

# Türkiye Economic Outlook Macro Meeting






Garanti BBVA Research

March 2025

01

# Global Economic Outlook

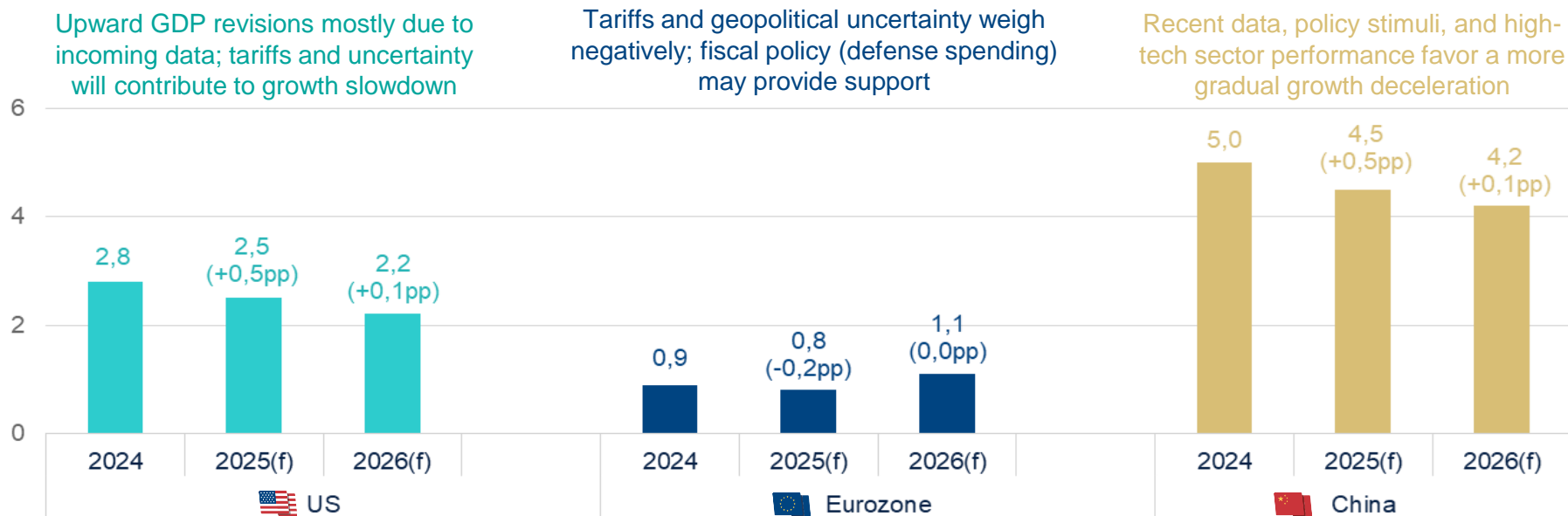
# US tariffs are set to create negative supply and uncertainty shocks

	BASELINE SCENARIO	MAIN RISKS
 <b>SHOCKS CREATED BY US POLICIES</b>	Negative supply and uncertainty (demand) shocks	Very negative supply and uncertainty (demand) shocks
 <b>US TARIFF LEVELS</b>	Tariffs as a negotiation and policy tool (working assumption: 60% on China, 10% on other countries)	Tariffs mostly as a policy tool (25% or higher permanent tariffs on most important trade partners)
 <b>TARIFF ESCALATION</b>	Moderate	Large and dynamically unstable
 <b>GROWTH IMPACT</b>	Significant	Very significant and potentially disruptive
 <b>INFLATION IMPACT</b>	Upwards in the US, downwards elsewhere	Upwards if supply shock prevails; downwards if uncertainty shock dominates

# Growth is expected to lose momentum amid rising uncertainty and protectionism, despite positive incoming data in the U.S. and China

## GDP GROWTH

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



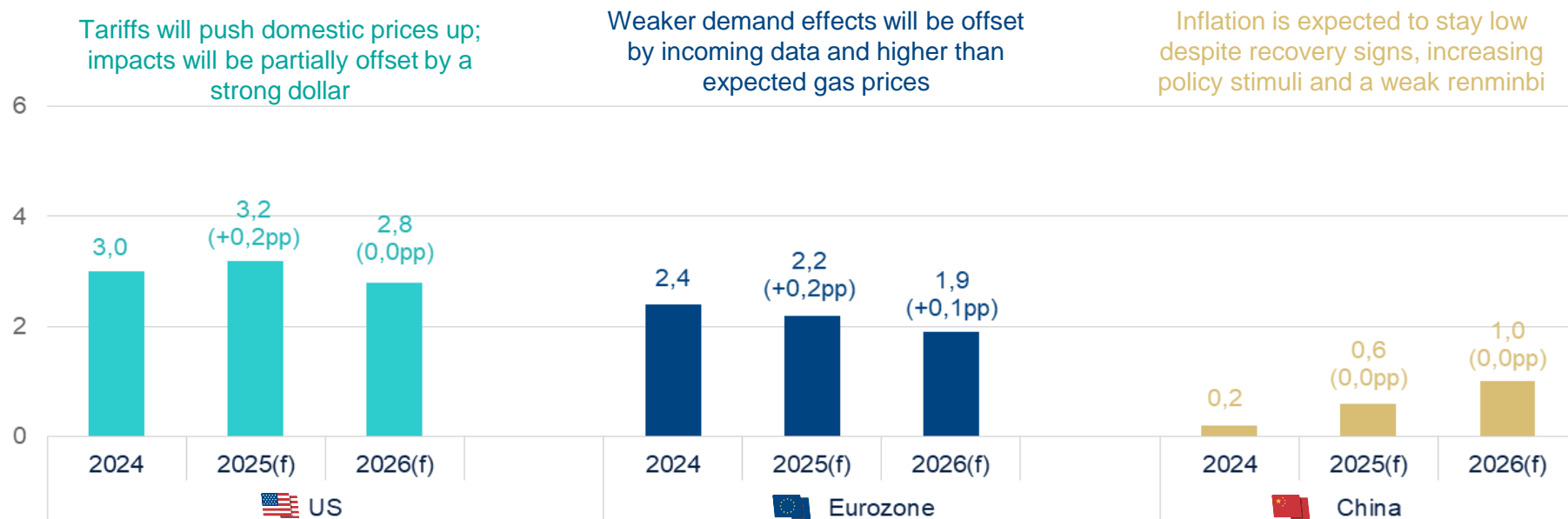
(f): forecast.

Source: BBVA Research.

# US inflation is set to rise further, partly due to tariffs, while in the Eurozone it will likely keep converging to target

## HEADLINE CPI INFLATION

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



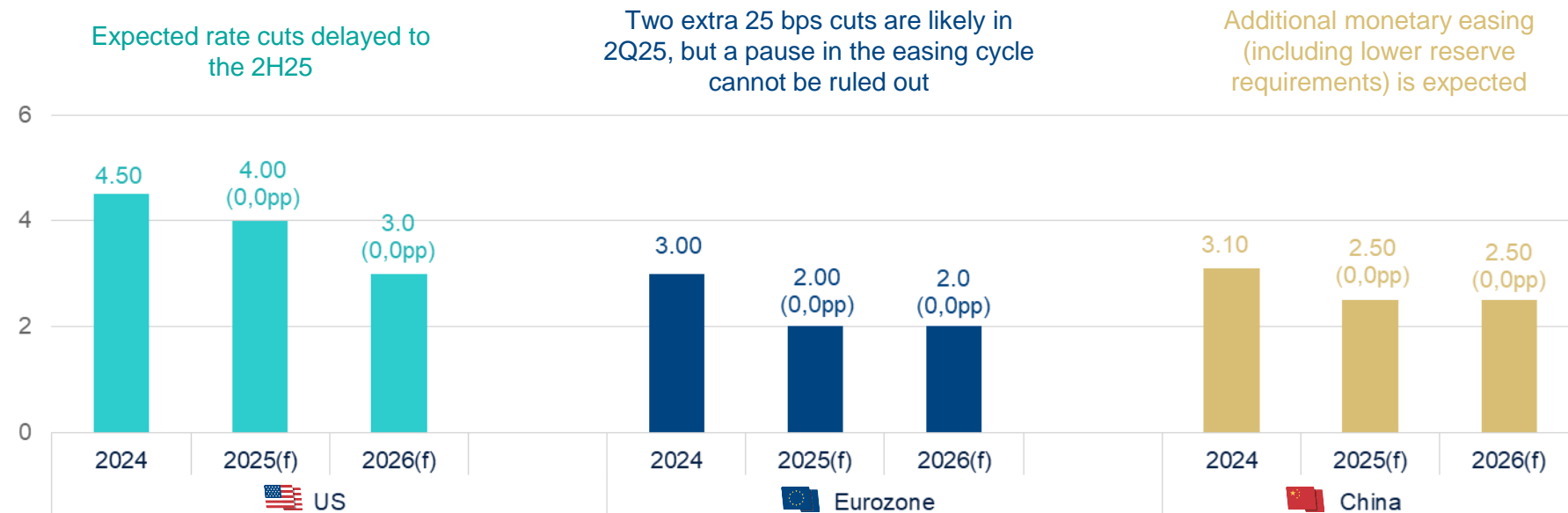
(f): forecast.

