

OCTOBER 2025

Türkiye Economic Outlook

Main messages

Economic policies

Our baseline scenario assumes the continuation of the restrictive policies prioritizing disinflation in the short term. We expect the abundant level of CBRT reserves and a relatively higher real interest rate to act as buffers against any volatility in the near future. External financial conditions, if stay supportive, can also help the outlook.



Growth outlook

Led by the positive surprise of 2Q25 GDP data, 2025 GDP growth will likely reach 3.5-4%, creating a carry-over impact for 2026. Nevertheless, we remain prudent and keep our previous 2026 GDP growth forecast of 4%. We envisage that the CBRT continues rate cuts but reduces its pace with an ongoing reliance on macro-prudential measures for longer (38.5% rate by end 2025 and 30% by end 2026). We assume the negative fiscal impulse of this year seen since April might turn neutral in 2026.



Inflation and Rates

After the last months' negative surprises, we now forecast closer to 33% year-end consumer inflation. Given such stickiness, we added some persistence on certain services items and forecast 2026 year-end inflation as 23%, with risks tilted to the upside. We still assume a limited average real appreciation in 2026 (44 USDTRY by end 2025 and 52 USDTRY by end 2026).



Risks

Global financial volatility affecting demand for EM assets, Trump policies particularly impacting Europe, and increasing domestic unknowns are near term risks on the Turkish economy, keeping us cautious.

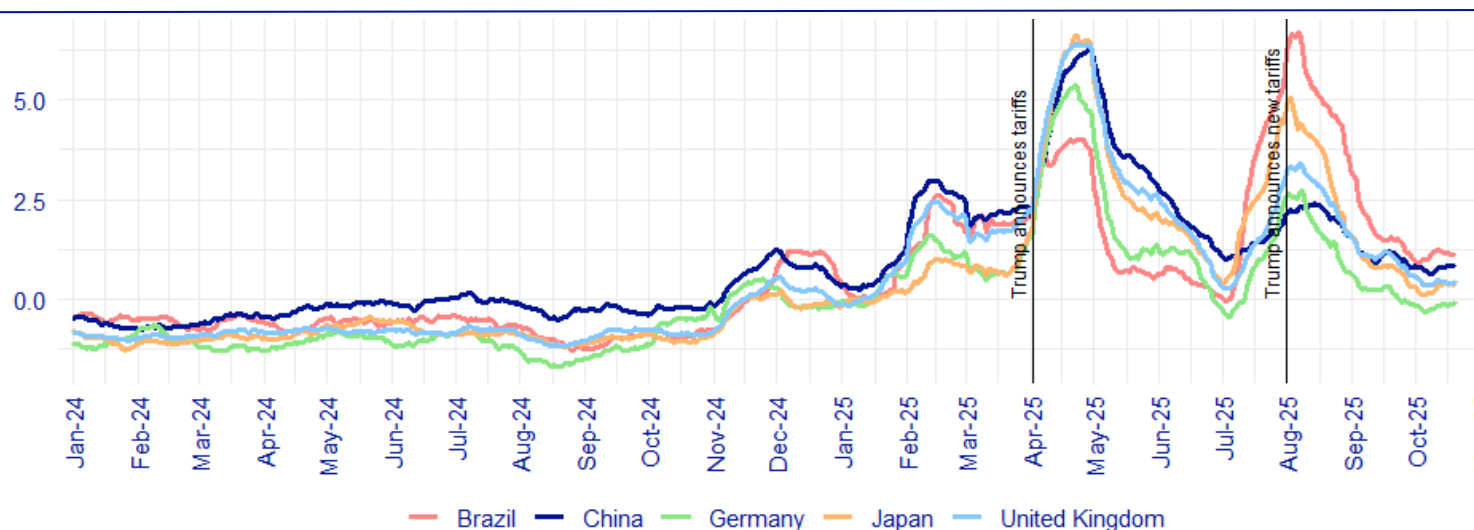


Global Economic Outlook

Trade uncertainty has stopped its downward trend

After trade deals reached by end of summer, news flow remained limited and trade uncertainty stayed contained until October, when US-China tensions resurfaced

TRADE POLICY UNCERTAINTY
(28-DAY MOVING AVERAGE)



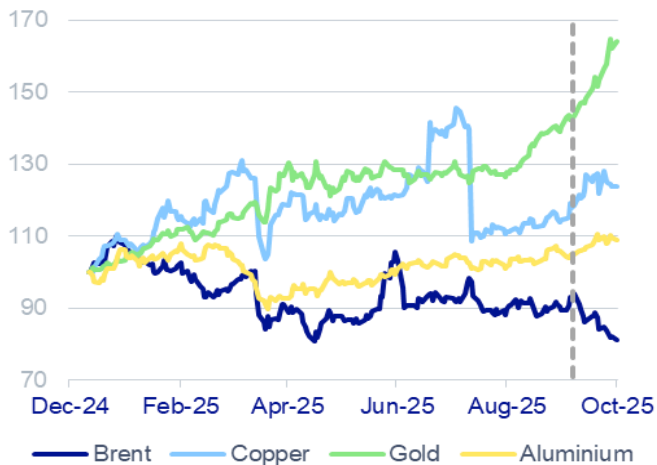
Source: BBVA Research, Geopolitics Monitor

Risk measures rise amid renewed trade tensions

Gold and volatility surged after the U.S. warned of 100% tariffs on China's rare-earth exports, then eased after Trump said such measures are unsustainable. Brent fell as limited OPEC+ output gains added to rising non-OPEC supply, exacerbating the global oversupply.

SELECTED COMMODITY PRICES

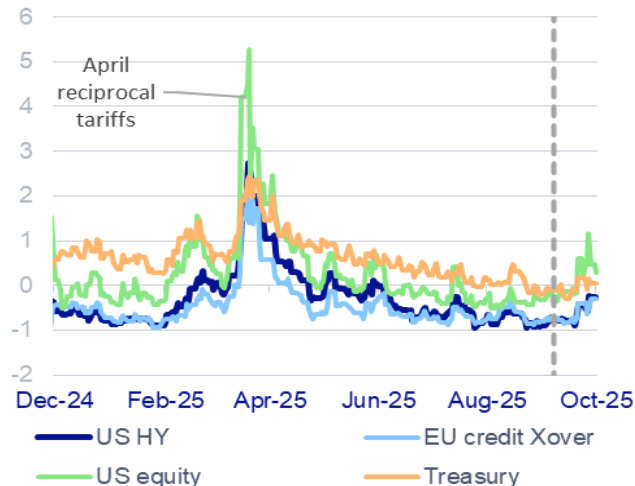
(BASE 100 JANUARY 2025)



Source: BBVA Research based on Bloomberg

IMPLIED VOLATILITY IN SELECTED ASSETS

(STANDARD DEVIATION FROM THEIR MEAN)

