Research

July 16, 2026

Macro talk

BBVA Research

Global outlook

Research

1

Economic outlook 2026-2027

Two tectonic forces are reshaping the global outlook, bringing about opportunities, uncertainty and risks

Geopolitical fragmentation

Conflicts, strategic rivalry, protectionism, use of leverage (choke points), strategic autonomy, defense spending

Demographics

Economic Cycle (and financial markets)

Structural features

- Productivity
- Labour and migrations
- Institutions

Economic regime changes

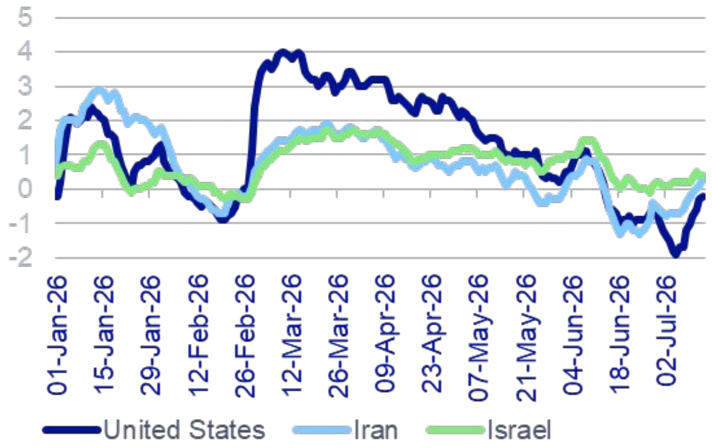
Climate events

Artificial Intelligence

AI boost investment and wealth induced demand, accelerates innovation and transforms economies from within

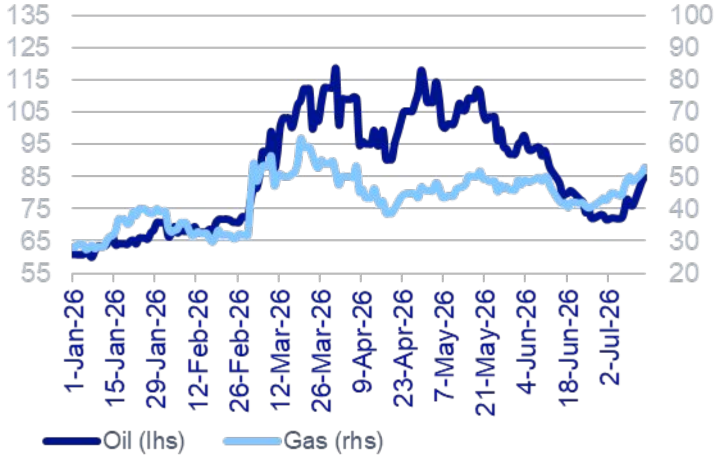
US Iran partial ceasefire bring lower geopolitical tensions and lower energy prices and supply chain pressures

GEOPOLITICAL RISK INDEX
(AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research based

BRENT AND EUROPEAN GAS PRICES
(USD PER BRENT BARREL;EUROS PER MWh)

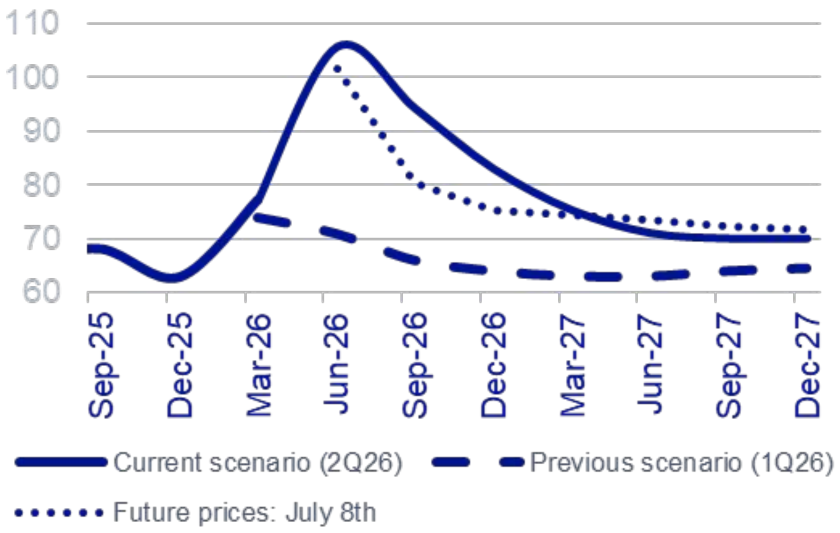


Source: BBVA Research based on data from Haver

Despite the 60-day ceasefire agreement, the situation remains complex and uncertain as division over key issues (Israel-Lebanon clashes, nuclear inspections, fees, Iran's frozen funds, etc.) remain in place

Hormuz-related supply constraints remain the key risk, with the potential of triggering non-linear effects

BRENT PRICES: BBVA RESEARCH FORECASTS, FUTURES PRICES (USD/BARREL)

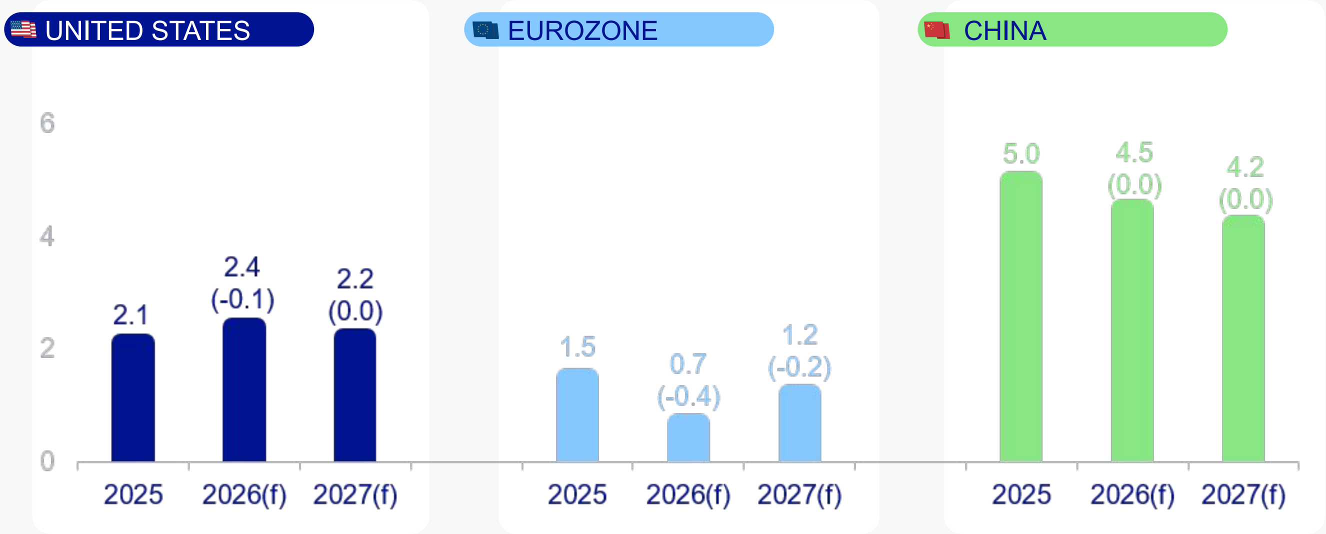


- **Base scenario:** gradual normalization of oil prices in 2H26 converging to above pre-war levels.
- Energy prices could ease quickly -as we saw before the attacks resumed-, lowering inflation pressure and allowing central banks to soften their hawkish stance.
- But prices could rise again and remain elevated if the conflict escalates and flow restrictions reappear, with knock-on effects on global supply chains.

Source:BBVA Research based on data from Haver

Growth is forecast to stay firm in the US and China, but weaker in the Eurozone

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



Weaker 1Q26 data lead to a **slight downgrade of US growth**

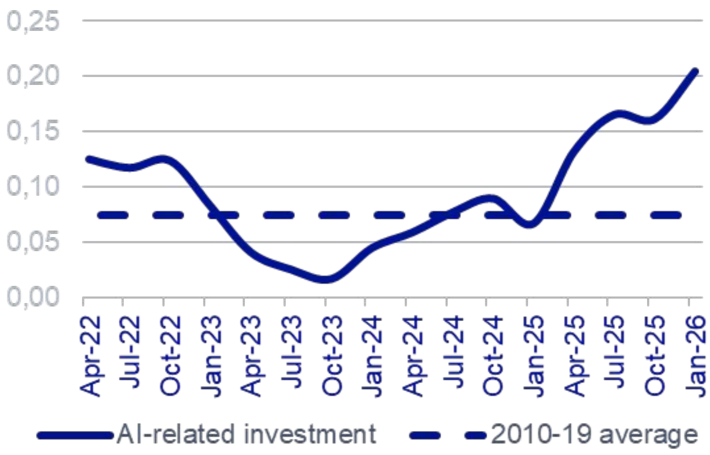
A larger cut to the Eurozone forecast due to the prolonged conflict (and Ireland).

China's slowdown remains unchanged despite strong exports and AI-sector dynamism.

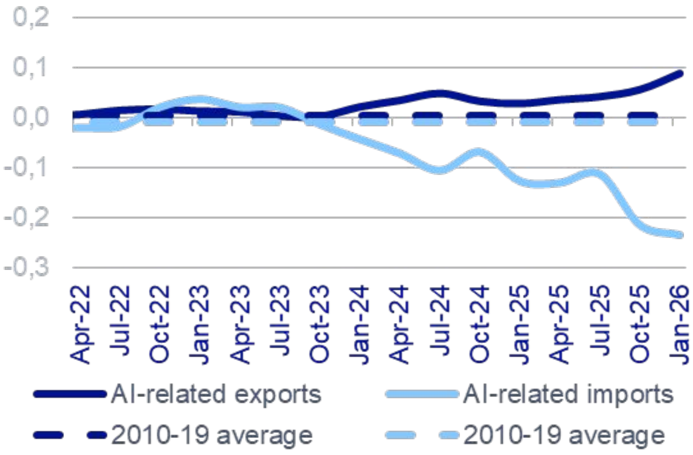
(*) After expanding by 3.5% in 2025, global GDP is forecast to grow by 3.1% in 2026 (0.1pp lower than the previous forecast) and by 3.3% in 2027 (unchanged from the previous forecast).
(f): forecast.
Source: BBVA Research

US: the AI boom is boosting global economic activity through investment, trade and consumption; with productivity gains

US: AI-RELATED INVESTMENT (*)
(CONTRIBUTION TO QUARTERLY GDP GROWTH; FOUR-QUARTERS MOVING AVERAGE: PP)



US: AI-RELATED EXPORTS AND IMPORTS (*)
(CONTRIBUTION TO QUARTERLY GDP GROWTH; FOUR-QUARTERS MOVING AVERAGE: PP)

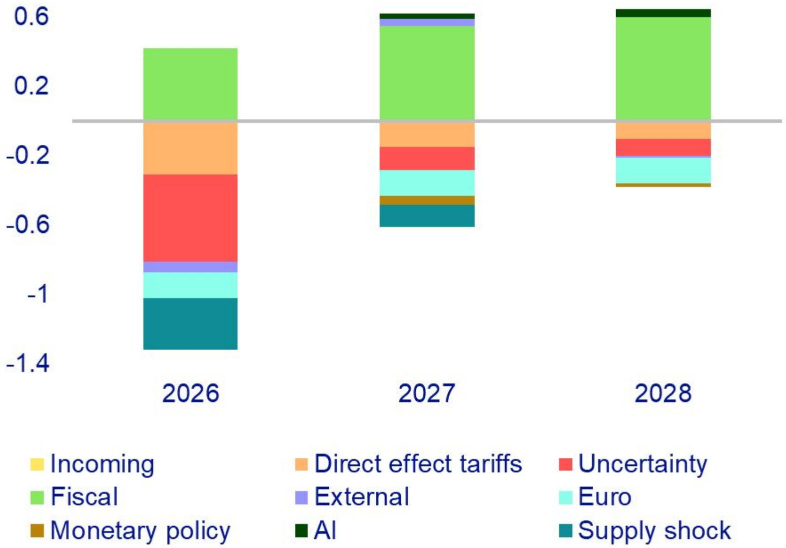


(*) AI-related investment defined as investment in information processing, investment in softwares and investment in data centers.
Source: BBVA Research based on data from FRED and US Census Bureau

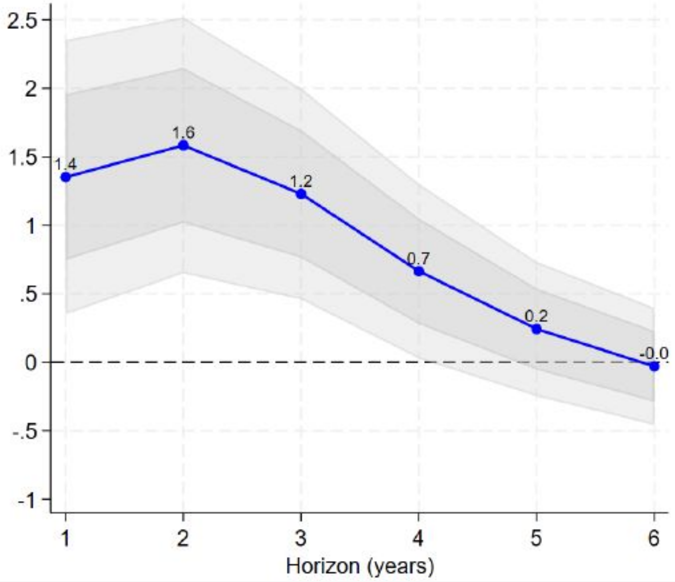
(*) AI-related exports (imports) defined as exports (imports) of computer, peripherals and parts and of telecommunications, computer, and information services.
Source: BBVA Research based on data from US Census Bureau

Europe: fiscal policy (defense spending) also compensate negative shocks coming from conflicts, tariffs, and energy

EMU: GDP GROWTH FORECASTS REVISION VS. PRE-TRUMP
(PERCENTAGE POINTS)



EU CUMULATIVE DEFENCE FISCAL MULTIPLIERS
(PERCENTAGE POINTS)

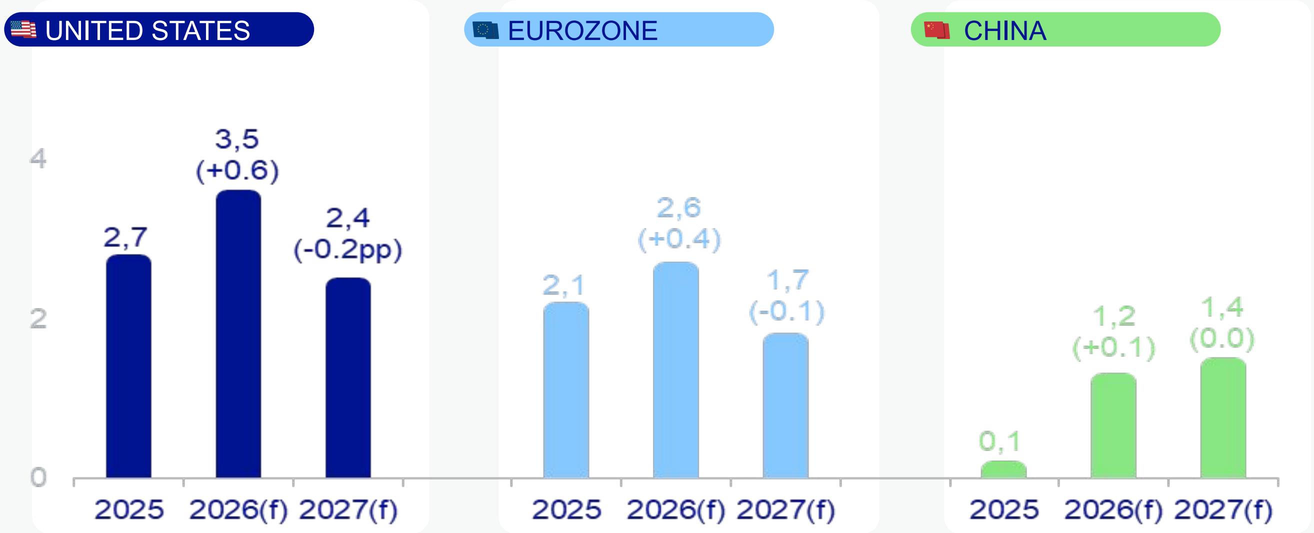


Source: BBVA Research

Inflation: the outlook has worsened in 2026; inflation should ease in 2027 absent widespread second-round effects