Source: BBVA Research.

# The Fed will hold rates steady before resuming cuts in 2H25; the ECB is preparing to end its easing cycle but extra reductions in 2Q25 are still likely

## POLICY INTEREST RATES (\*)

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



(f): forecast.

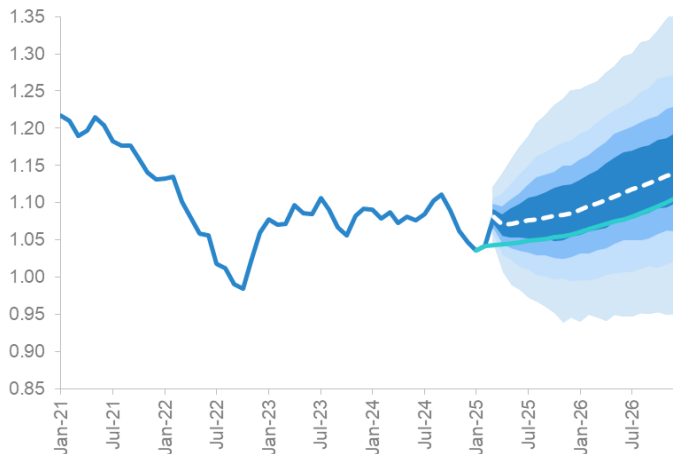
(\*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

# Upward revision of the EURUSD forecast due to new fiscal stimulus, leading to higher Eurozone rates

## EURUSD FORECASTS

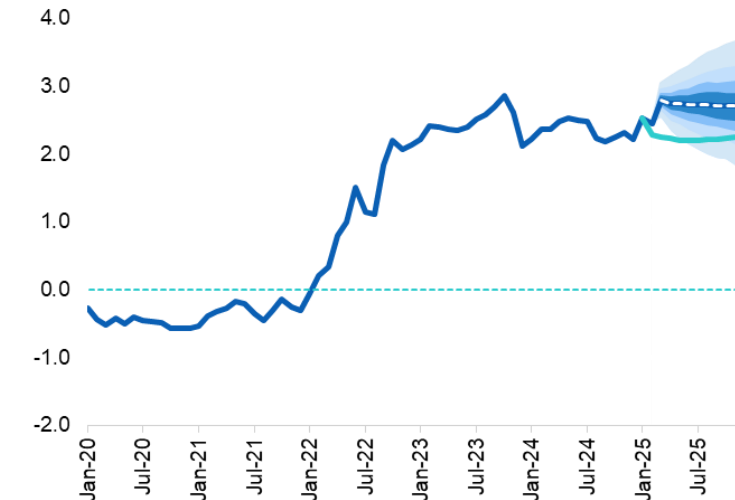
(USD)



		Probability						
		-70%	-50%	-25%	Base	25%	50%	70%
Proposal	Dec-25	0.99	1.03	1.05	1.09	1.12	1.15	1.18
previous					1.06			
Proposal	Dec-26	1.02	1.06	1.10	1.14	1.19	1.23	1.27
previous					1.11			

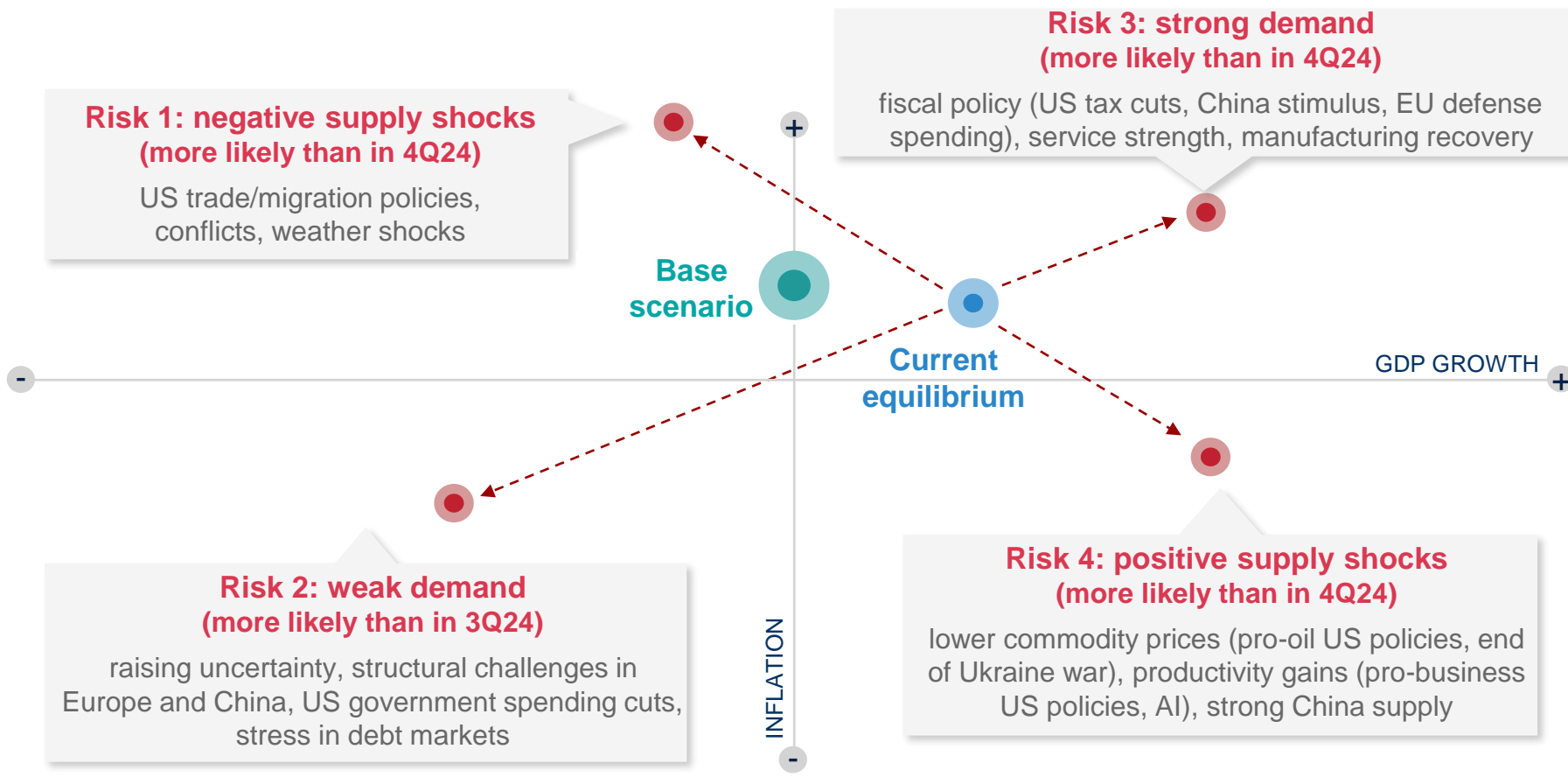
## 10Y BUND FORECASTS

(%)



	Probability						
	-70%	-50%	-25%	Base	25%	50%	70%
Dec-25	2.06	2.30	2.45	2.70	2.88	3.07	3.29
Dec-26	1.74	2.06	2.29	2.65	2.96	3.20	3.52

# Risks continue to build up: US trade policies and the negative impact of persistent uncertainty are among the main threats to the global economy



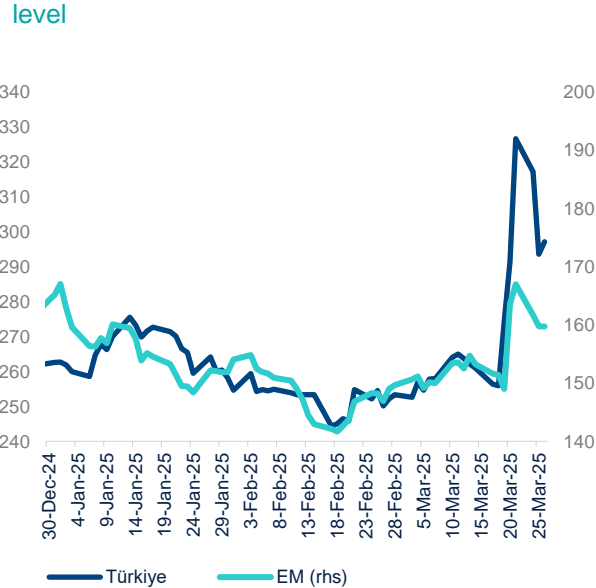


# 02

## Türkiye Economic Outlook

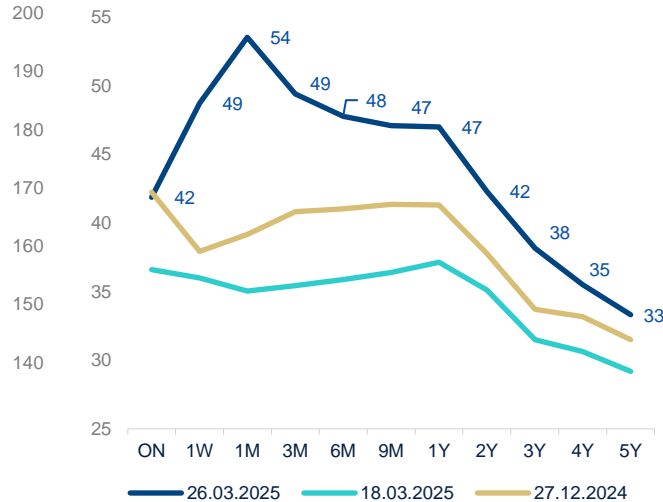
# After the initial sharp reaction on March 19th, Turkish financial markets seem to calm down to some extent this week