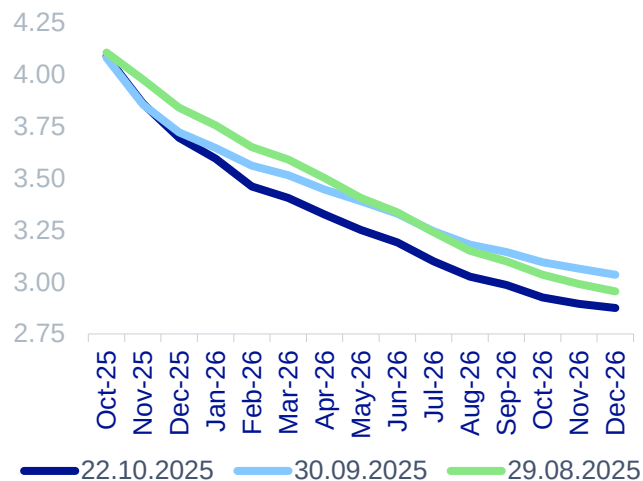


Source: BBVA Research based on Bloomberg

Markets' expectations for rate cuts rose slightly

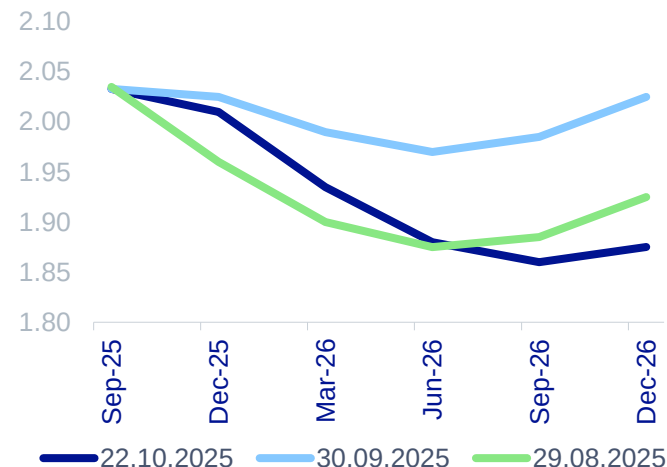
Investors now price in a 100% probability of two 25bp Fed cuts this year and a slightly below 3% terminal rate, following weak private employment data. Odds of an additional 25bp ECB cut have risen to 70%, amid persistent weakness in German industrial activity.

US IMPLIED RATES IN FED FUND FUTURES (%)



Source: BBVA Research based on Bloomberg

EZ: IMPLIED RATES IN EURIBOR FUTURES (%)



Source: BBVA Research based on Bloomberg

US-EU yields eased

Sovereign yields declined across the board, driven by negative economic surprises in the US and the EZ, safe-haven flows, and the partial US government shutdown. Term premium inched down

US SOVEREIGN YIELDS AND 10Y TERM PREMIUM (%)



Note: TMP = term premium
Source: BBVA Research based on data from Haver.

GERMANY YIELDS AND 10Y TERM PREMIUM (%)

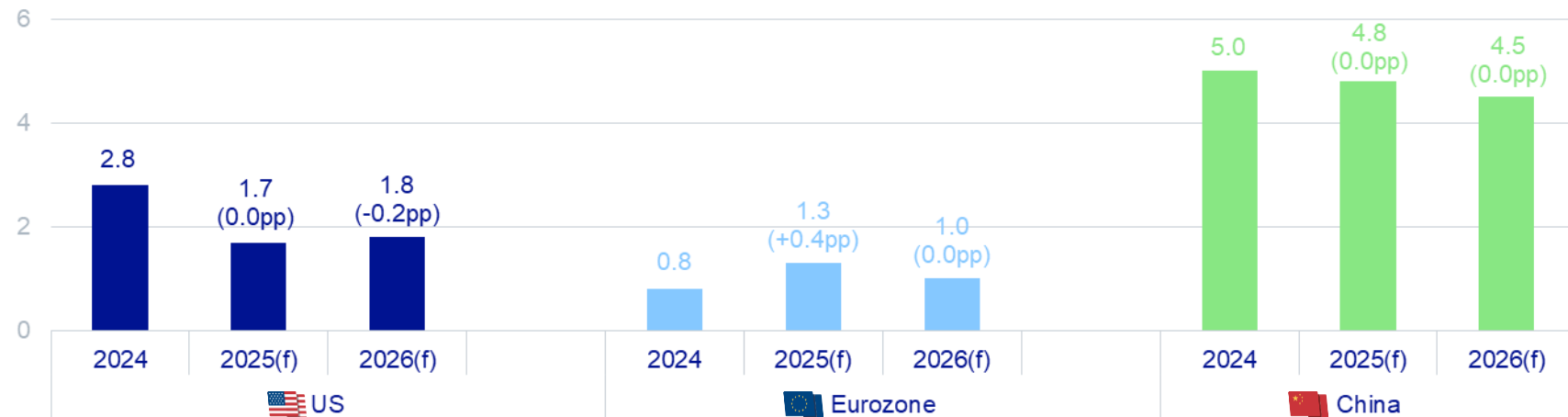


Source: BBVA Research based on data from Haver

We forecast global growth to moderate gradually, from 3.3% in 2024 to 3.0% in 2025 and 3.1% in 2026

GDP GROWTH

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



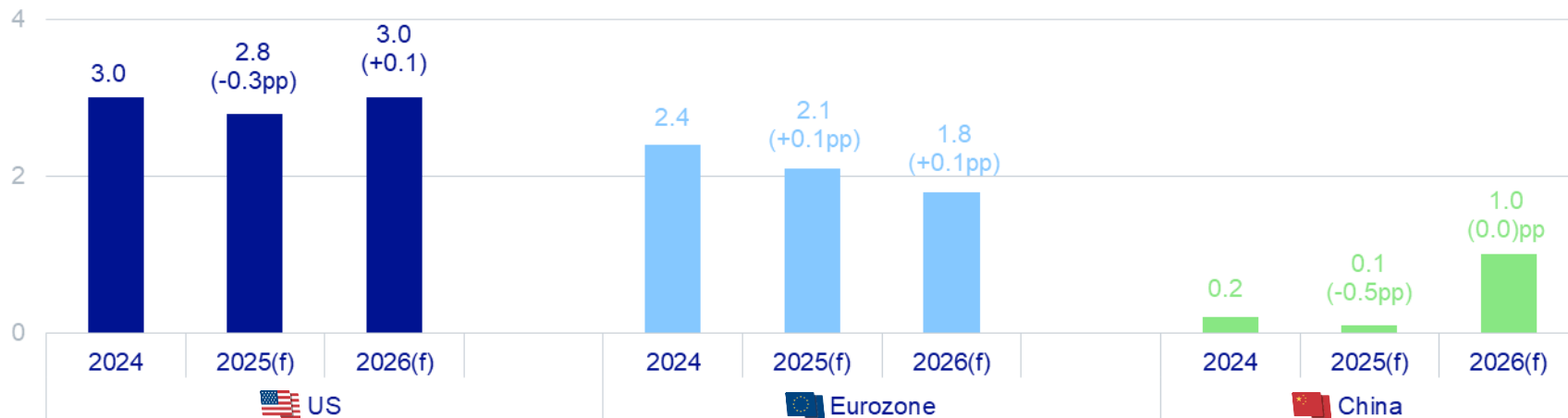
(f): forecast.
Source: BBVA Research

In the US, more disruptive policies favor weaker growth despite supportive 2Q25 GDP data and positive AI effects; in Europe, recent data support higher growth in 2025, while 2026 outlook stays unchanged: defense stimulus to offset tariff impact; in China, slowdown prospects remain in place

