BBVA Research

February 2026

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 ST. The CBRT shows a will to utilize the scope available to the extent permitted by inflation trend and reserve flows; yet January MPC decision has confirmed expectations play a key role, as well. Despite cuts, deposit costs might remain higher due to macro-prudential measures. On fiscal policy, cash deficit to GDP ended 2025 at 3.4%, lower than initial estimates (-4%), led by the boost in revenues and the decline in earthquake spending. We continue to expect close to a neutral fiscal stance in 2026.

Growth Outlook

We nowcast around 3% y/y GDP growth in 4Q25 and in early January. The output gap stays at nearly neutral level, differing from the sharper deceleration signaled by the CBRT. We maintain our GDP growth projections at 3.7% for 2025 and 4% for 2026, with risks to the upside for the latter.

Inflation & Rates

After positive Nov & Dec CPI surprises, Jan-Feb CPI confirm the impact from still resilient demand and distorted pricing behavior (1Q26 cumulative CPI to reach 10%, similar to 2025). We maintain our call of 25% for 2026-end inflation with risks to the upside; where the CBRT would reduce the policy rate to up to 32% by year end (with step sizes below 100bps in some meetings, potentially in March as well). We also keep our year end USD/TRY forecast 52 for 2026, which would still stay as the main anchor for disinflation in the ST.

Risks

Global financial volatility affecting risk appetite and demand for EM assets, policies particularly impacting Europe, and domestic & regional uncertainties (Iran conflict) 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

Trump effects accelerated in early 2026: the US is in a journey towards institutional erosion

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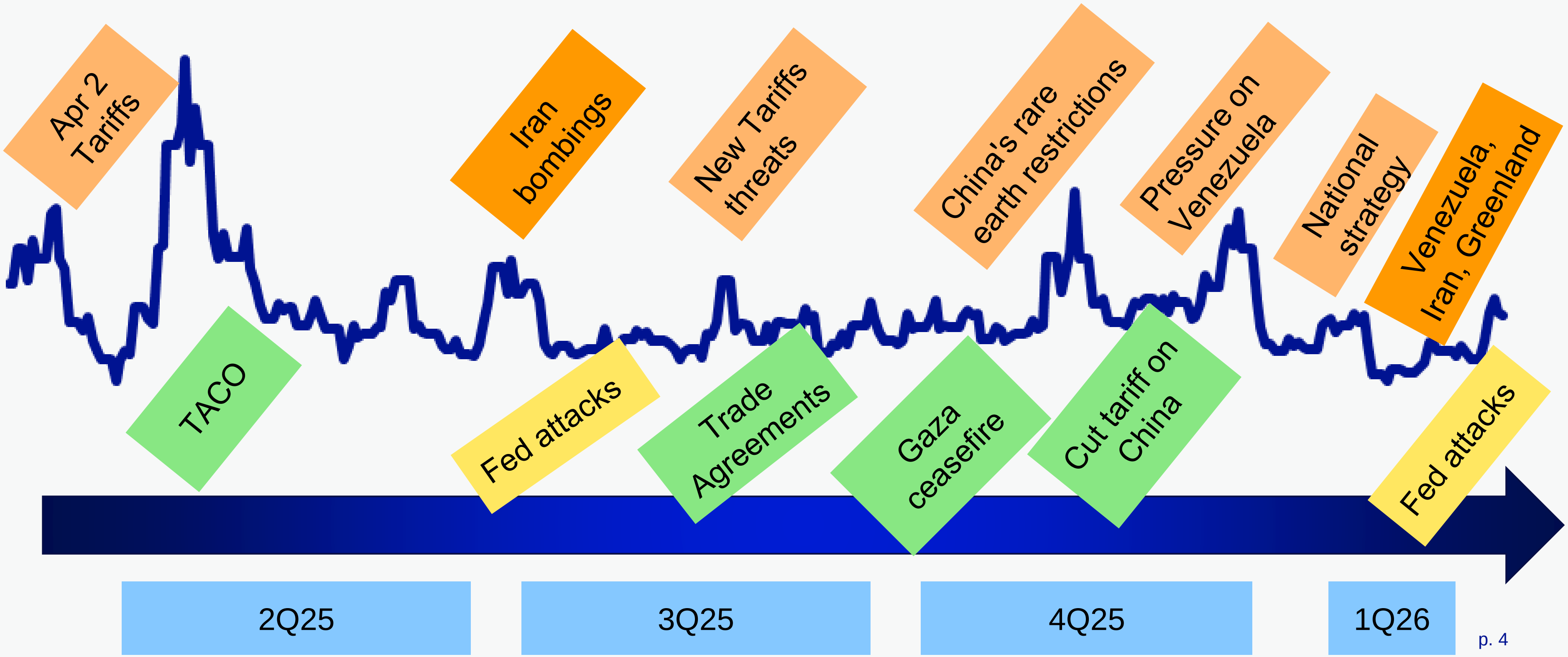
KEY POLICY DECISIONS BY US ADMINISTRATION AND FINANCIAL MARKETS VOLATILITY (VIX)



Our Trump scenario of late 2024 has been surpassed

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Trade protectionism (targeted tariffs, mainly on China)	**Generalized tariffs, higher than expected, even on partners (CAN, EU, JAP, KOR)**
Anti-immigration policies (upward pressure on domestic wages)	**Much more aggressive than expected**
Expansionary Fiscal Policy (tax cuts, large spending, esp. on defense)	**Confirmed, One Big Beautiful Bill**
Climate policies will be downplayed (still, IRA would not be fully repealed)	**Sharp U-turn in climate policies**
Criticism of the Fed (but independence is likely to be preserved)	**Ongoing, more aggressive than expected**
Attacks on rule of law (but checks and balances will prevail)	**Confirmed, with a “family bias” (neo-royalism); limited checks and balances**
More pro-Israel, less anti-Russia policies (sanctions on Iran; UKR peace process more likely)	**Confirmed, tougher on UKR than expected, and radical National Strategy**

Tariffs update: threats on Iran partners and Greenland supporters show tariffs remain in the policy toolbox

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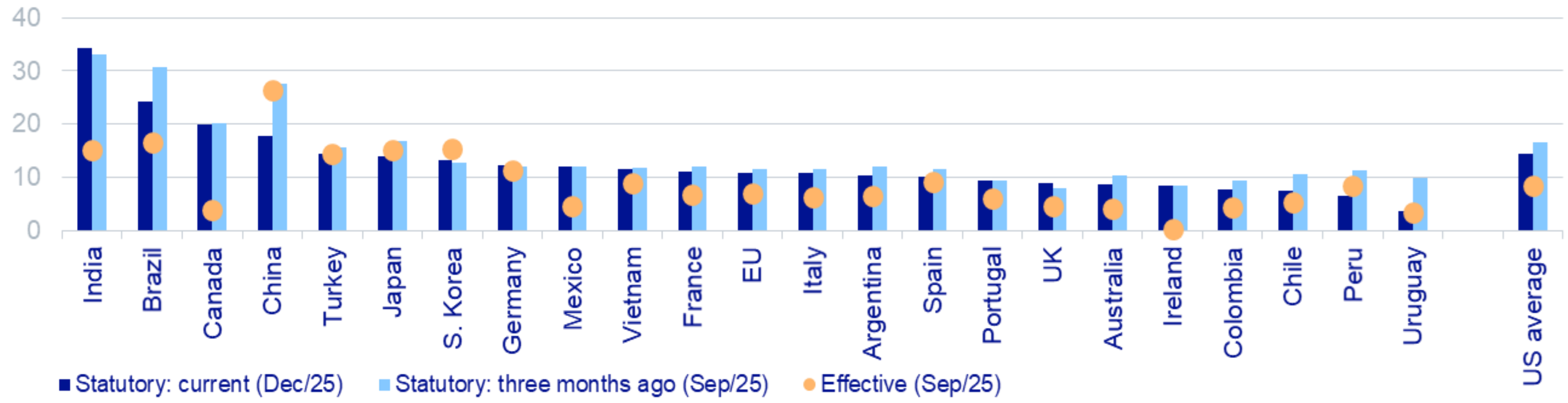
US STATUTORY AND EFFECTIVE TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 (*) (PP)



(*) 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. 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) paved the way for lower tariff levels in the last months of 2025, but recent announcements increase tariffs risks again while uncertainty persists, also due to possible legal overruling of reciprocal and fentanyl tariffs

Markets: still limited impact from geopolitical risks, Fed independence fears, and interventionist US policies