HEADLINE CPI INFLATION

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



(f): forecast.
Source: BBVA Research

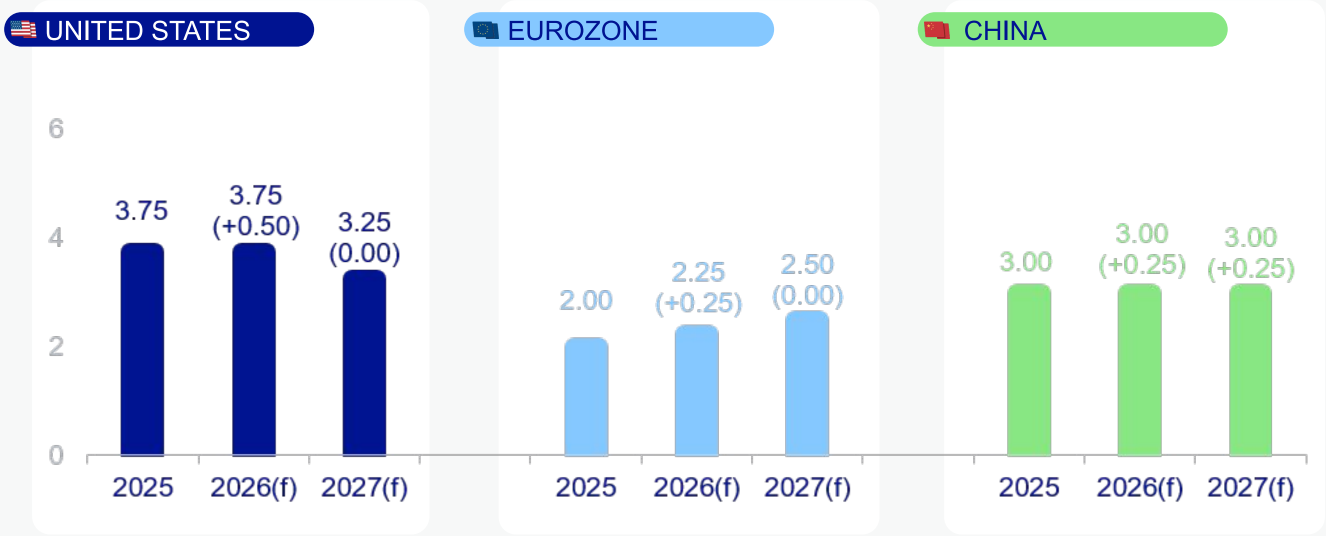
Inflation forecasts are high but in line with limited second-round effects. **Core inflation** will be within 2% and 3% in the US and the EZ.

Hormuz reopening (July 8th prices) could reduce inflation in 2026 by 0.2 pp in the US and 0.1pp in the EZ and reinforces prospects of lower inflation in 2027.

Still, need to stay vigilant on other issues: food inflation, services. In the US, AI-demand related upward pressures.

More cautious central banks given inflation pressures that could eventually require some rate hikes

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

The Fed is expected to remain on hold until mid-2027, but resilient growth creates an upside risks to rates**.**

The ECB, facing a sharper growth vs inflation trade-off, has brought forward a rate hike, expected to remain on hold for the rest of the year.

The strategy on how to deal with current shocks will be key to monetary policy actions in both areas

Hormuz reopening improves the balance of risks, but uncertainty remains very high, also beyond geopolitics

GLOBAL ECONOMY: MAIN RISKS AROUND BBVA RESEARCH BASELINE SCENARIO

NEGATIVE SUPPLY SHOCKS

escalation of Iran-US war (reserve depletion, non-linearities), geopolitical tensions, tariffs, weather shocks (El Niño, climate change), stagflation due to Fed intervention, ageing

STRONG DEMAND

AI (demand), fiscal stimulus, defense spending, lower interest rates

Current equilibrium

\+ GDP GROWTH -

\+ INFLATION -

WEAK DEMAND

financial stress (sovereign debt markets, private credit, equity correction, shadow banking), uncertainty, structural challenges in Europe and China

POSITIVE SUPPLY SHOCKS

faster normalization of energy markets, productivity gains due to AI (in the medium term)

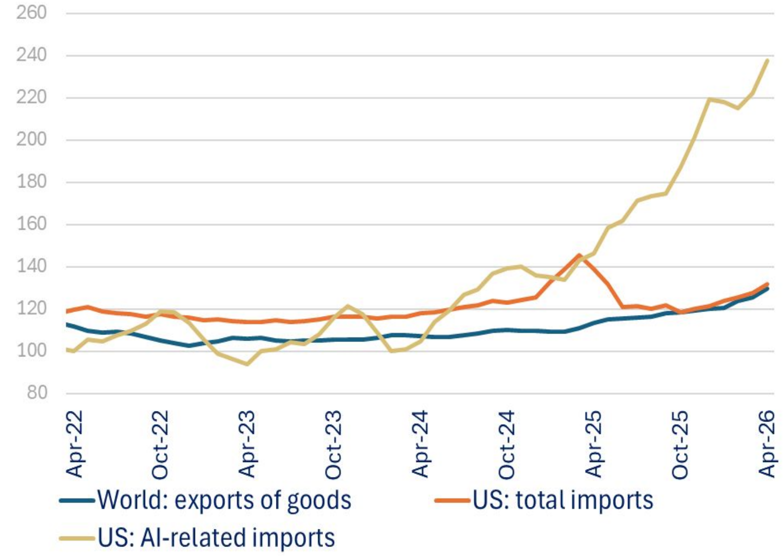
Research

2

Geopolitics and the new global trade landscape

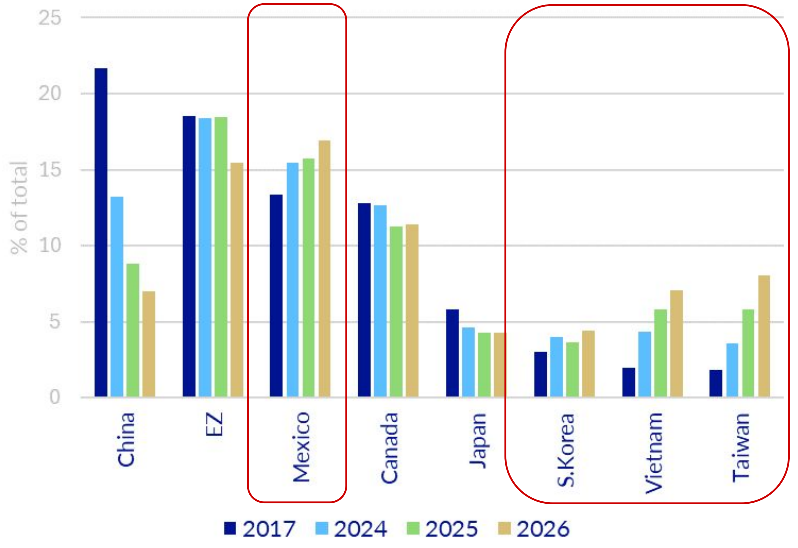
Global trade keeps growing, despite tariffs, boosted by AI; but a reconfiguration of trade flows is already taking place

WORLD EXPORTS, US TOTAL IMPORTS AND US AI-RELATED IMPORTS
(VOLUME, 4Q19=100, THREE-MONTH MOVING AVERAGE)



Source: BBVA Research based on data from Haver

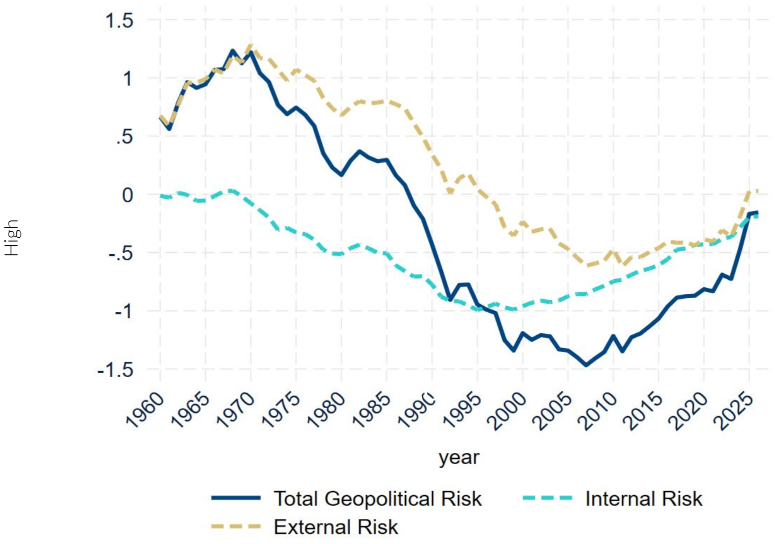
US IMPORTS BY SELECTED ORIGIN COUNTRIES
(SHARE OF TOTAL US IMPORTS; 2026 INCLUDES DATA UNTIL APRIL)



Source: BBVA Research based on data from USITC

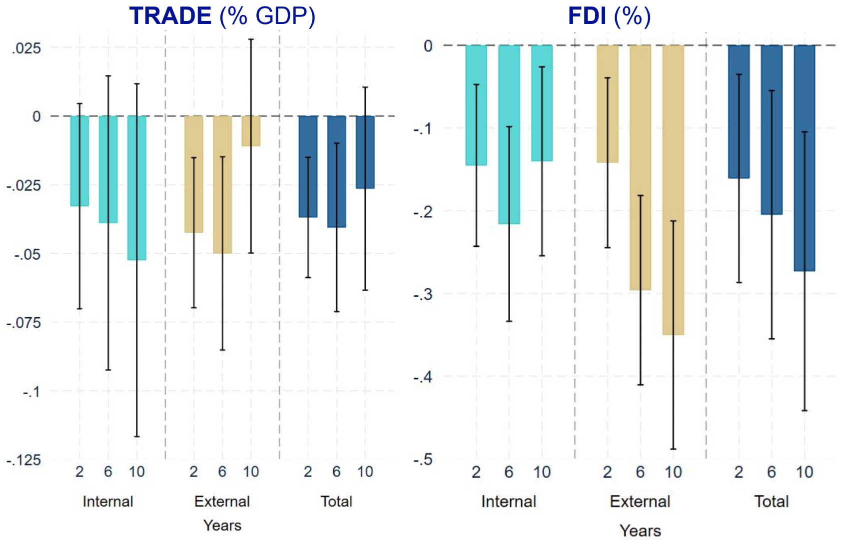
Geopolitical risk has been increasing over a long time and has had a negative impact on trade dynamics and FDI

GLOBAL STRUCTURAL GEOPOLITICAL RISK (SGR)
(1960-2025, GDP WEIGHTED, HIGH VALUES)



Source: BBVA Research based

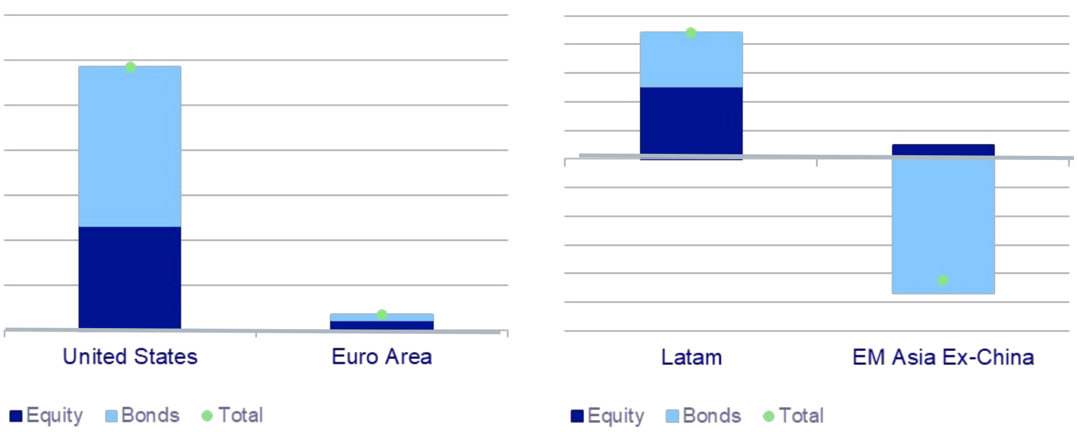
IMPACT OF STRUCTURAL GEOPOLITICAL RISK (TOTAL, INTERNAL & EXTERNAL) ON TRADE AND FDI



Source: BBVA Research based

In the short-run, the conflict in Iran is having an impact on portfolio flows: US beats Europe, while Latam beats Asia

TOTAL FLOWS SINCE US-IRAN WAR
(UP TO JULY 2026)



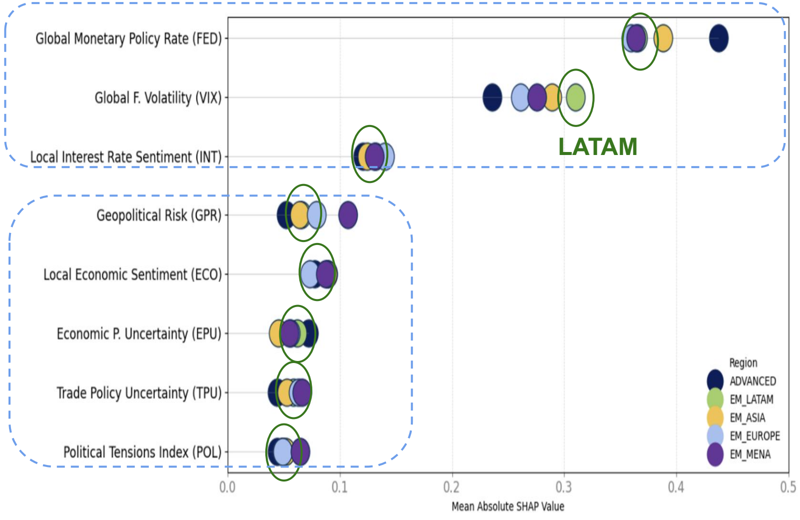
- **In Advanced Economies:** US is the most favored, Europe loses attractiveness.

- **In Emerging Markets:** Latam outperforms Emerging Asia (positive terms of trade, elevated carry).

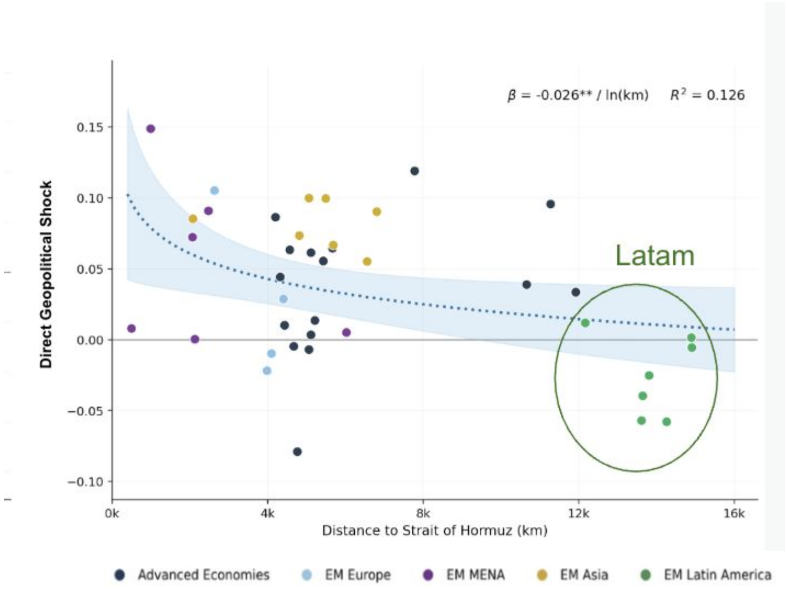
Source: BBVA Research

Limited impact of geopolitics on sovereign risk (vs domestic and global financial factors). Distance to the conflict matters

IMPACT OF FACTORS IN SOVEREIGN RISK
(SHAPLEY VALUES, 2018–2025)



DIRECT GEOPOLITICAL SHOCK (IRAN CONFLICT)
(40 COUNTRIES)