## TURKEY vs. EM PEERS 5Y CDS level



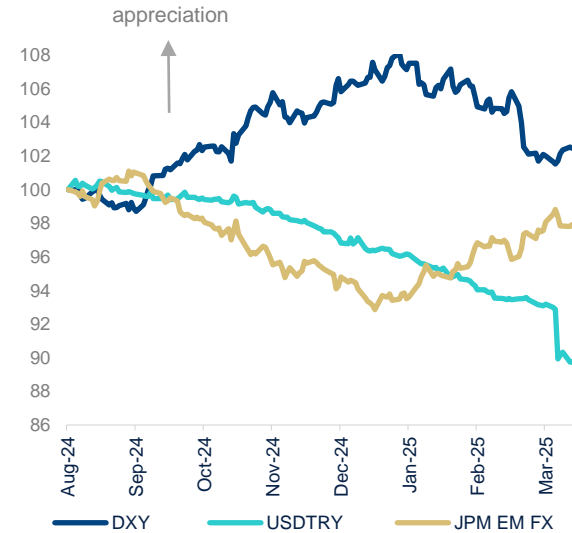
## OFFSHORE TRY RATES

%, forward implied



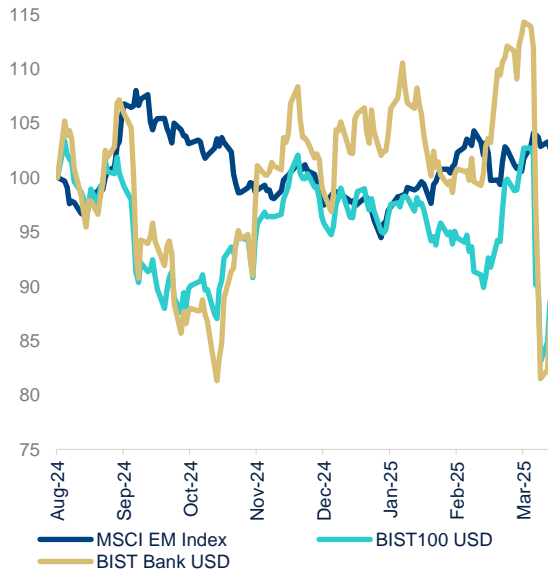
## EM CURRENCIES & DXY

30.08.2024=100

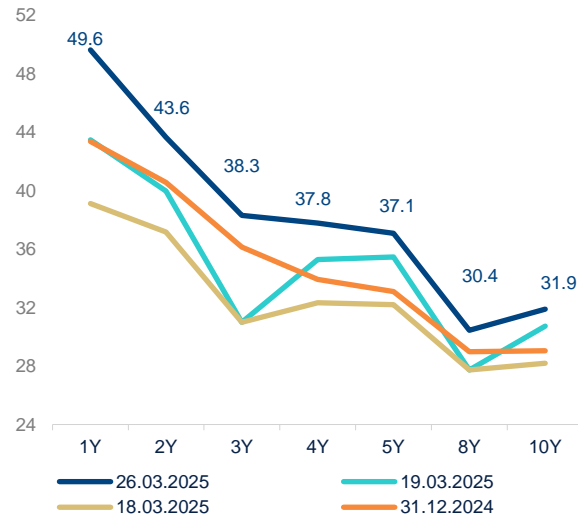


**Yet, we see further sell-offs in TL bonds. The CBRT made an interim meeting on March 20 and raised the ON lending rate to 46% (policy rate still at 42.5%)**

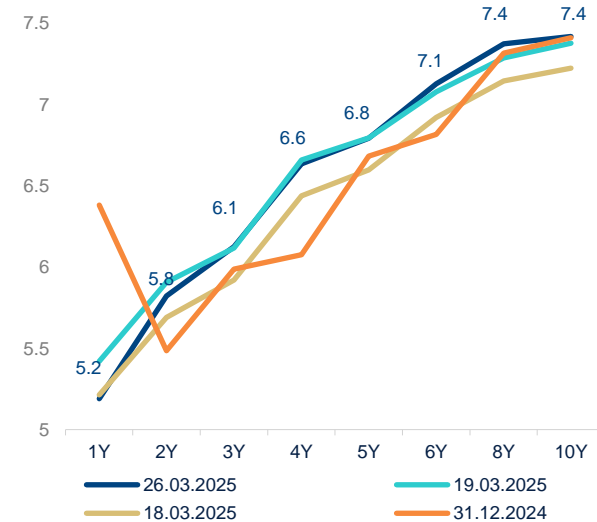
**BIST EQUITY & MSCI INDEX**  
30.08.2024=100



**TRY SOVEREIGN YIELD CURVE**  
%

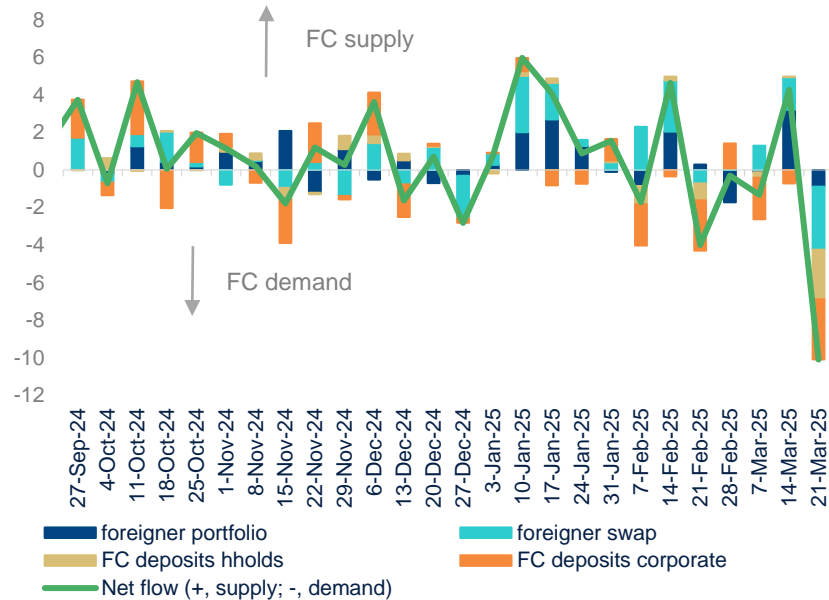


**USD SOVEREIGN YIELD CURVE**  
%

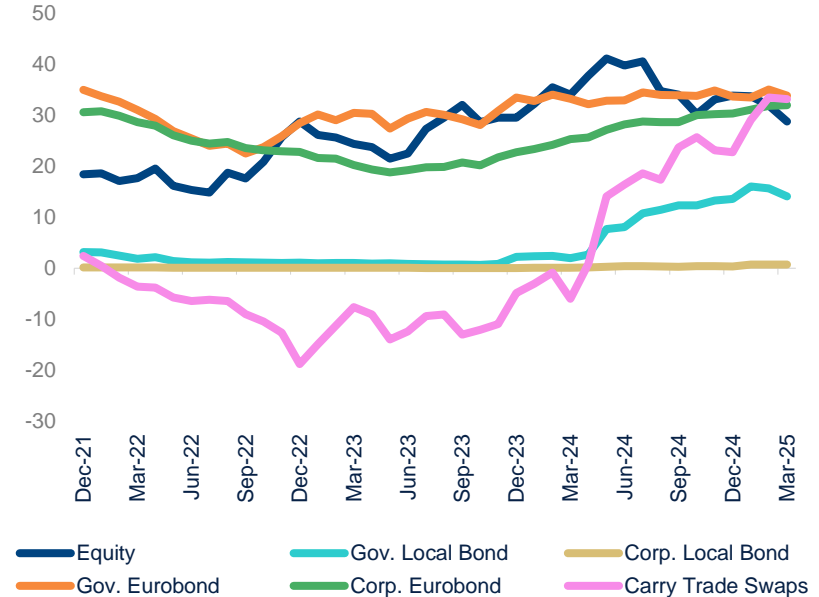


**We estimate nearly 28bn\$ intervention of the CBRT btw 19-26 March, of which 60% was the offshore FC demand, 30% corporates and only 10% individuals**