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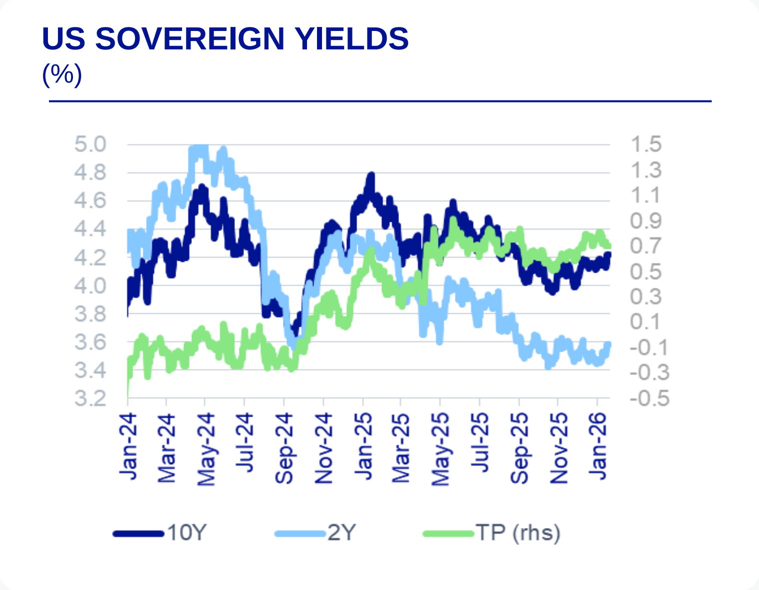
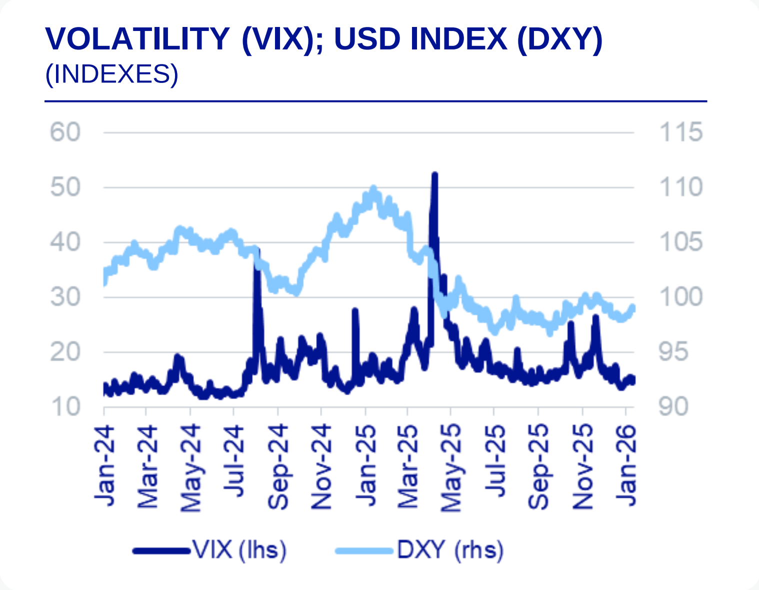


Source: BBVA Research based on data from Haver



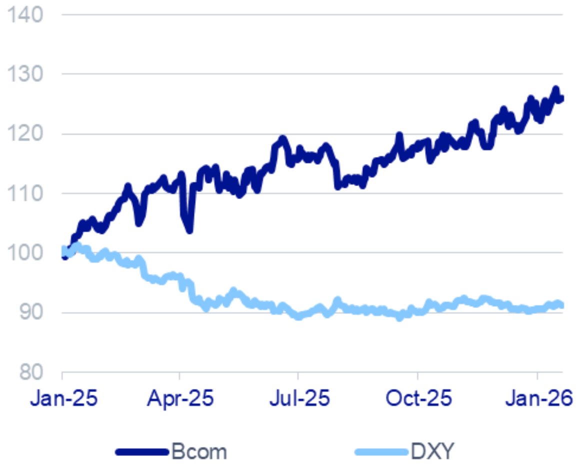
Source: BBVA Research based on data from Haver

Markets are turning more cautious given growing noise around US interventionist policies (e.g., caps on credit card rates), the criminal investigation involving J. Powell and geopolitical tensions.

Commodities act as a hedge

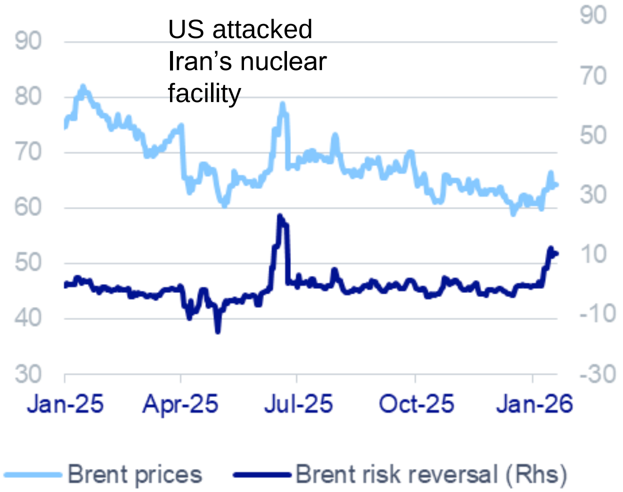
The USD appreciated and metal commodities outperformed. Brent prices rose in short-term futures despite Venezuela and Iran tensions, with investors increasing hedges against higher Brent prices.

USD AND COMMODITY INDEX*
INDEX BASED JANUARY 2025



Deflated by USD index (DXY). Source: BBVA Research based on Bloomberg

OIL BRENT PRICES AND RISK REVERSALS
($/B; VOLATILITY)



Source: BBVA Research based on Bloomberg

US intervention of Venezuela has initially contributed to the downward trend in oil prices as the expected increase in the country’s crude supply offsets the concerns about eventual short-term disruptions, but crude prices are recently finding support on tensions in Iran

Concerns over the Fed's independence have not had a material impact on inflation expectations

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US AND GERMANY 1Y INFLATION SWAP (%)

Deflated by USD index (DXY). Source: BBVA Research based on Bloomberg

US AND GERMANY 5Y5Y FWD INFLATION SWAP (%)

Source: BBVA Research based on Bloomberg

Market pricing delays Fed easing and ECB hikes

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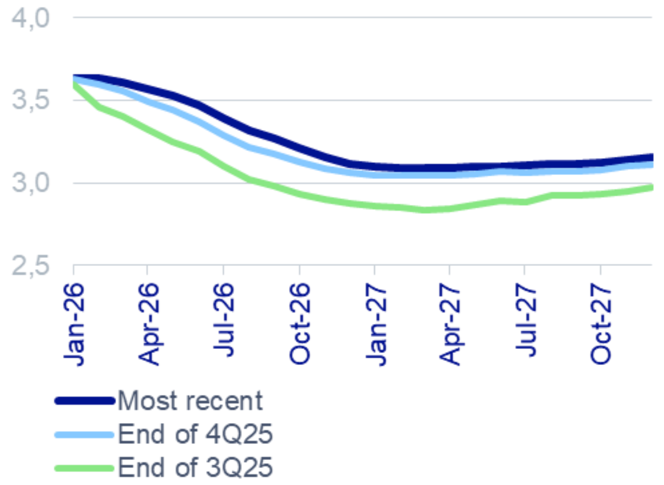
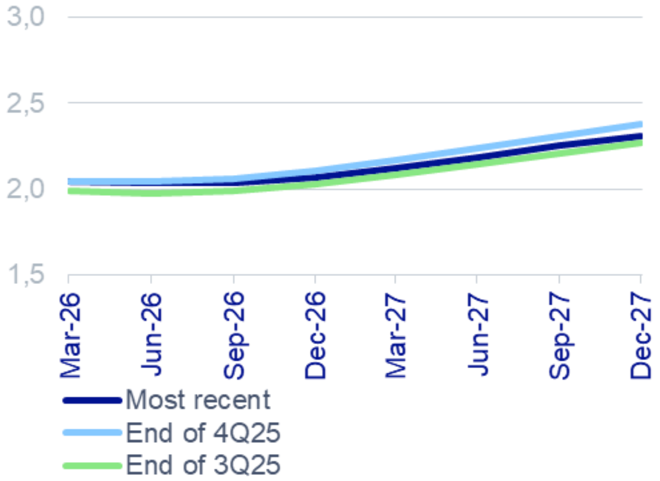
In the U.S., Fed independence risks and resilient consumption push expected rate cuts into 2Q26, with the probability of two cuts in 2026 fading; in EU, ECB lift-off is pushed further out, toward mid-2027

US: IMPLICIT RATE IN FED FUND FUTURES
(%)



Source: BBVA Research based on data from Haver

EZ: IMPLICIT RATE IN EURIBOR FUTURES
(%)



Source: BBVA Research based on data from Haver

The Fed has cut rates by 25 bps in each of its last three meetings to reduce risks of labor market deceleration, but has recently sounded more hawkish on rising inflation concerns amid increasing political pressure.

We expect the Fed step to the sidelines in the following meetings before easing again in 2H26

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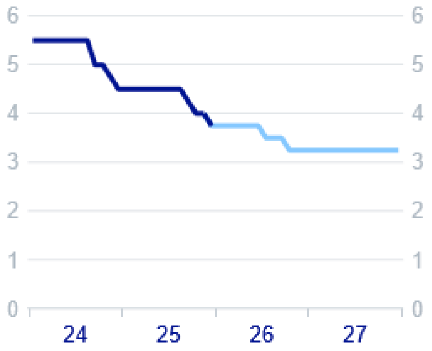
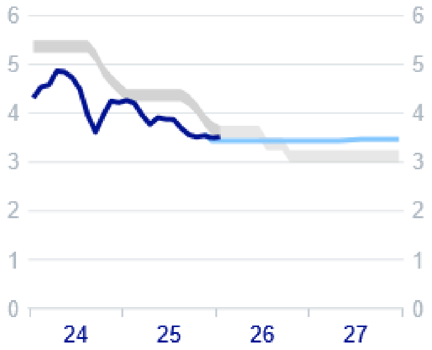
FED FUNDS RATE OUTLOOK
(%, UPPER BAND OF THE TARGET RANGE)



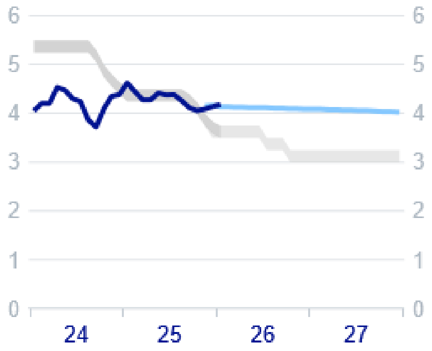
	25	26	27
Fcst (eop)	3.75	3.25	3.25

2-YEAR TREASURY YIELD OUTLOOK (%)