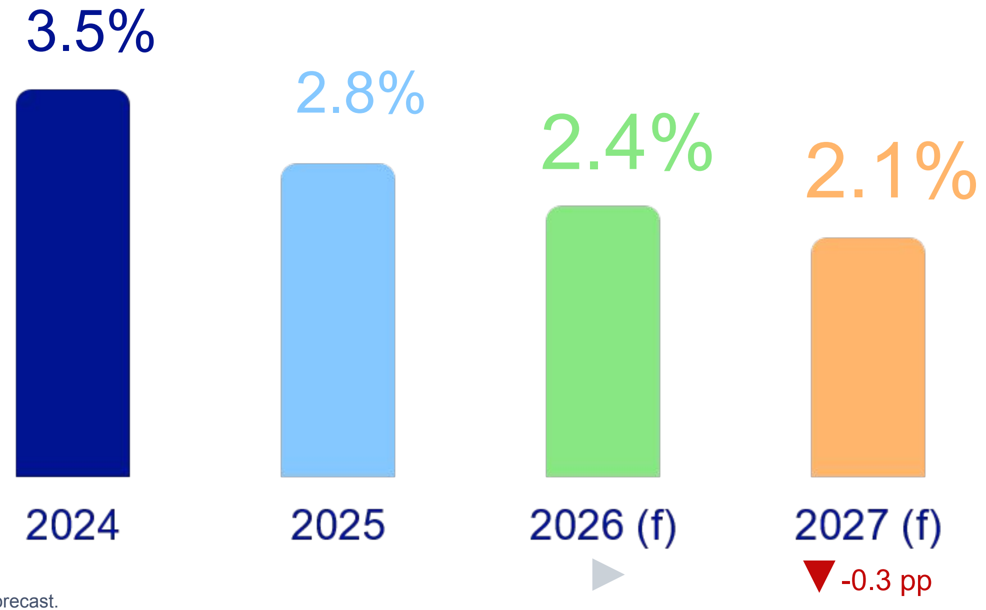
Source: BBVA Research. Ortiz, Rodrigo and Saborido (2026)

Research

Spanish Economy

GDP growth will exceed 2% over the two-year period

GDP GROWTH
(PERCENTAGE)



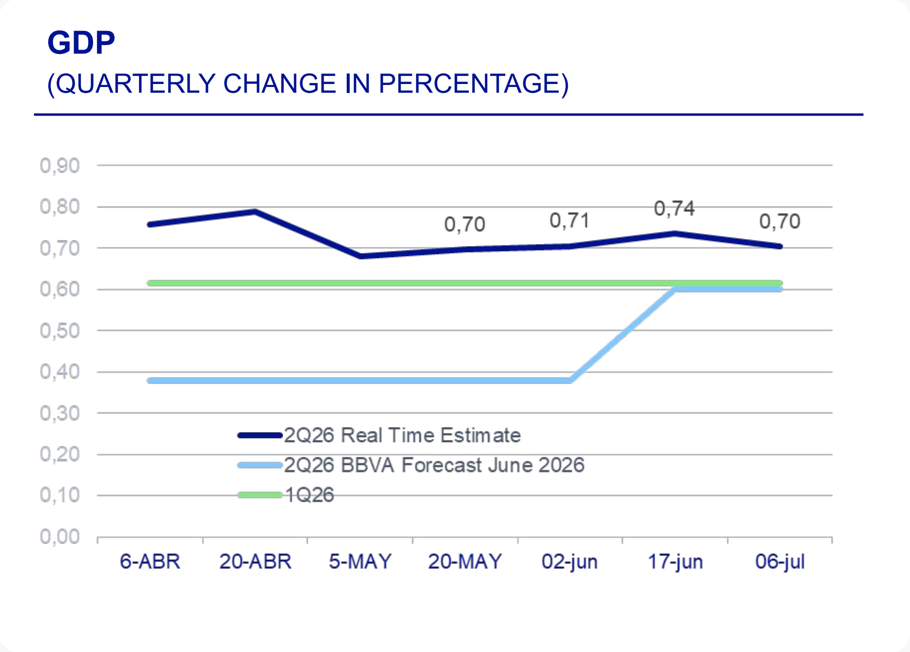
(f): forecast.
Source: BBVA Research based on INE.

▲ Forecast revised upward

▶ Forecast unchanged

▼ Forecast revised downward

Recent data point to quarterly GDP growth that could have even accelerated in 2Q26

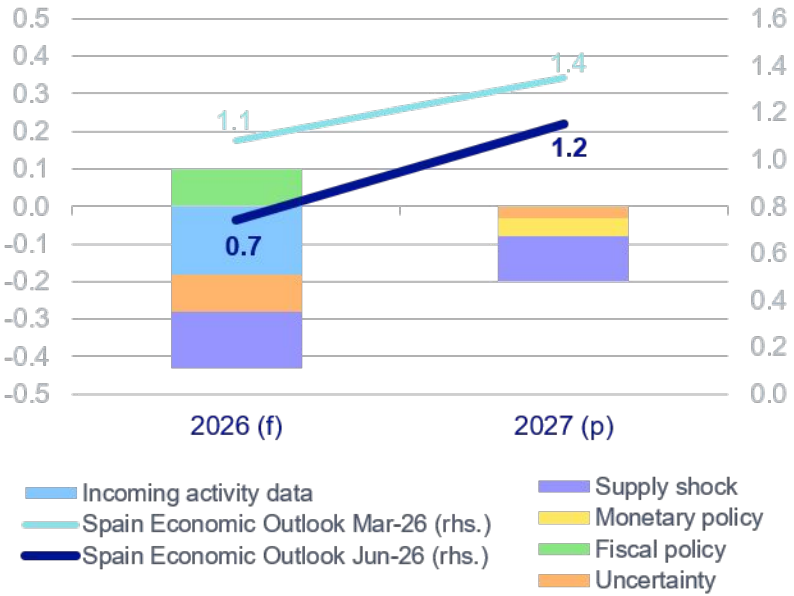


- **GDP increased by 0.6% in 1Q26,** in line with BBVA Research's forecast (0.6-0.7%), **marking a moderate slowdown from 4Q25 (0.8%).**
- **Both consumption and investment met expectations of lower growth,** while goods exports consolidated the poor performance that real-time data had been showing.
- **For the time being, Social Security affiliation data show that job creation is holding up,** and that growth may have even accelerated in 2Q26.
- **There could be an upward bias on real time estimates** due to the impact of the regularization of immigrants, but **if forecasts hold up, growth for the whole year could be higher than expected.**

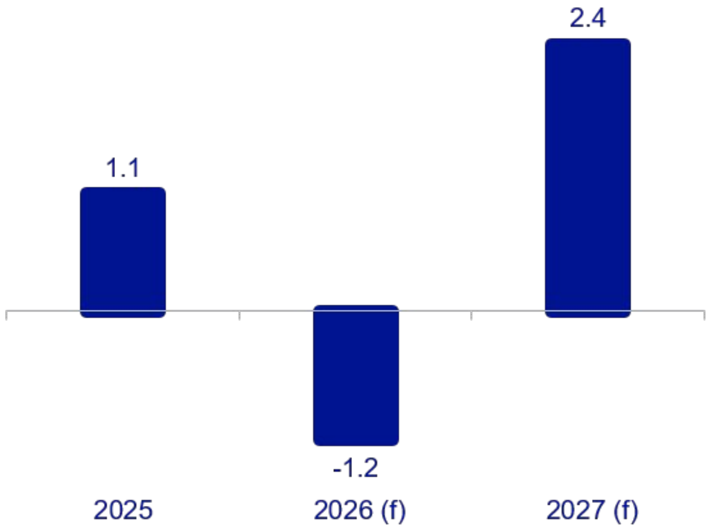
Source: BBVA Research based on INE.

The deterioration of the European context could affect the momentum of Spanish exports

EMU: REVISION OF GDP GROWTH RELATIVE TO THE MAR-26 SCENARIO
(PERCENTAGE POINTS AND PERCENTAGE)



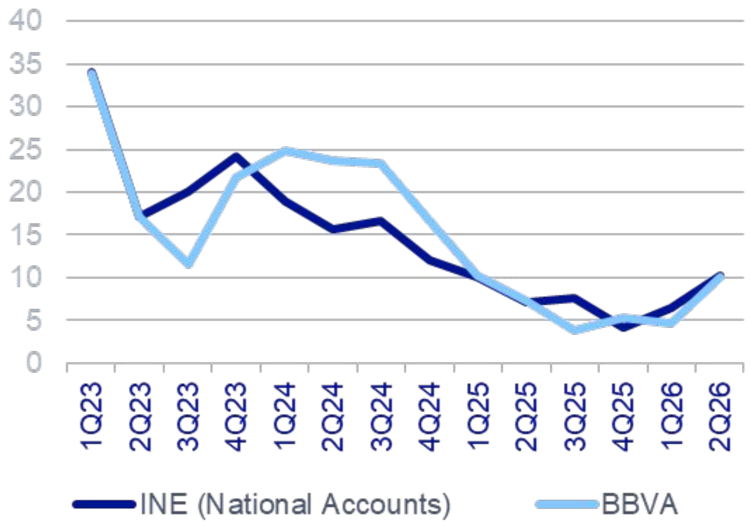
SPANISH GOODS EXPORTS
(ANNUAL AVERAGE. PERCENTAGE CHANGE)



Source: BBVA Research based on Eurostat and INE.

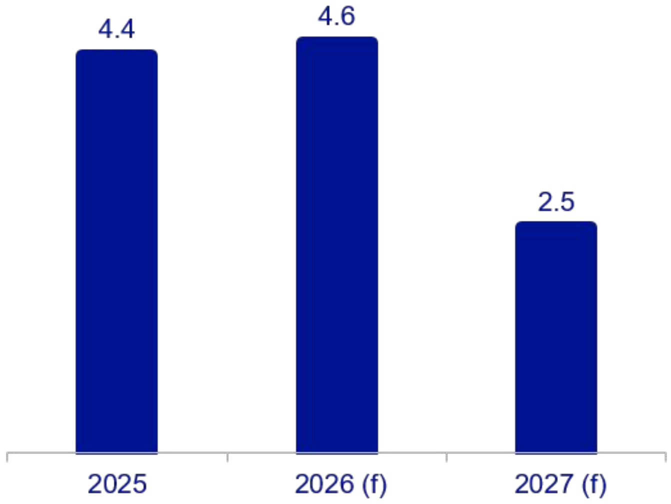
Foreigners' spending is accelerating again and could benefit from greater geopolitical uncertainty

IN-PERSON CARD SPENDING BY FOREIGNERS IN SPAIN* AND EXPENDITURE OF NON-RESIDENT FROM NATIONAL ACCOUNTS (Y/Y CHANGE IN PERCENTAGE)



*In-person spending with foreign cards at BBVA POS terminals. BBVA Forecast for INE 2Q26 data
Source: BBVA Research based on BBVA and INE.

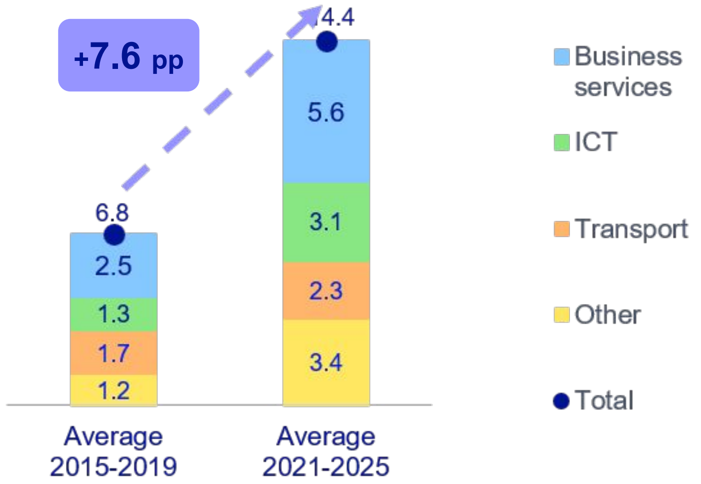
NON-RESIDENT CONSUMPTION IN THE DOMESTIC TERRITORY
(ANNUAL AVERAGE. PERCENTAGE CHANGE)



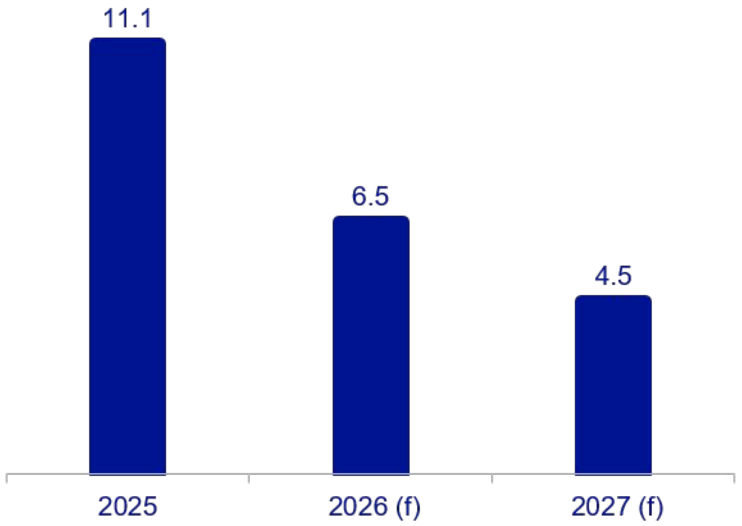
(f): forecast.
Source: BBVA Research based on INE.

Exports of non-tourism services will continue to be one of the growth drivers

CONTRIBUTION TO THE ANNUAL CHANGE IN SPANISH EXPORTS OF NON-TOURISM SERVICES BY TYPE OF SERVICE (TOTAL % AND PP)



SPANISH EXPORTS OF NON-TOURISM SERVICES
(ANNUAL AVERAGE. PERCENTAGE CHANGE)

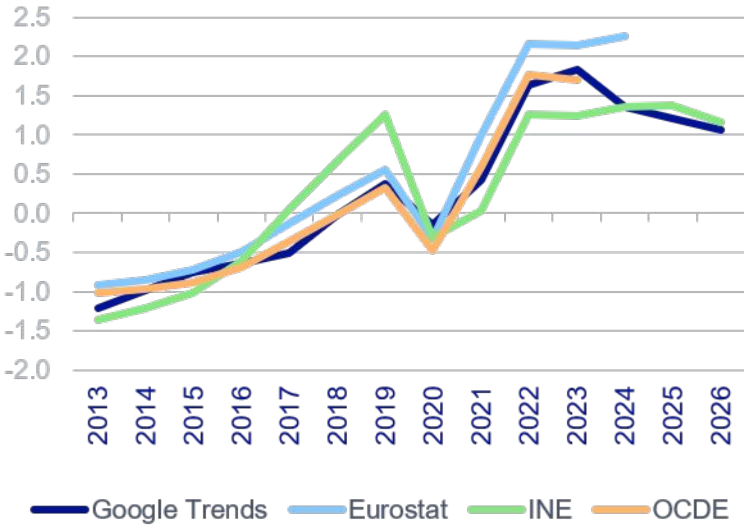


Source: BBVA Research based on Eurostat.

(f): forecast.
Source: BBVA Research based on INE.

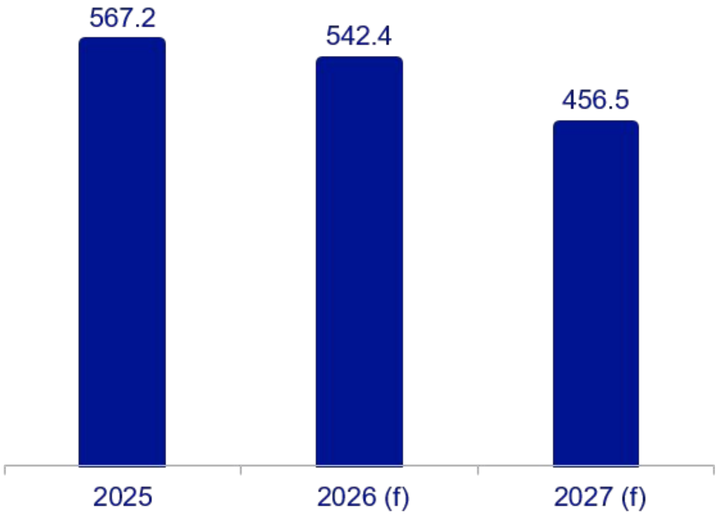
Immigration and higher labor force participation among Spanish nationals will continue to drive employment

IMMIGRATION TO SPAIN (GOOGLE TRENDS IMMIGRATION INDEX AND NORMALIZED OFFICIAL SERIES)



Source: BBVA Research based on Google Trends, OECD, Eurostat and INE. Note: the Google Trends figure for 2026 uses information from January to May; the INE series is annualized through January 2026.