Inflation: tariff effects are still expected; unchanged prospects in Europe; deflation risks in China

HEADLINE CPI INFLATION

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



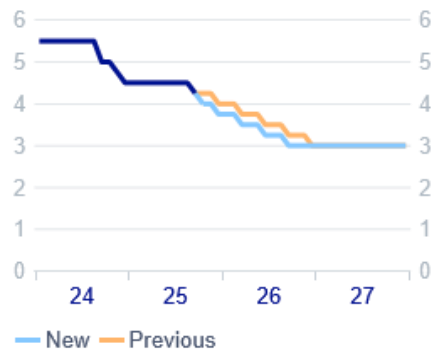
(f): forecast.
Source: BBVA Research

**US inflation has surprised downward, but tariffs and immigration curbs will keep it around 3%;
in the Eurozone inflation will likely be slightly higher than previous forecasts but still very close to 2%;
In China, moving out of the low-inflation regime is proving increasingly challenging**

US: Updated rate forecasts

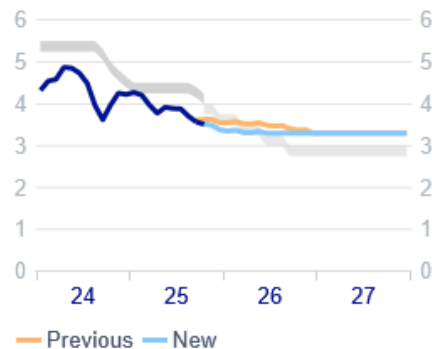
We maintain our view that a structurally higher term premium will keep the 10-year yield near 4.0%

FED FUNDS RATE OUTLOOK
(%, UPPER BAND OF THE TARGET RANGE)



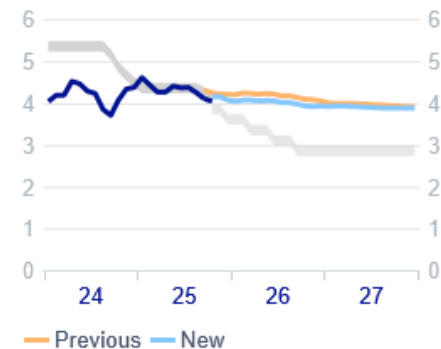
	25	26	27
New	3.75	3.00	3.00
Previous	4.00	3.00	3.00

2-YEAR TREASURY YIELD OUTLOOK (%)



	25	26	27
New	3.4	3.3	3.3
Previous	3.6	3.3	3.3

10-YEAR TREASURY YIELD OUTLOOK (%)



	25	26	27*
New	4.1	4.0	3.9
Previous	4.2	4.1	3.9

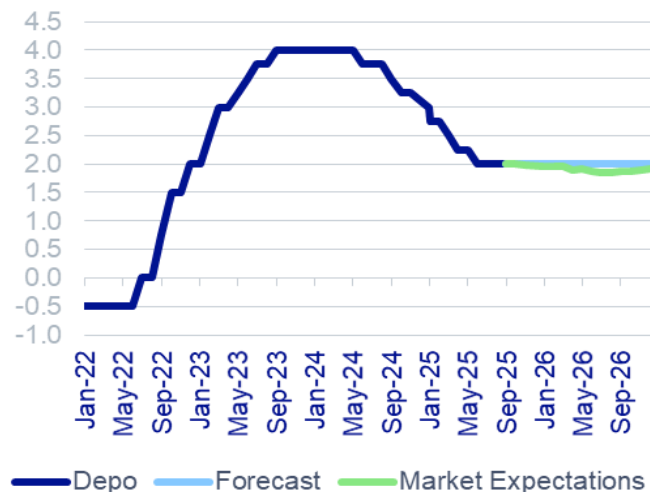
The gray area indicates the fed funds rate target range
Source: BBVA Research / Fed / Treasury Dept.

* The steady-state level incorporates a ~20 basis point spread over the value estimated by the econometric model

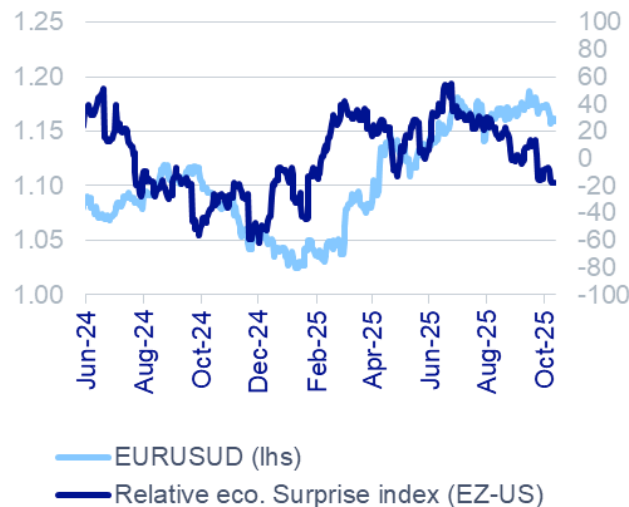
ECB: in “good place” at 2% deposit rate

We continue to expect the ECB to hold rates at 2%, with (limited) risk of one more cut. EUR/USD has eased to 1.16, as risk reversals turn more neutral.