	25	26	27
Fcst (eop)	3.5	3.4	3.5

10-YEAR TREASURY YIELD OUTLOOK (%)



	25	26	27
Fcst (eop)	4.1	4.1	4.0

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

ECB on hold at 2% in 2026; rate hikes expected in 2027

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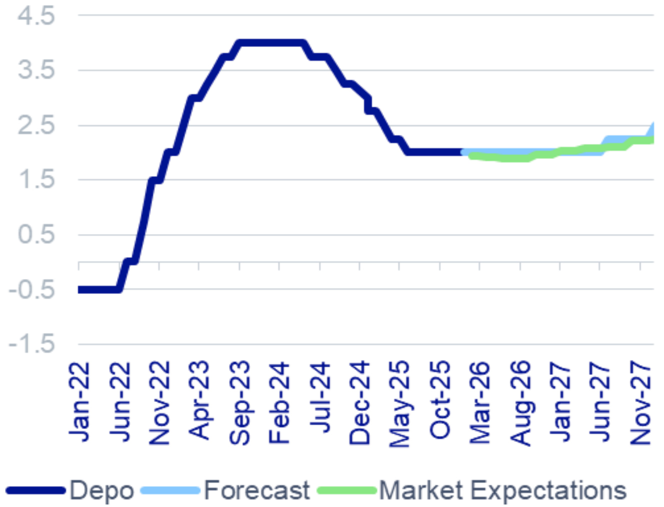
Markets assign some probability (70%) to a rate hike in mid-2027, with a full hike priced (+25bps) in by 4Q27

ECB: DEPO RATE FORECASTS
(%)



Source: Bloomberg and BBVA Research

- **ECB officials: broad consensus that rates are appropriately set,** inflation is close to target, and policy decisions should remain data-dependent, meeting-by-meeting, with agility and no pre-commitment to a rate path.
- **Baseline scenario: we keep our view that rates will remain unchanged throughout next year and part of 2027. First hikes expected in 1H27 (+25bp June, +25bp December) as rates converge toward neutral.** We estimate the real R-star at around 0.5%, **implying a neutral nominal rate close to 2.5%.**

Fed expectations and stronger US macro data have supported a stronger dollar since late December

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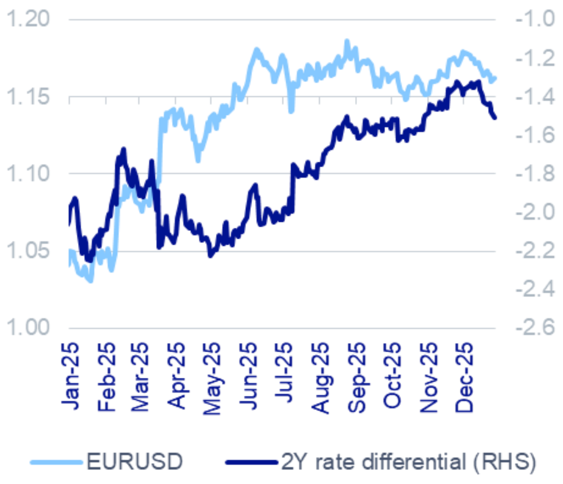
Trump's recent remarks reduced the perceived likelihood of a strongly dovish Fed nominee.

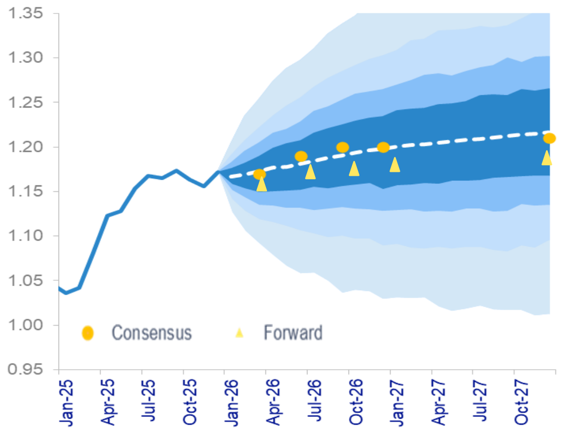
EURUSD AND 2Y RATE DIFFERENTIAL

(USD, %)



EURUSD FORECASTS: BASELINE AND DISTRIBUTION OF PROBABILITIES

(USD)



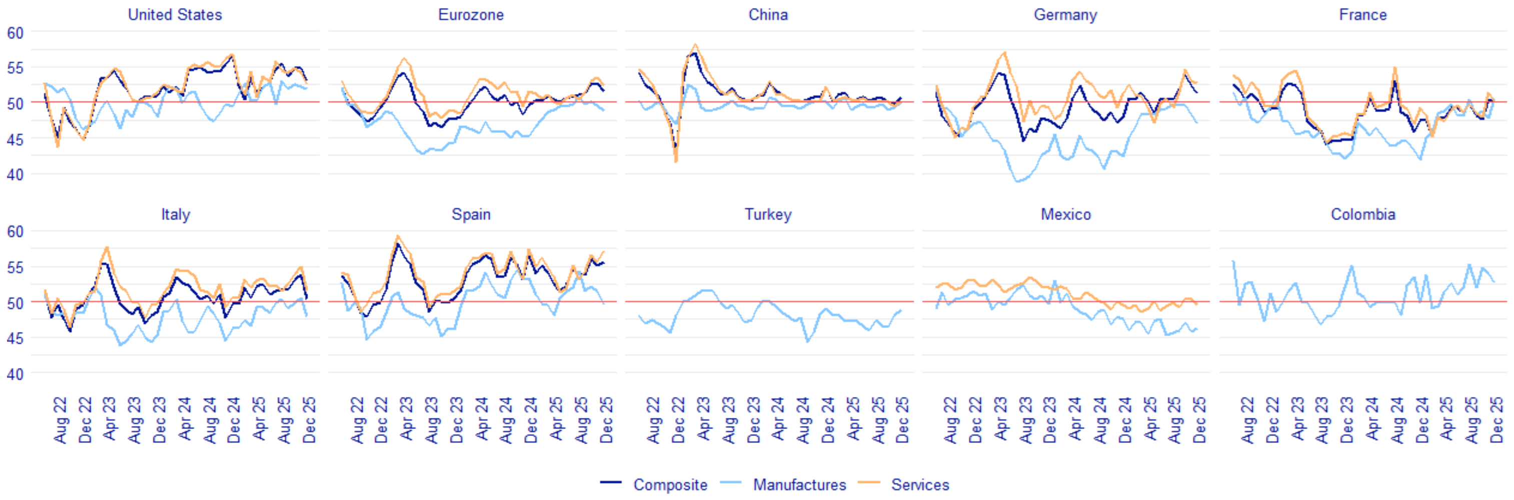
	Probability						
	-70%	-50%	-25%	Base	25%	50%	70%
Dec-26	1.09	1.13	1.15	1.20	1.23	1.26	1.30
Dec-27	1.09	1.13	1.17	1.22	1.27	1.30	1.35

Source: BBVA Research based on Bloomberg

PMIs lose some momentum while staying in expansion

Latest data show pullbacks in the US and Eurozone PMIs (except services Spain), while China remains near neutral levels

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



Source: BBVA Research, based on Haver

Flows: Resilience so far but heightened geopolitical risks pose a formidable threat

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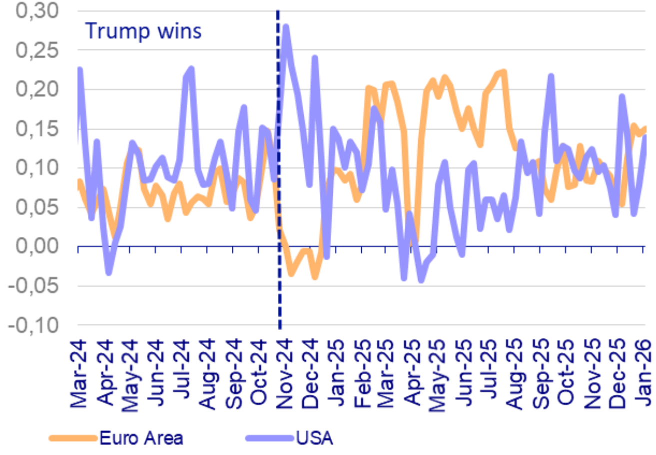
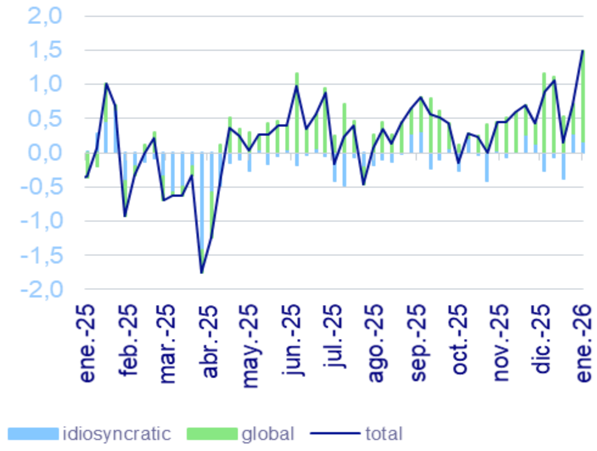
Strong bond inflows, particularly in the US, have underpinned overall positive, albeit volatile inflows into AEs. Meanwhile EMs, led by Latam, have seen a sharp pickup in inflows at the start of 2026.