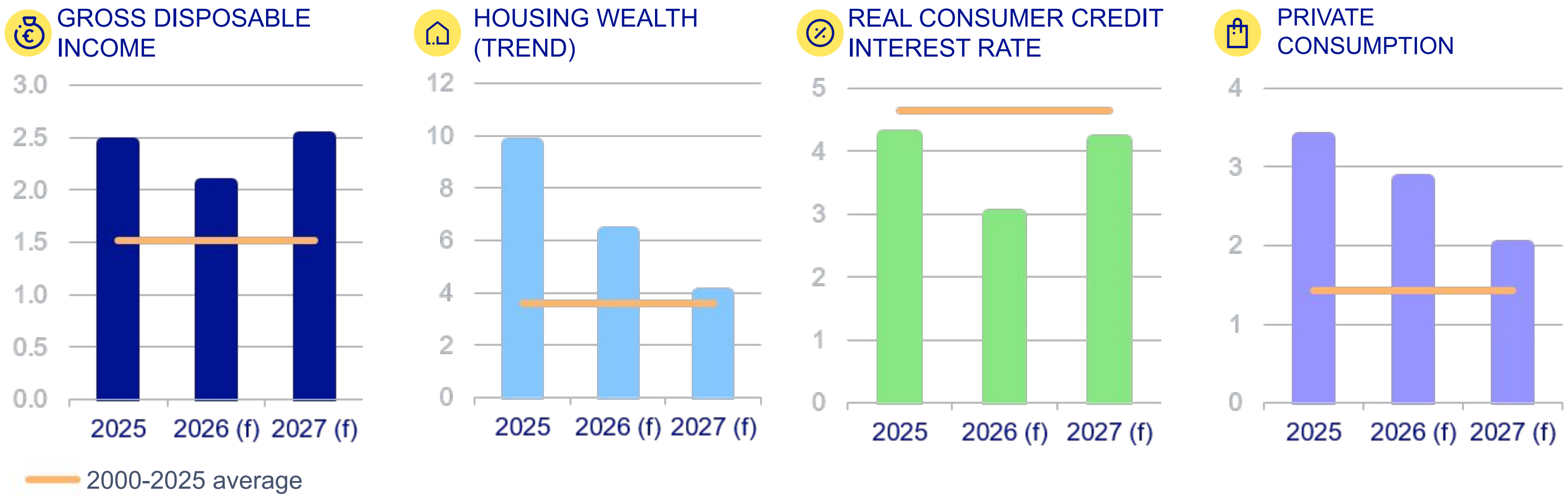
LFS EMPLOYMENT (ANNUAL AVERAGE. CHANGE IN THOUSANDS OF PEOPLE)



(f): forecast.
Source: BBVA Research based on INE.

Improvements in household income and wealth will support their consumption spending

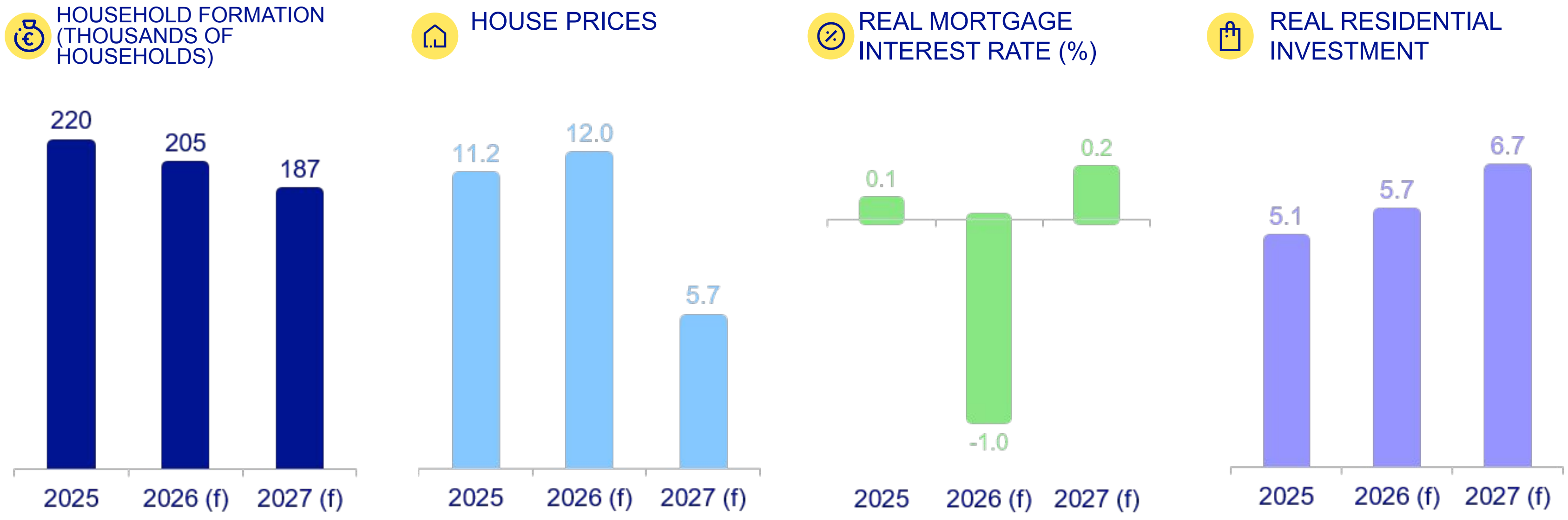
MAIN DETERMINANTS OF PRIVATE CONSUMPTION
(PERCENTAGES, IN REAL TERMS, AVERAGE ANNUAL CHANGE, EXCEPT INTEREST RATE)



(f): forecast.
Source: BBVA Research based on INE and Bank of Spain.

Household formation, employment trends and financial conditions will favor residential investment

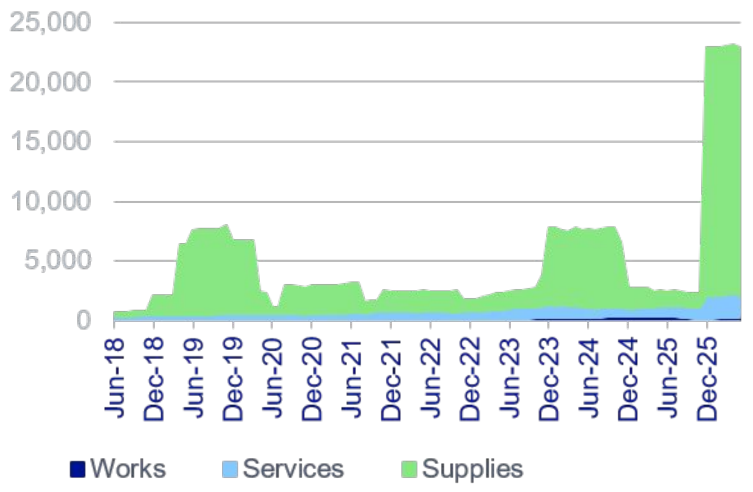
MAIN DETERMINANTS OF RESIDENTIAL INVESTMENT
(AVERAGE ANNUAL CHANGE IN PERCENTAGE, UNLESS OTHERWISE INDICATED)



(f): forecast.
Source: BBVA Research based on INE and Bank of Spain.

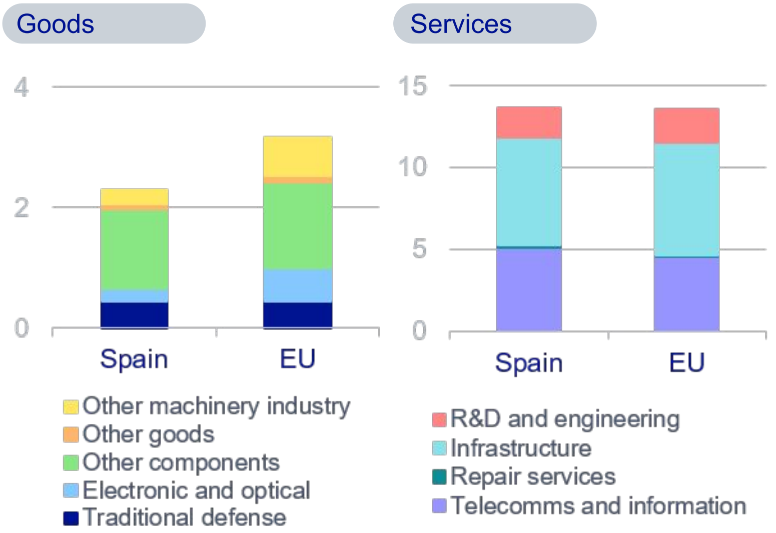
Higher defense spending represents an opportunity for Spanish companies that manage to adapt

DEFENSE TENDERS, AMOUNT AWARDED EXCLUDING TAXES
(12-MONTH MOVING SUM. MILLION EUROS)



Source: BBVA Research based on PLACSP (with data through May 10, 2026).

CORPORATE VALUE ADDED BY SECTOR (AVERAGE 2021-2023, SECTOR'S SHARE OF TOTAL)

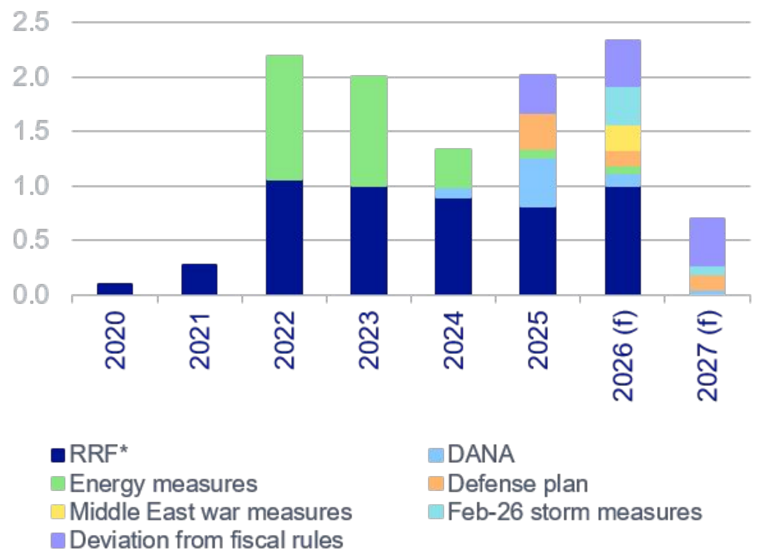


Source: BBVA Research based on Eurostat.

Structural challenges: Fiscal policy will change its tone over the coming months, becoming less expansionary

- From 2027 onward, **several discretionary measures will come to an end**, so the fiscal policy stance will become less expansionary.
- On the one hand, there is a **risk of not executing all the funds linked to the Recovery Plan** within the planned timetable.
- On the other hand, **the resources allocated to mitigate natural disasters** (DANA in Valencia, storms in Andalusia) **and higher input costs** following the conflict in the Middle East will gradually be depleted.
- **Failure to comply with fiscal rules** continues to be a source of uncertainty going forward.

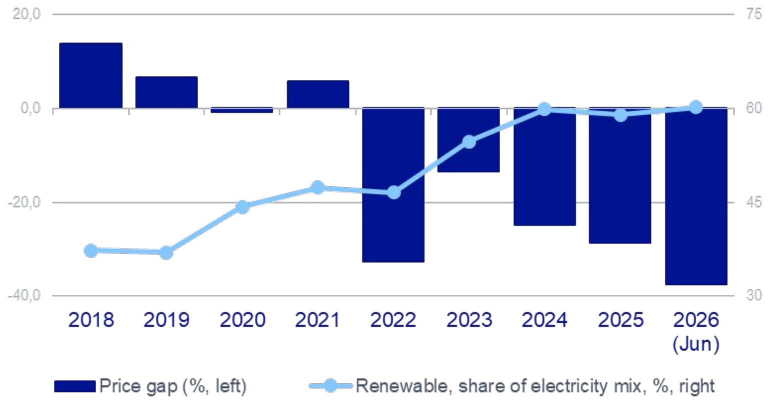
DISCRETIONARY FISCAL IMPULSE
(% OF GDP)



* It is assumed that all investments financed with RRF transfers up to August 2026 are completed. (f): Forecast.
Source: BBVA Research based on the Ministry of Finance, PLACSP, CCS and BDNS.

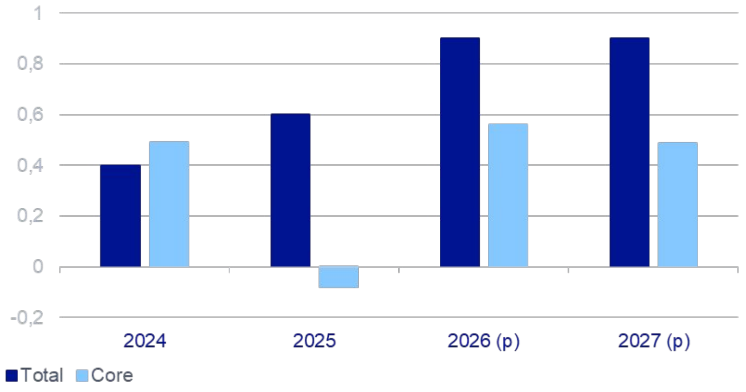
Structural challenges: despite advantages in renewable energy, unfavorable inflation differentials are re-emerging

WHOLESALE ELECTRICITY PRICE GAP AND SHARE OF RENEWABLES
(% OF EUROPEAN MEDIAN, LEFT; %, RIGHT)



Source: BBVA Research from Ember

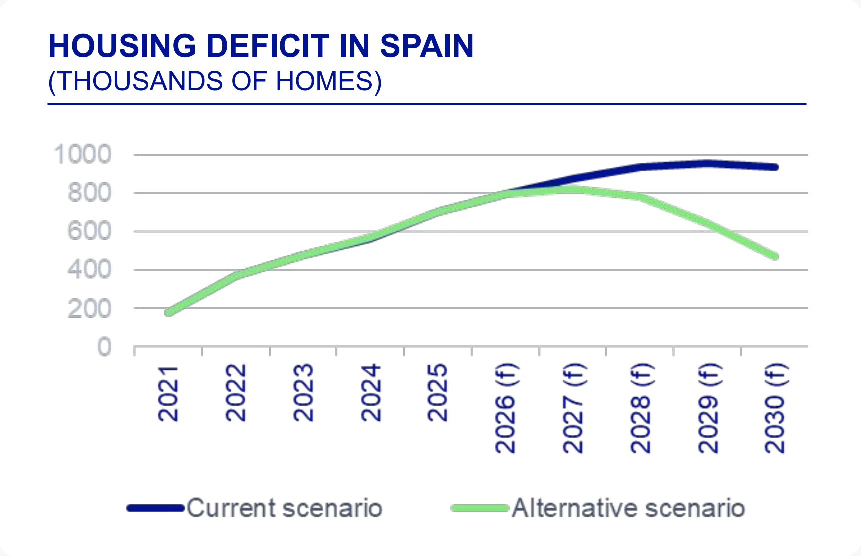
INFLATION DIFFERENTIAL WITH RESPECT TO THE EMU (PERCENTAGE POINTS)



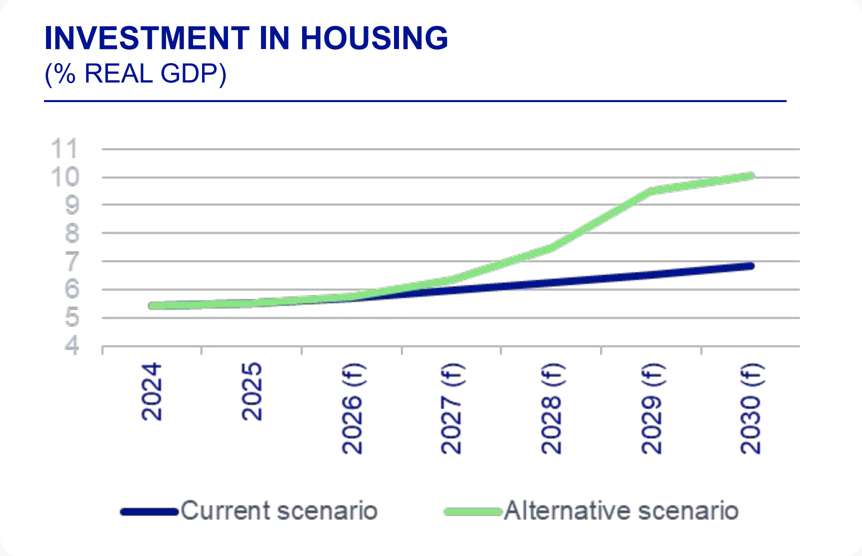
Source: BBVA Research

Competitiveness gains coming from lower electricity prices could be limited, given higher costs introduced over the last year and underinvestment. This, along with a different cyclical position could put pressure on prices

Structural challenges: The housing market will continue to be a bottleneck and a source of tension



Alternative scenario: the housing deficit needs to be cut by half for 2030.
Source: BBVA Research based on INE and MVAU



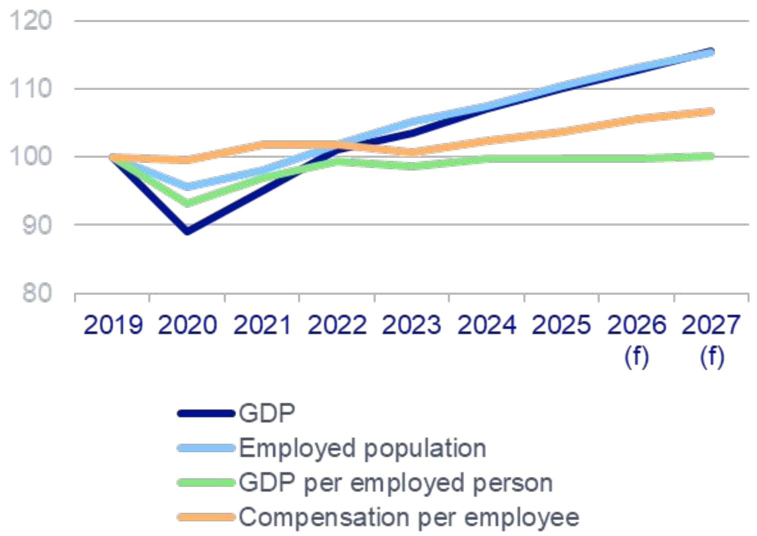
Alternative scenario: the housing deficit needs to be cut by half for 2030.
Source: BBVA Research based on INE and MVAU

The scenario proposed to halve the housing deficit by 2030 (down to 470,000 homes) would require much higher investment growth rates (an average of 15 percent between 2026 and 2030). As a percentage of GDP, this means reaching 10 percent in 2030, close to the 2007 peak (11.7 percent)

Structural challenges: potential GDP growth stands at 2%, but productivity remains stagnant

- **The expansion of GDP and employment continues, but productivity stagnates**. The economy is growing thanks to the capacity for job creation, driven by immigration.
- Forecasts indicate that both GDP and the number of employed individuals could be around 15% higher in 2027 than in 2019.
- This parallel advance implies that **the output per employee has not increased in the last 7 years**, which is reflected in a remuneration per employee that has barely risen.
- **This growth pattern replicates dynamics observed in previous** recoveries, both in the years leading up to the 2008 global financial crisis and in the aftermath of the sovereign debt crisis of 2012 and 2013.

