

Republic of Türkiye

Rating report

Rating rationale

A durably more restrictive policy stance. The first driver of the outlook change reflects Türkiye's more consistent policymaking, which was initiated following general elections of May 2023 and continued throughout local elections of March 2024. Consistent monetary policy tightening enhances the credibility, independence, and effectiveness of the CBRT in pursuing a disinflationary course, thereby reducing the risk of policy reversal. Moreover, bolstered fiscal discipline, with a projected primary balance by 2026, should stabilise general government debt over the medium term.

Progressive rebalancing of the economy. The second driver of the outlook change reflects the gradual rebalancing of the economy, which lowers the likelihood of balance-of-payments and/or financial crisis. A durably more restrictive policy stance is expected to shift domestic economic activity towards investment and exports, diminishing reliance on private consumption. This shift should also facilitate funding for reduced external gross financing needs and enhance confidence in lira denominated assets. Real GDP growth is projected to slow down to 3.2% in 2024, from 4.5% in 2023, and 3.3% in 2025.

Rating challenges include: i) high inflation, alongside negative real policy rate, underscoring the necessary continuation of conventional monetary and economic policies to support the economy's long-run sustainability; ii) significant external-sector vulnerabilities, including current-account deficits, substantial exposure to lira depreciation and periods of capital outflows due to inadequate net international reserves; and iii) institutional challenges, elevated geopolitical risks as well as high regional instability.

Figure 1: Türkiye's sovereign rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating (foreign currency)	Final rating (local currency)
	Weight	Indicative rating	Notches	Notches	Notches		
Domestic economic risk	35%	a	TRY	Türkiye	-1/3	B-	B
Public finance risk	20%	a			-2/3		
External economic risk	10%	ccc			-1		
Financial stability risk	10%	aaa			-2/3		
ESG risk	Environmental factors	5%	[+0]	[-2]	-1/3	B-	B
	Social factors	7.5%			0		
	Governance factors	12.5%	ccc				
Sovereign Quantitative Model			bbb-		-3		
Additional considerations****						-3	-2

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket. **The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index. ***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. ****For Türkiye, an extraordinary two-notch downside adjustment is applied across foreign- and local-currency long-term ratings to account for years of significant weaknesses in macro-financial management and lower albeit still high economic imbalances. A further one-notch downside adjustment is applied for foreign-currency issuer and senior unsecured long-term ratings to account for lower albeit still high balance-of-payment risks. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

B-/Positive

Senior unsecured debt

B-/Positive

Short-term issuer rating/Outlook

S-4/Stable

Local currency

Long-term issuer rating/Outlook

B/Positive

Senior unsecured debt

B/Positive

Short-term issuer rating/Outlook

S-4/Stable

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Credit strengths and challenges

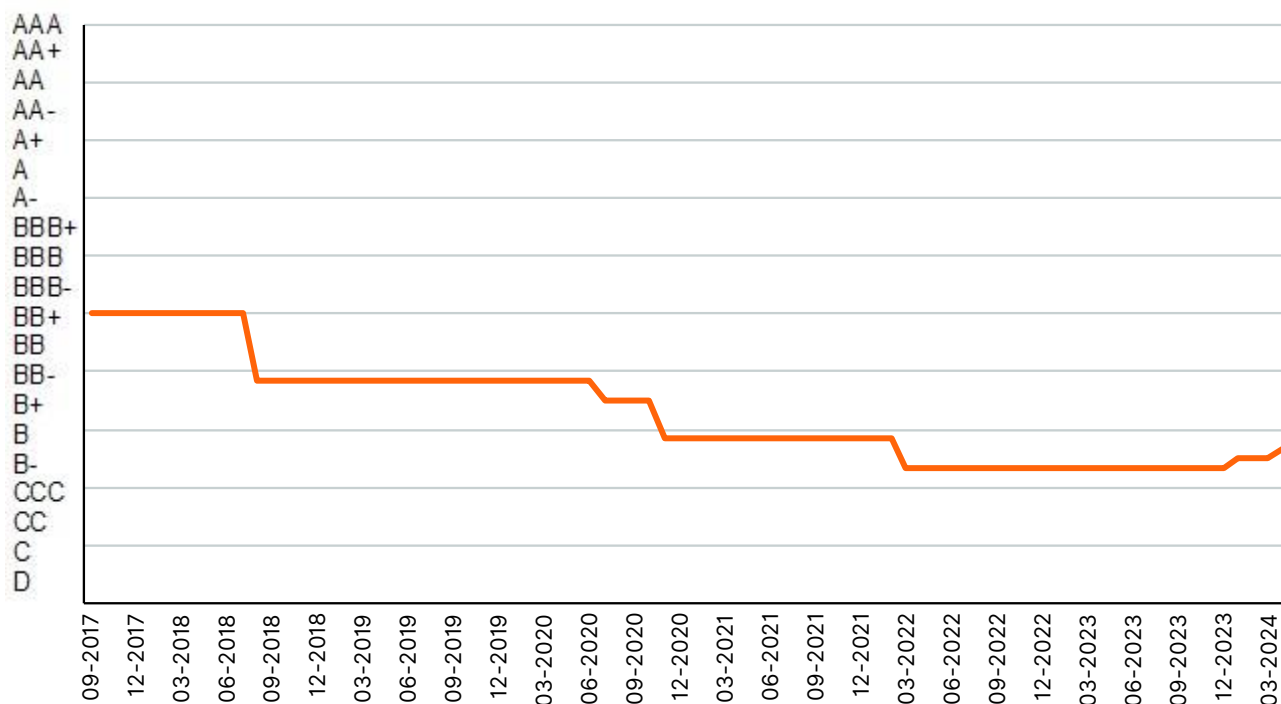
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • Low to moderate levels of public debt • Resilient banking system • Large and diversified economy • Comparatively high potential growth 	<ul style="list-style-type: none"> • Record of unorthodox policies, persistently very high inflation • Elevated external-sector vulnerabilities • Institutional challenges, elevated geopolitical risks and high regional instability