US VS. EURO AREA FLOWS
(% OF AUM, 2-WEEK MOVING AVERAGE)



Fuente: BBVA Research, EPFR

FLOWS TO EM EX-CHINA
(Z-SCORE)



Fuente: BBVA Research, EPFR

Türkiye Economic Outlook

Geopolitical risks weigh on our CDS, we see stronger demand for TL sovereigns yet with shorter duration

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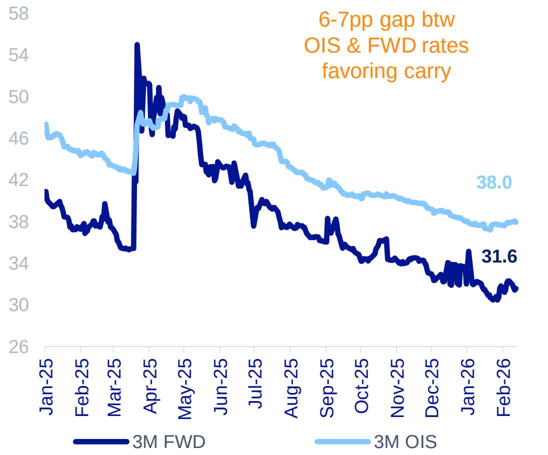
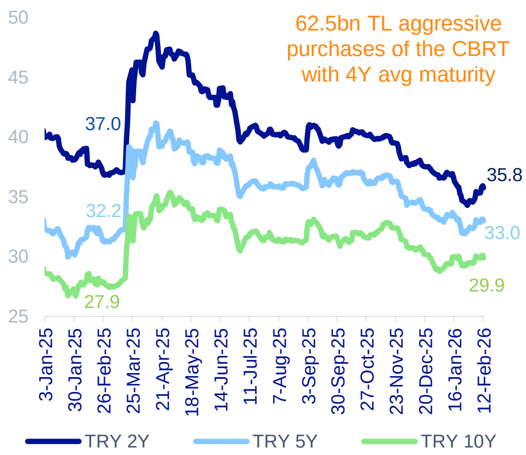
TÜRKİYE VS. EM 5-YEAR CDS
(BASIS POINTS)

OFFSHORE & ONSHORE TRY RATES
(%)



TRY SOVEREIGN YIELD CURVE
(%)



Source: Bloomberg and Garanti BBVA Research

Foreigners demand stays opportunistic in shorter duration for TL positions (<5 year in TURKGBs). As long as carry trade remains attractive and guaranteed, they are reluctant to give up easy returns.

Positive surprises of Nov & Dec CPI had accelerated inflows to TL assets till the negative surprise of Jan CPI

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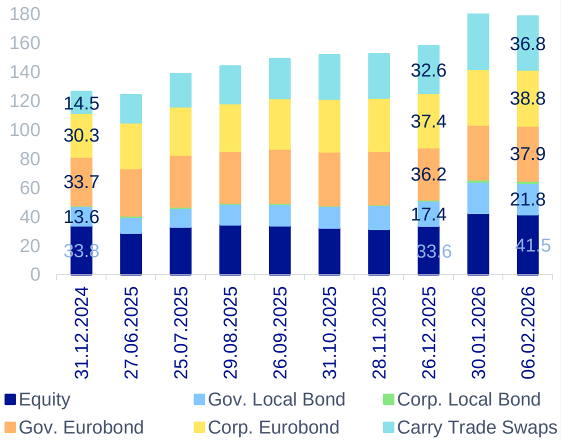
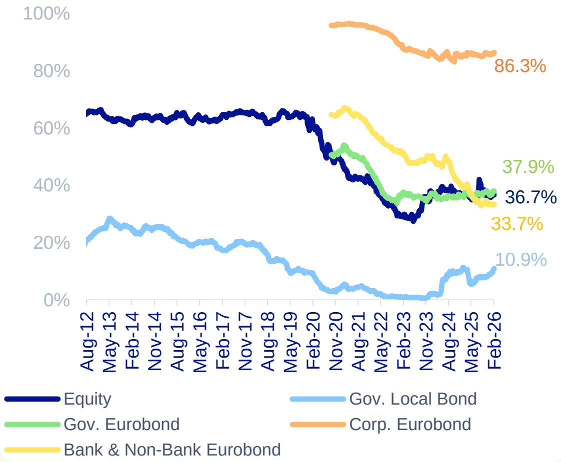
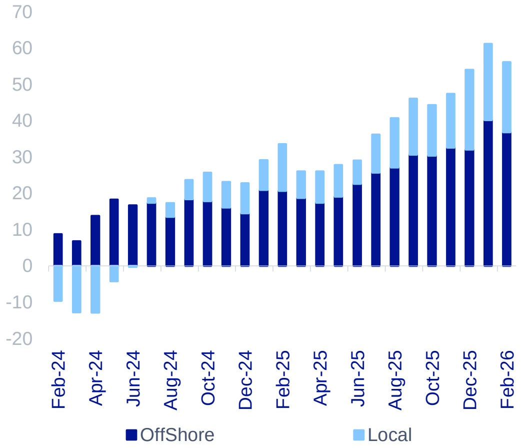
FOREIGNERS' EXPOSURE TO TR ASSETS* ($USbn)



FOREIGNERS' EXPOSURE TO TR ASSETS* (as a share, %)



DERIVATIVE POSITIONS ($Usbn)



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

Source: CBRT and Garanti BBVA Research

We estimate 37bn$ (out of 56bn$ derivative positions with also locals) carry trade swaps of foreigners as of Feb 6th. TL government bond exposure gets closer to 22bn$ with a share of almost 11%.

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

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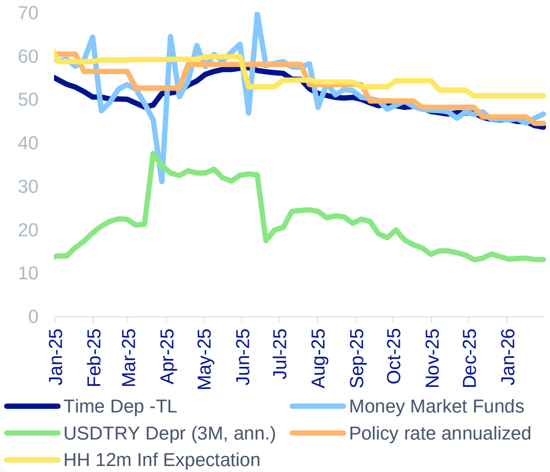
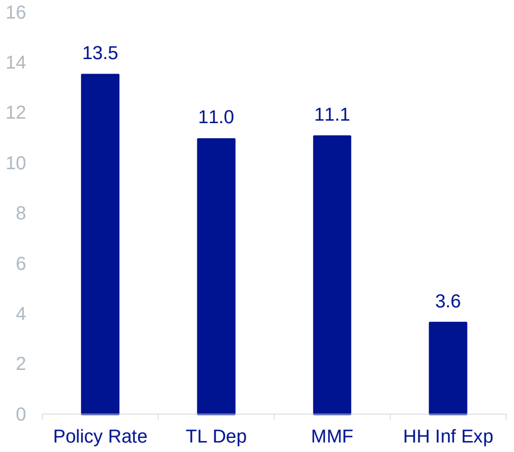
RELATIVE RETURNS & EXPECTATIONS (%, annualized)



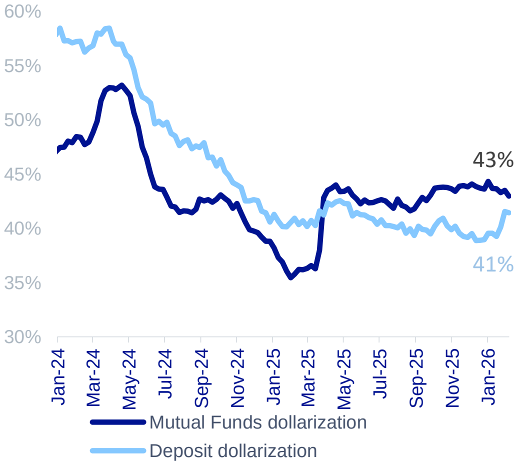
Source: CBRT, TURKSTAT and Garanti BBVA Research

DECREASE IN RATES (from July 19th, compounded)



Source: TEFAS and Garanti BBVA Research

RESIDENTS' DOLLARIZATION RATIO* (%)



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.