### FOREIGN CURRENCY FLOWS (US\$BN, WEEKLY)



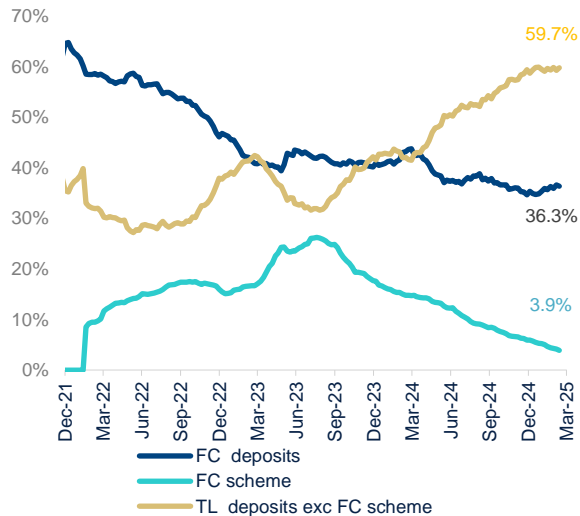
### FOREIGNERS EXPOSURE TO TR ASSETS (US\$BN AS STOCK)



# TL deposit share had already stabilized at nearly 60%, which would start to come down depending on the pace of dollarization going forward

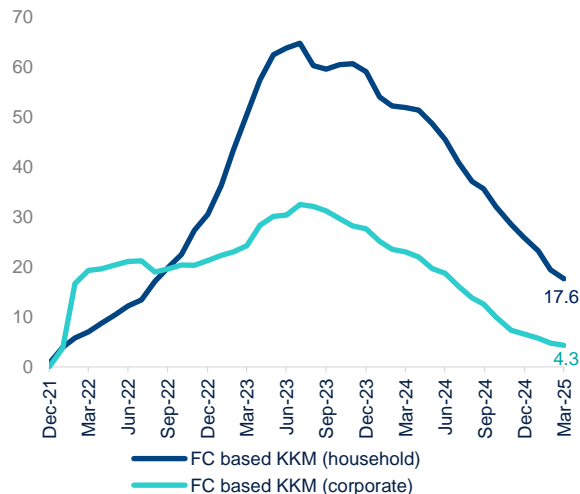
## BANKING SECTOR DEPOSITS

%, share in total



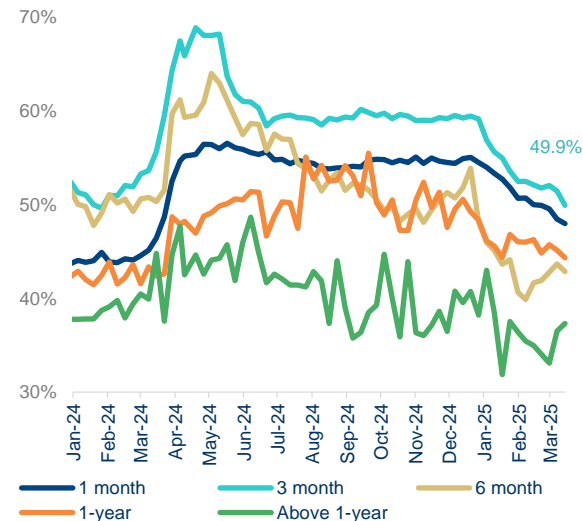
## FC PROTECTED SCHEME (KKM)

US\$BN, adjusted



## TL DEPOSIT RATES

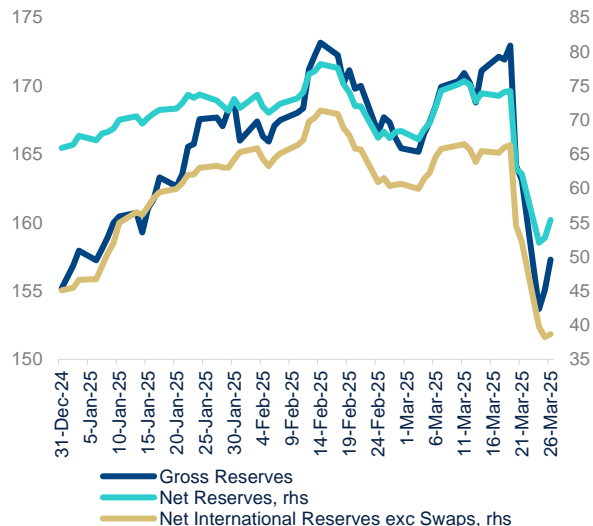
% compound flow



The depletion from the CBRT reserves has calmed down this week with again inflows from the offshore and the reduced demand from residents. The CBRT also lowers the amount of reverse swaps with the local banks

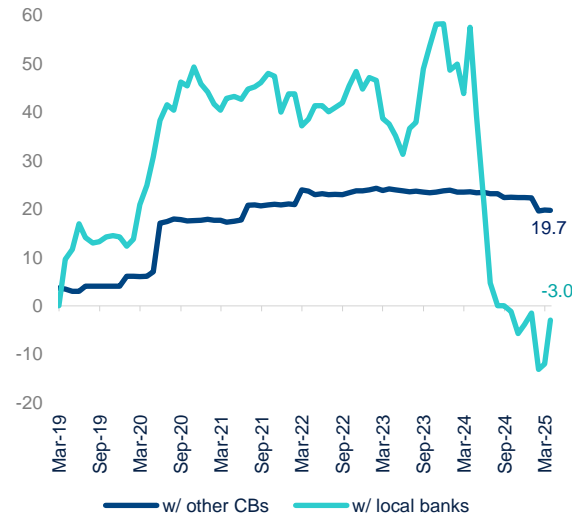
### CBRT INTERNATIONAL RESERVES

US\$BN as of Mar 26th



### CBRT SWAP POSITION

US\$BN as of Mar 26th



### HIGH QUALITY LIQUID FOREIGN ASSETS (HQLA)\* OF THE CBRT

US\$BN, weekly, as of Mar 21st

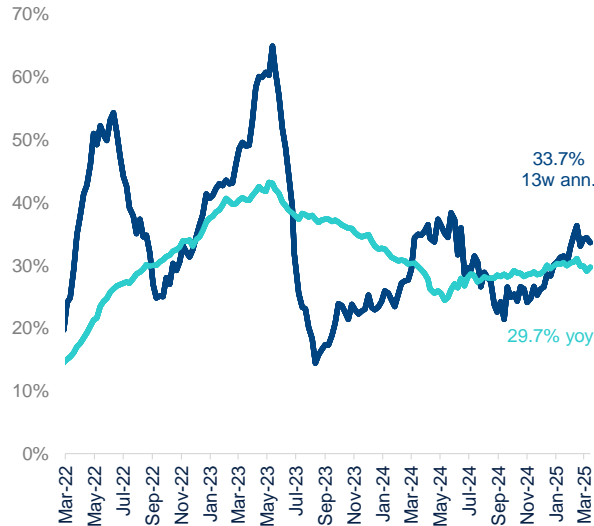


\* HQLA refers to foreign currency reserves of the CBRT excluding IMF SDR and other central banks' swaps

# Financial conditions have tightened again, which will help to eliminate our previous upward bias on the near term growth outlook

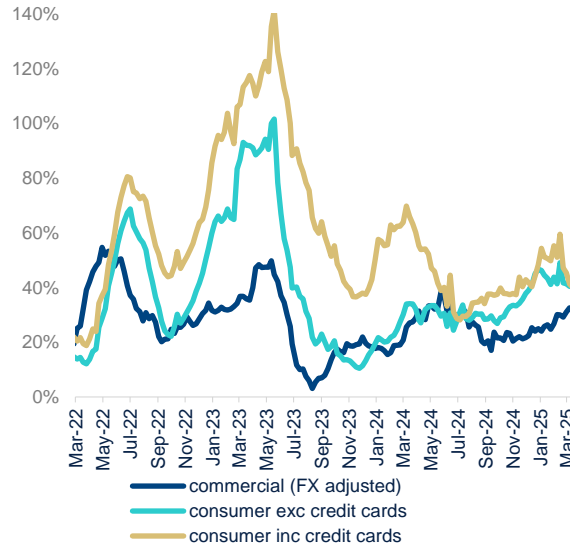
## TOTAL CREDIT GROWTH (FX ADJ)