ECB: DEPO RATE FORECASTS
(%)



EURUSD AND ECONOMIC SURPRISES
(USD, %)



Türkiye Economic Outlook

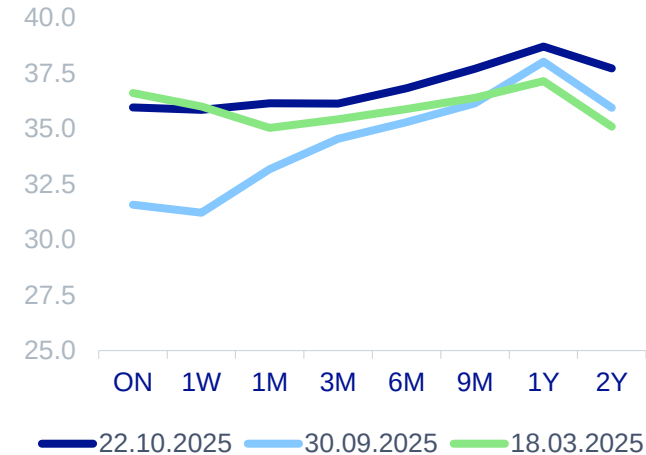
Concerns on inflation and uncertainties on domestic politics have made foreigners more cautious

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



Source: Bloomberg and Garanti BBVA Research

USDTRY FORWARD IMPLIED RATES (%)

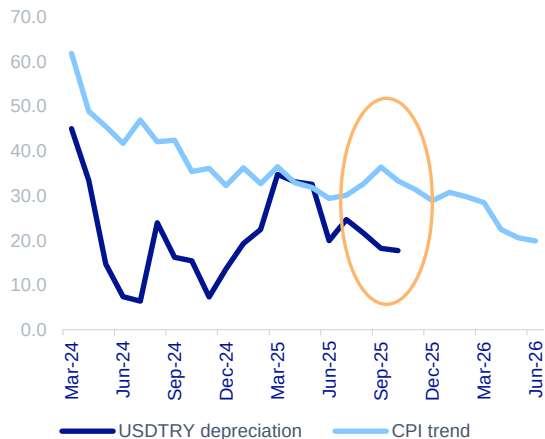


Source: Bloomberg and Garanti BBVA Research

CBRT actions and domestic legal calendar with trials against the opposition are key to be watched out.

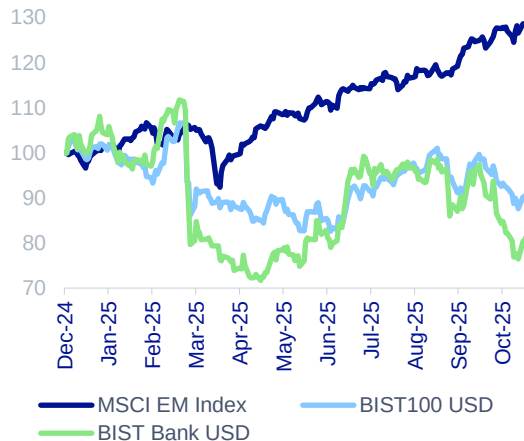
Inflationary pressure will likely require a stronger managed currency in the ST

USDTRY NOMINAL DEPRECIATION & CPI TREND (ANNUALIZED)



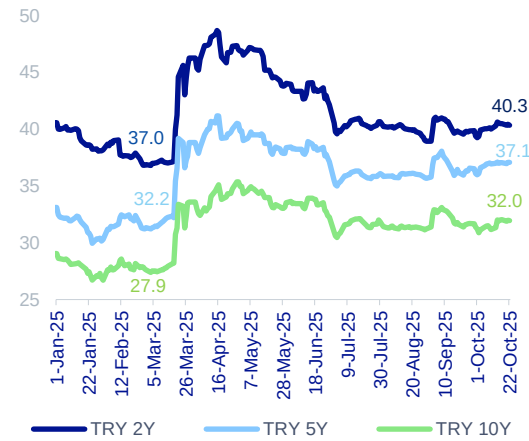
Source: Bloomberg and Garanti BBVA Research

MSCI & BIST EQUITY (31.12.2024=100)



Source: Bloomberg and Garanti BBVA Research

TRY SOVEREIGN YIELD CURVE (%)



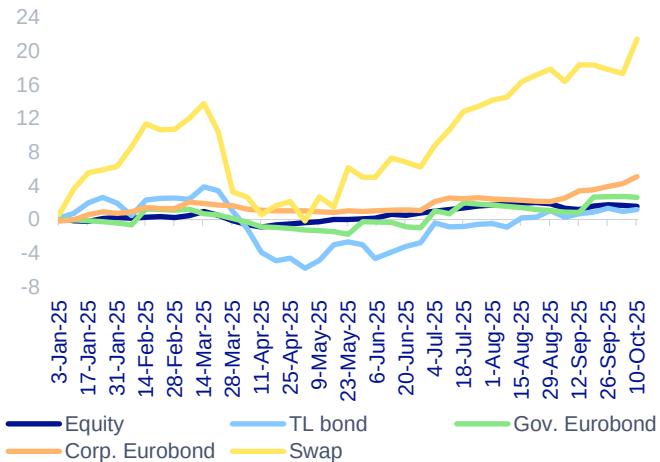
Source: Bloomberg and Garanti BBVA Research

Slower rate cut expectations weigh down on equities and TL bonds. The CBRT has decelerated USDTRY nominal depreciation below 20% compounded.

Foreigners' exposure stay at mainly carry trade swaps

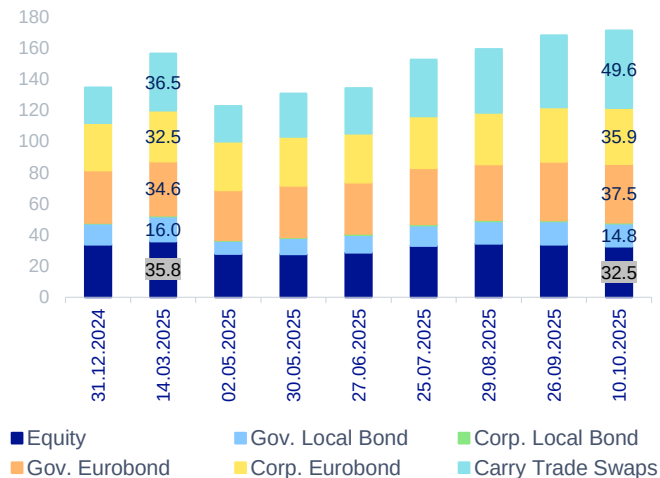
FOREIGNERS FLOWS TO TR ASSETS*

(\$USbn, cumulative year to date)



FOREIGNERS EXPOSURE TO TR ASSETS*

(\$USbn, STOCK)



* Excluding local banks' external subsidiaries

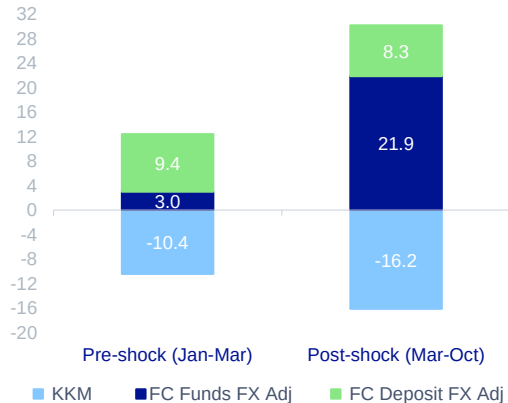
* Including only the outright purchases in Government local bonds

Source: CBRT and Garanti BBVA Research

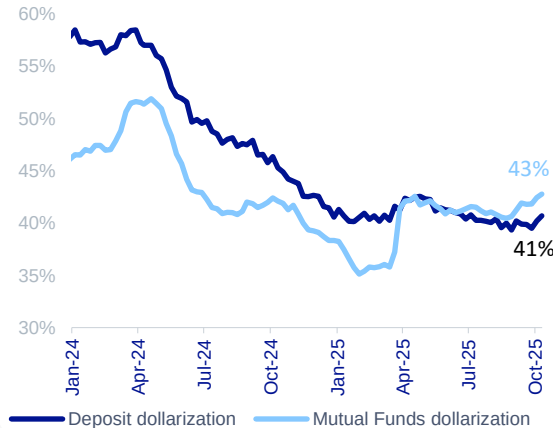
Foreigner remain opportunistic, concentrating on very short term gains.