The increased value of gold has added to the wealth effects on particularly households

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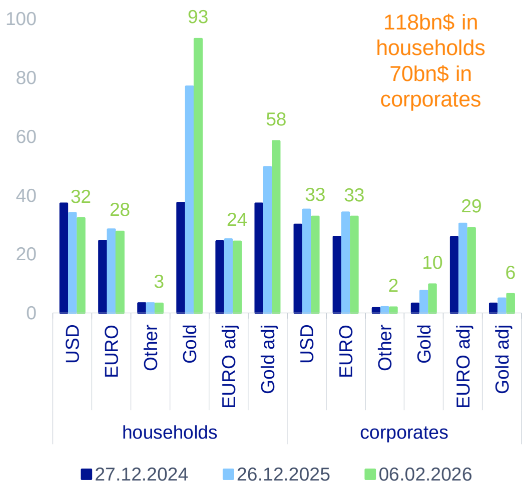
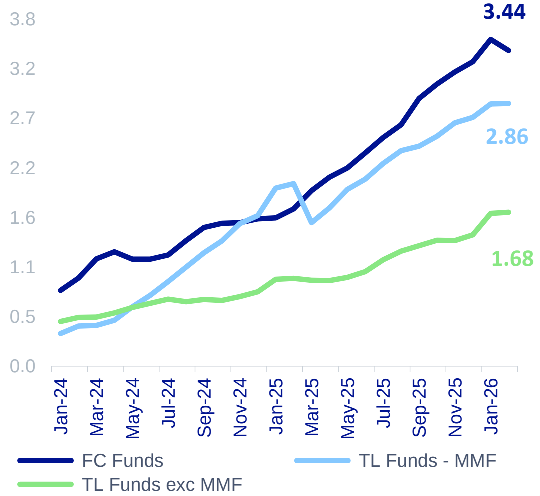
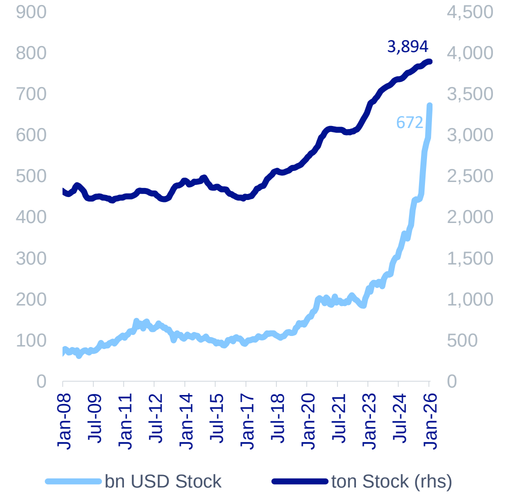
FC DEPOSITS VOLUME OF RESIDENTS (BN USD)



SIZE OF INVESTMENT FUNDS* (TRN TRY)



GOLD STOCK OF RESIDENTS OUT OF FINANCIAL SYSTEM (BN USD & ton)



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

Source: CBRT, TEFAS & Garanti BBVA Research

The CBRT aims to allow only a gradual dollarization in order to well manage the perception and help disinflation process via expectations.

CBRT reserves show volatility, hovering with changing gold prices

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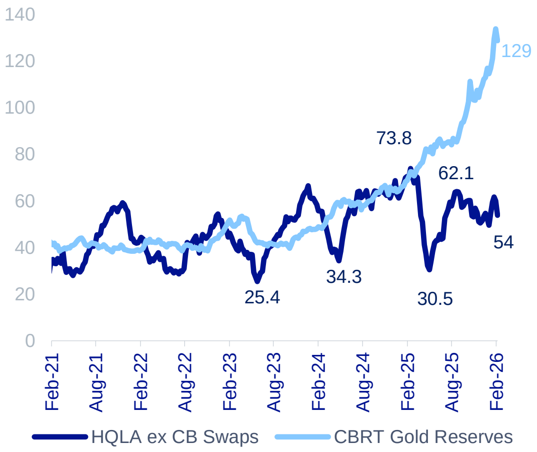
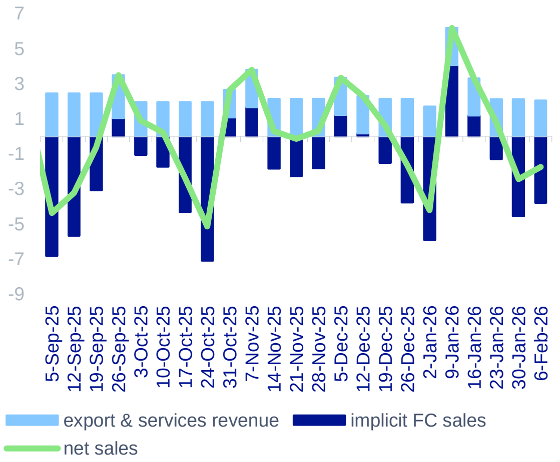
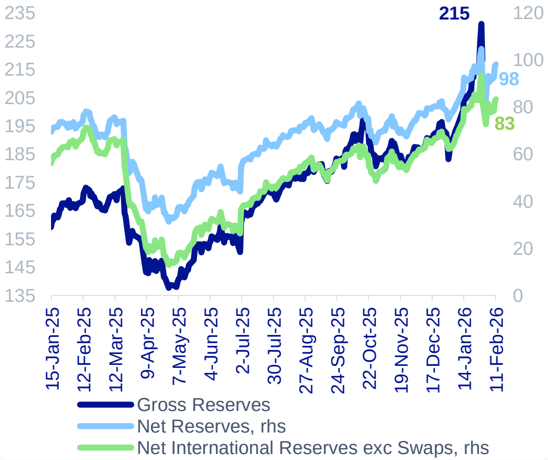
CBRT GROSS GOLD RESERVES & HQLA* ($Usbn, as of Feb 6th)



CBRT WEEKLY RESERVE FLOWS ($Usbn, as of Feb 6th)



CBRT INTERNATIONAL RESERVES ($Usbn, as of Feb 11th)



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

The CBRT wants to keep reserves strong, most likely as buffers against any unexpected volatility, setting flows dynamics critical for policy rate decisions.

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

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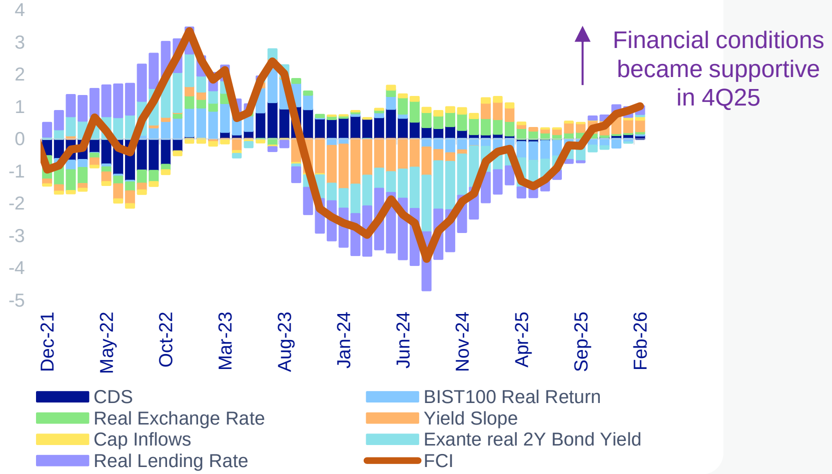
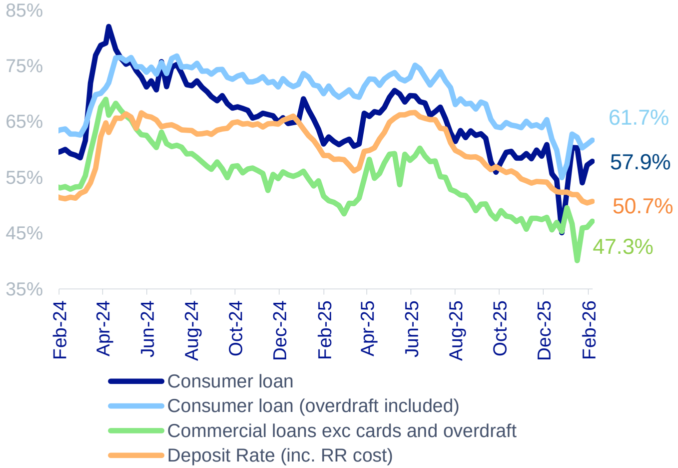
GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI) (STANDARDIZED, + EASING, - TIGHTENING)



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



Source: CBRT, Bloomberg and Garanti BBVA Research

Deposit and credit regulations will likely continue until a significant improvement in the inflation outlook, which is not expected before 2H26. As of Jan 16th, CBRT has relaxed the deposit rules with an extension to 8 weeks, a higher range of flexibility and lower commission rates in case of a failure.

Credit growth had accelerated most recently with some push back in January due to caps

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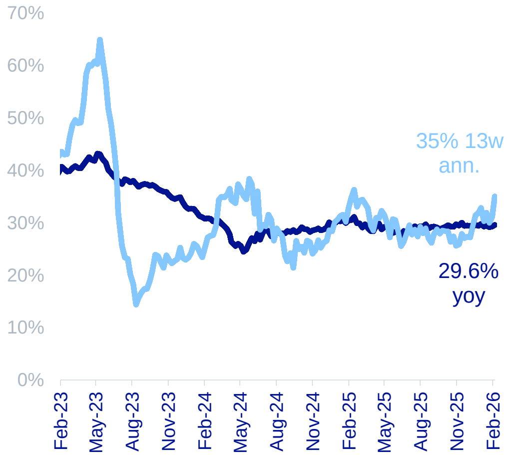
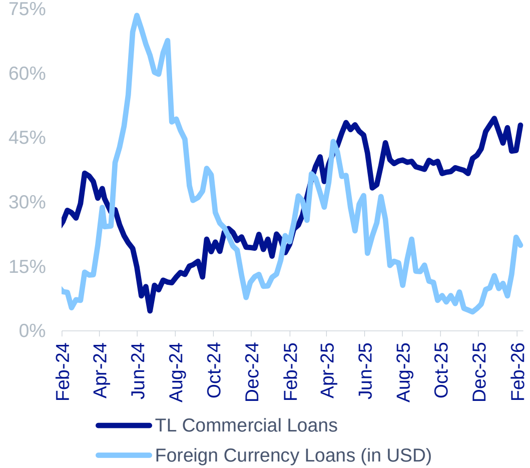
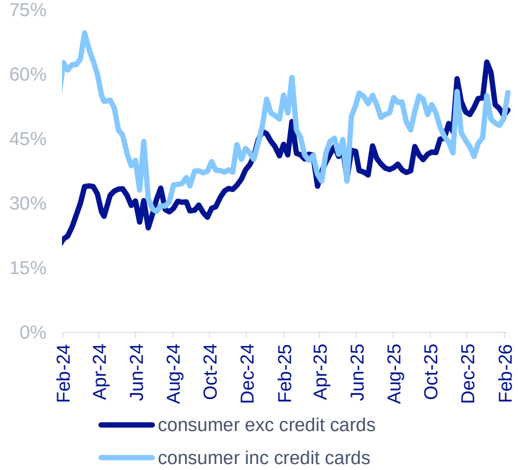
TOTAL CREDIT GROWTH (FX ADJ)
13 WEEK ANNUALIZED & YOY



COMMERCIAL LOANS
13 WEEK ANNUALIZED, DEPOSIT BANKS



CONSUMER CREDIT GROWTH
13 WEEK ANNUALIZED, DEPOSIT BANKS



Source: BRSA and Garanti BBVA Research.

