

CareEdge Global Upgrades the rating of Republic of Turkiye to 'CareEdge BB-/Stable'

Issuer rating (Long-Term Foreign Currency)

CareEdge BB-/Stable (Unsolicited)
[Upgraded from CareEdge B+/Stable]

CareEdge Global has upgraded the Long-Term Foreign Currency Rating of Republic of Turkiye to '**CareEdge BB-/Stable**' (Unsolicited) from '**CareEdge B+/Stable**'.

Rationale

Turkiye's upgrade reflects strengthening macroeconomic performance following the authorities' return to more orthodox economic policies after a prolonged period of unconventional policy implementation. The shift to a traditional monetary policy framework has contributed to a moderation in inflation (35% in 2025, down from 54% in 2023) and a reduction in deposit dollarisation (39.5% in 2025, down from 63.5% in 2023), indicating tangible progress in macroeconomic stabilisation.

Further, fiscal position has improved, supported by better budgetary discipline and a reduction in policy-driven expenditures, resulting in a narrower fiscal deficit. In addition, a significant unwinding of the FX-protected deposit scheme, has lowered contingent liabilities and exposure to exchange-rate volatility of the government.

External resilience has also improved, with a stronger reserve position supporting the ongoing economic rebalancing process (Gross FX reserves at USD 205 billion in January 2026, up from USD 141 billion in 2023). The current account deficit has narrowed and is projected to remain manageable at around 1.2-1.5% of GDP in the medium-term, supported by strong tourism receipts and improved terms of trade.

Notwithstanding these improvements, Turkiye's credit profile remains constrained by elevated vulnerabilities, including exposure to exchange-rate volatility and reliance on external financing. The banking sector remains susceptible to asset quality and profitability pressures amid tight financial conditions and lingering foreign currency risks.

In addition, high short-term and foreign-currency-denominated debt increases rollover and refinancing risks. Geopolitical tensions pose further downside risks to capital flows, trade, and tourism. Centralised policy-making increases the risks of policy reversals.

Outlook: Stable

The stable outlook is underpinned by our expectations that the economic rebalancing process will continue, with falling inflation, stable dollarisation, and adequate reserves. We expect economic growth to remain resilient, supported by strong domestic demand and stable policy settings.

Upside Scenario

A positive outlook action could materialize if Türkiye demonstrates sustained policy effectiveness and credibility. A faster-than-expected decline in inflation, supported by continued fiscal-monetary co-ordination, would strengthen confidence and stabilize macroeconomic expectations. A more durable improvement in the external position, reflected by better current account deficits and strengthened reserve adequacy, may further support any improvement in the credit profile.

Downside Scenario

The outlook can be changed to negative if policy consistency weakens or macroeconomic imbalances emerge. Premature easing of monetary or fiscal conditions could stall disinflation, undermine confidence, and heighten exchange-rate volatility, reversing recent gains. A renewed widening of the current account deficit or escalation in geopolitical tensions could intensify external financing pressures. Prolonged tight financial conditions may also lead to deterioration in asset quality, increasing contingent liabilities for the sovereign through the banking sector.

Key Rating Drivers

Economic Structure & Resilience

Türkiye remains one of the region's largest emerging economies, supported by a diversified manufacturing base and a strategically significant geographic position. Nominal GDP is estimated at USD 1.58 trillion in 2026, with GDP per capita (PPP) of approximately USD 38,749 (GDP constant PPP)—reflecting a structurally strong consumption base, a sizeable labour force, and deep domestic demand. Demographics remain supportive, with a median age of 33 years, underpinning medium-term growth potential.

Manufacturing continues to be a core economic strength, spanning the automotive, machinery, electronics, textiles, and defence industries, and benefiting from Türkiye's deep integration into European and regional supply chains. Its geostrategic location—bridging Europe, Asia, and the Middle East—reinforces its role as a production, logistics, and energy transit hub, enhancing export capacity and supply chain resilience amid global reconfigurations.

Recent activity indicators point to steady momentum entering 2026. Industrial production rose 2.5% month-on-month (seasonally adjusted) in November 2025, and January 2026 data suggest continued resilience in manufacturing and domestic demand. Together, these signals

suggest that economic activity entering 2026 is on a firmer footing, consistent with full-year growth of around 4.2%. Strong tourism receipts, alongside a continued reduction in deposit dollarisation, remain key tailwinds supporting macroeconomic stability and growth.

Fiscal Strength

Türkiye's fiscal deficit narrowed to 3.7% of GDP in 2025 from 4.6% of GDP, aided by revenue expansion and a reduction in earthquake-related expenditures. Gross General Government debt to GDP is low (at 24.3% of GDP in 2025). Contingent liability risks linked to foreign-exchange-protected deposit schemes have declined sharply, with such deposits now accounting for just 0.02% of total deposits, down from 26% in 2023.

Despite these improvements, certain fiscal vulnerabilities persist. Contingent liabilities arising from public-private partnerships (PPPs) remain material the foreign-currency debt of PPP projects. Following the sharp depreciation of the Turkish lira, guaranteed payments under these arrangements have increased, adding to fiscal pressures.

In addition, inflation-indexed bonds account for around 22% of public debt, increasing the sensitivity of the fiscal position to elevated inflation. Government interest payments relative to revenue remain high at 12% in the year 2024, reflecting elevated policy rates. Moreover, the relatively large share of foreign-currency-denominated public debt—56% as of 2024—continues to expose the sovereign balance sheet to external and exchange-rate shocks.

