on incoming data

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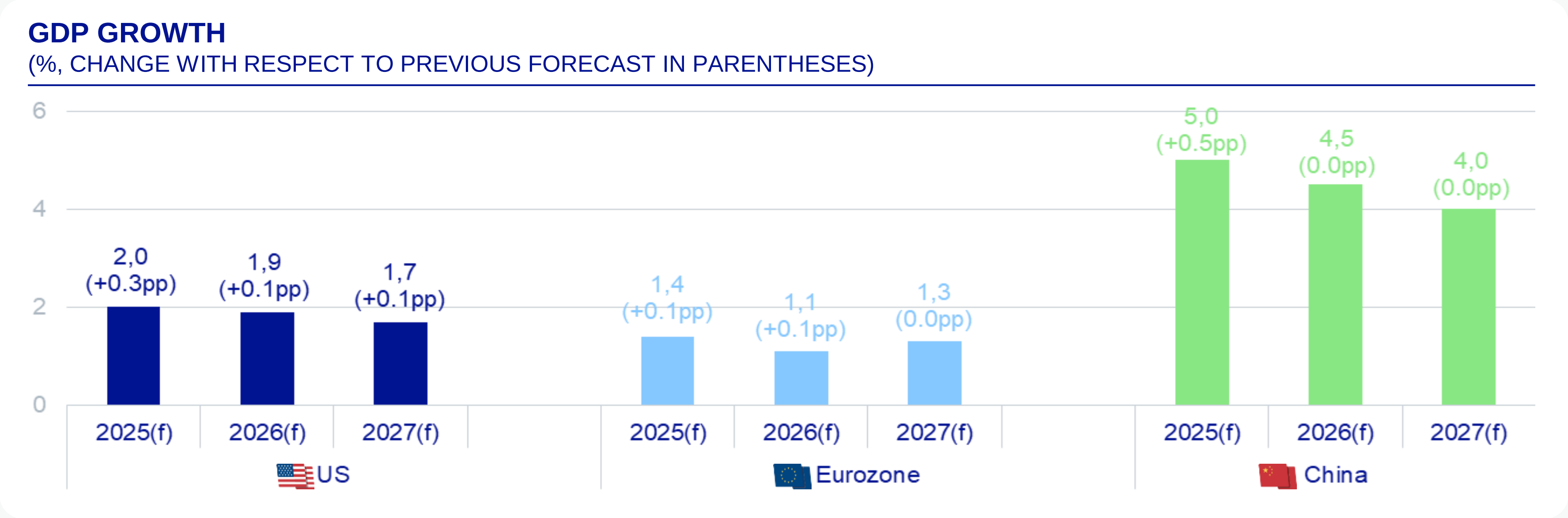

(*) Global GDP is forecast to grow 3.2% in 2025, 3.1% in 2026 and 3.2% in 2027, respectively 0.2pp, 0.0pp and 0.0 higher than the previous forecasts.
(f): forecast.
Source: BBVA Research

The negative impact of tariffs and other supply shocks is expected to be broadly offset by AI demand (mainly in the US) and fiscal spending (mainly in the Eurozone); higher AI-driven productivity is an upward risk in the medium term; a structural slowdown is still expected in China

Inflation prospects stay broadly unchanged, with smaller downside risks in Europe and upward risks in the US

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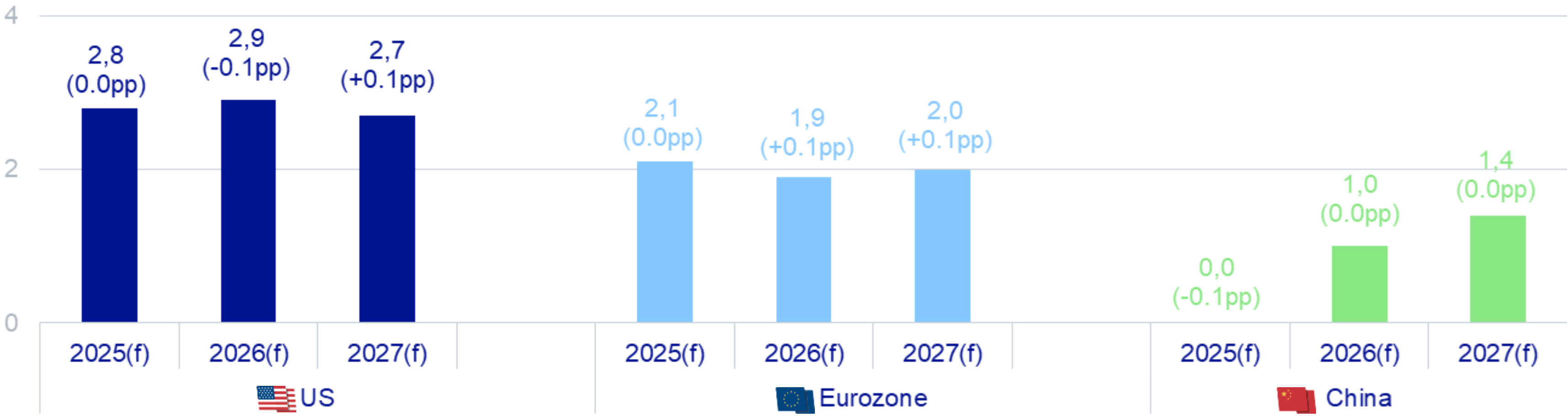
HEADLINE CPI INFLATION
(Y/Y %, PERIOD AVERAGE, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(f): forecast.
Source: BBVA Research

Inflation is still expected to hover around 3% in the US, driven by tariffs, and near 2% in the Eurozone, where downside risks have eased; in China, while further government measures are anticipated to address deflation concerns, risks remain tilted to the downside

Rate expectations: a more gradual easing and a higher terminal rate for the Fed and stability for the ECB