Highly unanchored inflation expectations keep demand for consumer loans, implying still low price sensitivity; while companies adapt themselves with resilient domestic demand conditions.

GDP growth stays moderate, yet with early signals of a pick-up in demand

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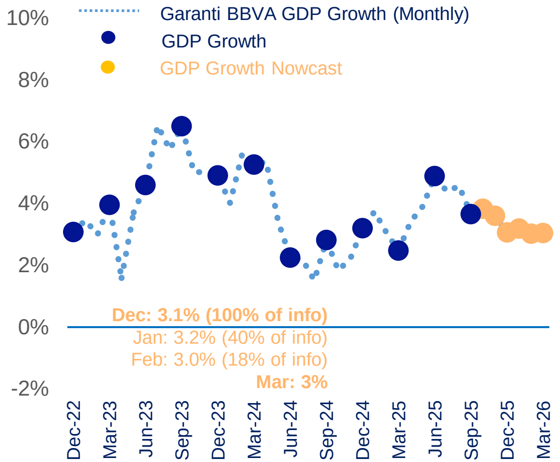
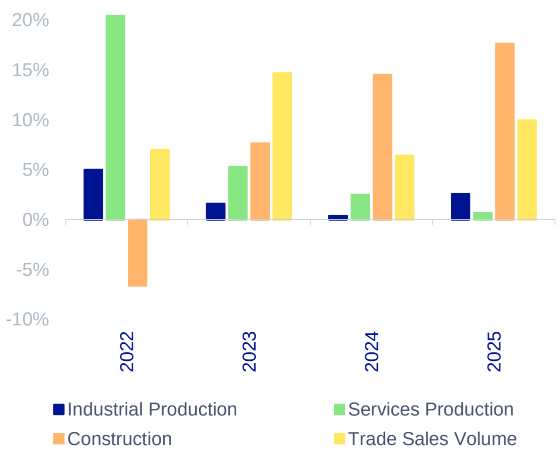
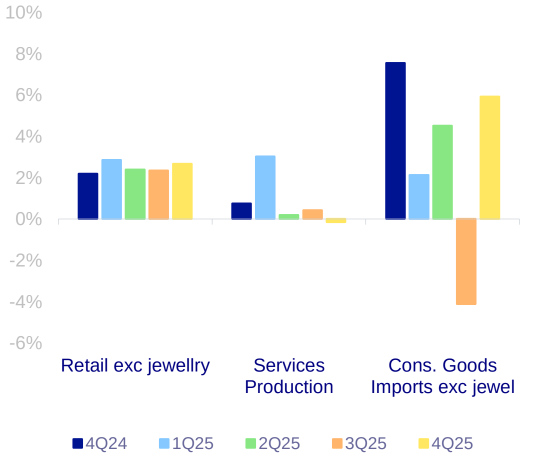
GARANTI BBVA MONTHLY GDP NOWCAST (YoY, 3M Mov. Avg.)



SECTORIAL PRODUCTION (volumes, YoY growth)



CONSUMPTION INDICATORS (QoQ)



* Based on Our Nowcasting Results for 4Q25

Source: TURKSTAT and Garanti BBVA Research

We nowcast around 3% y/y GDP growth in 4Q25 and in Feb so far. The output gap stays close to neutral, and the fast recovery in core imports and the acceleration in consumer credits signal a pick-up in demand.

The worsening trend in core trade deficit confirms recovering demand conditions

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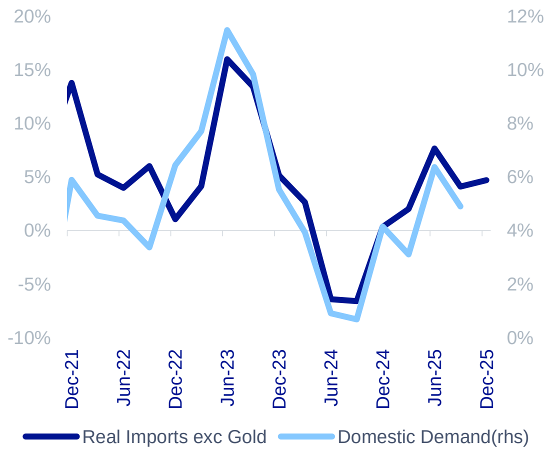
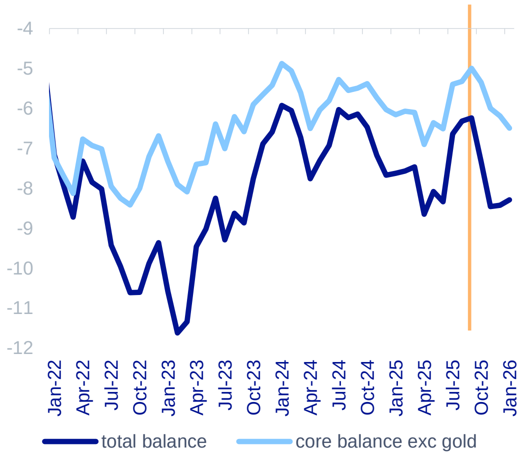
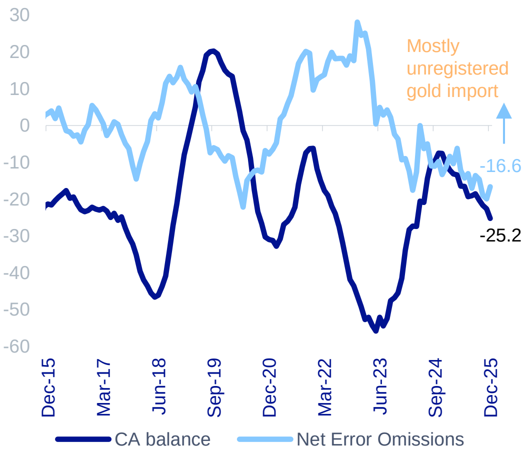
REAL IMPORTS vs DOMESTIC DEMAND (YoY, including services)



FOREIGN TRADE BALANCE (3M average, SA, bn$)



CURRENT ACCOUNT DEFICIT & NET ERROR & OMISSIONS (bn$)

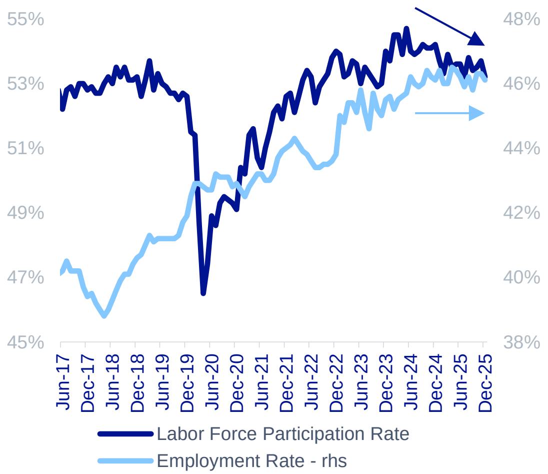


Source: TURKSTAT, CBRT and Garanti BBVA Research

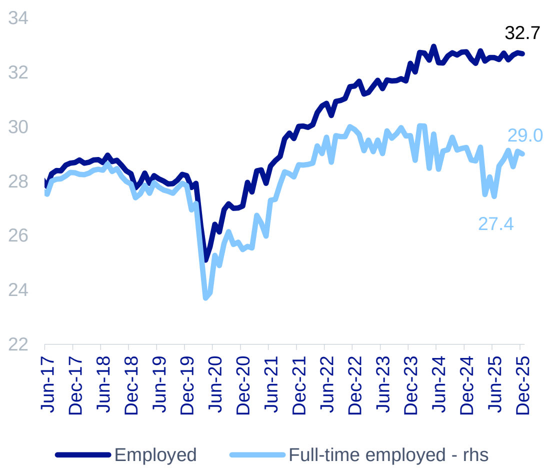
The strong acceleration in core imports since Sep25 together with higher precious metal prices has resulted in a rapid worsening in foreign trade deficit, weighing on current account deficit.

Labor force declines and the quality of employment worsens, yet unemployment rate is historically low

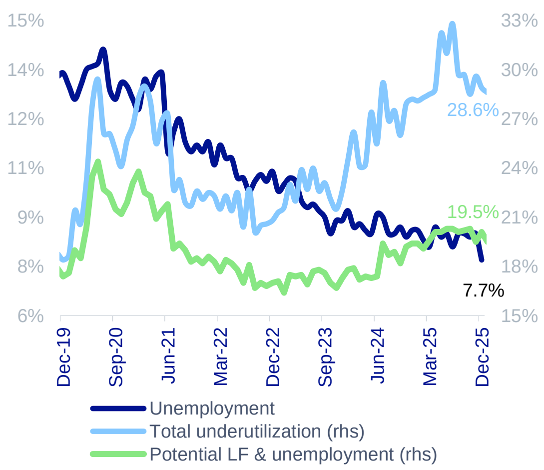
EMPLOYMENT & LABOR FORCE PARTICIPATION RATIO
(%, SA)



EMPLOYMENT LEVEL
(MN PEOPLE, SA)



UNEMPLOYMENT RATE
(SA %)



Source: TURKSTAT and Garanti BBVA Research

The political preference to keep growth rates at moderate levels has reduced the pain but extended the adjustment period on employment, with long term effects via quality and discouraged workers.