External Position & Linkages

Türkiye's external financing needs remain elevated, although external buffers have strengthened over the past two years. The current account deficit narrowed to a moderate 1.4% of GDP in 2025, largely reflecting lower food and energy prices. Foreign exchange reserves have increased materially, with gross reserves reaching a record USD 205 billion and net reserves (excluding swaps) rising to USD 67.5 billion in January 2026, supporting improved reserve adequacy and external liquidity. Improved investor sentiment and tighter macroeconomic policies have also supported access to external financing.

Nonetheless, external vulnerabilities persist. Türkiye's high dependence on imported energy continues to expose the economy to commodity price volatility. Net foreign direct investment inflows have declined amid lingering economic uncertainty. External debt stood at 45% of GDP in 2024, with about one-third classified as short-term (around 21% of GDP), implying sizable near-term refinancing requirements. In this context, exchange rate volatility could increase debt servicing costs and weigh on external resilience.

Monetary & Financial Stability

Türkiye's inflation has remained elevated at 35% in 2025, above earlier projections of 26%, despite high positive real interest rates. The weak monetary transmission has prolonged the disinflationary process. Against this backdrop, the central bank reduced its policy rate by 100

bps to 37% at the January 2026 MPC meeting, signalling a slower normalization path amid emerging upside risks to early-2026 inflation.

The exchange rate regime de jure is free-floating; de facto, it is floating. In response to the depreciation of the Turkish lira, the central bank continues to intervene in the foreign exchange market, causing a depletion of forex reserves.

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

Institutions & Quality of Governance

Türkiye's institutional profile remains constrained by persistent executive dominance, pressure on opposition actors, and rising political uncertainty. Throughout 2024–2025, authorities intensified actions against opposition figures and institutions, including efforts to legally constrain or weaken the main opposition party (CHP) through court rulings and administrative interventions, contributing to a shrinking political space. The arrest of Istanbul Mayor Ekrem İmamoğlu in March 2025, a leading opposition figure and potential presidential challenger, triggered widespread protests and raised concerns about the erosion of judicial independence and electoral competitiveness.

Looking ahead, President Erdoğan may seek constitutional avenues to enable an additional presidential term, potentially through an early election or a combined constitutional referendum in late 2026. Such developments would underscore the weakness of institutional checks and balances under Türkiye's highly centralised presidential system and could further weigh on governance effectiveness.

Turkiye – Select Indicators									
	Unit	2020	2021	2022	2023	2024	2025F	2026F	2027 F
Economic Indicators									
Nominal GDP	USD Billion	730.3	827.7	924.8	1153	1358	1565	1576	1641
GDP Per Capita (Constant-PPP)	USD	29253	32412	33841	35404	36500	37552	38749	40003
Real GDP Growth	%	1.8	11.8	5.4	5.0	3.3	3.5	4.2	3.7
GFCF/GDP	%	27.5	28.2	29.2	31.9	31.0			
Gross Domestic Savings/GDP	%	28.2	31.8	31.0	27.5	31.3	-	-	-
Exports (G&S)/GDP	%	33.1	29.1	35.7	38.6	32.3	27.6	-	-
Working-Age (15-64) Population (% Share in Total)	%	68.1	68.1	68.1	68.1	68.1	68.0	68.0	68.0
Old-Age (65+) Population (% Share in Total)	%	8.0	8.2	8.4	8.6	8.9	9.2	9.6	9.7
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-4.6	-3.0	-1.1	-5.2	-4.6	-3.7	-3.8	-4.0
Revenue/GDP	%	29.4	27.6	25.7	27.3	28.1			
Expenditure/GDP	%	34.0	30.5	26.8	32.5	32.6			
GG Gross Debt/GDP	%	38.7	39.4	30.2	28.7	24.0	24.3	25.1	26.0
GG External Debt (by Creditor)/GG Gross Debt	%	35.0	44.1	41.9	35.9	34.0	-	-	-
Interest/Revenue	%	9.5	9.9	15.5	11.0	11.7	-	-	-
External Indicators									
Current Account Balance/GDP	%	-4.2	-0.8	-5.0	-3.6	-0.8	-1.4	-1.3	-4.0
FDI, Net Inflows/GDP	%	1.0	1.5	1.5	0.9	0.9	-	-	-
Outstanding FII Liabilities/GDP	%	16.5	11.3	9.4	8.5	9.2	-	-	-
NIIP/GDP	%	-52.7	-28.8	-38.7	-28.3	-25.2	-	-	-
Foreign Exchange Reserves	USD Billions	93.6	111.2	128.7	140.9	155	184	-	-
Import Cover	Months	4.8	4.7	4.0	4.4	5.1	-	-	-
External Debt/GDP	%	60.0	51.7	48.7	42.3	38.1	-	-	-
Monetary and Financial Indicators									
CPI Inflation	%	12.3	19.6	72.3	53.9	58.5	34.9	24.7	19.5
Exchange Rate (Average)	LC per USD	7.0	8.9	16.6	23.8	35.2	42.7	-	-
Non-Performing Loans/Total Gross Loans	%	3.9	3.0	2.0	1.5	2.0	-	-	-
Private debt, loans and debt securities/GDP	%	88.11	87.32	64.70	57.30	48.01	-	-	-

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, but with limited interaction with the relevant authorities of the Government.

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BB-/Stable	January 30, 2026
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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