GDP, EMPLOYMENT, PRODUCTIVITY AND COMPENSATION (2019 = 100)



(f): forecast.
Source: BBVA Research, with data from INE

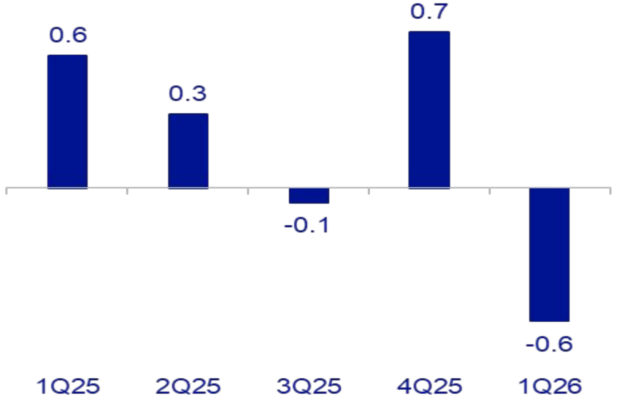
BBVA Research

Mexican Economy

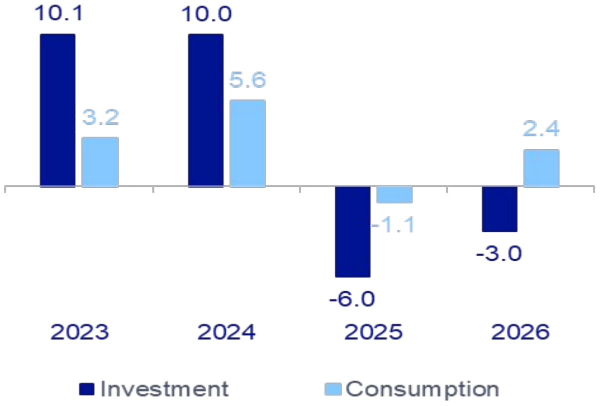
Economic activity off to a weak start in 2026

A sharp decline in investment dragged 1Q26 economic activity down by 0.6% QoQ, highlighting widespread weakness in domestic demand

GDP
(Q/Q%, REAL, SA)



INVESTMENT AND CONSUMPTION
(Y/Y%, CUM. JAN-MAR, REAL, SA)



Source: BBVA Research, Haver Analytics, Macrobond

The World Cup will provide a transitory boost in 2Q26, supporting economic activity after a sluggish start to the year

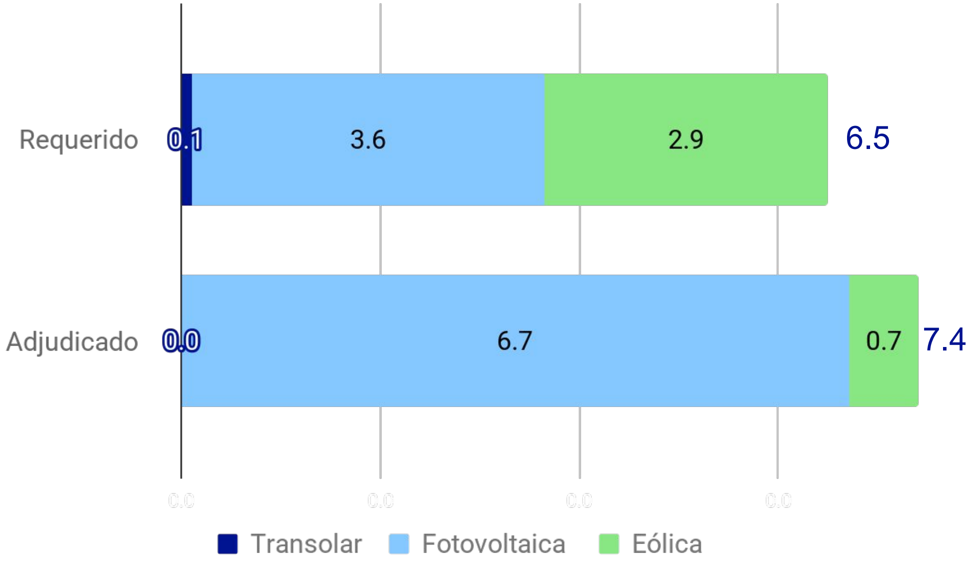
But government, through CFE, awards 37 renewable energy projects to 31 private developers

Key developers include **Cubico de México, Thermion Energy, Eléctrica Aselco, Atlantica Renewable Power, Solaring, Oak Creek, Elawan Energy, Fisterra Energy, and Freeman Energy. Most recognized as strong and reputable players.**

Firms competed on IRRs which will be guaranteed. At the end, assets will be transferred to the government.

Government should invest more in transmission and distribution; plans have been announced.

CAPACITY OFFERED BY ENERGY TYPE
(THOUSANDS OF MW)

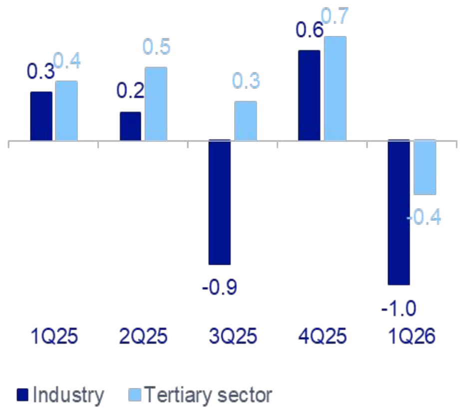


Source: BBVA Research with data from El Economista.

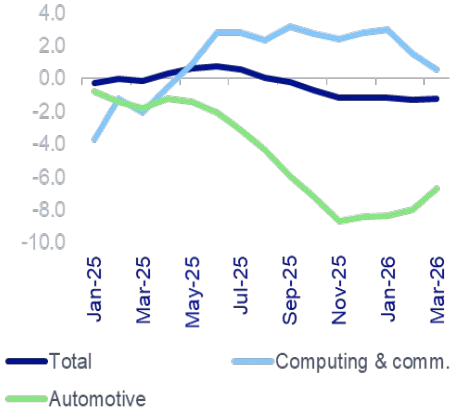
The export sector remains resilient

Opportunities remain to increase local content

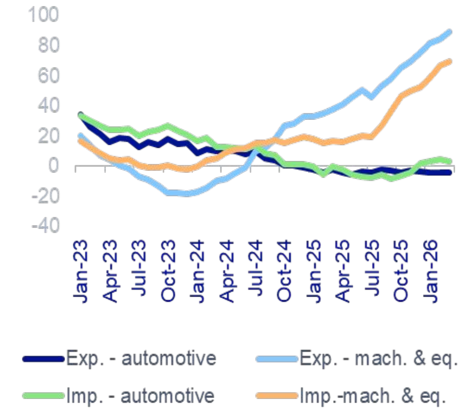
INDUSTRY
(Q/Q%, REAL, SA)



MANUFACTURING
(Y/Y%, 6-MONTH MOVING AVERAGE)



EXPORTS & IMPORTS
(Y/Y%, USD, 6-MONTH MOVING AVERAGE)



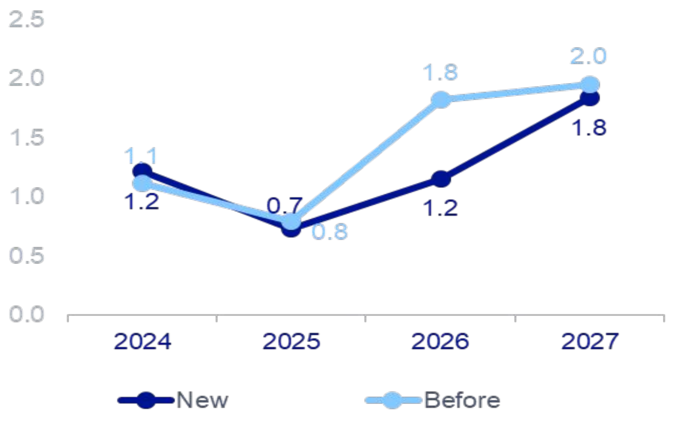
Source: BBVA Research, Haver Analytics, Macrobond

Year-to-date manufacturing production is down 1.4% through April

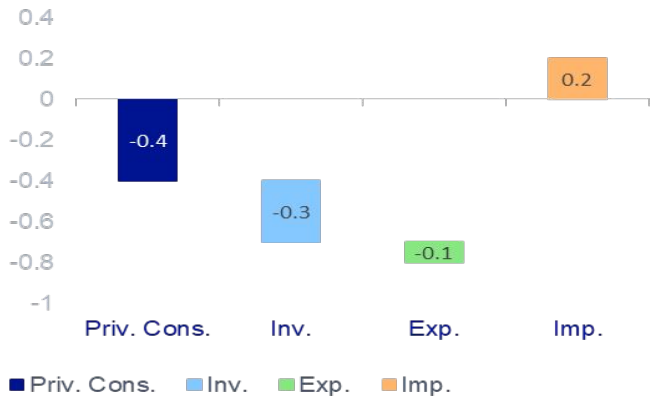
We have revised our 2026 growth forecast downward

Lower-than-anticipated domestic demand will limit the positive impact of the World Cup

GDP
(ANNUAL % VAR.)



2026 DECOMPOSITION OF THE REVISION
(PP)



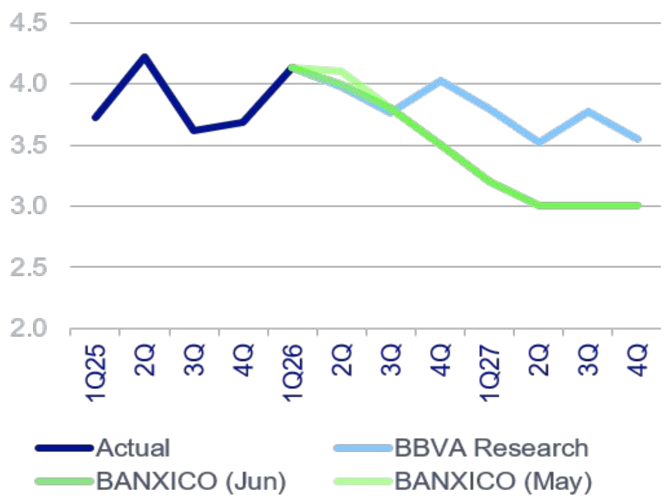
Source: BBVA Research, Haver Analytics, Macrobond

In 2027, we expect a gradual recovery supported by stronger external demand, reduced trade uncertainty, and progress on mixed contracts

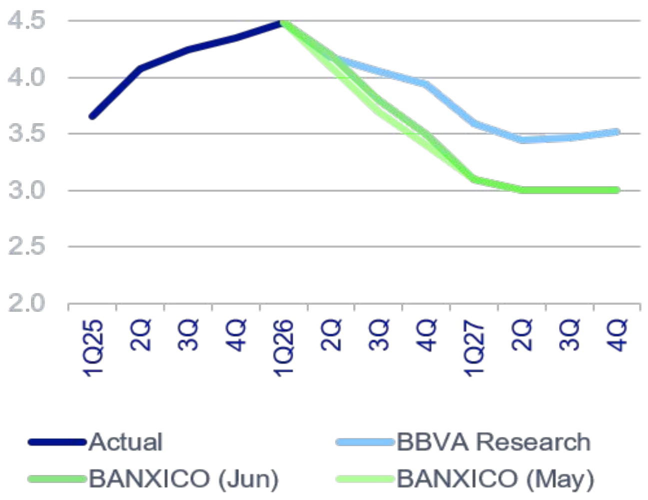
Inflation peaked in March and will ease gradually

Upside risks persist: the World Cup could extend the stickiness of services inflation

HEADLINE INFLATION OUTLOOK
(YOY % CHANGE, QUARTERLY AVERAGE)



CORE INFLATION OUTLOOK
(YOY % CHANGE, QUARTERLY AVERAGE)

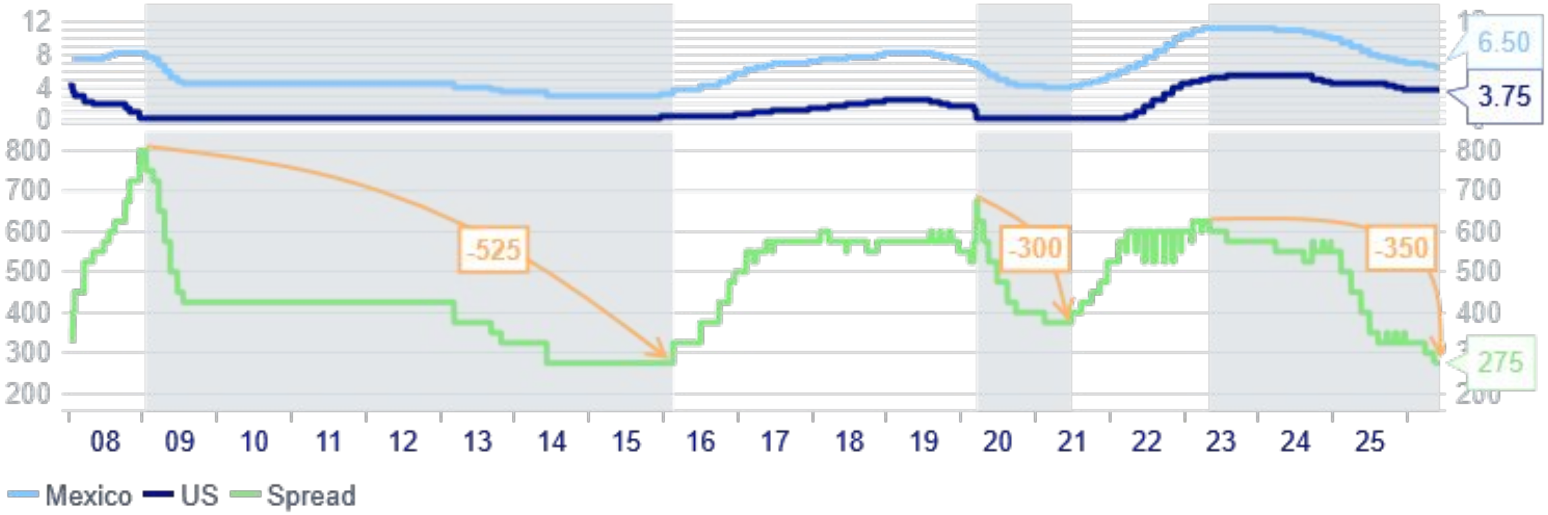


Source: BBVA Research / Banxico / INEGI

Relative monetary policy stance at levels last seen in 2014-15

We see little scope for the interest rate differential to narrow further; any additional rate cuts in 2027 would likely require a lower fed funds rate

MEXICO-US POLICY RATES & SPREAD (% AND BPS)



Source: BBVA Research, Macrobond

But are rates really that low?