Adjusted inflation below 2% in Nov and Dec had turned north in Jan with close to 3% reading

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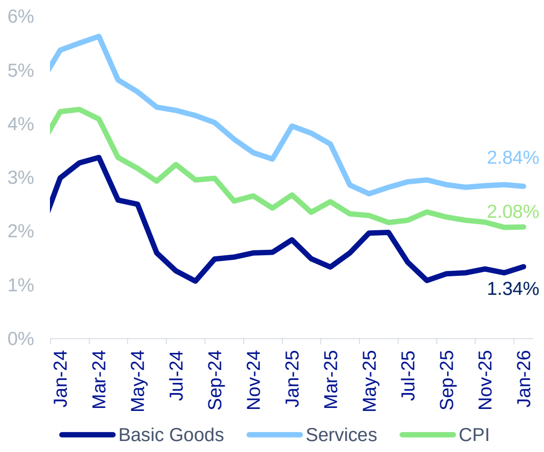
CPI SA ADJUSTED INDICATORS (SA MoM, 3M AVG)

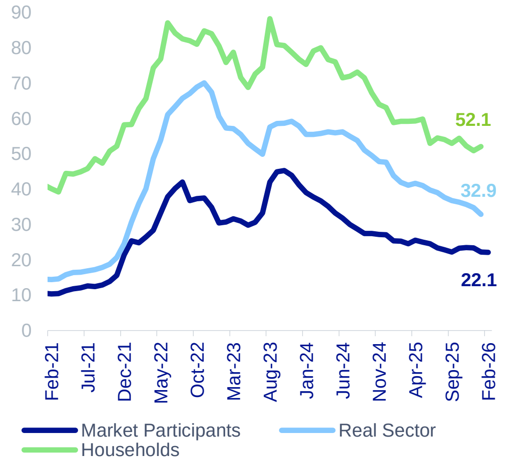


Source: TURKSTAT and Garanti BBVA Research

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

Source: TURKSTAT and Garanti BBVA Research

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



Source: CBRT and Garanti BBVA Research

CPI methodology has been revised with changes in the data sources (national accounts vs. household budget surveys), weights and the index year (2025=100), increasing the challenges over the disinflation pace due to a higher share of services.

The CBRT kept point target at 16%, but revised the forecast band to 15-21% (vs. 13-19%) upward for 2026

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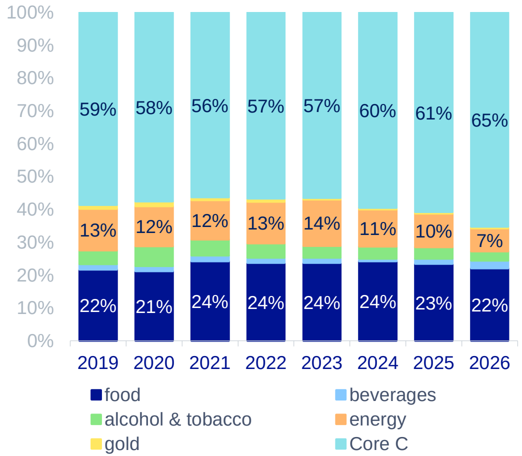
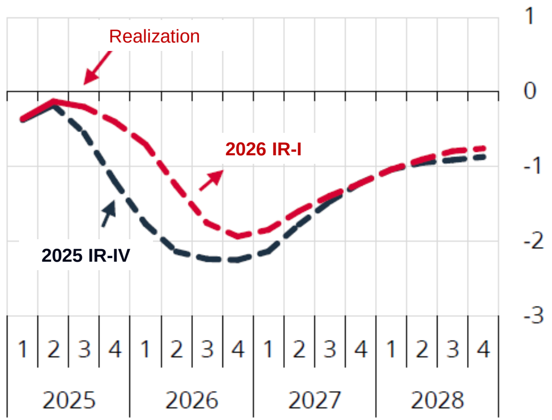
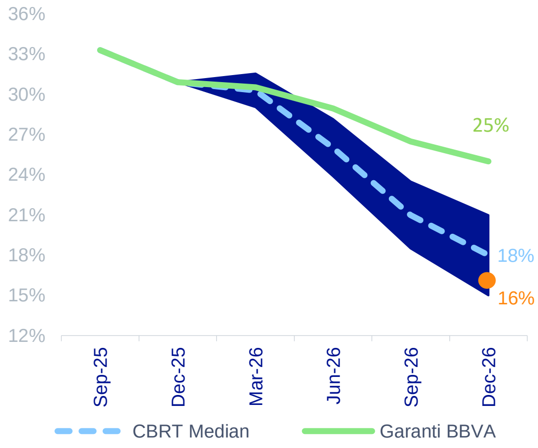
CPI BASKET WEIGHTS
(SHARE IN TOTAL)



CBRT OUTGAP PROJECTIONS
(% DEVIATION FROM POTENTIAL)



CBRT vs. GARANTI BBVA CPI PROJECTIONS (% YOY, EOP)



Source: TURKSTAT, CBRT and Garanti BBVA Research

The CBRT has again revised its output gap projections upward and remained to be optimistic about the inflation outlook, trying to defend an easing bias.

The CBRT keeps a bias to maintain measured cuts in every meeting, despite renewed inf pressure of 1Q26

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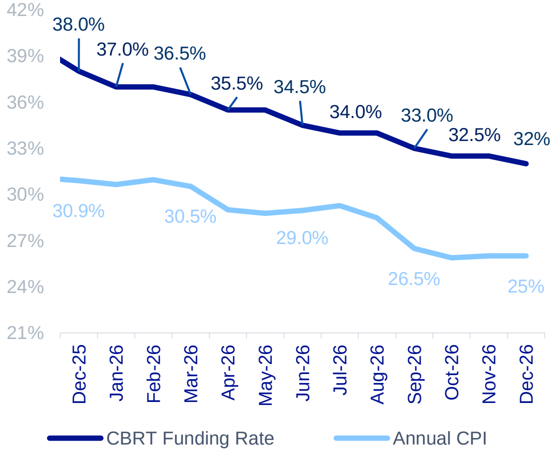
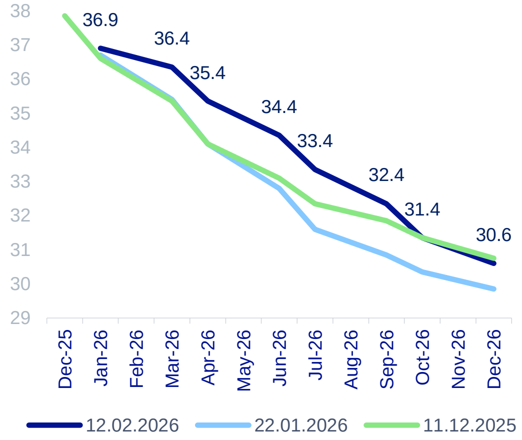
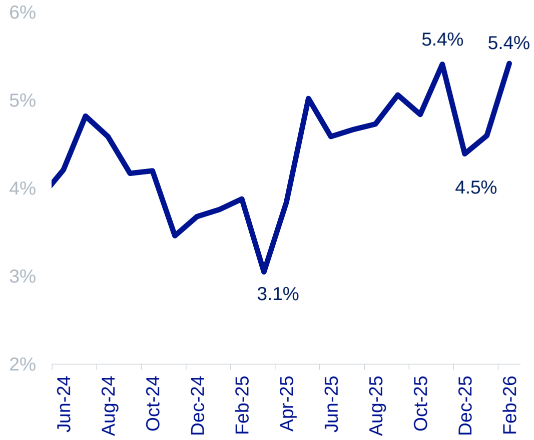
CPI & CBRT FUNDING RATE FORECASTS (% YOY, EOP)



OIS MARKET PRICING ON CBRT FUNDING RATE (%)



MARKET PARTICIPANTS 12M AHEAD REAL POLICY RATE EXPECTATION (% EX POST)



Source: Bloomberg, CBRT, TURKSTAT and Garanti BBVA Research

We maintain our view of a calibration of the policy rate via ex post and 3-month forward ex ante real rates of around 6pp, and Jan MPC decision confirms that expectations play a key role as well.