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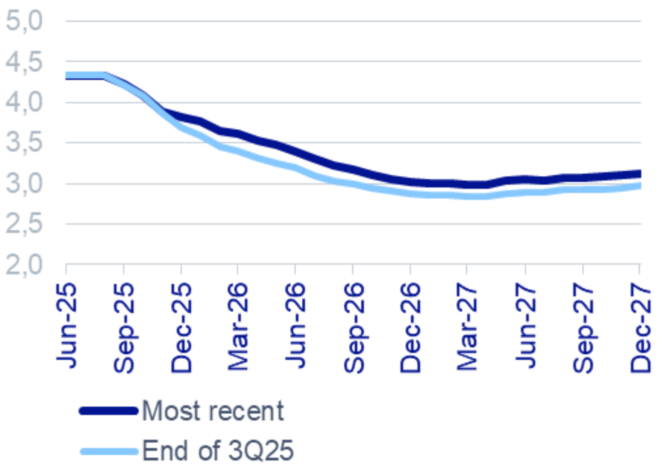
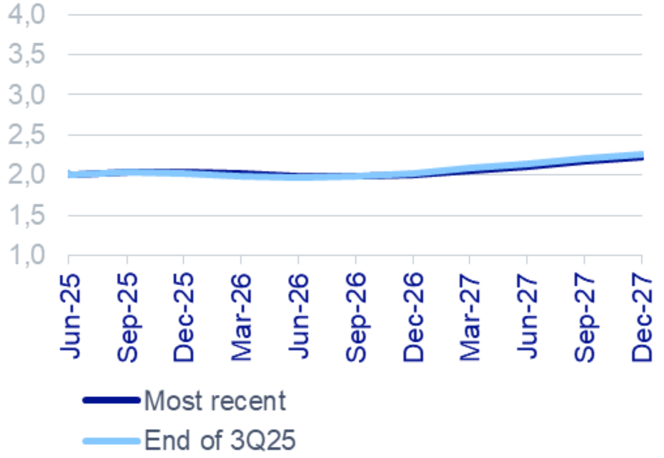
US: IMPLICIT RATE IN FED FUND FUTURES
(%)



EZ: IMPLICIT RATE IN EURIBOR FUTURES
(%)



Source: BBVA Research based on data from Haver

Source: BBVA Research based on data from Haver

The Fed cut interest rates again in December 2025, marking its third straight reduction as inflation cools and the labor market softens; the ECB has kept rates unchanged at 2% lately and suggested risks are now more balanced

Growth resilience and inflation pressures will limit the Fed easing; no additional cuts by the ECB are expected

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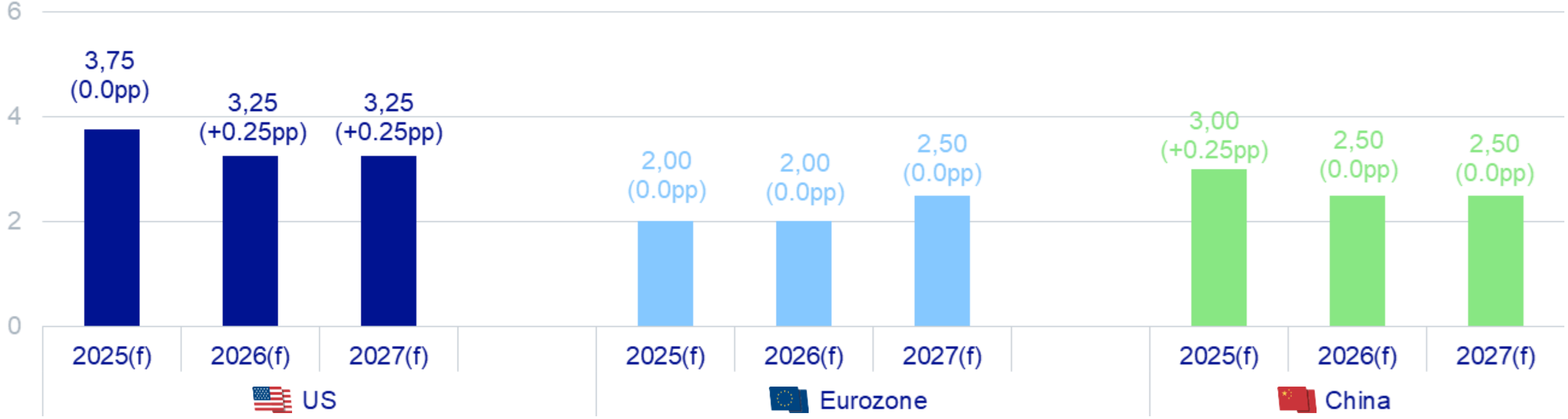
POLICY INTEREST RATES(*)

(%, 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.

US rates are now closer to neutral levels and the convergence to the (higher-than-expected) terminal rate could be more gradual, but there is uncertainty related to the upcoming changes in the Fed board; in the Eurozone, there is room for rates to get closer to the estimated neutral rate in the medium run

Türkiye Economic Outlook

Following a three-month moderation, foreigner inflows rose gradually at the end of the year, via swaps

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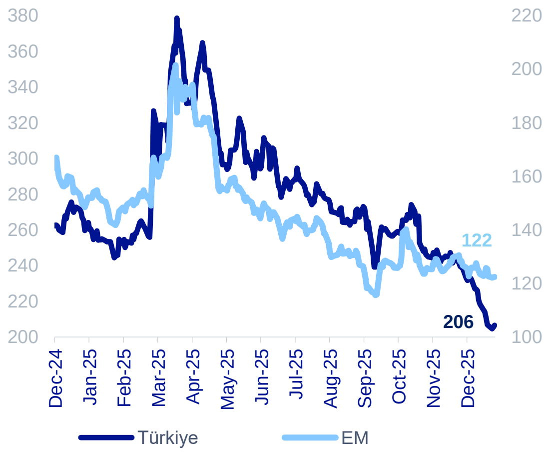
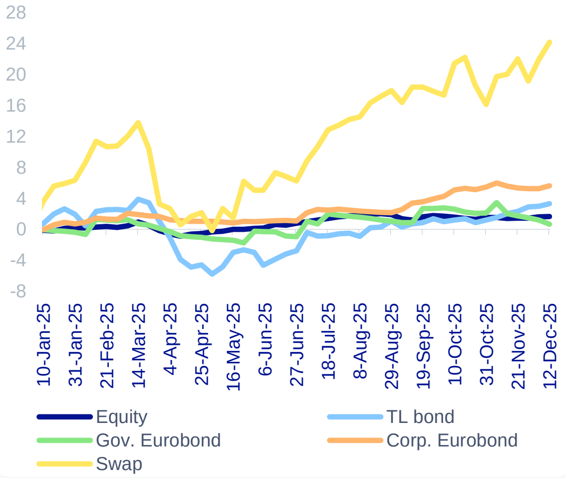
TÜRKİYE VS. EM 5-YEAR CDS
(BASIS POINTS)



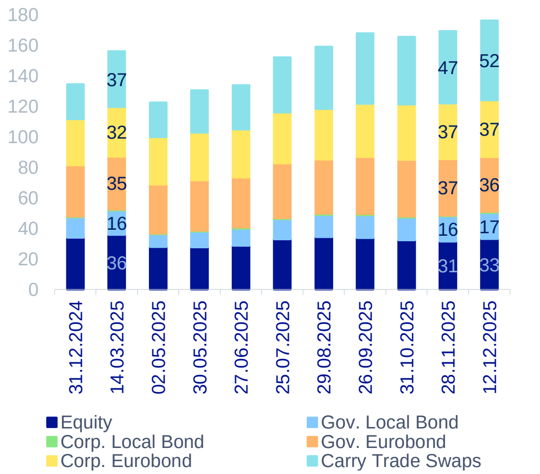
Source: Bloomberg and Garanti BBVA Research