On the residents side, FC demand continues modestly with dollarization ratio closer to 40%

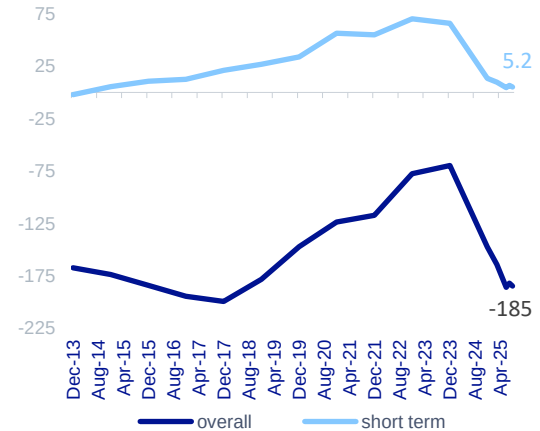
CHANGES IN FC INSTRUMENTS, SECTOR (\$USbn, as of Oct 10th)



DOLLARIZATION RATIO (%)



NON-FINANCIAL CORPORATES FX POSITION (\$USbn)



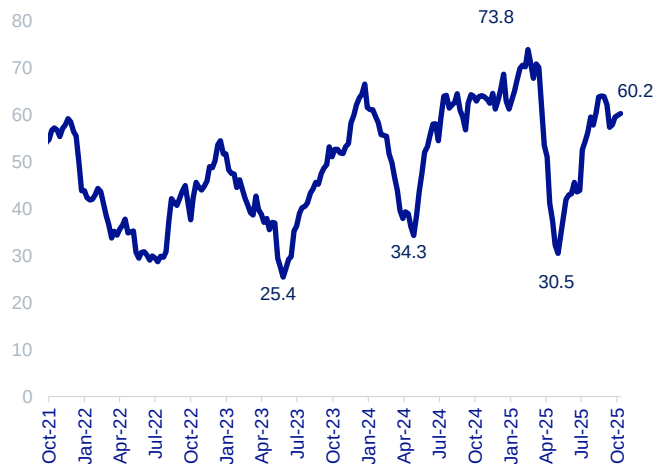
* FC Funds consist of FC Hedge Funds, Eurobond Funds and Precious Metals Funds. TL Funds include Money Market Participation & Hedge Funds, Stock Market Funds, Debt Securities Funds, TL Hedge Funds and TL Variable Funds

Source: TEFAS, BRSA, CBRT and Garanti BBVA Research

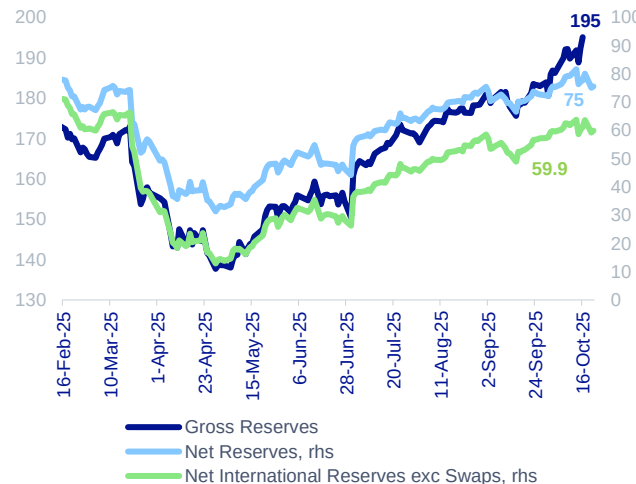
KKM has been finalized except for YUVAM accounts. A higher FC demand in favor of FC funds than the KKM exit continues since March shock; yet overall dollarization ratio stays closer to 40%.

After the volatility in early Sep, the CBRT has again started to buy reserves, mostly boosted by gold prices

CBRT HIGH LIQUID FOREIGN ASSETS (\$Usbn, as of 10th of October)



CBRT INTERNATIONAL RESERVES (\$Usbn, as of 21st of October)



YTD gold price impact:

\$35bn for gross
\$26bn for net

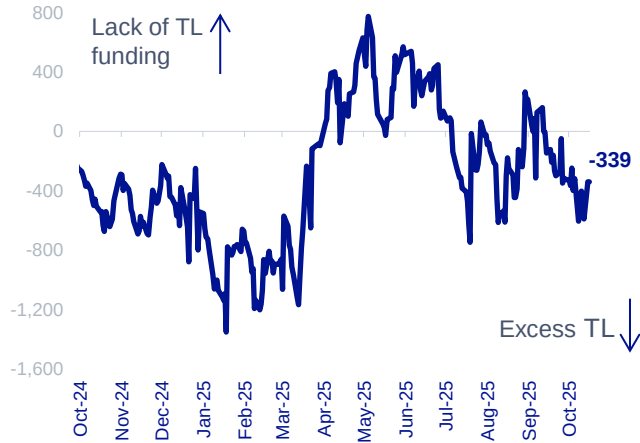
*Adjusted from gold price effects. CBRT payments due from KKM are assumed to have a similar ratio in Garanti BBVA since March 29th 2024.

Source: TURKSTAT, CBRT and Garanti BBVA Research

The CBRT stays well prepared to defend the Lira (as seen in early Sep) with high liquid foreign assets as high as nearly 60bn\$ (vs. pre-March shock peak level of 74bn\$).