A favorable evolution of macroeconomic fundamentals suggests that Mexico could sustain a narrower rate differential without exerting significant pressure on the peso

Source: BBVA Research, Bloomberg, Macrobond

Despite a sharp March selloff triggered by the Iran conflict, most key country risk indicators rebounded to preserve their 2025 gains

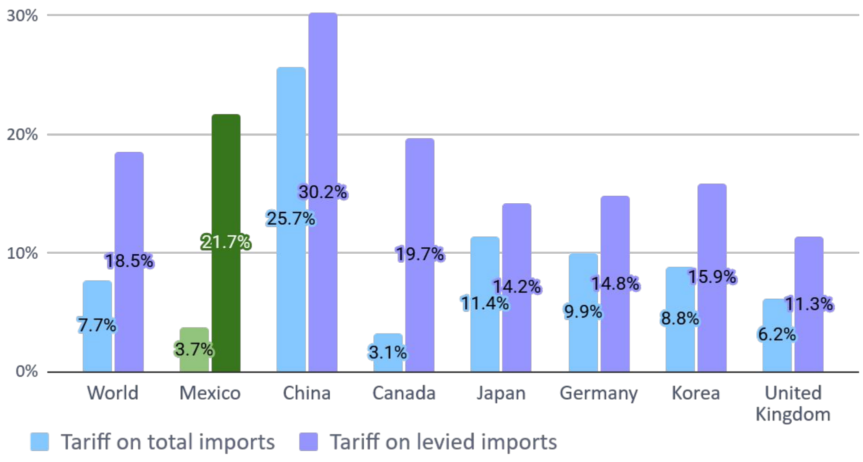
Variable	2025 Change	YTD (through Feb. 26)	Late Feb.–Late Mar.	Late Mar.–Present
IPC BMV Index	🟢 + 29.9%	🟢 + 11.0%	🔴 -10.2%	🟢 + 5.0%
MXN	🟢 + 13.5%	🟢 + 4.5%	🔴 -5.4%	🟢 + 3.6%
MXN volatility	🟢 - 585 bps	🔴 + 180 bps	🔴 +548 bps	🟢 - 545 bps
5-year USD CDS	🟢 - 52 bps	🟢 - 2 bps	🔴 +25 bps	🟢 - 27 bps
10-year USD yield spread	🟢 - 44 bps	🟢 - 1 bps	🔴 +18 bps	🟢 - 3 bps

Source: BBVA Research, Bloomberg

Mexico tariff remains competitive after IEEPA ruling and Section 122

Mexico has the lowest Chinese Value Added across sectors among US trade partners

US CENSUS EFFECTIVE TARIFF RATE JAN- MAY 26 (%)



CHINA'S VALUE ADDED IN MEXICO/VIETNAM EXPORTS (%)

Source: Mexico tariff rate BBVA Research estimates, with data from Census Bureau

Source: BBVA Research retrieved from PIIE Institute.

The USTR decision validates our baseline scenario

Sep-Aug 2025
Public consultation processes

Jan-Feb 2026
USTR delivers report to Congress
Supreme Court ruling U.S. on IEEPA tariffs

June 1, 2026
Free Trade Commission receives final recommendation one month prior to the review

July 1, 2026
First joint review of the USMCA
USTR announces it will not renew the agreement

Renewal of the USMCA for 16 years
Probability: 25%

Countries agree to extend the USMCA validity for 16 years (until 2042). This implies greater certainty for investment, trade, and regional value chains.

No renewal and annual reviews
Probability: 70%

The USTR's July 1 statement indicates that this is the path forward, pending the bilateral meeting on July 20.

Important: At any point in that cycle, the three parties can agree to renew the treaty for an additional 16 years. This maintains regulatory and political uncertainty. It increases the risk for long-term decisions in investment, employment and relocation of production chains.

Exit from the USMCA / Bilateral agreements
Probability: 5%
Member(s) decide to deny the extension of annual reviews and bilateral agreements are sought.

July 20, 2026
3rd scheduled US-MX bilateral meeting

November 8, 2026
U.S. midterm elections

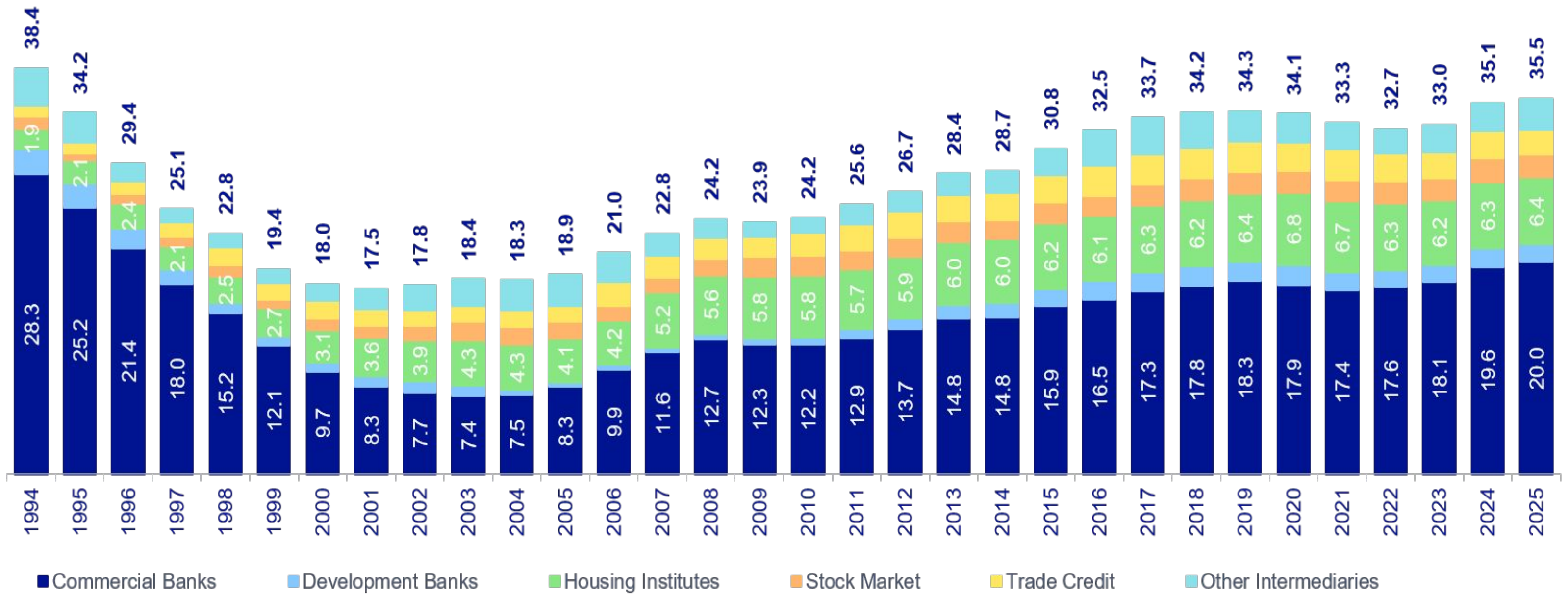
Process repeats every 6 years
If consensus is reached in 2026, the next revision will be in 2032, to extend the Treaty until 2048.

Source: BBVA Research

On July 1, 2026, the United States decided not to confirm a 16-year extension of the USMCA, leaving in place the annual review process established under Article 34.7. The USTR's statement indicates that negotiations will continue and confirms a new bilateral round of talks with Mexico during the week of July 20.

Credit penetration has not still recovered to the level observed in 1994

DOMESTIC CREDIT TO THE PRIVATE SECTOR
(GDP %)



Source: Banxico, BMV, & Inegi.

Mexico is still below the level of other emerging economies

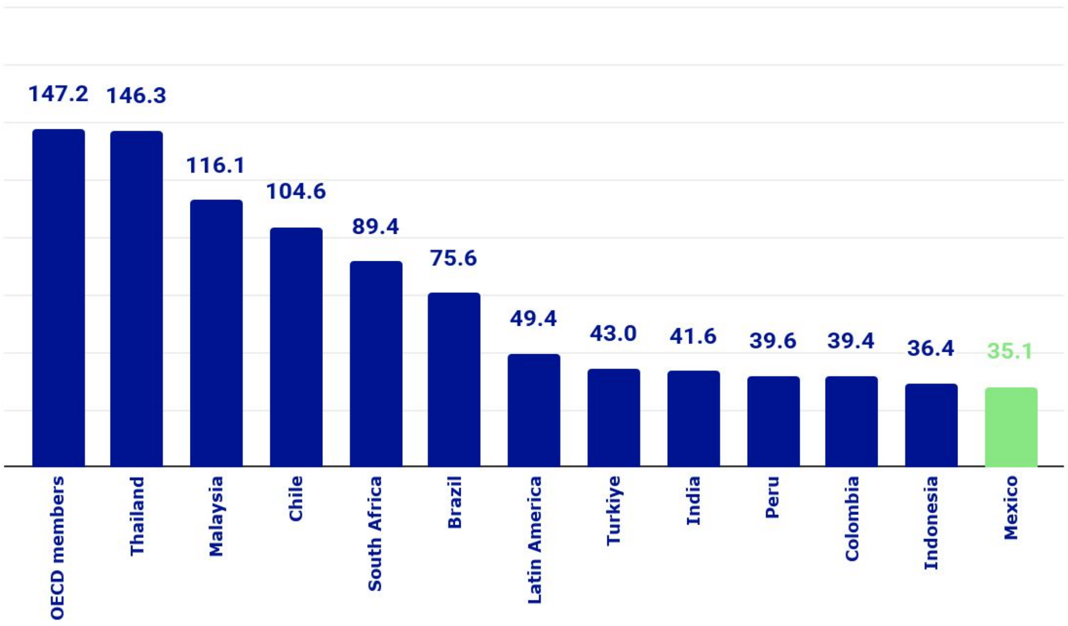
Banking crisis in 1994.

High level of informality/ Low financial inclusion.

But frictions are beginning to ease:

Fintech and digital onboarding are banking previously excluded households and SMEs.

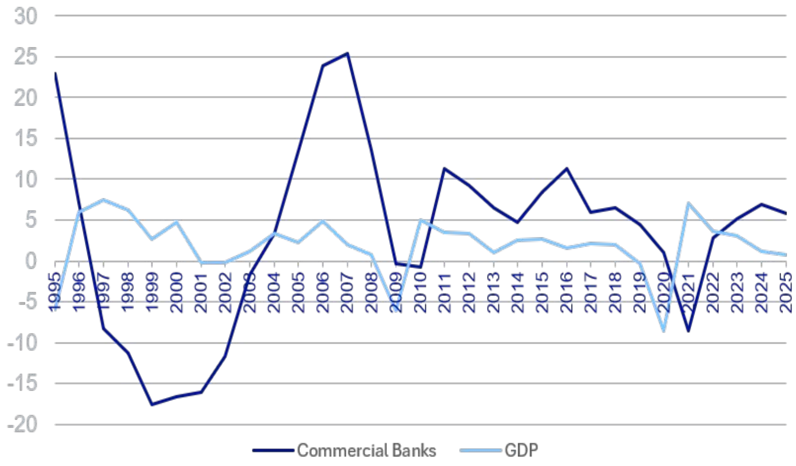
DOMESTIC CREDIT TO THE PRIVATE SECTOR, 2024
(% OF GDP)



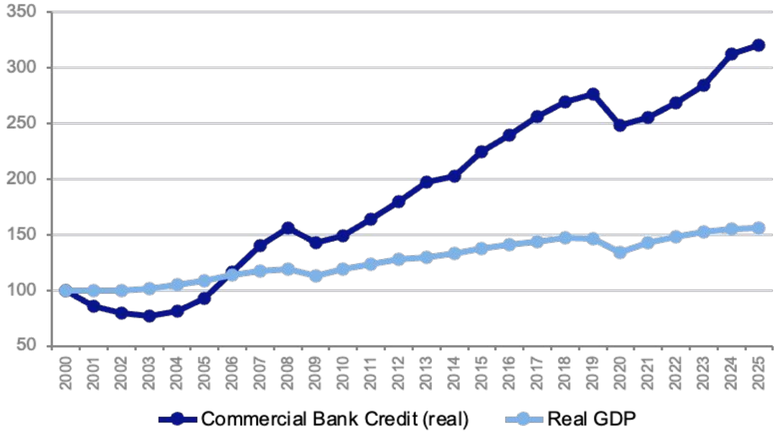
Source: World Bank

As a result, commercial bank credit has grown faster than the economy since the post-Tequila trough, driving Mexico's financial deepening

COMMERCIAL BANK CREDIT VS. REAL GDP
(REAL ANNUAL GROWTH, %)



CUMULATIVE REAL GROWTH, CREDIT VS. GDP
(INDEX, 2000 = 100)



Source: Banxico & INEGI

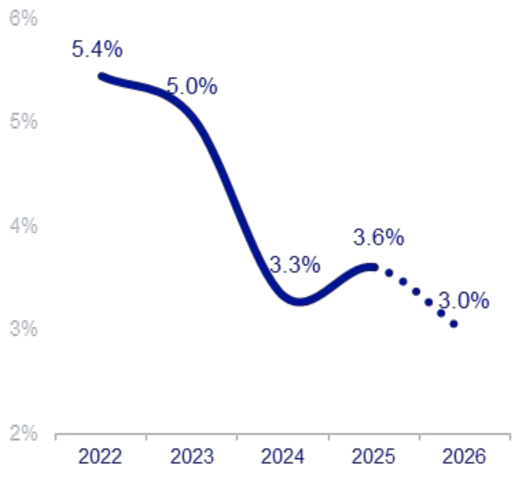
Commercial bank credit has consistently grown faster than the economy, consistent with Mexico's ongoing financial deepening

Research

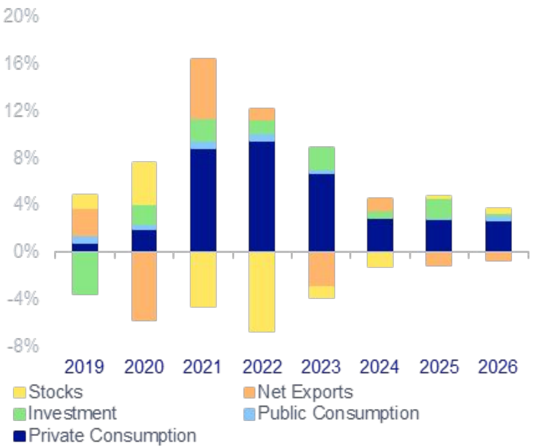
Turkish Economy

The political preference has led to just a moderation in GDP growth rates, keeping it at 3-4% (vs. 4-4.5% potential)

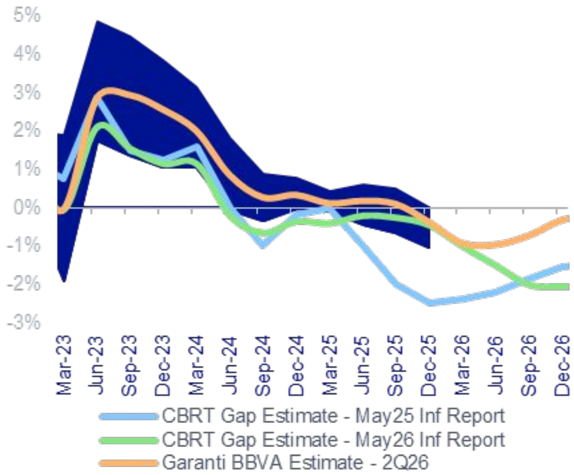
GDP GROWTH & FORECASTS
(% YOY)



GDP GROWTH & FORECASTS
(PP CONTRIBUTION TO YOY GROWTH)



OUTPUT GAP PROJECTIONS
(DEVIATION FROM POTENTIAL OUTPUT)