FOREIGNERS FLOWS TO TR ASSETS* ($USbn, cumulative year to date)



Excluding local banks' external subsidiaries
Including only the outright purchases in Government local bonds
Carry trade swaps include limitedly the transactions with local corporates

FOREIGNERS EXPOSURE TO TR ASSETS* ($USbn, stock)

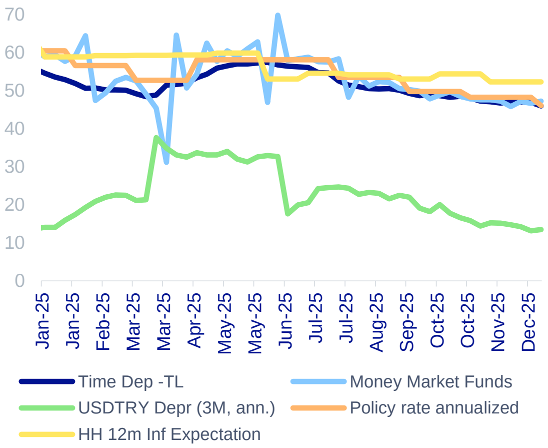


Source: Bloomberg and Garanti BBVA Research

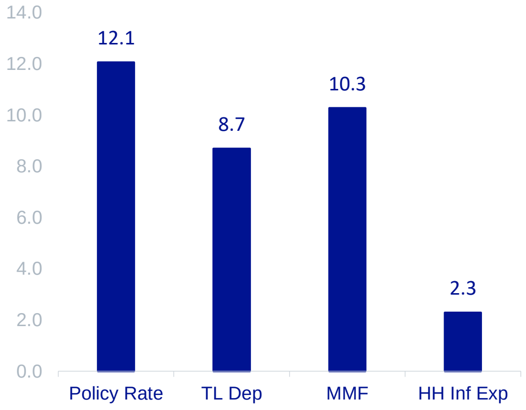
Global risk appetite continues to strengthen, while Turkey differentiates positively. CDS spreads have declined to just above 200, marking a return to 2018 levels.

The CBRT is required to keep TL rates as attractive as possible to maintain savings mostly in TL

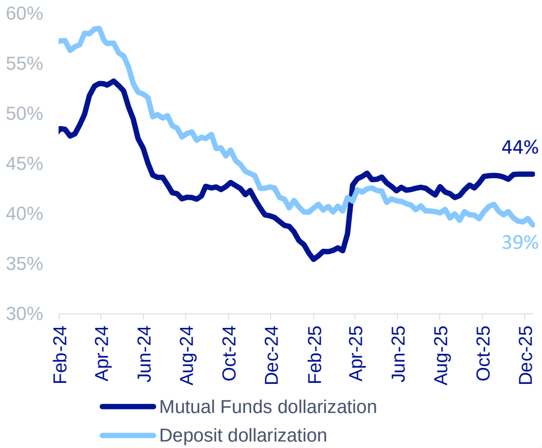
RELATIVE RETURNS & EXPECTATIONS (%, annualized)



DECREASE IN RATES (from July 19th, compounded)



RESIDENTS' DOLLARIZATION RATIO (%)



Source: CBRT, TURKSTAT and Garanti BBVA Research

Source: TEFAS and Garanti BBVA Research

Source: TEFAS, BRSA and Garanti BBVA Research

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

Return for TL deposits and money market funds stay well above USDTRY depreciation trend, but household inflation expectations still require high incentives for holding TL

Residents' FX demand is mostly portrayed in FC mutual funds as the KKM program is almost over

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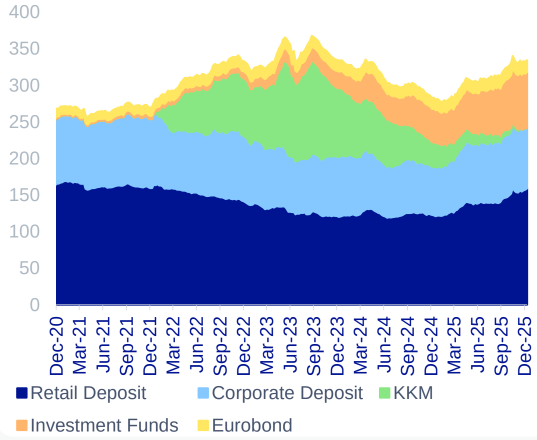
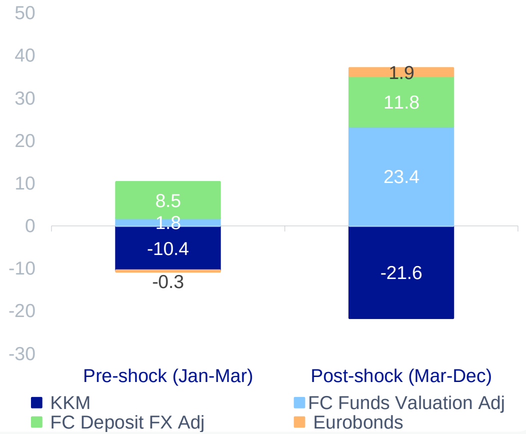
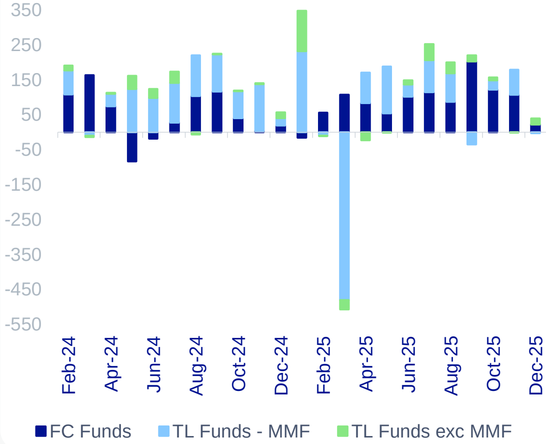
FC PRODUCTS OF RESIDENTS
($USbn, as of Dec 12th)



YTD CHANGES IN FC PRODUCTS OF RESIDENTS ($USbn, as of Dec 12th)



INVESTMENT FUNDS NET FLOW
(BN TL, excluding valuation effects)



* 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

Following the internal shock in March, net demand for FC products remained on the positive side, albeit at a contained pace, for the rest of the year.