13 week annualized & annual



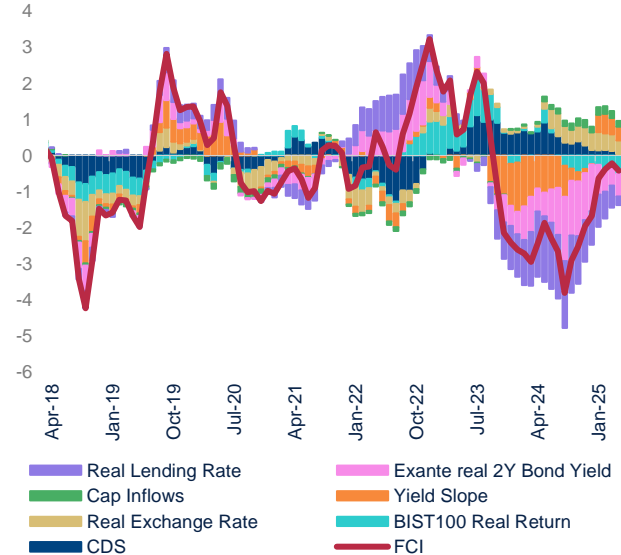
## CREDIT GROWTH BY SEGMENTS

13 week annualized



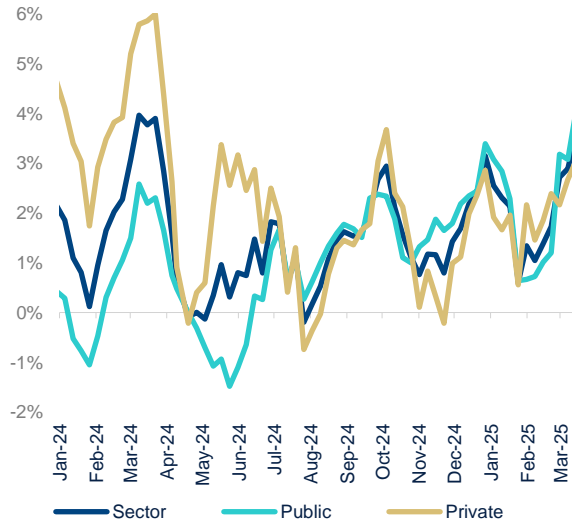
## GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI)

standardized, + easing, - tightening

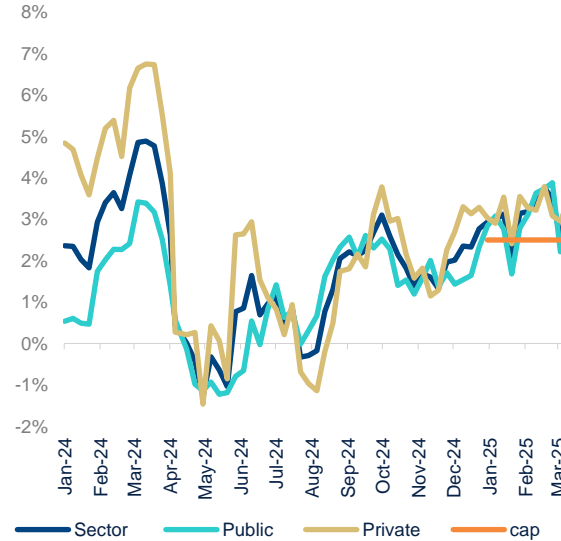


**The CBRT has restricted FC lending further as of March. Led by the earlier rate cuts and increasing duration, demand for TL commercial credits was on the rise**

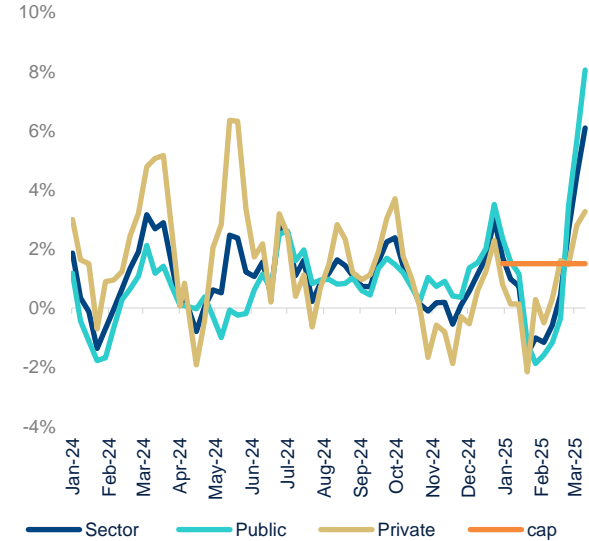
**TL COMMERCIAL CREDIT GROWTH**  
4W ROLLING, DEPOSIT BANKS



**TL SME COMMERCIAL CREDITS GROWTH**  
4W ROLLING, DEPOSIT BANKS



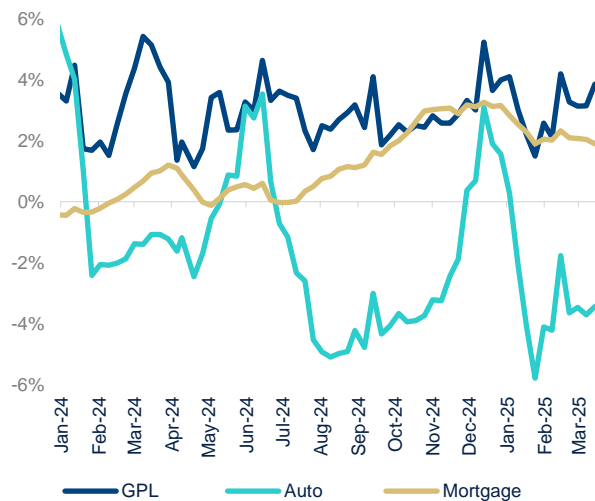
**TL NON-SME COMMERCIAL CREDITS GROWTH**  
4W ROLLING, DEPOSIT BANKS



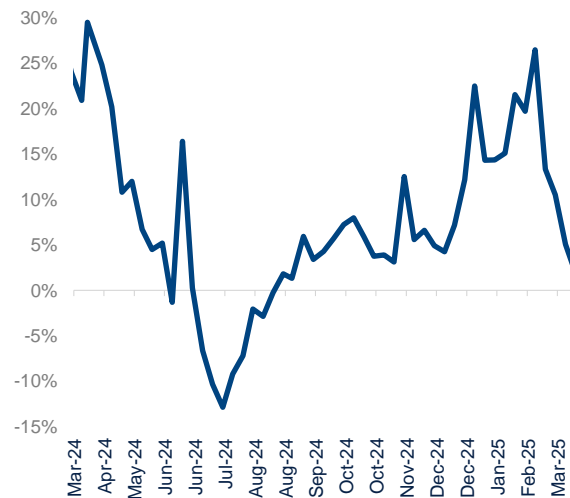


# If the shock turns out to be transitory, the latest developments might squeeze the spending capacity of households to some extent

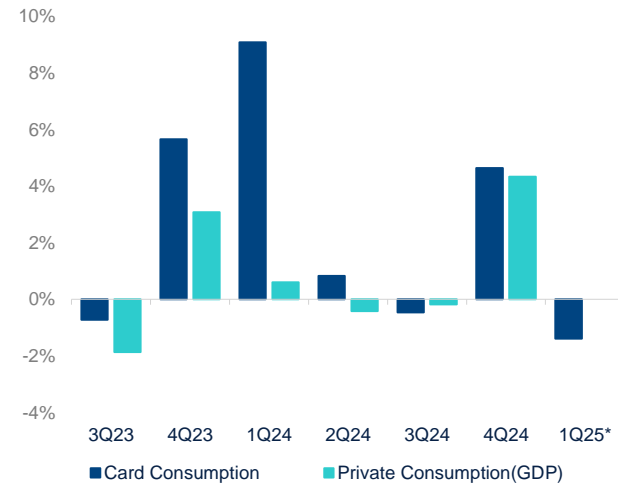
## CONSUMER LENDING GROWTH 4W ROLLING, DEPOSIT BANKS



## CONSUMER CREDIT CARD SPENDING 13W ANNUALIZED, REAL



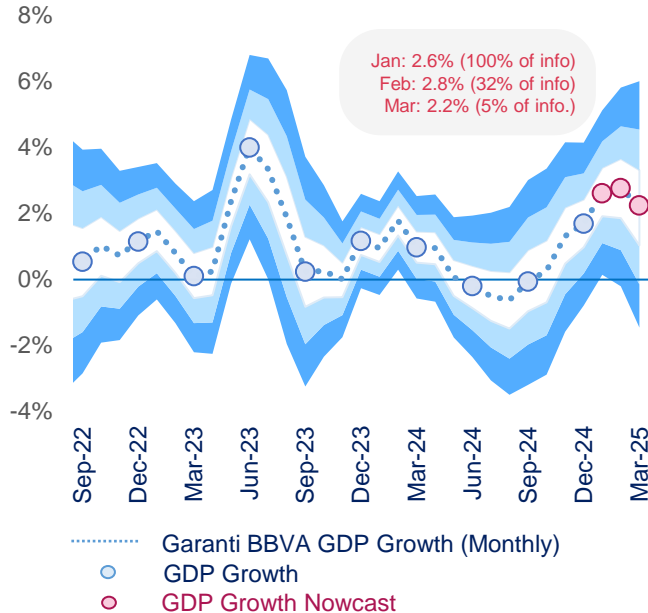
## CONSUMER CREDIT CARD SPENDING SA QoQ



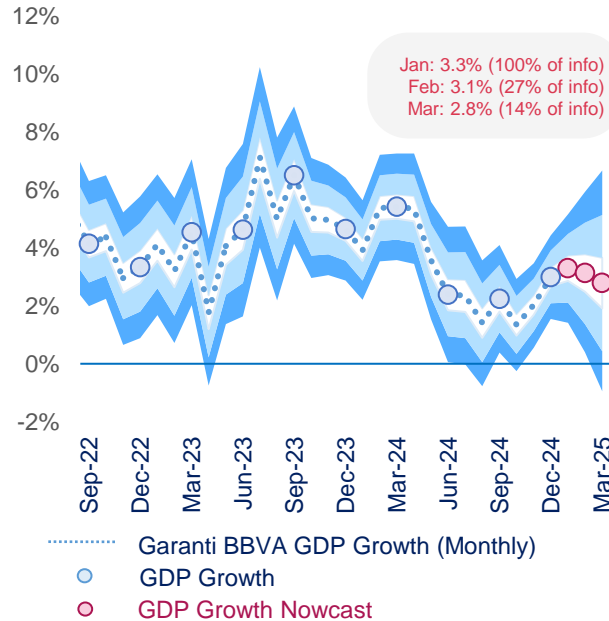
\*1Q25 as of Feb25

# The economy grew 1.7% q/q and 3% y/y in 4Q24. The recovery continued in 1Q25 (implying 1.5-2.0% qoq for 1Q25 with moderation on upcoming March data)