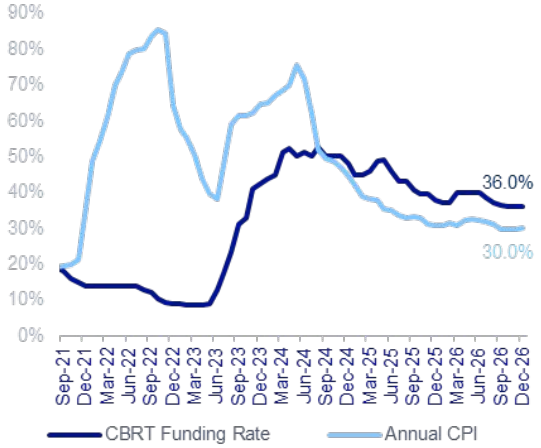


Source: TURKSTAT, CBRT and Garanti BBVA Research

The sacrifice ratio has remained low so the CBRT has consistently revised its output gap projections upward in successive inflation reports. The retreat in oil prices and the easing bias of the CBRT could generate limited upside risk on our GDP growth forecast of 3% for 2026

Disinflation process gradually continues. Real appreciation of the currency has been so far the main anchor

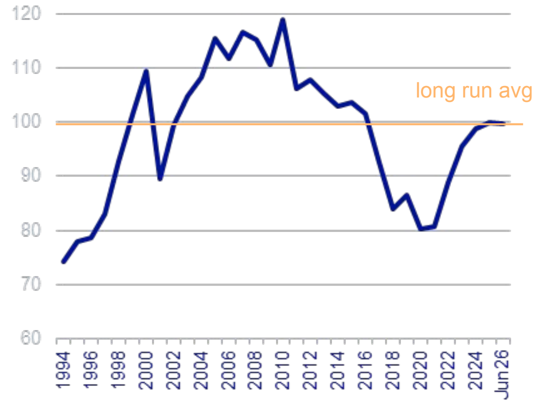
GARANTI BBVA CPI & CBRT FUNDING RATE FORECASTS (YOY)



Source: CBRT, TURKSTAT and Garanti BBVA Research

REAL EFFECTIVE EXC RATE

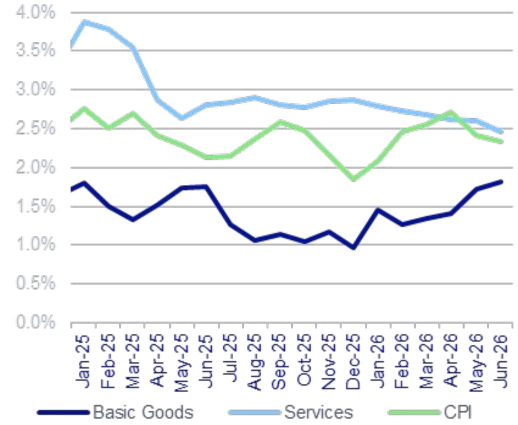
(PPI adjusted, 2025=100)



Source: Bloomberg and Garanti BBVA Research

SA ADJUSTED CPI INDICATORS

(MoM, 3M AVG)

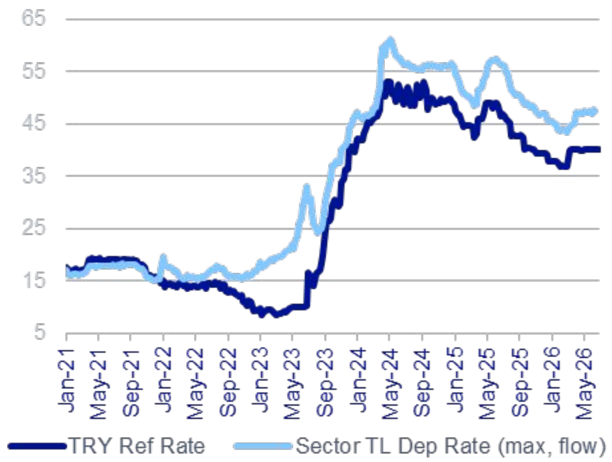


Source: CBRT, TURKSTAT and Garanti BBVA Research

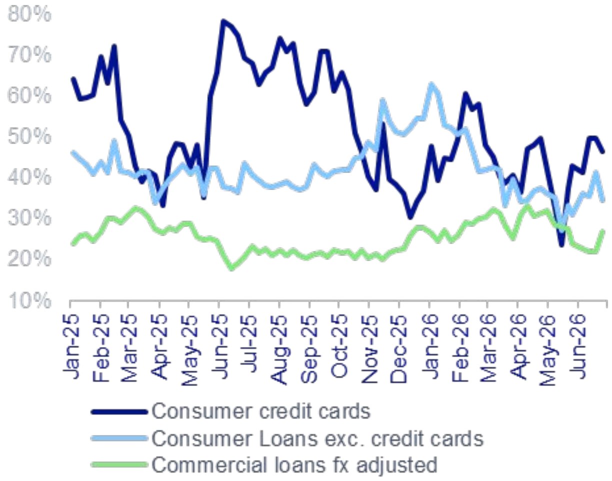
We keep our year-end CPI forecast at 30%, with a limited downward bias (around 29%). The CBRT might ease the cost of funding towards the policy rate gradually after the July MPC meeting. We expect a slowing real appreciation trend ahead of the elections, which would still require 5-6pp real rates.

TL deposit rates would hover above the CBRT cost of funding, credit growth rates act as important buffers

TRY REF & TL DEPOSIT RATES
(%, WEEKLY)



CREDIT GROWTH TREND RATE
(% 13-WEEK ANNUALIZED)



48% capped loans share by end 2025

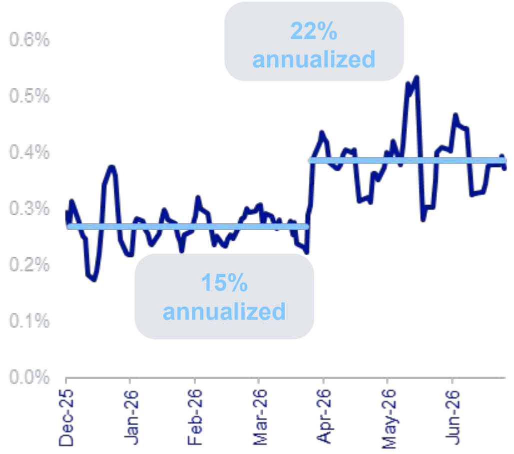
60-62% lately after May 22nd

Source: CBRT and Garanti BBVA Research

The CBRT further tightened credit growth caps effective May 22. We expect deposit rules & credit caps to last longer even up to the election, with selective easing in certain credits, to help the economy in a targeted way

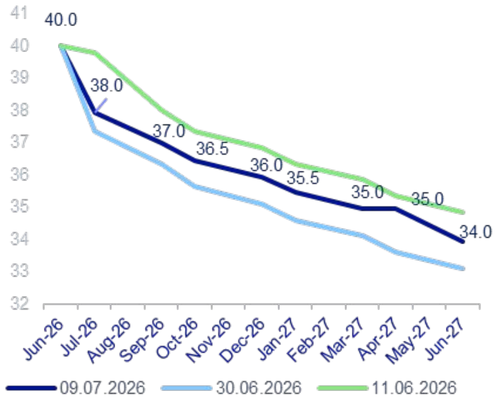
We see increasing demand for TL assets. The CBRT might ease faster than expected, still aiming to beat forwards

USDTRY NOMINAL CHANGE
(%, weekly, 5-day moving average)



OFFSHORE & ONSHORE TRY RATES (%)

OIS MARKET PRICING ON CBRT FUNDING RATE (%)

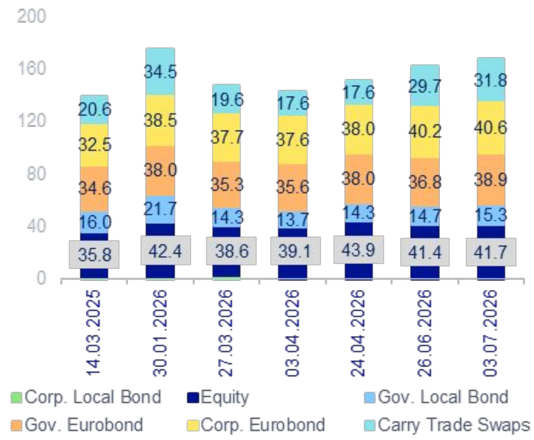


Source: Bloomberg and Garanti BBVA Research

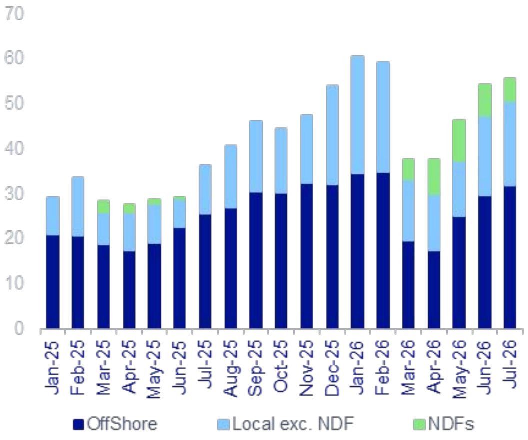
The pace of nominal depreciation has accelerated since mid-April, moving from 15% to 22% annualized. The pace of carry flows has gained a controlled momentum since the optimism in global financial markets after resolution in the Middle East

Sell-off of foreigners was $30-35bn in Mar, nearly $25bn came back till July 3rd. Dollarization stays under control

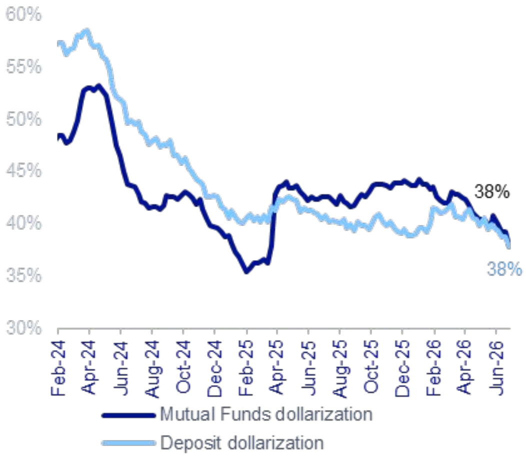
FOREIGNERS EXPOSURE* TO TR FINANCIAL ASSETS** ($USBN)



TOTAL DERIVATIVE POSITIONS ($USBN, AS OF JULY 3RD)



RESIDENTS' DOLLARIZATION RATIO* (%)



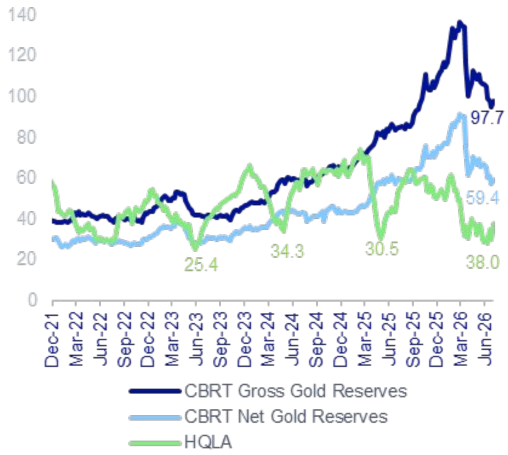
** Excluding local banks' external subsidiaries*
*** Including only the outright purchases in Government local bonds*

Source: CBRT and Garanti BBVA Research

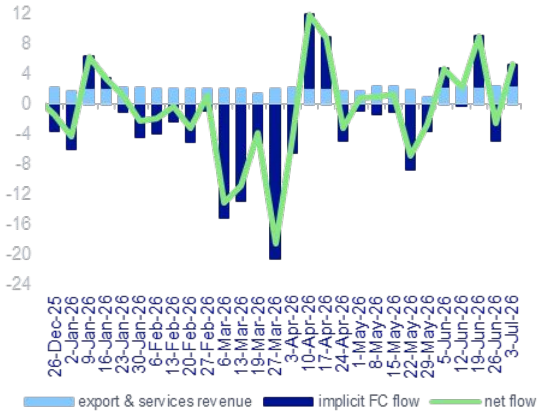
The derivative position including locals has recovered to $51bn by July 3rd (excluding NDFs). Net outflows from the money market funds in May had reversed again with inflows in June. Dollarization ratio remains below 40% in both mutual funds and deposits

Falling gold prices weighs down on reserves, yet inflows provide support since June

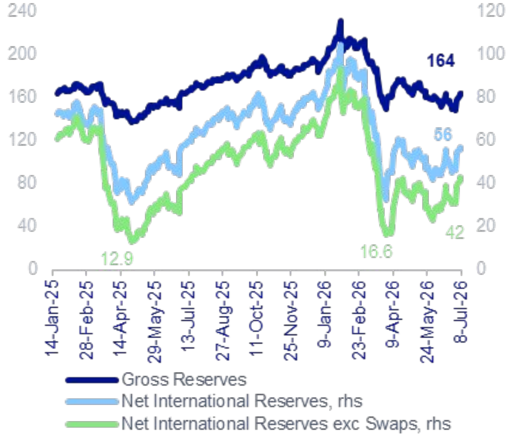
CBRT GOLD RESERVES & HQLA* ($USBN, as of July 3rd)



CBRT WEEKLY RESERVE FLOWS ($USBN)



CBRT INTERNATIONAL RESERVES ($USBN, as of July 8th)

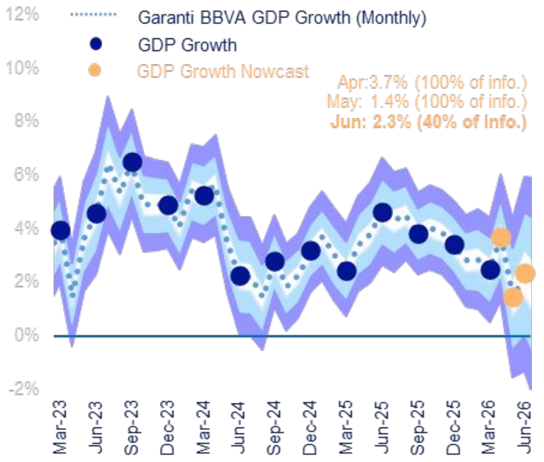


* High quality liquid foreign assets excluding IMF SDR & CB swaps
Source: CBRT and Garanti BBVA Research.

The inflows to the CBRT reserves in June compensate more than the losses in late May. The stress over the balance of risks has calmed down amid the resolution efforts in the Middle East, reducing the external financing needs compared to expectations before June

Risks on external balance calm down. Tourism revenues stay as an important buffer

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

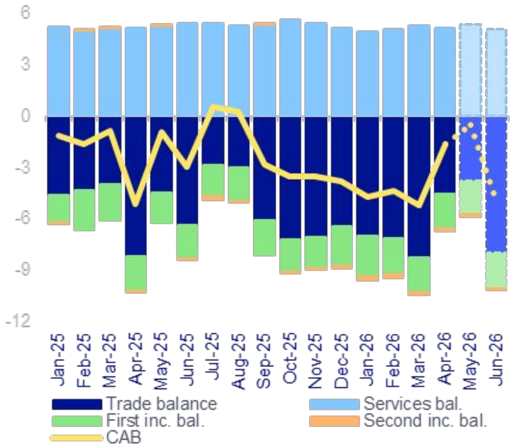


Source: TURKSTAT and Garanti BBVA Research

12M SUM TOURISM REVENUES IMPLIED BY GB BIG DATA PROXY ($USbn)

Source: TURKSTAT and Garanti BBVA Research

CURRENT ACCOUNT BALANCE ($Usbn, sca, monthly)

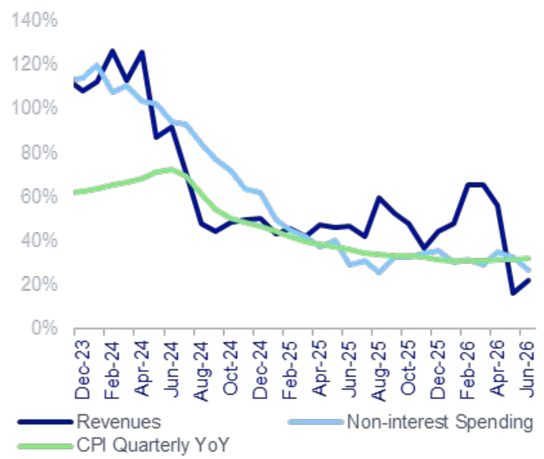


Source: Garanti BBVA Research

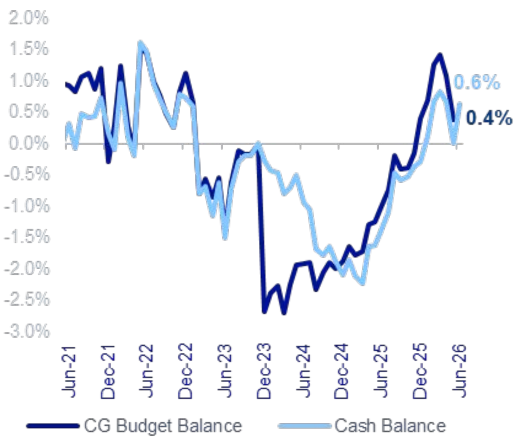
The retreat in oil prices highlights a lower pressure on external financing needs (50-55bn$ vs. 62bn$ 2026 CA deficit forecast made before June). The improving shift to a higher expenditures pattern from Western countries following the pandemic, the composition helps to support tourism revenues

Fiscal performance is affected by tax collection shifts, yet growing external financing needs set the limit

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



CASH & ACCRUAL BASIS PRIMARY BALANCE (% GDP)



UNEMPLOYMENT & UNDERUTILIZATION RATE (%, SA)

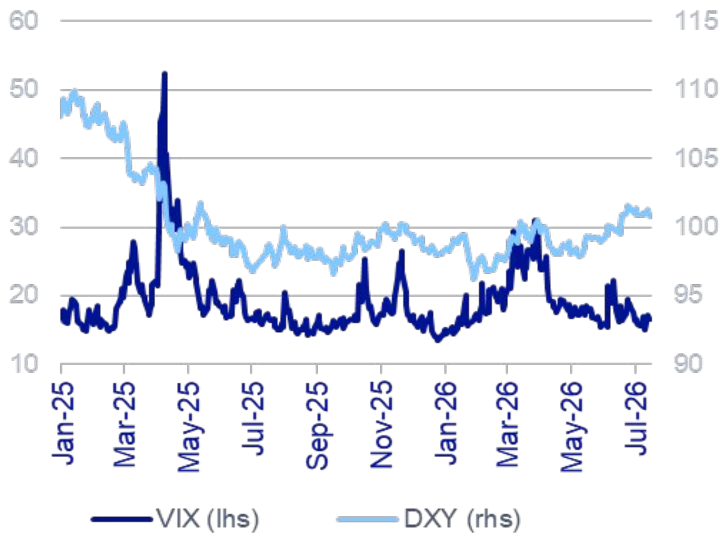
Source: Treasury, TURKSTAT and Garanti BBVA Research

Cash balance implies some volatility in budget performance due to tax collection shifts. We forecast 3.5-4% budget deficit to GDP in 2026 (vs. -3.5% in MTP), conditional to the pressure from external financing needs. Labor force declines and the quality of employment worsens, yet unemployment rate is historically low (8%), which is politically sensitive.

