CareEdge Global assigns 'Stable' outlook to the rating of Republic of Turkiye

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge B+' (Unsolicited)

Issuer rating	CareEdge B+/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the Republic of Turkiye, while reaffirming the Long-Term Foreign Currency rating of 'CareEdge B+' (Unsolicited).

The stable outlook reflects CareEdge Global Rating's expectations of continued implementation of sound macroeconomic policies after several years of unorthodox approach, and the expected benefits of a more balanced economy over the medium term, despite near term pressures. We also expect the country's net international reserves — excluding swaps — to remain positive, and the dollarization rate to continue to decline and stabilize around 30% levels.

However, we believe the economy still faces risks associated with the adjustment process amid slowing economic growth and tight fiscal and monetary policies, asset quality concerns in the banking system and relatively high currency volatility.

Upside Scenario
The rating could be upgraded if the economic adjustment process proceeds more quickly than anticipated, and its benefits are visible in economic indicators, such as stronger than expected GDP growth, sustainably exceeding our forecast average of 3% for the 2025–2028 period.

Downside Scenario
The rating could come under downward pressure if the economic adjustment process takes longer than expected. A downgrade may also occur in the event of a greater-than-anticipated deterioration in the external position or banking sector performance and stability.

Rationale
The reaffirmation of Turkiye's rating reflects its weak fiscal position, very high inflation levels, large external financing needs, and weak institutional framework. The economy continues to be dollarized with deposit dollarization at 40% currently, down from peak of 65% in 2022/23. Despite these negatives, Turkiye benefits from having a moderate economic profile and favorable demographic dynamics.

The economy continues to be in transition with tight monetary policy and contractionary fiscal policy. The real policy interest rates have turned positive only recently, in September 2024, and restrictions on credit lending has lowered credit growth. The government has also increased taxes on fuel and standard VAT rates to bring down fiscal deficits. Going forward, the impact of such monetary and fiscal tightening on Turkiye's growth will be a key monitorable. Impact of rising geo-political tensions too remains a concern.

Key Rating Drivers

Economic Structure & Resilience

Turkiye's economic structure reflects its large size (Nominal GDP of USD 1.3 trillion in 2024), high GDP per capita (USD36380 constant PPP in 2024), and strong past economic growth (average of 5.4% between 2020-24). Unlike most of its European counterparts, Turkiye benefits from a young and growing population (median age-33 years). Additionally, the economy's geographical location and business culture adds to its strengths. Turkiye has high gross fixed capital formation to GDP ratio at 31% in 2024. The government has committed an additional USD 87 billion for infrastructure projects spanning 2025 to 2029.

Despite these positives, Turkiye's inflation rate has been very high (CPI average of 34.6% between 2020-24, with 58.5% in 2024) due to past unorthodox monetary policy of keeping the interest rates artificially low. The resulting macro imbalances led to a Turkish lira depreciation of more than 300% in the last 5 years. Considering a recent switch back to conventional monetary policy and fiscal consolidation, the medium-term growth is expected to be lower at ~3% levels. Turkiye receives almost 40% of its gas from Russia, thus making it more vulnerable to current geo-political tensions.

Turkiye also faces structural challenges from high deposit dollarization in the economy, at 40% 2024, albeit lower than the highs of 2022 of more than 60%. Global economic challenges, particularly those stemming from US tariffs, could pose a risk to Turkiye's export performance.

Fiscal Strength

Turkiye's fiscal profile is characterized by wide fiscal deficits, a large share of inflation-indexed bonds, and significant risks from contingent liabilities. The fiscal deficit remained elevated at 5.2% in 2024, driven by earthquake-related public expenditures. Additionally, inflation-indexed bonds account for 22% of public debt, adding to the burden on fiscal position. The economy has high foreign currency debt (60% of total general government debt in 2024).

Though government debt to GDP is low (at 28.7% of GDP in 2024), there are risks arising from contingent liabilities estimated to be at 5% of GDP. First, Turkiye as the largest Public-private partnerships (PPP) market in Europe, has extended guarantees to the foreign currency debt of PPPs. With the sharp depreciation of the lira, the guaranteed payments have risen. Secondly, to reduce the dollarization of the economy, the government introduced foreign exchange-protected deposits (KKMs) in 2021, where the government committed to compensate lira depositors against exchange rate depreciation exceeding interest rates. While the government has initiated phasing out of these deposits in 2024, they currently stand at USD 18 billion, lower than the peak of USD 130 billion in 2023. Government interest payments to revenue remain elevated due to high credit risk premia.

External Position & Linkages

Turkiye has large external financing needs, though some improvements have been seen in 2024. The current account deficit narrowed significantly to 0.8% of GDP in 2024 from 3.5% of GDP in 2023 primarily due to moderating food and energy prices. Turkiye imports majority of its fuel requirements, increasing its vulnerability to commodity price shocks. Also, net foreign direct investment inflows have been declining amid uncertain economic conditions.

