Republic of Türkiye's rating reaffirmed at 'CareEdge BB-/Stable'

Issuer rating (Long-Term Foreign Currency Rating)	**CareEdge BB-/Stable (Unsolicited)**

Rating action

CareEdge Global Ratings has reaffirmed Republic of Türkiye's Long-Term Foreign Currency issuer rating at **'CareEdge BB-/Stable'** (Unsolicited).

Rationale

The rating reaffirmation reflects steady progress in macroeconomic stabilisation following the policy normalisation process initiated in 2023, alongside low government debt and the strengths associated with Türkiye's large and diversified economy. However, the sovereign's credit profile remains constrained by external vulnerabilities, elevated inflation, exchange rate risks, and institutional weaknesses.

The orthodox policy framework introduced in 2023 persists, supporting a gradual correction of macroeconomic imbalances accumulated during the earlier period of unconventional policies. Deposit dollarisation declined to around 38% in June 2026 from 63.5% in 2023, while positive real interest rates supported the maintenance of a restrictive monetary stance and the disinflation process.

Gross general government (GG) debt stayed low at around 23.1% of GDP in Q1 2026 and well below similarly rated peers. Substantial unwinding of the FX-protected deposit (KKM) scheme has reduced sovereign exposure to exchange rate volatility and significantly lowered contingent liabilities associated with the scheme. The composition of central government debt has also improved, with the share of foreign currency-denominated debt declining to around 52% in June 2026 from 64% in 2023 and the share of inflation-linked bonds dropping to around 5% in May 2026 from nearly 14% in 2020, reducing sensitivity to exchange rate movements and inflation shocks. Nevertheless, interest payments remained high at 13.4% of government revenue in 2025, reflecting elevated policy rates, while contingent liabilities arising from public-private partnership (PPP) projects are still a source of fiscal risk.

The escalation in geopolitical tensions in West Asia temporarily reversed some of the recent improvements in Türkiye's external position and inflation. Gross foreign exchange reserves, which had increased from USD141 billion in 2023 to a record USD218 billion in January 2026, declined to USD160 billion in mid July 2026, while adjusted net international reserves (excluding swaps) fell to USD38 billion from USD83 billion over the same period, reflecting foreign exchange interventions and heightened market volatility. Nevertheless, reserve levels remain well above those prevailing prior to the policy normalisation period. Inflation, which had moderated to 30.9% y-o-y in December 2025 from 44.4% in 2024 end year, realized 32.1% in June 2026, reflecting higher energy prices. With oil prices easing from their crisis highs, pressures on the external position and inflation are expected to remain manageable and gradually ease over the coming quarters. Nevertheless, the gross external financing requirements remain elevated, projected to average 17.5% of GDP over 2026-31, while dependence on imported energy continues to expose the economy to commodity price shocks.

In addition, the banking sector remains susceptible to asset quality and profitability pressures amid tight financial conditions and lingering foreign currency risks. 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, while institutional weaknesses and centralised policymaking increase the risk of policy reversals.

Outlook: Stable

The stable outlook is underpinned by our expectations that the economic rebalancing process will continue, with inflation moderating over the medium term, dollarisation broadly contained, and FX reserves sufficient to absorb external shocks. Although the recent rise in energy prices temporarily weighed on inflation and external metrics, oil prices have since retreated from their recent peaks and are below expectations, which is likely to contain the pressure over the coming quarters. Continued adherence to prudent monetary and fiscal policies is expected to preserve macroeconomic stability and support resilient economic growth.

Upside scenario

A positive outlook action could materialise if Türkiye demonstrates sustained policy effectiveness and credibility. A faster-than-expected decline in inflation, supported by persistent fiscal-monetary co-ordination, would strengthen confidence and stabilise macroeconomic expectations. A more durable improvement in the external position, reflected in narrower 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 policy could stall disinflation, undermine confidence, and increase exchange rate volatility. A sustained decline in FX reserves due to prolonged FX intervention or adverse external shocks could weaken the external position and increase external financing risks. A renewed escalation in geopolitical tensions, coupled with a prolonged rise in oil prices, could impair macroeconomic stability and increase downside risks to the rating. Prolonged tight financial conditions may also deteriorate the asset quality, increasing contingent liabilities for the sovereign across the banking sector.

Key rating drivers

Economic structure & resilience

Türkiye is one of the leading emerging economies in the Eastern Europe, supported by a diversified manufacturing base and a strategically significant geographical position. Nominal GDP is estimated at USD 1.64 trillion in 2026, with GDP per capita (PPP) of approximately USD 38,759 (GDP constant PPP), reflecting a structurally strong consumption base, a sizeable labour force, and strong domestic demand. Demographics are 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.

Real GDP growth moderated to 2.5% y-o-y in Q1 2026 from 3.4% in Q4 2025, primarily reflecting the lagged effects of the disinflation programme, while the impact of the West Asia conflict is expected to weigh more significantly on economic activity in Q2 2026. However, growth is expected to recover in H2 2026, supported by a less adverse external backdrop than previously expected. Real GDP growth is projected at 3.4% in 2026, underpinned by the economy's diversified structure, resilient tourism receipts, recovering agricultural output, and continued progress in reducing dollarisation, which should help sustain economic resilience and macroeconomic stability.