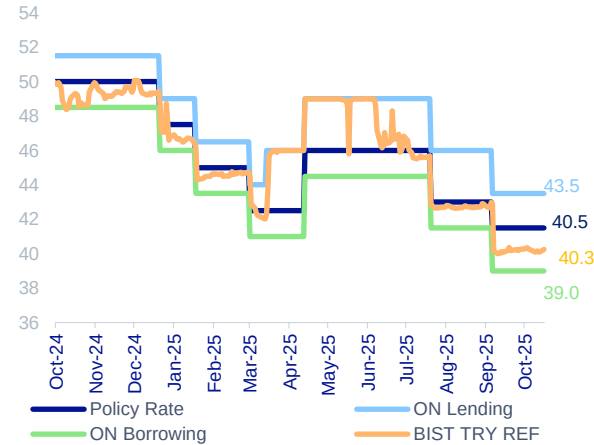
The CBRT proactively sterilizes TL liquidity, leading the cost of funding to stay closer to the policy rate

NET CBRT FUNDING*
(bn TL, as of Oct 21st)



* 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 (% , as of Oct 21st)

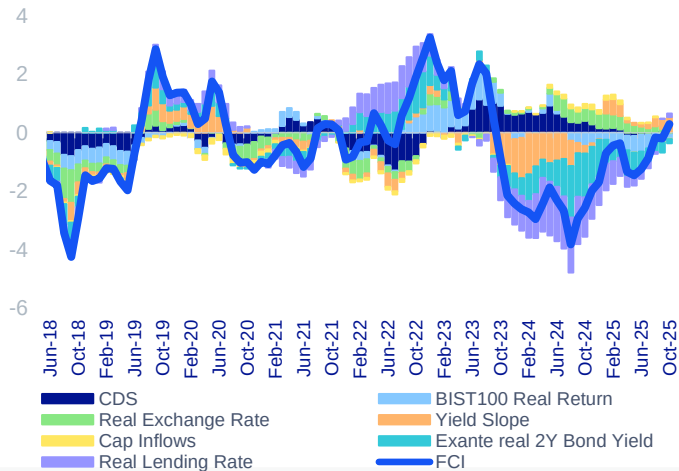


Source: CBRT and Garanti BBVA Research

After the CBRT became a net FC seller to the market in the first two weeks of Sep, we have observed the lack of TL liquidity, which now reverse with again FC purchases from the market.

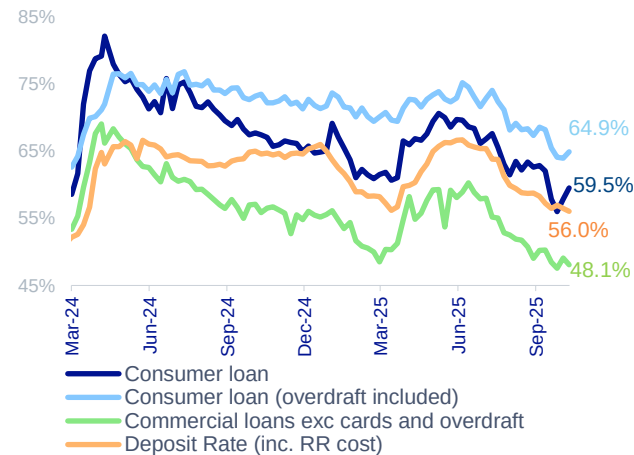
Financial conditions converge to the neutral level in Sep, requiring the CBRT to be prudent

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



Source: TURKSTAT, CBRT, Bloomberg and Garanti BBVA Research

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



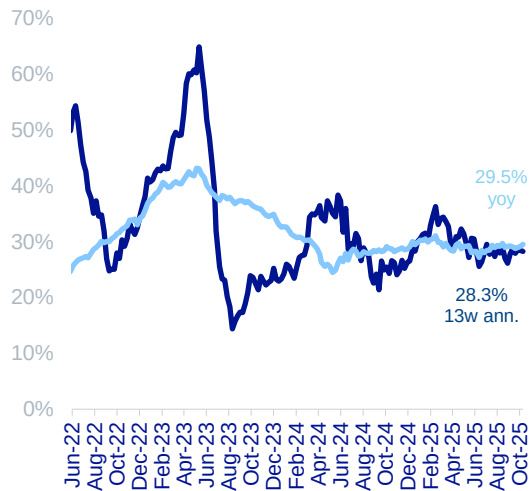
Source: CBRT and Garanti BBVA Research

Liquidity policies and deposit rules remain essential in order not to allow a fast decline in ON TL rates and a speeding up dollarization. Yet, the transmission mechanism is weakening.

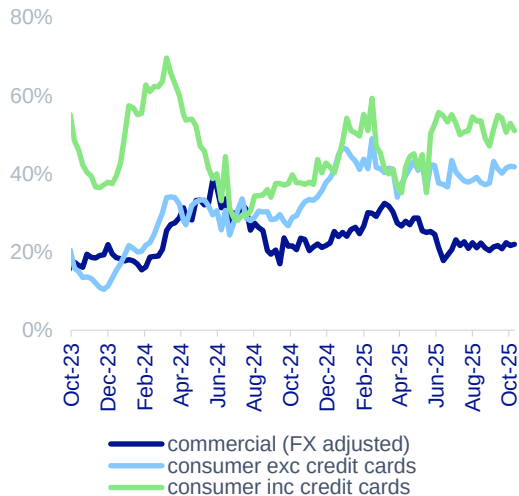
Loan growth maintains a moderate momentum, parallel to or slightly below the monthly CPI trend

TOTAL CREDIT GROWTH (FX ADJ)

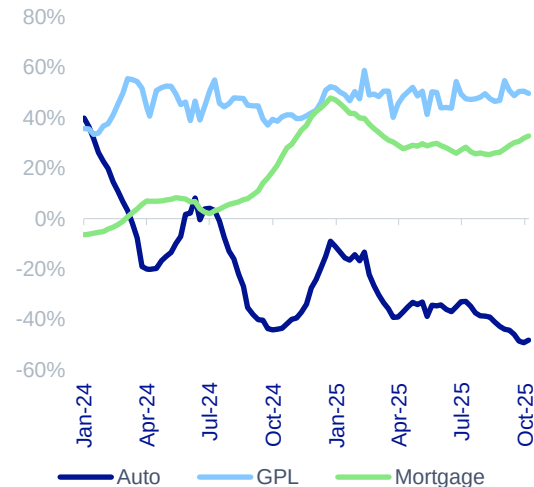
13 WEEK ANNUALIZED & YOY



CREDIT GROWTH 13 WEEK ANNUALIZED



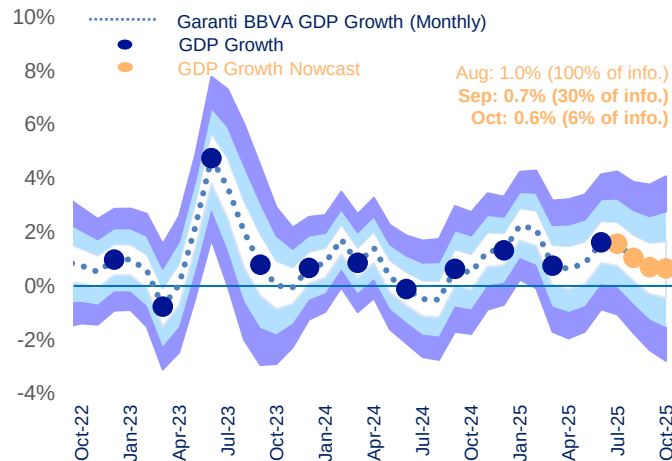
CONSUMER CREDIT GROWTH 13 WEEK ANNUALIZED