Asset prices and valuations also portray dynamic shifts in terms of wealth effects

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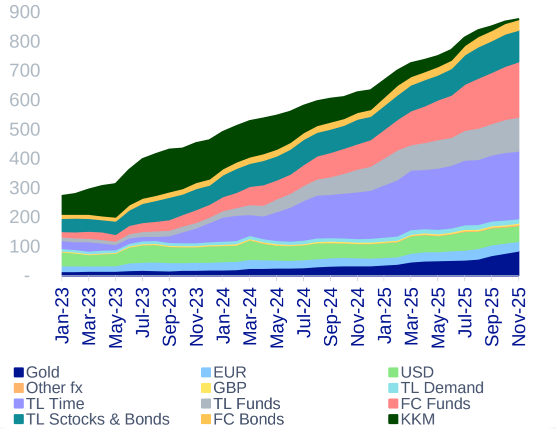
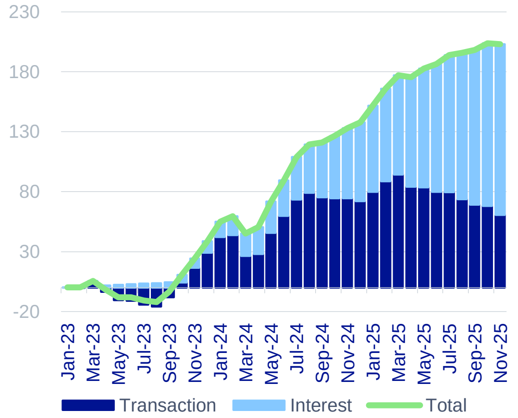
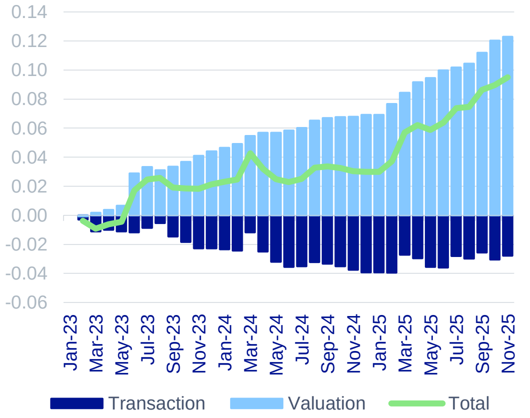
HOUSEHOLD ASSET EVOLUTION*
(BN TL, Garanti BBVA customers)



TL TIME DEPOSITS CHANGE*
(BN TL, cumulative decomposition)



FC DEPOSITS CHANGE*
(MN TL, cumulative decomposition)



* Selected sample from Garanti BBVA retail customers

Source: Garanti BBVA Research

Our data shows that the dominating factor supporting TL deposit growth has been interest payments since March this year. Additionally, de-dollarization continued overall in the FC deposits with the exception of recent appetite in gold deposits.

CBRT reserves continute to move around historical highs, with some volatility due to gold price movements

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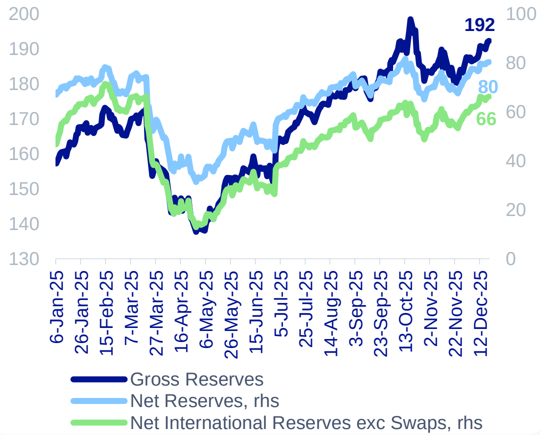
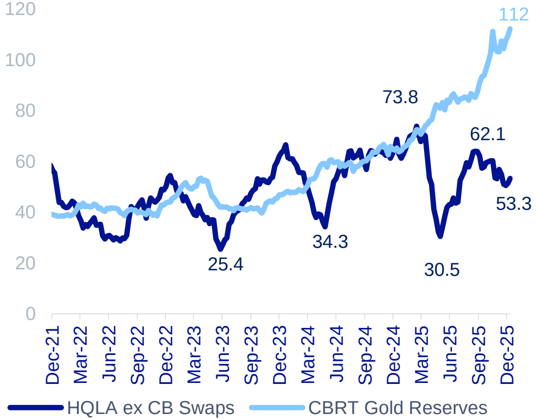
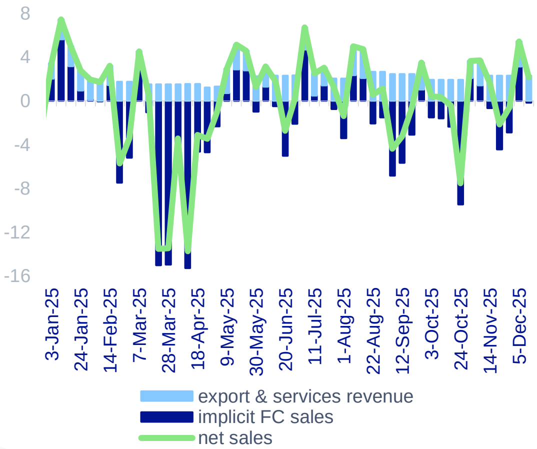
CBRT INTERNATIONAL RESERVES
($Usbn, as of 19th of December)



CBRT GROSS GOLD & HQLA*
($Usbn, as of Dec 12th)



CBRT WEEKLY RESERVE FLOWS ($Usbn, as of Dec 12th)



* High quality liquid assets excluding SDR
Source: CBRT and Garanti BBVA Research.

The CBRT remains proactive in the FX market in order to contain FX volatility and nominal depreciation so that they allow a gradual dollarization.