Cash deficit to GDP ended 2025 at 3.4%, lower than initial exp. (-4%), led by mainly the boost in revenues

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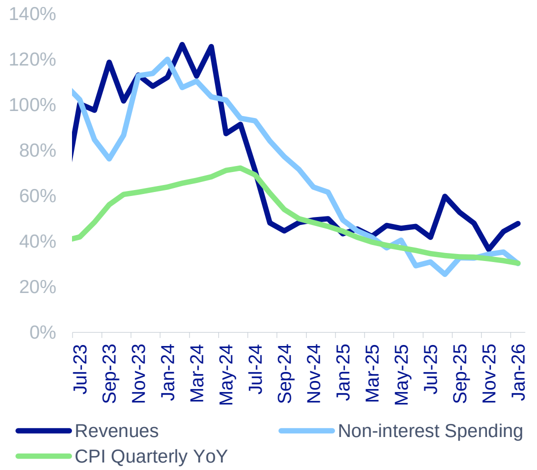
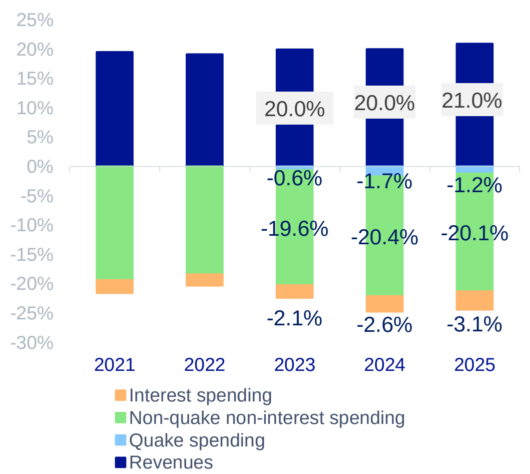
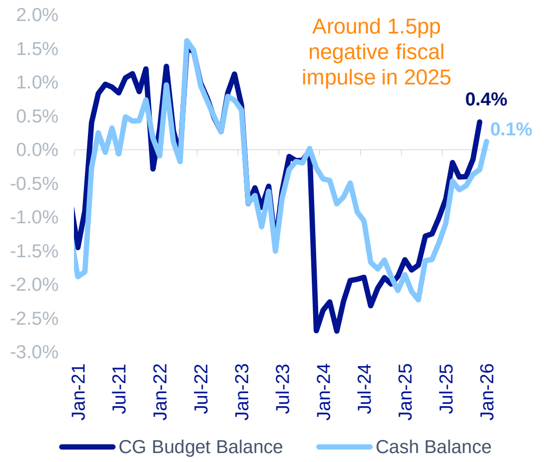
CASH REVENUES & NON-INTEREST SPENDING (% 3M YoY)



CYLICALLY ADJUSTED CASH FISCAL BALANCE* (% GDP)



CASH & ACCRUAL BASIS PRIMARY BALANCE (% GDP)



* We assume the difference btw cash and accrual deficit as of 2023 is related to only earthquake needs.

Source: Treasury, CBRT, TURKSTAT and Garanti BBVA Research

It seems the Government tries to compensate the rise in interest payments with a further delay of earthquake payments (60% of the accrued quake spending is spent in cash in 2023-2025). There appears a room to spend according to 2025 MTP, yet Jan cash data still shows caution on spending.

Income tax pushed up the revenues, while capital transfers were reduced mainly on accrual spending

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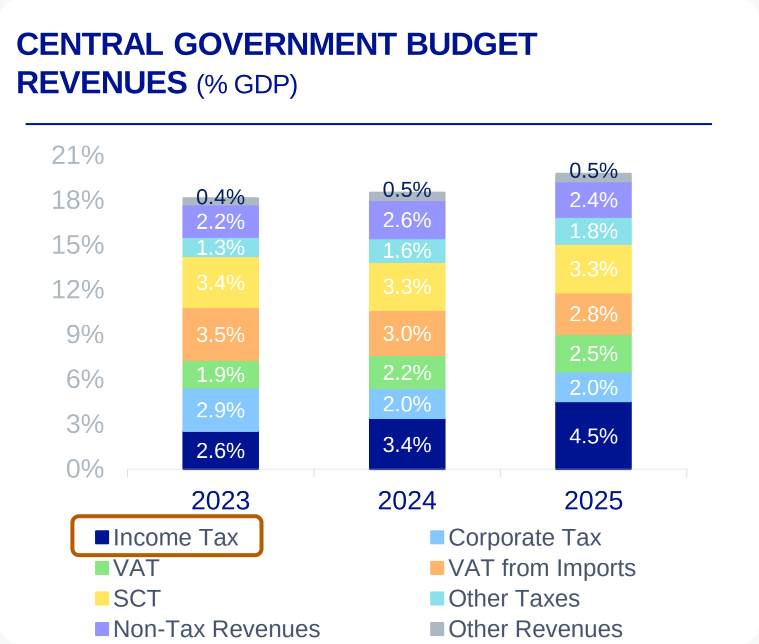

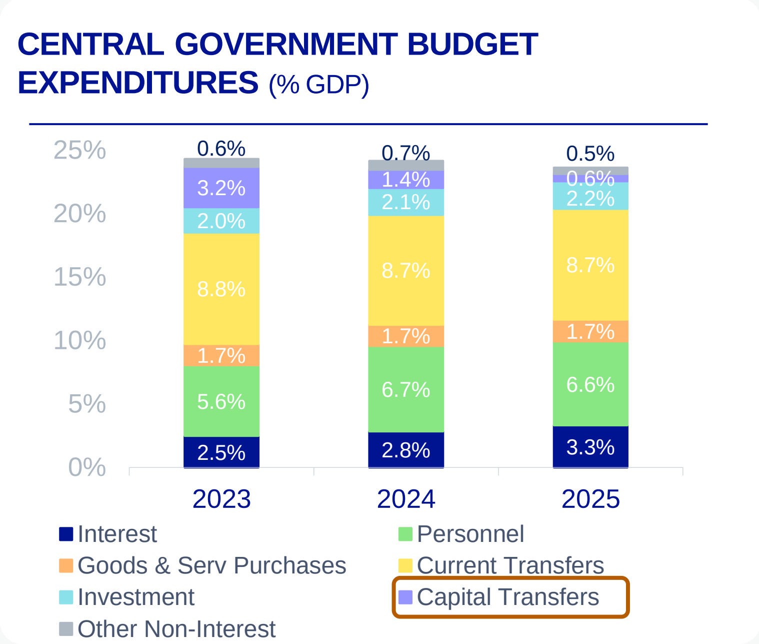

Higher contribution from income tax helped budget revenues in 2025 to have a better performance despite the lower than targeted corporate taxes due to inflation accounting.

Source: CBRT and Garanti BBVA Research

We remain prudent and forecast 4% GDP growth for 2026 with risks to the upside

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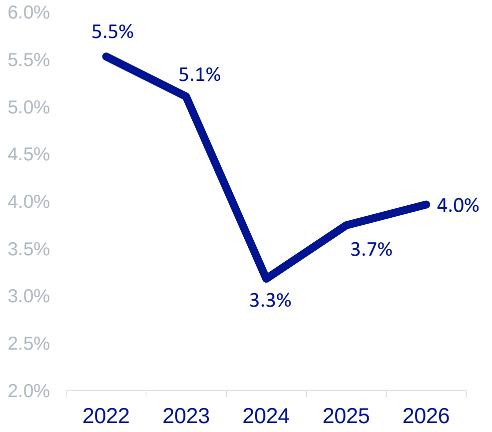
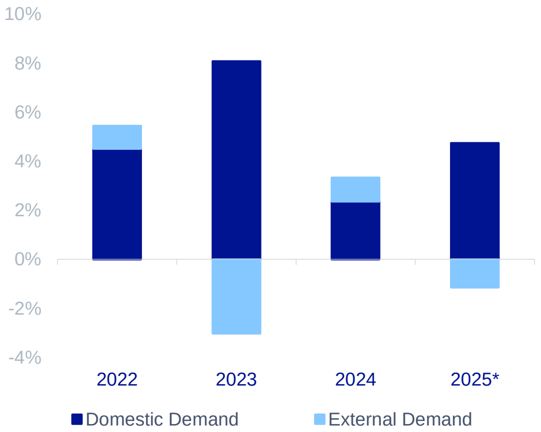
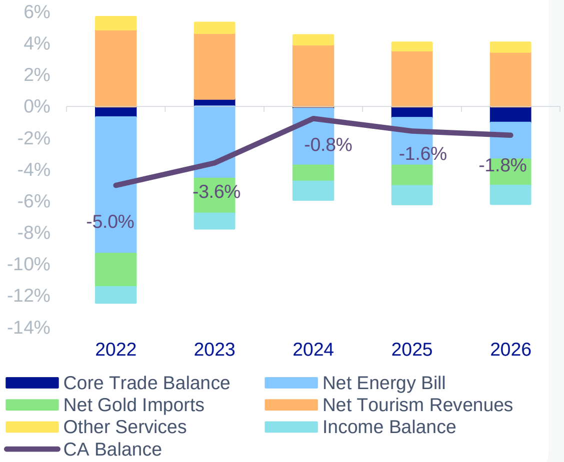
GARANTI BBVA GDP GROWTH FORECASTS (% YOY)



GDP GROWTH COMPOSITION (pp contribution)



GARANTI BBVA CA DEFICIT FORECASTS (% GDP)



Source: TURKSTAT and Garanti BBVA Research

The resilience in domestic demand, ease in financial conditions and the Government bias to keep growth strong add challenges on inflation and current account deficit for 2026.

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%**	**28.2%**
Inflation (eop)	64.8%	44.4%	**30.9%**	**25.0%**
CBRT Cost of Funding (avg)	20.5%	49.6%	**43.6%**	**34.5%**
CBRT Cost of Funding (eop)	42.5%	47.5%	**38.0%**	**32.0%**
USDTRY (avg)	23.7	32.8	**39.5**	**47.3**
USDTRY (eop)	29.4	35.3	**42.8**	**52.0**
EURTRY (avg)	25.7	35.5	**44.7**	**56.0**
EURTRY (eop)	32.6	36.7	**50.3**	**62.3**
Current Account Balance (% GDP)	-3.6%	-0.7%	**-1.6%**	**-1.8%**
CG Primary Balance (% GDP)	-2.6%	-1.9%	**0.4%**	**0.1%**
CG Budget Balance (% GDP)	-5.1%	-4.7%	**-2.9%**	**-3.5%**

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