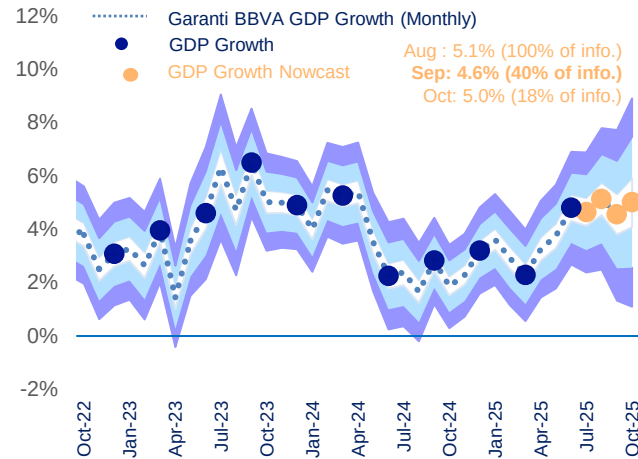
TL credit growth is backed by mainly consumer lending, implying the continuation of a higher growth in non-capped items (around 50% of the credit book in the sector).

Quarterly GDP growth stays moderate at 0.5-1%. 2025 GDP growth could easily reach 3.5-4%

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



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

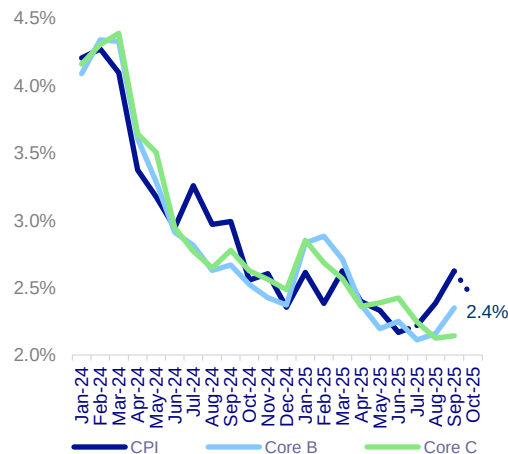


Source: TURKSTAT, CBRT and Garanti BBVA Research

We nowcast 0.5-1% quarterly GDP growth in 3Q25 with the early indicators, which could generate around 4.5% y/y GDP growth.

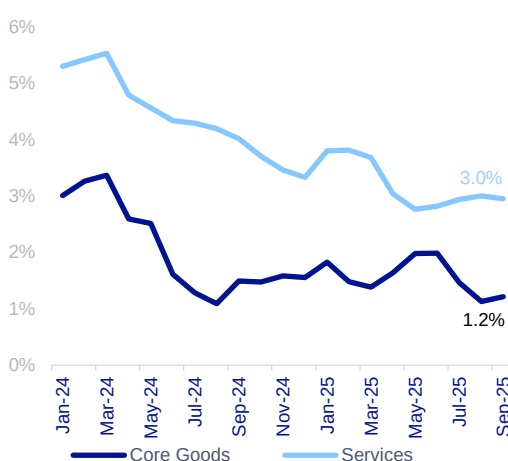
Higher than expected CPI prints since August worsen inflation expectations. Oct CPI will stay high at 3%

TREND CPI INDICATORS
(SA MoM, 3M AVG)



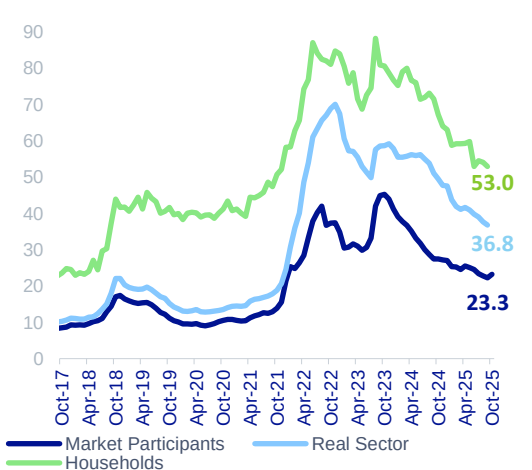
Source: TURKSTAT and Garanti BBVA Research

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



Source: TURKSTAT and Garanti BBVA Research

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

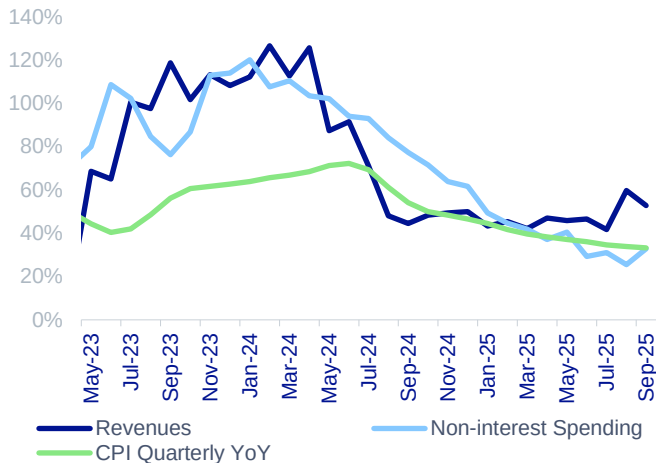


Source: TURKSTAT and Garanti BBVA Research

After the negative surprises since August, we now forecast year-end inflation closer to 33%. Compared to the CBRT's 25-29% forecast range, the CBRT is required to give a reaction.

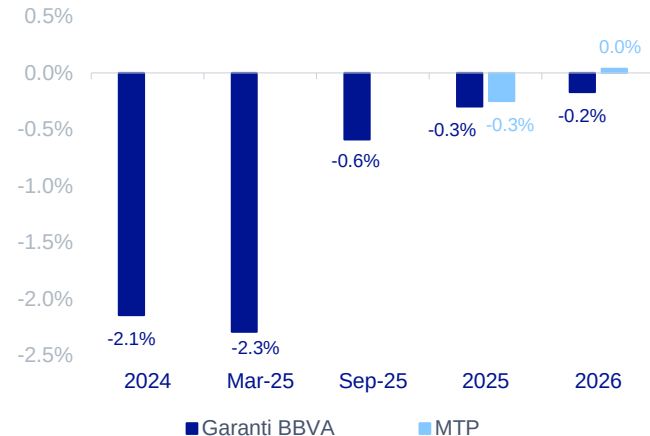
Negative fiscal impulse since Apr may reverse in 4Q25, leading primary cash deficit to around 1% by end 2025

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



Source: Garanti BBVA Research

BUDGET PRIMARY BALANCE* (% GDP)



* Realizations are cash basis, 2025 and 2026 forecasts are on an accrual basis
Source: Garanti BBVA Research, Treasury

Cash primary deficit to GDP came down to 0.6% of GDP in Sep from 2.1% in Dec24 and 2.3% in Mar25, led by moderating non-interest spending below inflation trend and still strong tax revenues.