Fiscal strength

Türkiye's fiscal deficit narrowed to 2.8% of GDP in 2025 from 4.5% of GDP in 2024, aided by strong revenue growth and lower earthquake-related expenditure. However, the fiscal deficit is projected to widen to around 3.4% of GDP in 2026, reflecting higher interest expenditure. In response to the surge in global energy prices following the escalation in West Asia, the government introduced a temporary fuel tax relief mechanism through adjustments to the Special Consumption Tax on fuel products to limit the pass-through of higher energy costs to households and businesses. While the measure has resulted in forgone tax revenues and is expected to contribute to the wider fiscal deficit in 2026, the impact should be manageable, supported by continued revenue performance, expenditure restraint, and the gradual phase-out of the fuel price stabilisation mechanism by October 2026.

Gross general government debt to GDP is low (estimated at 25.5% in 2026) and below similarly rated peers. Unwinding of the foreign exchange-protected deposit (KKM) scheme has materially reduced sovereign contingent liabilities, with such deposits now accounting for just 0.02% of total deposits, down from 26% in 2023. The composition of central government debt (21.4% of GDP in Q1 2026) has also improved, with the share of foreign currency-denominated debt declining to around 52% as of June 2026 from 64% in 2023, while the share of inflation-linked bonds has fallen to around 5% in May 2026 from nearly 14% in 2020, reducing sensitivity to exchange rate movements and inflation shocks. Nevertheless, interest payments were high at 13.4% of government revenue in 2025, reflecting elevated policy rates, while contingent liabilities arising from PPP projects remain a source of fiscal risk.

External position & linkages

Türkiye's external financing needs remain high despite improvements in external buffers since the start of the policy normalisation process. Gross external financing requirements are projected to average 17.5% of GDP during 2026-2031, reflecting sizeable external debt repayments and current account financing needs, leaving the country vulnerable to adverse shifts in global investor sentiment. Gross external debt was 32.6% of GDP in 2025, with approximately 32% of external debt, equivalent to around 10% of GDP, classified as short-term, resulting in sizeable refinancing requirements and exposure to exchange rate volatility.

Reserve accumulation peaked in early 2026 but has reversed since then. Gross foreign exchange reserves declined to USD160 billion and net international reserves (excluding swaps) fell to USD38 billion in mid July 2026 from peaks of USD218 billion and USD83 billion, respectively, in January 2026 amid foreign exchange interventions and heightened market volatility following geopolitical tensions in West Asia.

The external position continues to be sensitive to commodity price shocks due to Türkiye's dependence on imported energy. Following the escalation in geopolitical tensions in West Asia and the resulting increase in energy import costs, the 12-month rolling current account deficit widened to 2.4% of GDP in Q1 2026 from 1.2% in Q1 2025. Net FDI and portfolio inflows also weakened during the period amid softer investor sentiment and heightened geopolitical uncertainty. Nevertheless, as oil prices have eased from their recent highs, pressures on the external position are likely to be manageable, with the current account deficit being contained over the medium term, supported by resilient tourism receipts and export performance.

Monetary & financial stability

Despite substantial moderation from recent peaks, inflation is elevated and constrains Türkiye's credit profile. Headline inflation declined to 32.1% y-o-y in June 2026 from 71.6% in June 2024, though higher than similarly rated peers and well above the central bank's target. Inflation is expected to moderate further over 2026, although the pace of disinflation is likely to be gradual due to weak monetary policy transmission, declining but high services inflation and exchange rate pass-through effects. Inflationary pressure has been reinforced by higher energy prices following geopolitical tensions in West Asia. Against this backdrop, the central bank has maintained a restrictive monetary policy stance, keeping the policy rate at 37% as of July 2026, while revising its year-end 2026 inflation forecast to 26% from the earlier range of 15%-21%.

Deposit dollarisation has declined significantly since the return to orthodox policies, reducing vulnerabilities associated with exchange rate volatility and strengthening the effectiveness of monetary policy. Deposit dollarisation fell to around 39% in 2025 and remained broadly stable at 39% as of May 2026, compared with around 73% in 2023, despite episodes of market volatility and geopolitical uncertainty.

The exchange rate regime de jure is free-floating, while 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. As a result of this and changes in the valuation of gold holdings, reserve buffers declined during the first half of 2026. Nevertheless, reserves are way higher than those prior to the policy normalisation period.

High policy rates are expected to weigh on banks' profitability and non-performing loan ratio.

Institutions & quality of governance

Türkiye's institutional profile is 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.

Political uncertainty stayed high in 2026, following legal developments involving the opposition Republican People's Party (CHP). In May 2026, a court ruling annulled the party's 2023 leadership congress and suspended the existing party leadership, adding uncertainty regarding the organisation of the main opposition party and the broader political environment ahead of the scheduled 2028 presidential and parliamentary elections.

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.