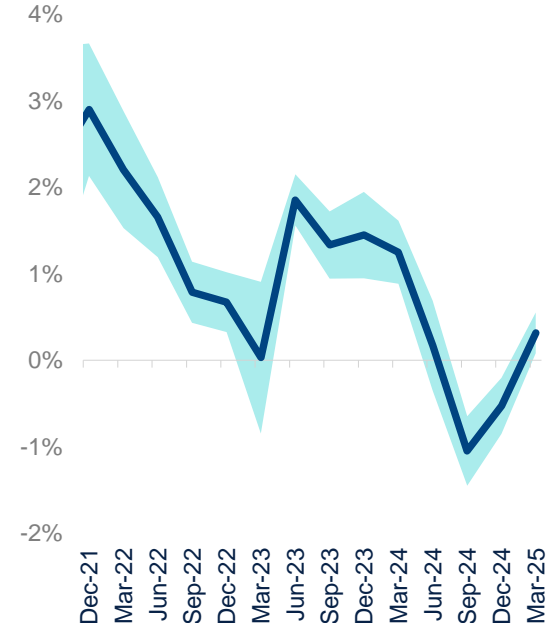
**GARANTI BBVA MONTHLY GDP**  
(QOQ, 3M MOVING AVERAGE)



**GARANTI BBVA MONTHLY GDP**  
(YOY, 3M MOVING AVERAGE)

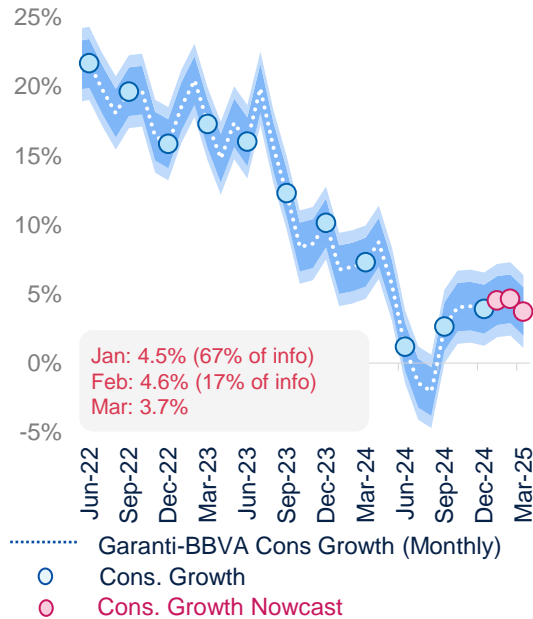


**GARANTI BBVA OUTPUT GAP ESTIMATION**  
(% deviation from potential GDP)

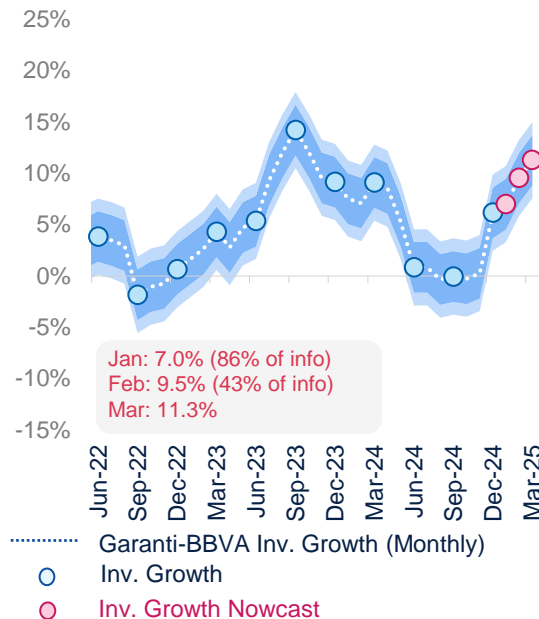


# We nowcast a similar consumption growth and an acceleration in investment in 1Q25 annual GDP, while net exports could pull down growth further

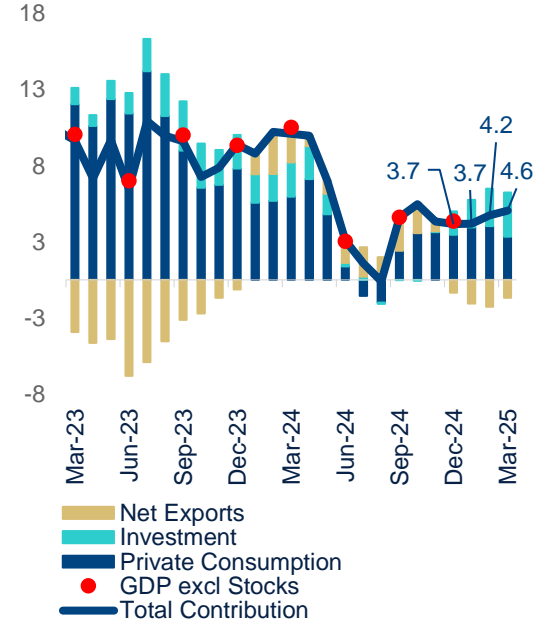
**GARANTI BBVA MONTHLY CONSUMPTION GDP**  
(YOY, 3M MOVING AVERAGE)



**GARANTI BBVA MONTHLY INVESTMENT GDP**  
(YOY, 3M MOVING AVERAGE)



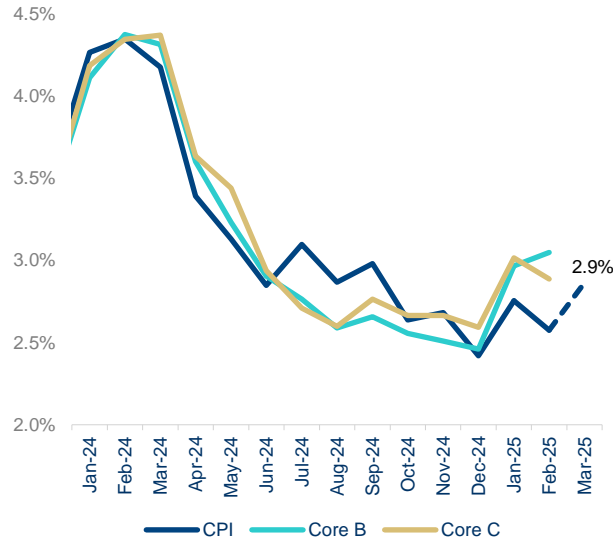
**GARANTI BBVA MONTHLY GDP DEMAND SUBCOMPONENTS**  
(contribution to annual GDP)



# We nowcast nearly 3% CPI in March. The monthly inflation trend will get closer to 3% (40% if annualized) with pressure from stickier items in services