Macroprudential policies, particularly deposit rules, will likely continue to calibrate tightness

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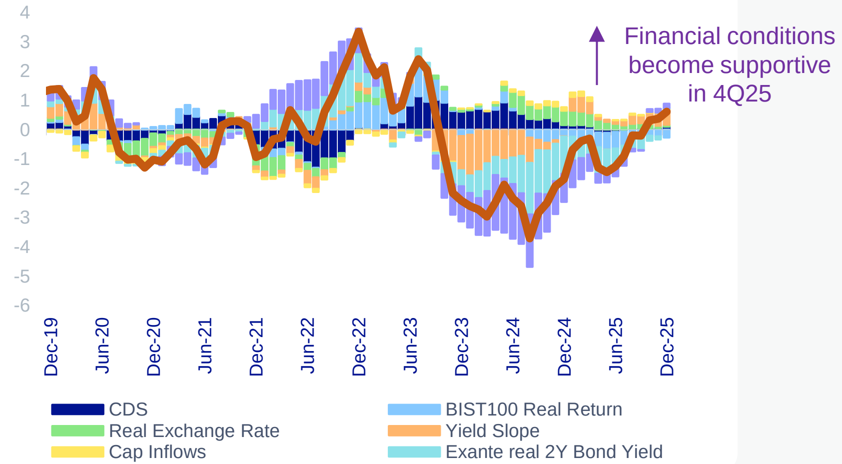
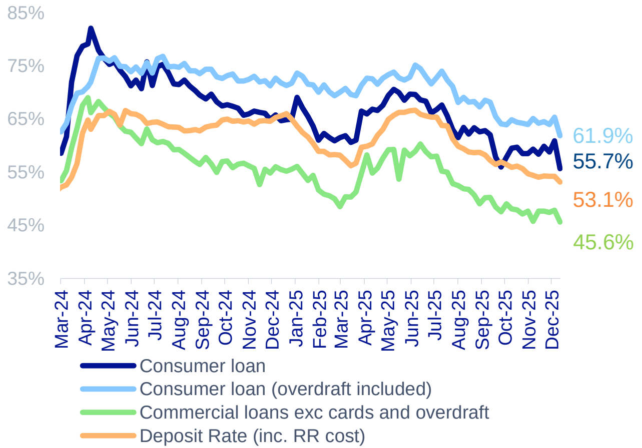
GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI) (STANDARDIZED, + EASING, - TIGHTENING)



Source: CBRT and Garanti BBVA Research

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



Source: CBRT and Garanti BBVA Research

Recent CBRT communication points to the continuation of current deposit and credit regulations until a significant improvement in the inflation outlook, which is not expected before 2H26.

Total loan growth remains stabilized below 30%, with consumer credit still acting as the key supporting segment

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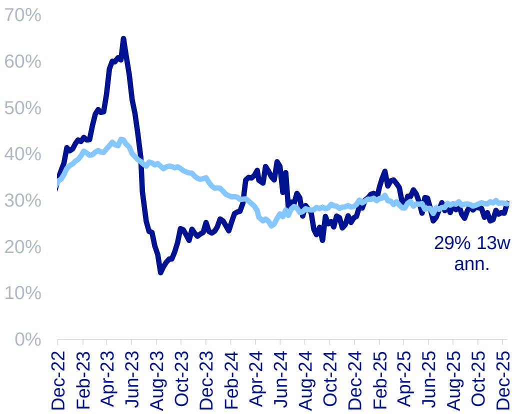
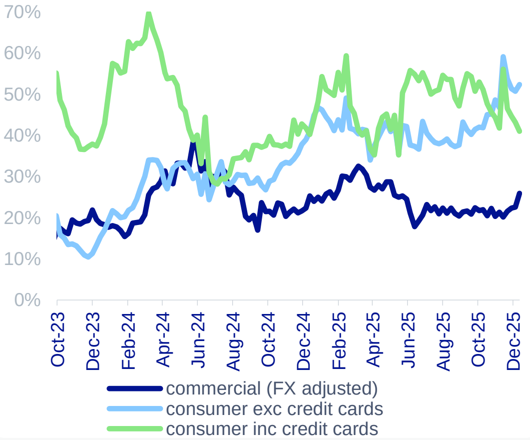
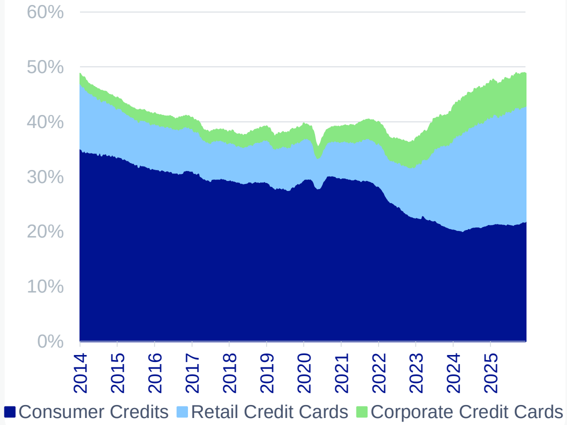
TOTAL CREDIT GROWTH (FX ADJ)
13 WEEK ANNUALIZED & YOY



CREDIT GROWTH
13 WEEK ANNUALIZED



SHARES IN TL CREDITS
(%, Sector)



Source: BRSA and Garanti BBVA Research.

The composition of the total TL loan book has shifted toward consumer loans and credit cards, which now account for around 50% of the total, supported by non-capped items and increased card usage amid the absence of new banknotes.

GDP growth shows no signs of an adequate slow-down to suppress domestic demand

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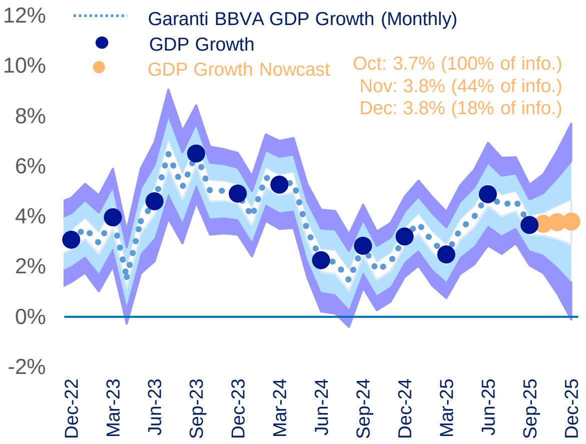
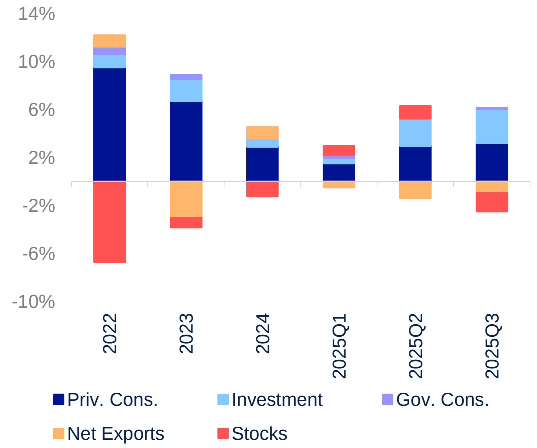
GARANTI BBVA MONTHLY GDP NOWCAST (YoY, 3M Mov. Avg.)