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

Growth stays moderate, with domestic demand, particularly consumption kept relatively modest, led by restrictive policies prioritizing disinflation in the short term.



Disinflation continues but with still challenges, keeping us prudent due to persistence in certain services items, and uncertainties about food inflation and real rates.



On currency, the gap for real appreciation has already narrowed down. The abundant level of reserves and a relatively higher real rate in the ST will provide buffers.

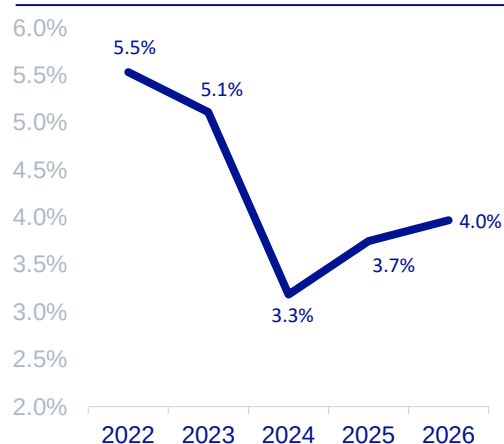


On policy stance, we expect the CBRT to likely maintain rate cuts but reduce its pace with an increasing reliance on macro-prudential measures for longer. We assume almost a neutral fiscal stance in 2026, in line with the MTP.

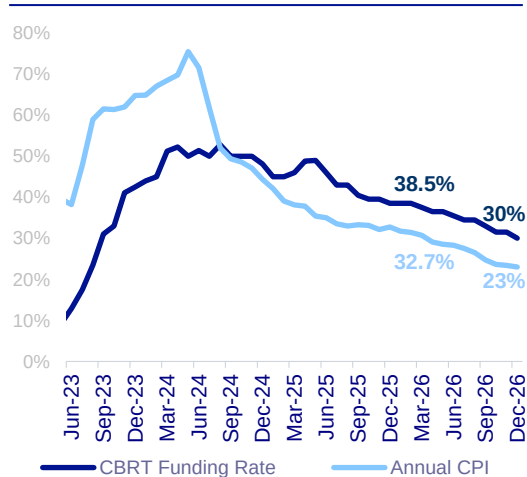


We remain prudent and forecast 4% GDP growth, and 23% year-end inflation for 2026 with risks to the upside

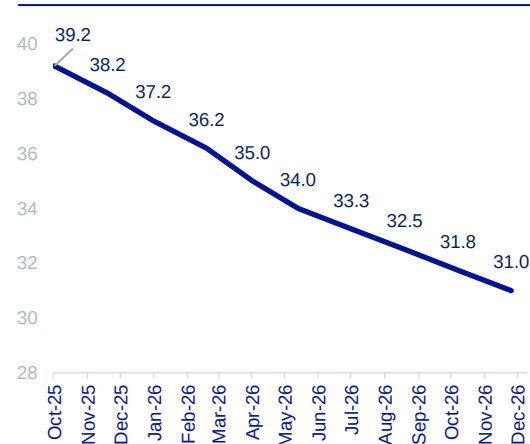
GDP GROWTH FORECASTS (% YOY)



CPI & CBRT FUNDING RATE FORECASTS (% YOY)



MARKET PRICING ON CBRT FUNDING RATE (% , as of Oct 23rd)



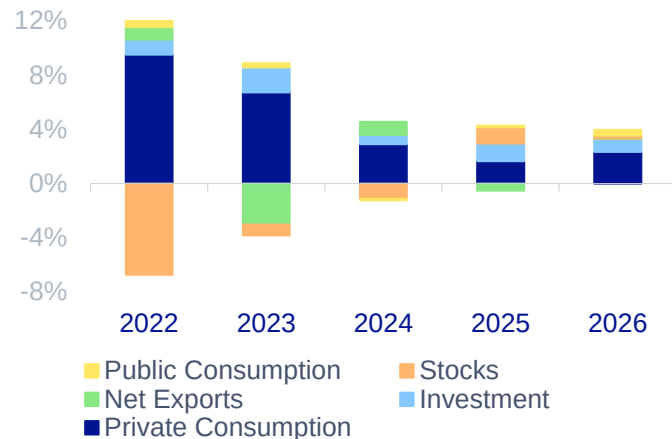
Source: TURKSTAT and Garanti BBVA Research

we maintain the view of gradual rate cuts going ahead, with a similar 100bps cut in Dec. We will watch how the CBRT will revise its inflation projections (25-29% for 2025 and 13-19% for 2026) in the last inflation report of the year and revise our forecasts, accordingly.

We assume private consumption staying much lower than its long term trend, keeping CA deficit moderate

GDP GROWTH FORECASTS

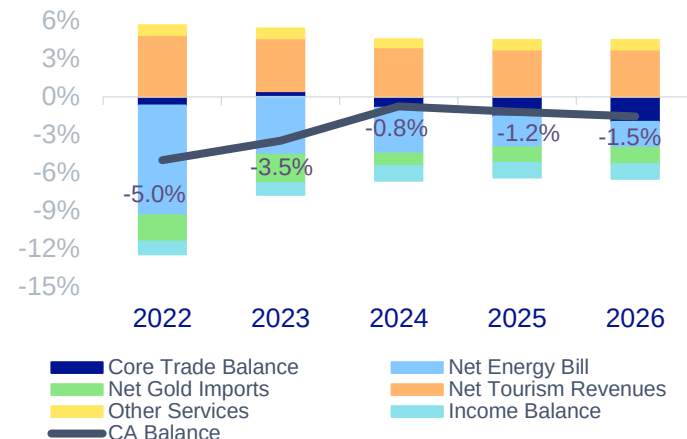
(PP ANNUAL CONTRIBUTION)



Source: TURKSTAT and Garanti BBVA Research

CURRENT ACCOUNT DEFICIT FORECASTS

(% GDP)



Source: Garanti BBVA Research

On the external side, we forecast current account deficit to be 1.2% of GDP in 2025 and 1.5% of GDP in 2026, which can be easily financed. We keep our currency forecasts of 44 and 52 against the US dollar for the end of 2025 and 2026, respectively.

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%	35.2%	27.2%
Inflation (eop)	64.8%	44.4%	32.7%	23.0%
CBRT Cost of Funding (avg)	20.5%	49.6%	43.6%	34.8%
CBRT Cost of Funding (eop)	42.5%	47.5%	38.5%	30.0%
USDTRY (avg)	23.7	32.8	39.7	48.3
USDTRY (eop)	29.4	35.3	44.0	52.0
EURTRY (avg)	25.7	35.5	45.1	57.8
EURTRY (eop)	32.6	36.7	51.8	63.3
Current Account Balance (% GDP)	-3.5%	-0.7%	-1.2%	-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%