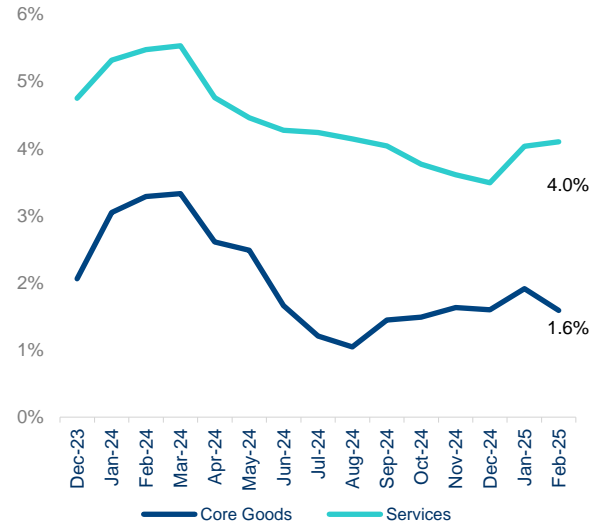
## TREND CPI INDICATORS\*

SA MoM, 3M AVG

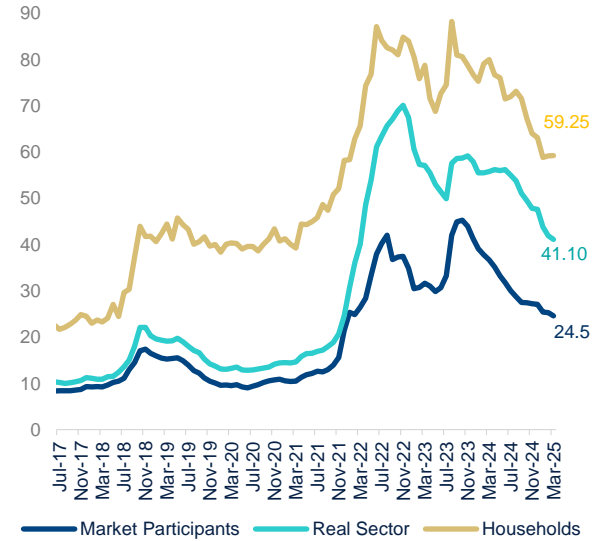


## TREND CORE C INFLATION\*

SA MoM, 3M AVG



## CBRT SURVEY ONE-YEAR AHEAD INFLATION EXPECTATIONS, %

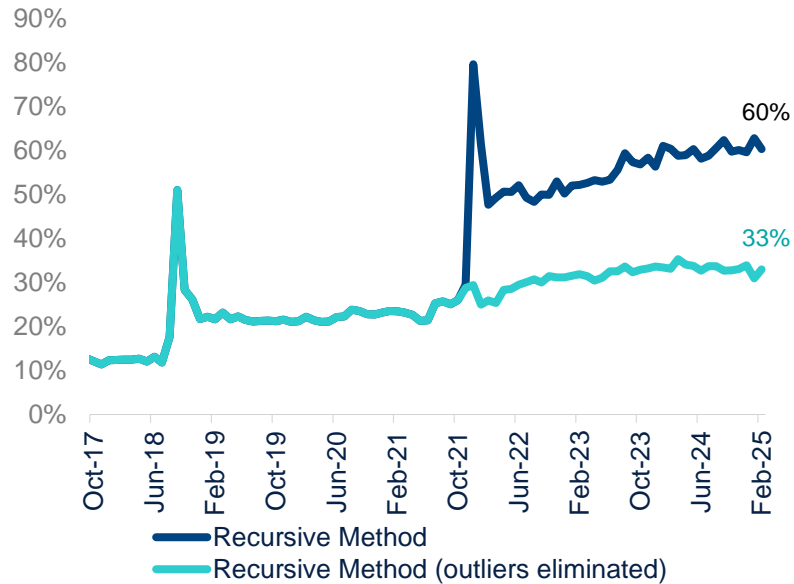


\* As released by TURKSTAT & CBRT

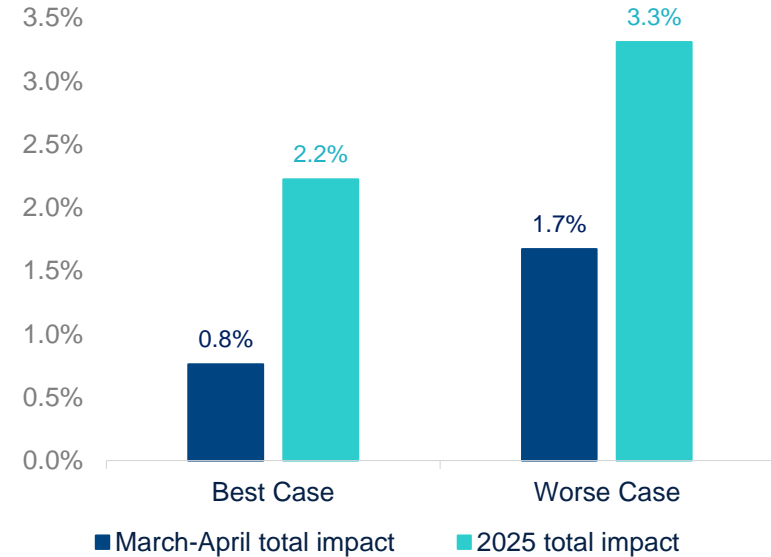
Source: TURKSTAT, CBRT & Garanti BBVA Research.

**Even though last week's sharp depreciation has been partially absorbed, the final impact will likely add 2.2-3.3pp to 2025 inflation with dynamic effects**

### EXCHANGE RATE PASS-THRU (%)

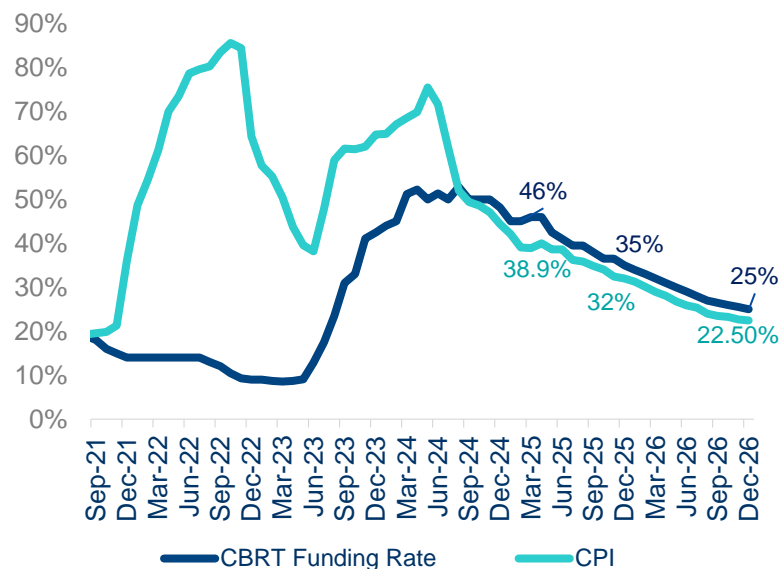


### EXCHANGE RATE PASS-THRU IMPACT FROM THE RECENT SHOCK (%)



# The CBRT tries to absorb the new shock by raising the ON lending rate to 46% in an interim meeting, suspending one-week repos (back to interest rate corridor), implementing non-deliverable forwards and issuing liquidity bills

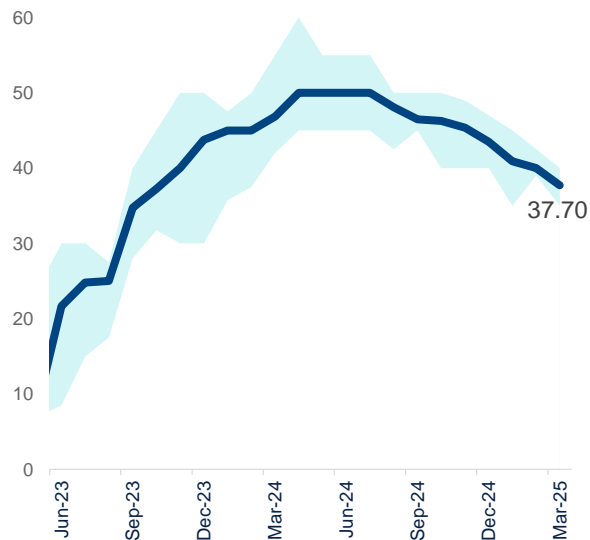
## GARANTI BBVA CBRT FUNDING RATE & CPI EXPECTATIONS (%)



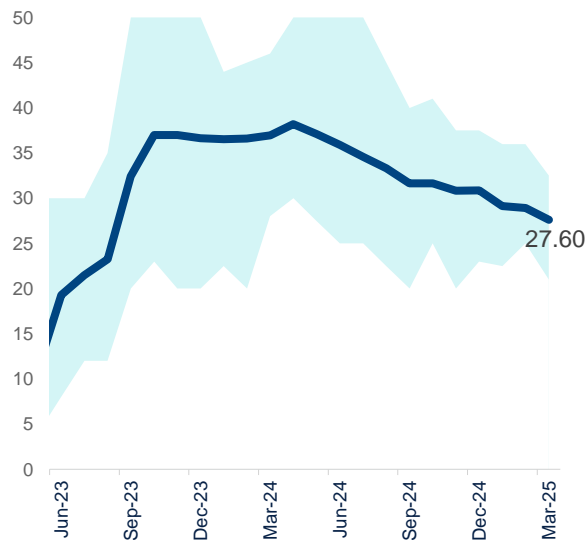
- We will try to understand how much of the new inflation shock will be absorbed via the increase in the CBRT cost of funding (if needed, a hike to the policy rate is also on the table). It is now more likely to have a pause in the next meeting on the 17th of April.
- We fine-tune our baseline by assuming that the economy team with Simsek has the room to keep any new potential shock contained. If things go much deeper and Erdogan's increasing aggressiveness leads the protests to become more widespread and challenging, we will evaluate this as an alternative risk scenario.
- We now assume a slightly higher nominal depreciation (45 USDTRY by year end vs. 42 previously) with stronger pass-thru to inflation (32% by year-end vs. 29% previously). There will be 25% electricity price hike to electricity in April and 25% hike to natural gas in May.
- If the shock becomes transitory on FX demand, the CBRT might maintain the ON lending rate but allow the cost of funding to come down towards the policy rate of 42.5% after some time in April. If conditions allow, they can again start easing June onwards (150bps cuts \* 5) and reach 35% policy rate at the end of the year.