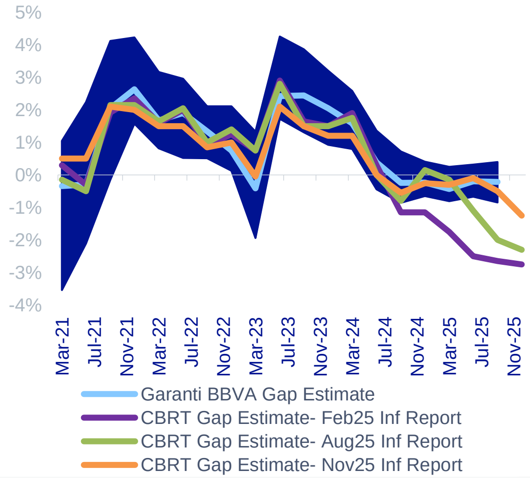
Source: TURKSTAT and Garanti BBVA Research

CONTRIBUTIONS TO GDP GROWTH (Annual, pp)



Source: TURKSTAT and Garanti BBVA Research

GARANTI BBVA OUTPUT GAP VS CBRT ESTIMATE (pp)



Source: TURKSTAT, CBRT and Garanti BBVA Research

Our output gap estimation stays mildly negative, contradicting with the long-waited slow-down pointed by CBRT. We keep our call for 3.7% and 4% for 2025 and 2026 GDP growth respectively.

Supply side indicators show relatively stronger momentum than domestic demand as of 4Q25

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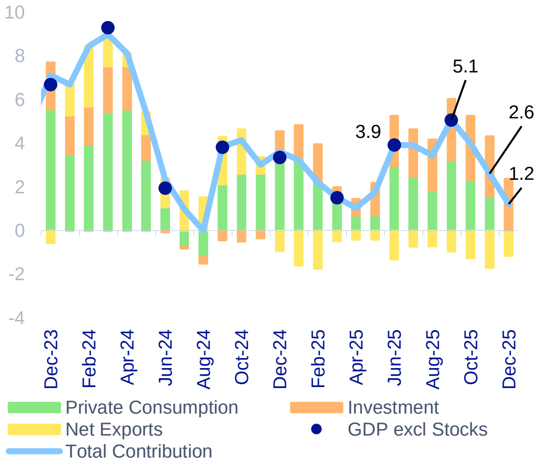
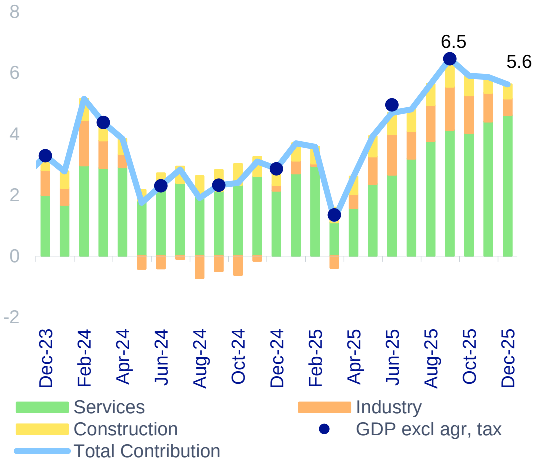
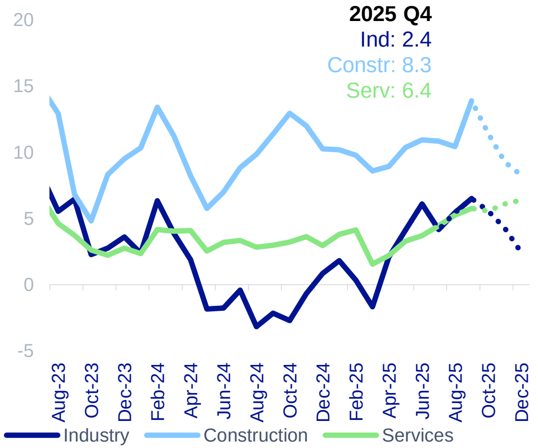
GDP DEMAND SUB-COMPONENTS
(contribution to annual GDP, pp)



GDP SUPPLY SUB-COMPONENTS
(contribution to annual GDP, pp)



GDP SUPPLY SUB-COMPONENTS
(YoY, pp)



** Based on our nowcasting results*
Source: Garanti BBVA Research, TURKSTAT

Our nowcast points to some softening in domestic demand, primarily linked to household consumption, though signals from high-frequency indicators are not fully aligned. Services remain the main contributor to growth, while activity in industry and construction shows signs of moderation.

Nov CPI suprised to the downside on mainly food, yet the trend remains slightly above 2%

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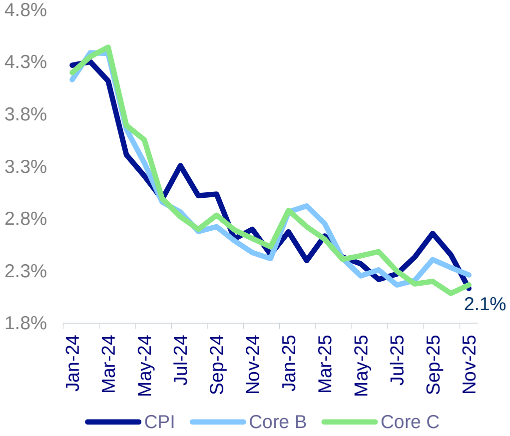
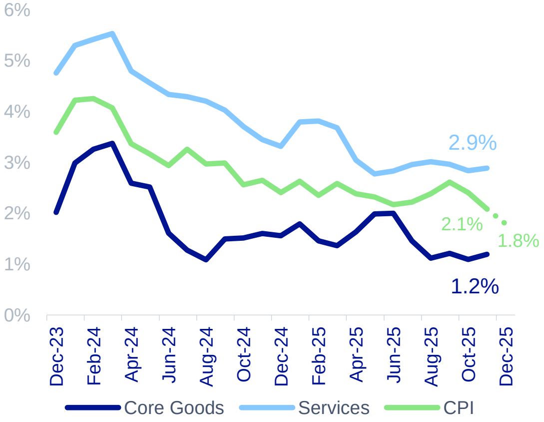
TREND CPI INDICATORS
(SA MoM, 3M AVG)



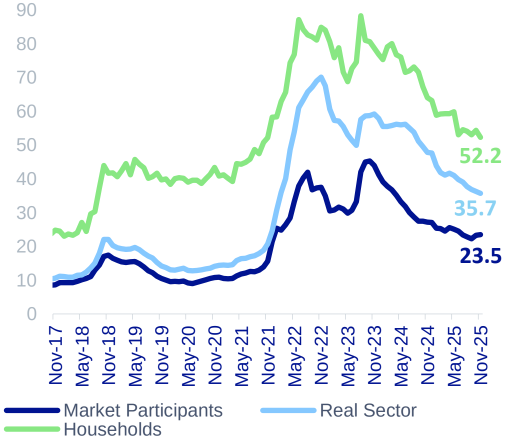
Source: TURKSTAT and Garanti BBVA Research.