Select indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic indicators									
Nominal GDP	USD billion	730.3	827.7	924.8	1153.3	1358.3	1597.3	1640.2	1629.5
GDP per capita (constant-PPP)	USD	29,253	32,412	33,841	35,404	36,500	37,680	38,759	39,916
Real GDP growth	%	1.8	11.8	5.4	5.0	3.3	3.6	3.4	3.5
GFCF/GDP	%	28.0	28.4	30.5	32.9	31.3	30.6	-	-
Gross domestic savings/GDP	%	31.2	34.9	35.0	32.7	31.3	31.4	-	-
Exports (G&S)/GDP	%	28.7	35.1	38.1	31.9	27.6	24.8	-	-
Working age (15-64) population (% share in total)	%	68.3	68.1	68.1	68.2	68.3	68.4	68.5	68.6
Old age (65+) population (% share in total)	%	9.0	9.4	9.7	10.0	10.3	10.6	10.9	11.3
Fiscal indicators – general government									
Fiscal balance/GDP	%	-4.6	-3.0	-1.1	-5.2	-4.5	-2.8	-3.4	-3.7
Revenue/GDP	%	29.4	27.6	25.7	27.5	28.4	29.6	29.9	30.1
Expenditure/GDP	%	34.0	30.5	26.8	32.7	32.9	32.4	33.2	33.8
GG gross debt/GDP	%	38.3	38.9	29.4	28.2	23.6	23.5	25.5	26.9
GG external debt (by creditor)/GG gross debt	%	26.8	28.4	22.3	22.8	25.3	23.5	-	-
Interest/revenue	%	9.5	9.9	15.5	11.0	11.7	13.4	-	-
External indicators									
Current account balance/GDP	%	-4.2	-0.9	-5.0	-3.6	-1.0	-1.9	-2.8	-2.5
FDI, net inflows/GDP	%	1.0	1.5	1.5	0.9	0.9	0.8	-	-
Outstanding FII liabilities/GDP	%	16.5	11.3	9.4	8.5	9.2	8.5	-	-
NIIP/GDP	%	-52.5	-28.7	-38.8	-28.7	-25.6	-20.3	-	-
Foreign exchange reserves	USD billion	93.6	111.2	128.7	140.9	155.2	184.0	-	-
Import cover	Months	4.9	4.7	4.0	4.4	5.0	5.5	-	-
External debt/GDP	%	53.4	45.7	42.0	37.5	33.9	32.6	-	-
Monetary and financial indicators									
CPI inflation	%	12.3	19.6	72.3	53.9	58.5	34.9	28.6	21.4
Exchange rate (average)	LC per USD	7.0	8.9	16.6	23.7	32.8	39.5	-	-
Non-performing loans/total gross loans	%	4.1	3.1	2.1	1.6	1.8	2.5	-	-
Private debt, loans and debt securities/GDP	%	88.1	87.3	64.7	57.3	48.0	-	-	-

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 2025

Solicitation status

The rating is unsolicited, but with limited interaction with the relevant government authorities.

Rating history

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BB-/Stable	July 24, 2026
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

Analytical contacts

Kiran Kavala
kiran.kavala@careedgeglobal.com

Shobana Krishnan
c-shobana.krishnan@careedge.in

Amya Parmar
amya.parmar@careedgeglobal.com

Media contact

Mradul Mishra
mradul.mishra@careedge.in

About Us
CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise.** As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

Disclaimer
This disclaimer applies to each credit rating report and/ or credit rating rationale ('report') that is provided by CareEdge Global IFSC Limited ('CareEdge Global').

Ratings from CareEdge Global are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/ instruments or to make any investment decisions. The report is not a solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CareEdge Global assumes no obligation to update its opinions following publication in any form or format although CareEdge Global may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the investor, user, its management, employees, advisors and/ or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. Therefore, the report is not intended to and does not constitute an investment advice. The report should not be the sole or primary basis for any investment decision. CareEdge Global is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CareEdge Global. CareEdge Global does not act as a fiduciary by providing the rating.

Any unsolicited ratings assigned by CareEdge Global are based on publicly available information as CareEdge Global may or may not have access to documents / information or participation from management of such issuers. While CareEdge Global has obtained information from sources it believes to be reliable, CareEdge Global does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/ or relies on in its reports. CareEdge Global ratings are subject to a periodic review, which may lead to revision in ratings. CareEdge Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CareEdge Global has in place a ratings code of conduct and policies for managing conflict of interest.

Neither CareEdge Global nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents guarantee the accuracy, completeness or adequacy of the report, and shall not have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. CareEdge Global DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CareEdge Global or its associated entities or persons be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

This report does not constitute an offer of services. This report is solely for use in the jurisdiction of IFSCA, GIFT City in Gandhinagar. Without limiting the generality of the foregoing, nothing in the report is to be construed as CareEdge Global providing or intending to provide any services in jurisdictions where CareEdge Global does not have the necessary licenses and/ or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CareEdge Global and the user.

For latest rating information on any instrument of any company rated by CareEdge Global, you may visit our website www.careedgeglobal.com.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CareEdge Global.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
501, FlexOne, GIFT SEZ, Block 15, Gandhinagar, Gujarat – 382050, India. Phone: +91-79-6519 0701 l www.careedgeglobal.com
CIN-U66190GJ2024PLC151103