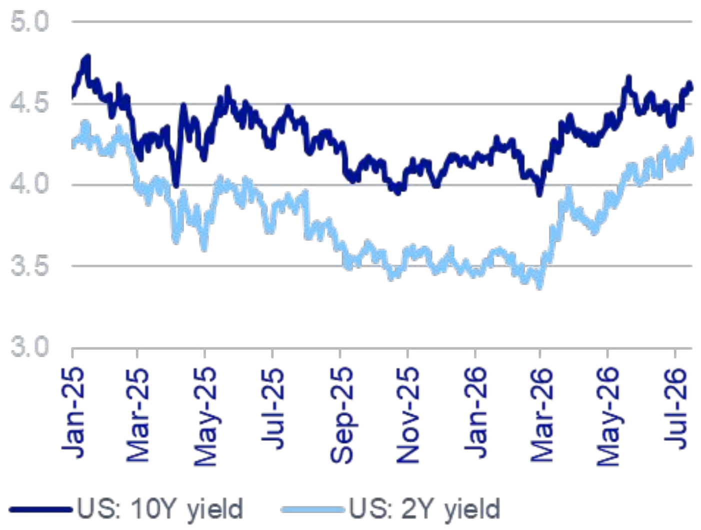
Annex

Overall, market sentiment has been sustained by the AI boom and other tailwinds, but bond yields remain high

VOLATILITY (VIX); US DOLLAR (DXY) (INDEXES)



US SOVEREIGN YIELDS (%)



Source: BBVA Research based on data from Haver

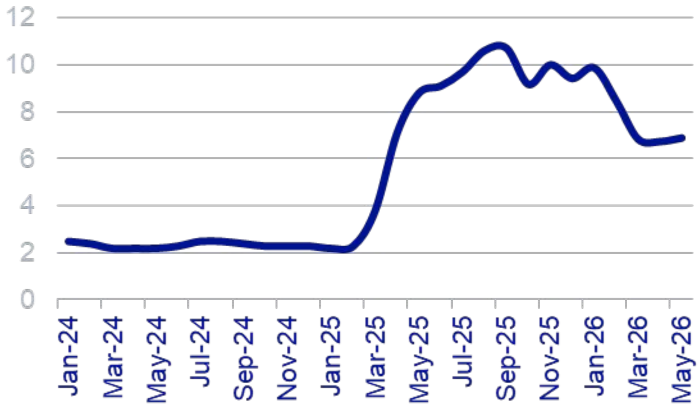
Other tailwinds include fiscal stimuli, defense spending, robust labor markets and sound private balance sheets. Sovereign yields pushed higher by inflation, fiscal concerns and monetary policy expectations

The conflict in Iran is limiting other inputs, stressing supply chains, on top of a renewed US impulse to higher tariffs

GLOBAL SUPPLY CHAIN PRESSURE INDEX
(STANDARD DEVIATIONS FROM AVERAGE VALUE)

Source: BBVA Research based on data from the NY Fed

US EFFECTIVE TARIFF (BASED ON CUSTOM DATA) (PP)



Source: BBVA Research based on data from the USITC

US tariffs have been declining, but new protectionism measures are still very much possible this year

Risks:

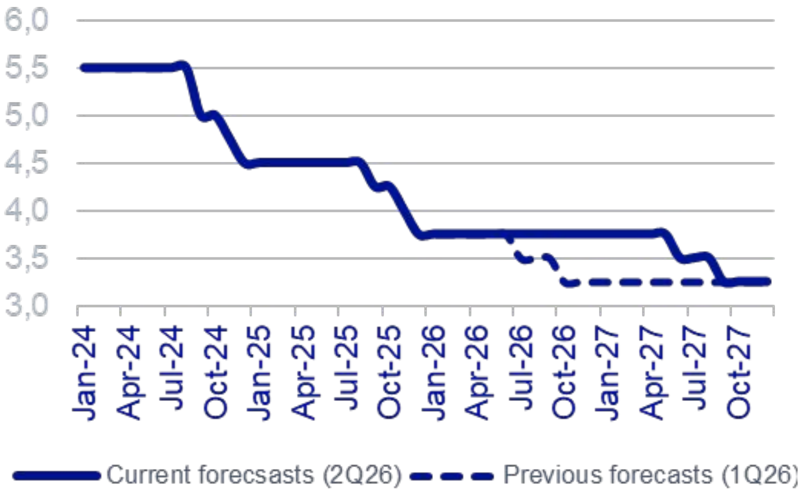
if the conflict persists, inventory depletion could push oil prices sharply higher and trigger non-linear effects

OIL PRICES WITH DIFFERENT COMBINATIONS OF SUPPLY DISRUPTIONS AND DEMAND PRICE ELASTICITY (*)
(US DOLLARS PER BARREL)

(*) Based on an equilibrium oil price of $65.
Source: BBVA Research

The Fed, with Warsh fully committed with independence, shifts to a hawkish stance. Other important shifts ahead?

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

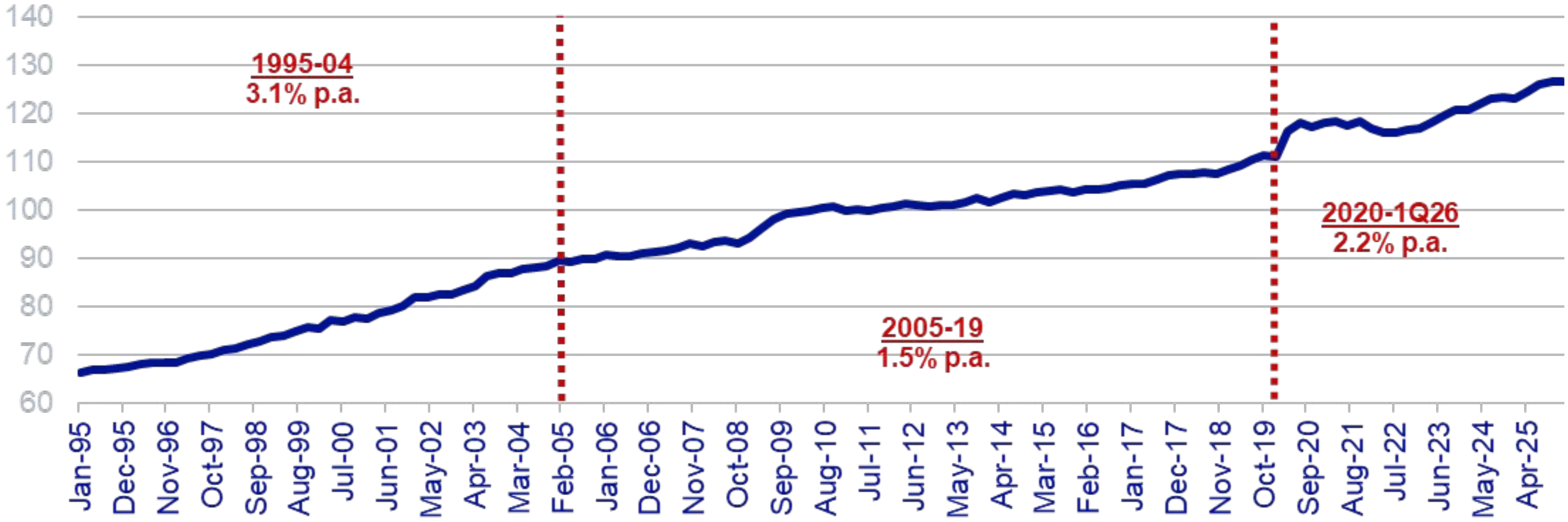


- **The Fed dropped the forward guidance** but the dot plot shows many officials now see rate hikes ahead.
- **Falling energy prices will take pressure off inflation,** probably allowing Fed rates to remain unchanged at 3.75% in 2H26. **But lower fuel prices could also reinforce private spending and service inflation, which are already a source of concern**, raising the risk of higher rates.
- **Internal task forces** suggest important shifts ahead: communication; balance sheet; economic data sources; inflation and AI.

Source: BBVA Research, Fed

US: productivity growth has been accelerating

US LABOR PRODUCTIVITY PER HOUR
(INDEX: 2005-2019 AVERAGE = 100)



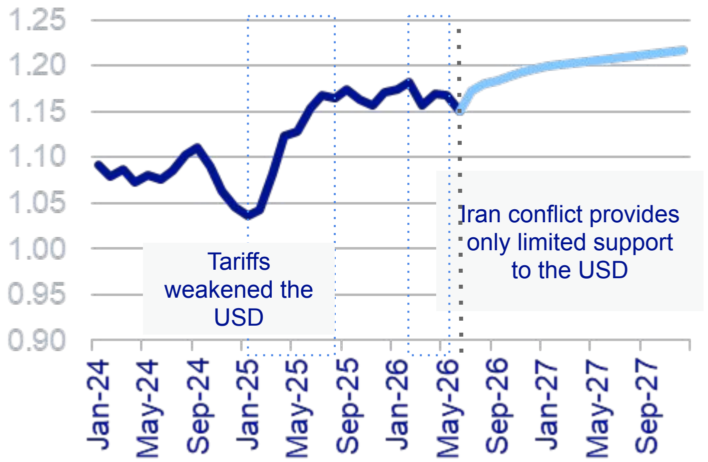
Source: BBVA Research based on data from FRED

US: Fiscal concerns lift long-term yields; the USD supported by a hawkish Fed, but its global role is under scrutiny

FEDERAL DEBT IN THE HANDS OF THE PUBLIC
(% OF GDP)

Source: BBVA Research / FRED and CBO

EURUSD

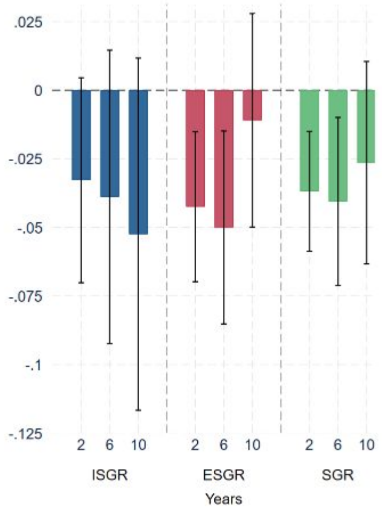


Source: BBVA Research

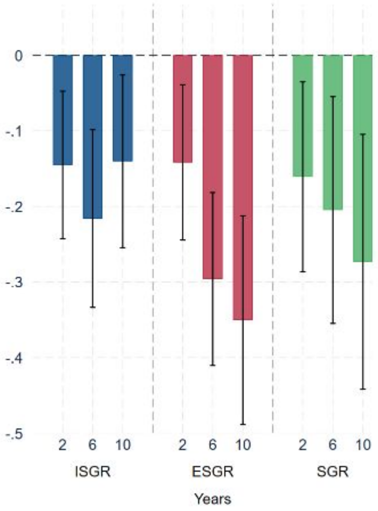
The economic impact of the structural geopolitical risk is significant and persistent in the medium term

IMPACT OF STRUCTURAL GEOPOLITICAL RISK (SGR) AND COMPONENTS (ISGR & ESGR*) ON ECONOMIC AND FINANCIAL VARIABLES

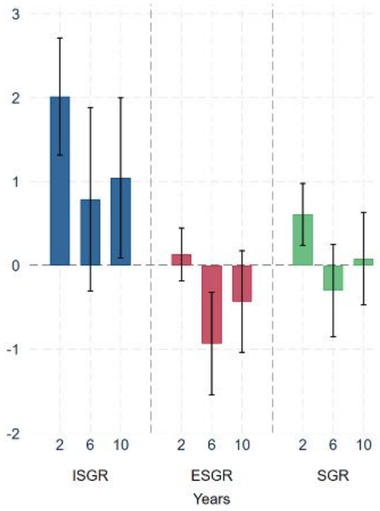
TRADE (% GDP)



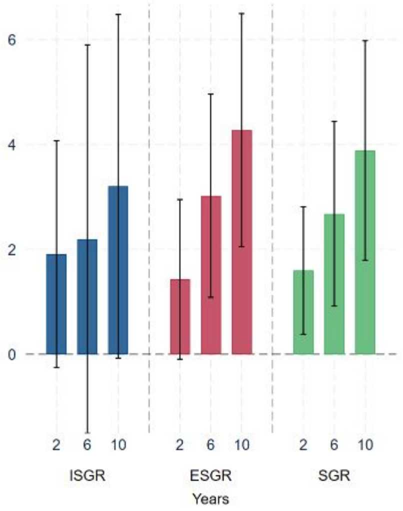
FDI (%)



CDS (%)



LONG-TERM RATES (%)



* ISGR (ESGR) is the Internal (External) Component of Structural Geopolitical Risk.
Source: BBVA Research from Jiménez, Miguel, Sarasa-Flores, David and Ugarte-Ruíz, Alfonso (2026) “Assessing Structural Geopolitical Risk”, BBVA Research Working Paper.

Garanti BBVA Baseline Scenario

	2023	2024	2025	2026
GDP growth (avg)	5.0%	3.3%	3.6%	**3.0%**
Unemployment Rate (avg)	9.4%	8.7%	8.4%	**8.6%**
Inflation (avg)	53.9%	58.5%	34.9%	**31.1%**
Inflation (eop)	64.8%	44.4%	30.9%	**30.0%**
CBRT Cost of Funding (avg)	20.5%	49.6%	43.6%	**37.8%**
CBRT Cost of Funding (eop)	42.5%	47.5%	38.0%	**36.0%**
USDTRY (avg)	23.7	32.8	39.5	**47.1**
USDTRY (eop)	29.4	35.3	42.8	**52.0**
EURTRY (avg)	25.7	35.5	44.7	**55.5**
EURTRY (eop)	32.6	36.7	50.3	**62.2**
Current Account Balance (% GDP)	-3.6%	-1.0%	-1.9%	**-3.5%**
CG Primary Balance (% GDP)	-2.6%	-1.9%	0.4%	**-0.2%**
CG Budget Balance (% GDP)	-5.1%	-4.7%	-2.9%	**-3.8%**

Source: Garanti BBVA Research

Disclaimer

The present document does not constitute an “Investment Recommendation”, as defined in Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (“MAR”). In particular, this document does not constitute “Investment Research” nor “Marketing Material”, for the purposes of article 36 of the Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (MIFID II).

Readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data or opinions regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

BBVA

Research