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



Source: TURKSTAT and Garanti BBVA Research.

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



Source: TURKSTAT, CBRT and Garanti BBVA Research.

We now forecast year-end inflation close to 31%. Slowed improvement in inflation expectations and strong activity pose risks going forward for ambitious CBRT targets for 2026 (16% point target, 13-19% forecast range).

The minimum wage will rise by 27%, broadly parallel to our 25% assumption, yet staying below subsistence level

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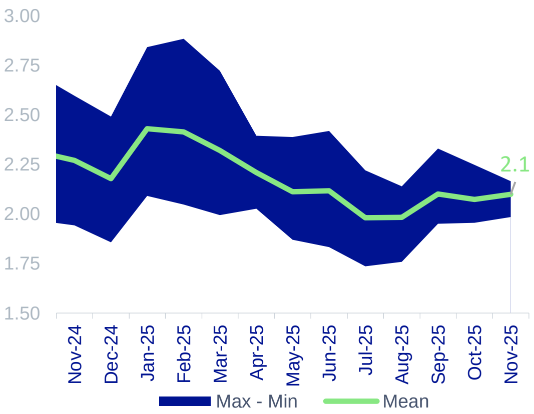
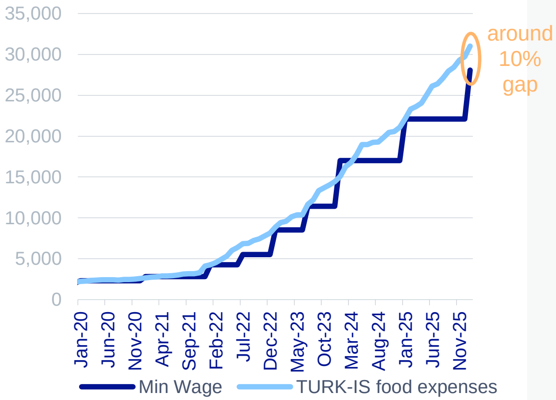
TREND CPI INDICATORS
(SA MoM, 3M AVG)



Source: TURKSTAT and Garanti BBVA Research.

MINIMUM WAGE & TURK-IS FOOD EXPENSES (TL, level)



Source: TURKIS and Garanti BBVA Research.

ADMINISTERED & GUIDED PRICES
(% YOY, 2026)

Revaluation rate	25.5
Min Wage	27
Highway & bridge tolls	25.5
Passport, driver licence	19
Private School	~31
Electricity & Gas	18?
Other adm. prices	?

around 11-13% share in CPI basket

Source: Garanti BBVA Research.

Other administered and guided price increases will be also important determinants for 2026 inflation outlook.

We expect the negative fiscal impulse of 2025 to turn neutral in 2026 compared to 2025

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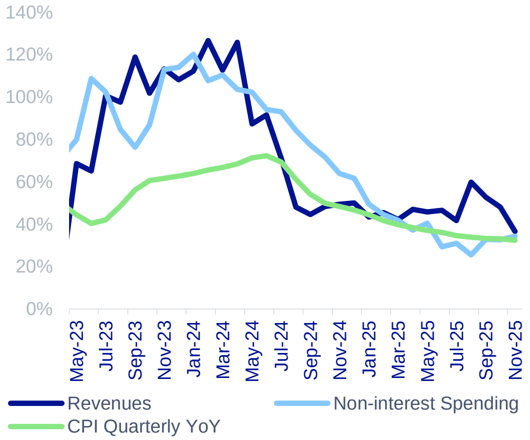
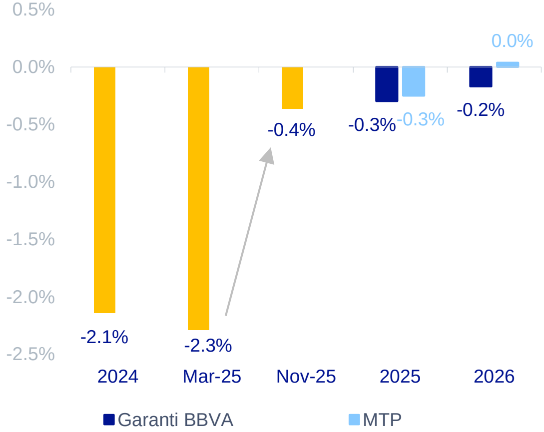
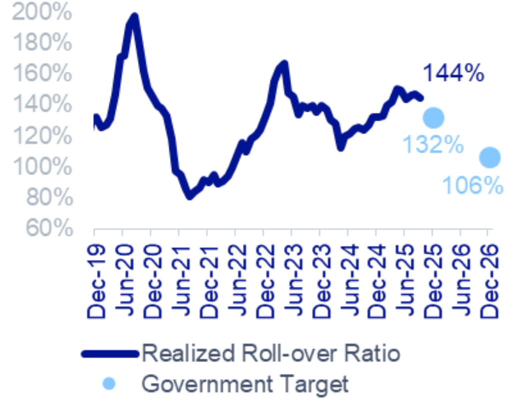
CASH REVENUES & NON-INTEREST SPENDING (% 3M YoY)



BUDGET PRIMARY BALANCE FORECASTS* (% GDP)



DOMESTIC DEBT ROLL-OVER RATIO (%)



** Realizations are cash basis, 2025 and 2026 forecasts are on an accrual basis.*

Source: Garanti BBVA Research, TURKSTAT and Treasury

The negative fiscal impulse of 2Q and 3Q seems to be maintained so far in 4Q. We remain skeptical about the Treasury's budget and ambitious borrowing targets going forward.

Strong services revenues structurally support the external balance, aided by low energy prices