# The OIS curve currently prices 350bps easing from the CBRT till June and 33-34% policy rate in December

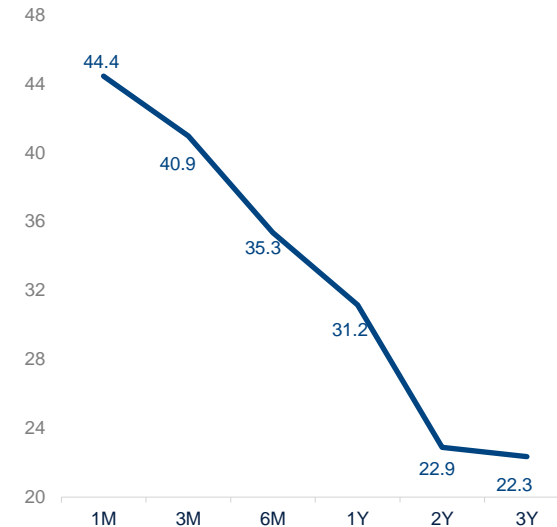
**CBRT SURVEY: 3M AHEAD  
POLICY RATE FORECASTS**  
(%)



**CBRT SURVEY: 12M AHEAD  
POLICY RATE FORECASTS**  
(%)

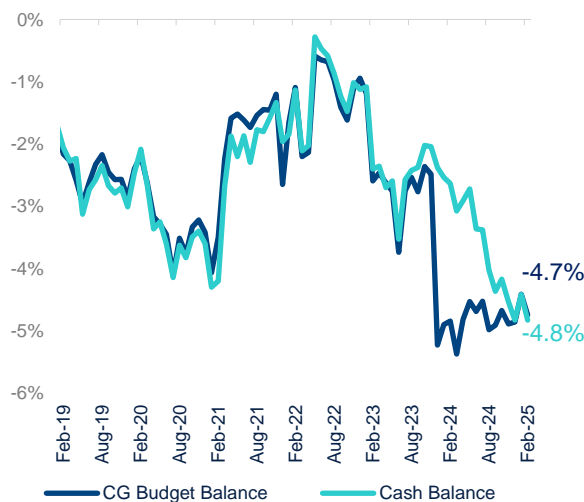


**MARKET IMPLIED CBRT FUNDING  
RATE**  
(%)

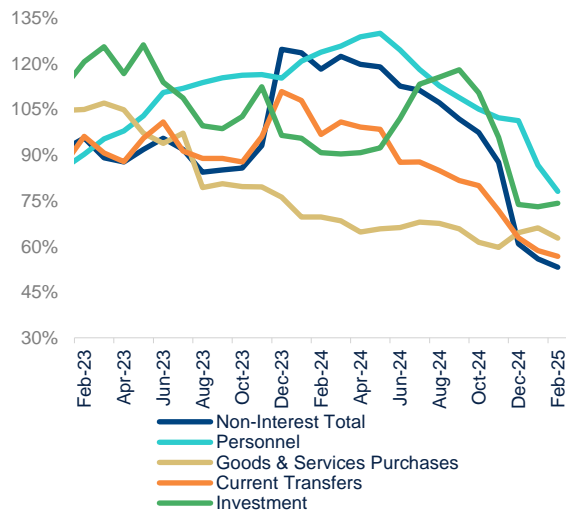


# Fiscal policy stays expansionary with cash spending accelerating in early months of the year, signaling lack of fiscal support to disinflation at least until 2H25

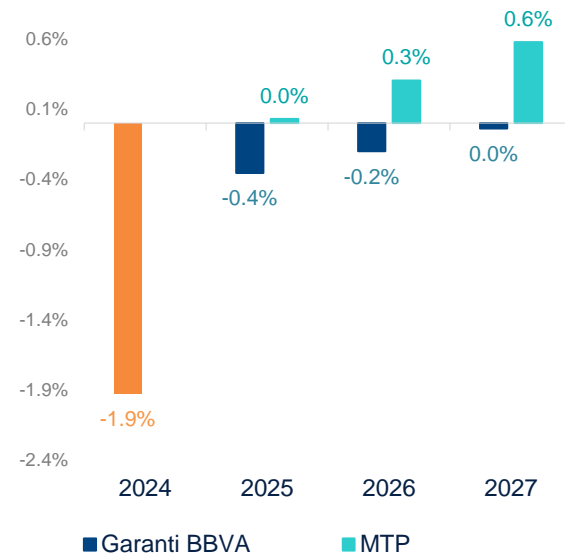
**CENTRAL GOVERNMENT (CG)  
BUDGET & CASH BALANCE**  
(% GDP)



**CG BUDGET EXPENDITURES**  
(% 12M YOY)



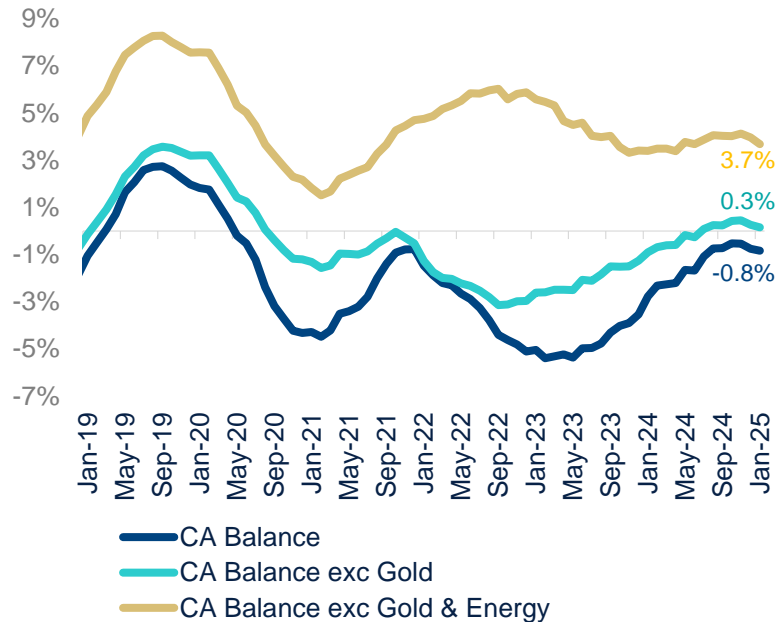
**CG PRIMARY BALANCE FORECASTS**  
(% GDP)



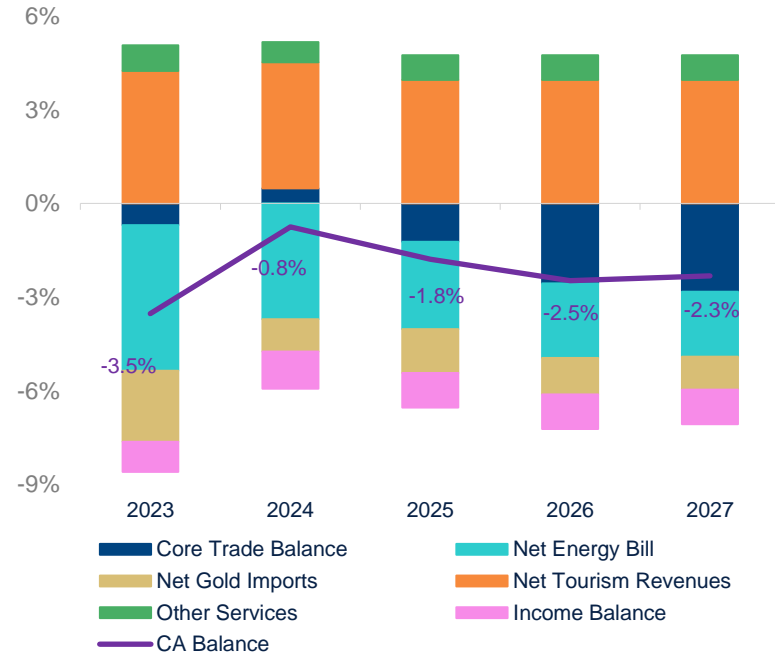


**On the external side, we revised our current account deficit to GDP forecast to 1.8% of GDP in 2025 (vs. 1% previously), led by higher domestic demand expectations**

**CURRENT ACCOUNT (CA) BALANCE**  
% GDP



**GARANTI BBVA CA FORECASTS**  
% GDP



## 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%	9.3%	10.0%	10.3%	10.5%	10.5%	10.5%
Inflation (avg)	58.5%	36.6%	25.8%	19.4%	16.7%	15.4%	15.2%
Inflation (eop)	44.4%	32.0%	22.5%	18.0%	16.0%	15.0%	15.0%
CBRT Cost of Funding (avg)	49.6%	40.9%	28.9%	22.0%	18.9%	18.0%	18.0%
CBRT Cost of Funding (eop)	47.5%	35.0%	25.0%	20.0%	18.0%	18.0%	18.0%
USDTRY (avg)	32.80	40.23	48.79	56.33	65.69	75.92	87.54
USDTRY (eop)	35.28	45.00	52.00	60.00	70.50	80.50	93.50
Current Account Balance (bn\$)	-10.0	-27.2	-40.5	-41.0	-41.2	-43.5	-44.9
Current Account Balance (% GDP)	-0.8%	-1.8%	-2.5%	-2.3%	-2.2%	-2.3%	-2.3%
Primary Balance (% GDP)	-1.9%	-0.4%	-0.2%	-0.1%	0.1%	0.2%	0.3%
Fiscal Balance (% GDP)	-4.9%	-3.5%	-3.3%	-3.2%	-3.0%	-2.9%	-2.8%

# Türkiye Economic Outlook

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