Additionally, not all of Turkiye's reserves are immediately usable as gross reserves also include foreign currency deposits from banks and swap lines from Qatar and other Gulf Corporation Countries (GCC). Though, gross forex reserves stood at USD 138 billion in April 2025, net reserves excluding swaps is estimated to be only USD 22 billion. The exchange rate remains volatile. External debt to GDP stood at 39% of GDP in 2024, of which about 17% of GDP is short-term, implying significant near-term funding needs. Exchange rate fluctuations could therefore increase the cost and unpredictability of debt service payments.

Monetary & Financial Stability

The exchange rate regime de jure is free-floating, de facto it is floating. In response to the depreciation of Turkish lira, the central bank continues to intervene in the markets, causing depletion in forex reserves. Further, due to spillover effects of past ultra-loose monetary policy, average CPI inflation was high at 58.5% in 2024 but started declining since July 2024. The current inflation is at 34% (May 2025) and the central bank's policy rate stands at 46% turning the real policy rates positive. Despite these positive trends, the inflation is expected to remain at 26% in 2025, significantly higher than the central bank's target of 5%.

Going forward, high-interest rates are expected to weigh on banks' profitability and non-performing loans ratio. Balance sheet mismatches across corporate and banking sector due to tenure and currency structure of assets and liabilities could pose a risk to financial stability.

Institutions & Quality of Governance

President Erdogan's centralized power has led to low transparency and a lack of predictability in policy making. The president, either directly or indirectly, shapes and implements public policies across multiple sectors such as security, foreign affairs, education, and health. Additionally, by appointing ministers and senior officials, the president further consolidates power. The arrest of Istanbul's mayor and opposition leader, Ekrem Imamoglu, on March 19, 2025, marks a troubling escalation in authoritarianism.

Turkiye– Select Indicators									
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025F**	**2026 F**
Economic Indicators									
Nominal GDP	USD Billion	760	717	808	906	1130	1322	1437	1401
GDP Per Capita (Constant-PPP)	USD	28649	31638	33061	34610	35631	36380	37358	28649
Real GDP Growth	%	1.9	11.4	5.5	5.1	3.2	2.7	3.2	1.9
GFCF/GDP	%	26.0	27.5	28.2	29.2	31.9	31.0	-	-
Gross Domestic Savings/GDP	%	27.8	28.2	31.8	31.0	27.5	-	-	-
Exports (G&S)/GDP	%	31.2	33.1	29.1	35.7	38.6	32.3	-	-
Working-Age (15-64) Population (% Share in Total)	%	68.3	68.1	68.1	68.1	68.1	68.1	68.0	68.0
Old-Age (65+) Population (% Share in Total)	%	7.6	8.0	8.2	8.4	8.6	8.9	9.2	9.6
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-4.8	-4.7	-3.0	-1.1	-5.3	-5.2	-4.3	-3.4
Revenue/GDP	%	30.7	30.0	28.2	26.2	27.9	28.7	28.6	28.6
Expenditure/GDP	%	35.5	34.7	31.3	27.3	33.2	33.9	32.9	32.0
GG Gross Debt/GDP	%	32.4	39.4	40.4	30.8	29.3	26.0	26.7	27.1
GG External Debt (by Creditor)/GG Gross Debt	%	37.7	35.0	44.0	41.8	35.9	34.2	-	-
Interest/Revenue	%	8.6	10.4	10.5	17.3	13.0	-	-	-
External Indicators									
Current Account Balance/GDP	%	2.0	-4.3	-0.8	-5.1	-3.5	-0.8	-1.2	-1.2
FDI, Net Inflows/GDP	%	1.3	1.1	1.6	1.5	1.0	0.8	-	-
Outstanding FII Liabilities/GDP	%	17.6	15.7	11.7	10.3	8.6	9.4	-	-
NIIP/GDP	%	-40.6	-53.1	-30.6	-34.9	-25.7	-22.1	-	-
Foreign Exchange Reserves	USD Billion	105.7	93.6	111.2	128.7	140.9	155		-
Import Cover	Months	5.6	4.9	4.7	4.0	4.4	5.1	-	-
External Debt/GDP	%	54.5	59.7	53.9	50.4	44.2	39.0	-	-
Monetary and Financial Indicators									
CPI Inflation	%	15.2	12.3	19.6	72.3	53.9	58.5	35.9	15.2
Exchange Rate (Average)	LC per USD	5.6	7.0	8.9	16.6	23.8	35.2	-	-
Non-Performing Loans/Total Gross Loans	%	3.7	5.0	3.9	3.0	2.0	1.5	-	-
Private debt, loans and debt securities/GDP	%	79.6	88.9	89.0	65.6	-	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2024

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge B+/Stable	June 30, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge B+	October 03, 2024

Criteria Applied

CareEdge Sovereign Rating Methodology

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