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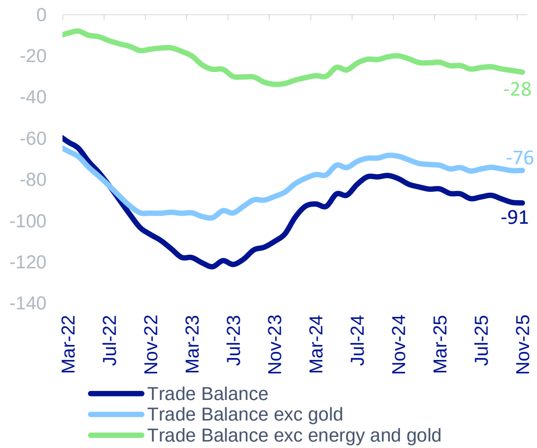
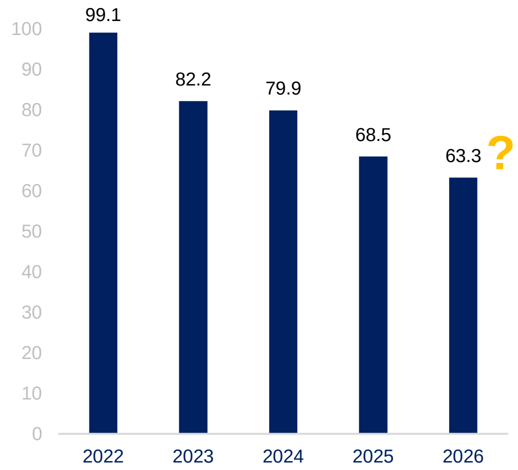
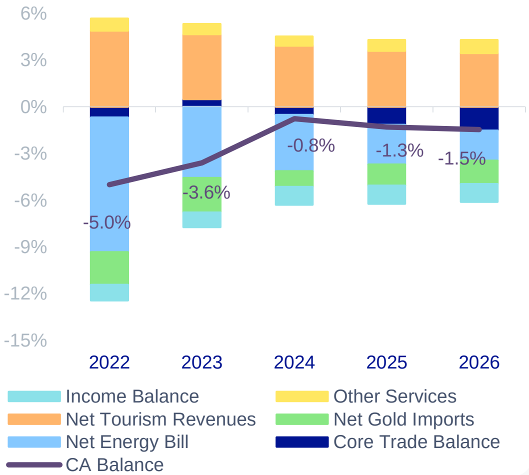
EXTERNAL TRADE
(BN USD, 12M)



OIL PRICE FORECASTS
($ BRENT LEVEL)



CURRENT ACCOUNT DEFICIT FORECASTS (% GDP)



Source: TURKSTAT and Garanti BBVA Research

The trade balance deteriorated somewhat in November due to solid domestic demand and elevated gold prices. Nevertheless, overall current account dynamics remain sustainable in the absence of a major shock.

We keep our baseline as a controlled scenario with the continuation of restrictive policies in the ST

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Growth stays moderate, with a somewhat restrictive policy mix (monetary policy not being able to ease much and fiscal policy turning neutral) generating limited negative output gap throughout 2026, with risks on the upside.

Disinflation continues but more slowly than our previous expectations, due to the worsening in trend since August and signals of an easing bias of the CBRT.

On currency, slow gains in disinflation requires a stronger currency in the ST where we maintain our USDTRY call of 52 by end-2026 (<2% m/m nominal depreciation) despite a higher inflation projection.

On rates, we expect the CBRT to maintain rate cuts with an ongoing reliance on macro-prudential measures, with no marginal changes in our previous real rate projections.

We remain prudent and forecast 4% GDP growth, and 25% year-end inflation for 2026 with risks to the upside

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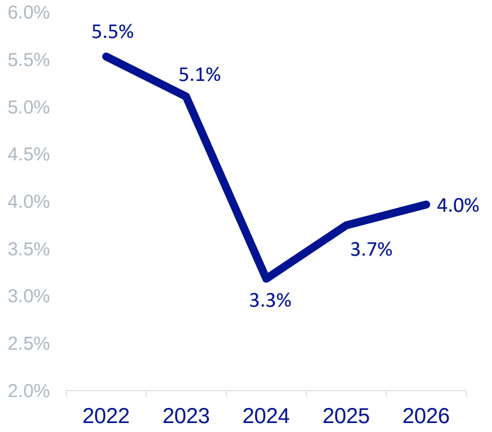
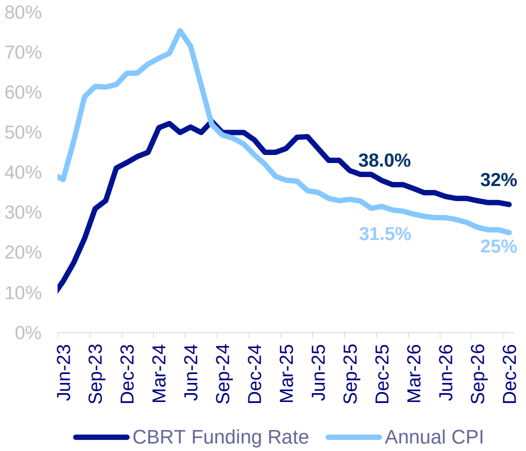
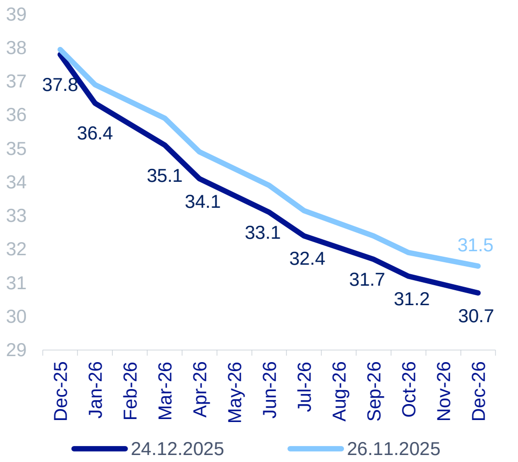
GARANTI BBVA GDP GROWTH FORECASTS (% YOY)



GARANTI BBVA CPI & CBRT POLICY RATE FORECASTS (% YOY)



MARKET PRICING ON CBRT FUNDING RATE (%)



Source: TURKSTAT and Garanti BBVA Research

We expect the CBRT to maintain a gradual easing path, increasing the challenges on inflation outlook and making it more prone to miss the inflation targets.

Garanti BBVA Baseline Scenario

	2023	2024	2025	2026
GDP growth (avg)	5.0%	3.3%	**3.7%**	**4.0%**
Unemployment Rate (avg)	9.4%	8.7%	**8.4%**	**9.2%**
Inflation (avg)	53.9%	58.5%	**34.9%**	**28.3%**
Inflation (eop)	64.8%	44.4%	**31.5%**	**25.0%**
CBRT Cost of Funding (avg)	20.5%	49.6%	**43.6%**	**34.3%**
CBRT Cost of Funding (eop)	42.5%	47.5%	**38.0%**	**32.0%**
USDTRY (avg)	23.7	32.8	**39.5**	**47.9**
USDTRY (eop)	29.4	35.3	**43.0**	**52.0**
EURTRY (avg)	25.7	35.5	**44.7**	**56.7**
EURTRY (eop)	32.6	36.7	**50.0**	**62.3**
Current Account Balance (% GDP)	-3.5%	-0.7%	**-1.3%**	**-1.5%**
CG Primary Balance (% GDP)	-2.6%	-1.9%	**-0.3%**	**-0.2%**
CG Budget Balance (% GDP)	-5.1%	-4.7%	**-3.6%**	**-3.7%**

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