Outlook and rating triggers

The Positive Outlook reflects Scope's view that risks to the ratings are tilted to the upside.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Current policy normalisation is continued in a consistent manner, durably enhancing the predictability and effectiveness of macro-economic policymaking, and raising the prospects for a sustained decline in inflation • External vulnerabilities are reduced, due, for example, to a narrowing of current account deficits, an increase in capital inflows, and higher international reserves 	<ul style="list-style-type: none"> • Failure to maintain a restrictive monetary policy stance and fiscal discipline threatens the disinflation process and the gradual rebalancing of the economy • External vulnerabilities increase significantly, due, for example, to a sharp decline in net international reserves, increasing the likelihood of balance-of-payments and/or financial crisis • Severe domestic political pressure and/or an acute deterioration in security conditions and international relations adversely impact the economy

Figure 2: Rating history¹



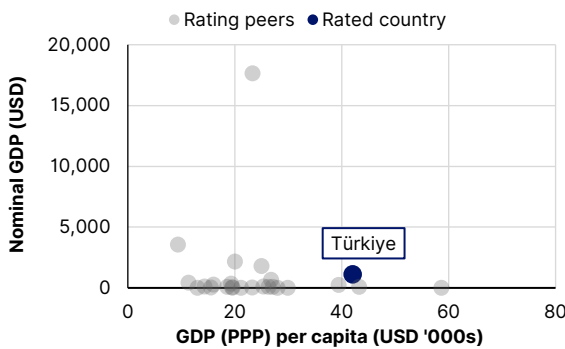
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Türkiye's Domestic Economic Risk

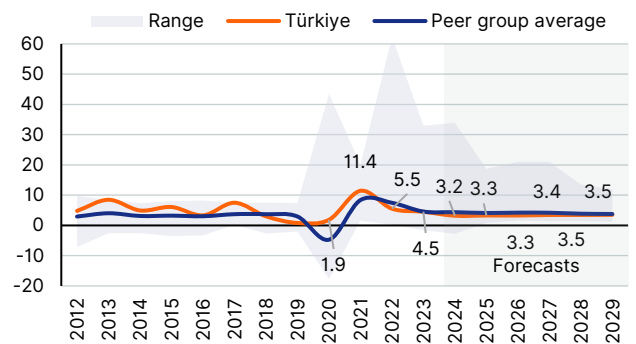
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Growth potential and outlook	Neutral	0	Robust growth potential, but constraints given large economic imbalances; record of unorthodox policies balanced by a track record of more conventional policymaking
	Monetary policy framework	Neutral	0	Track record of unconventional monetary-policy and frequent changes in central-bank governance balanced by sustained policy pivot improving credibility, independence, and effectiveness of the central-bank
	Macroeconomic stability and sustainability	Weak	-1/3	Large and diversified economy; however, significant macro-economic imbalances including very high inflation and low labour-force participation

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



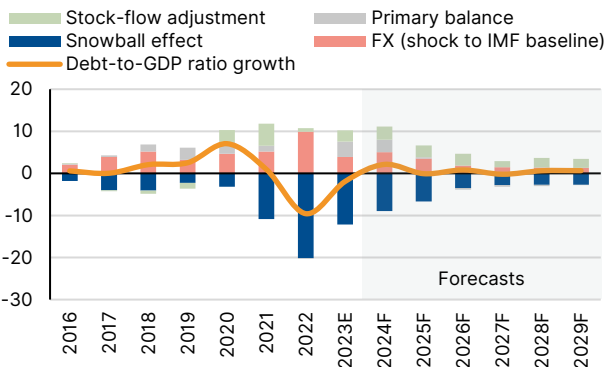
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Türkiye's Public Finance Risk

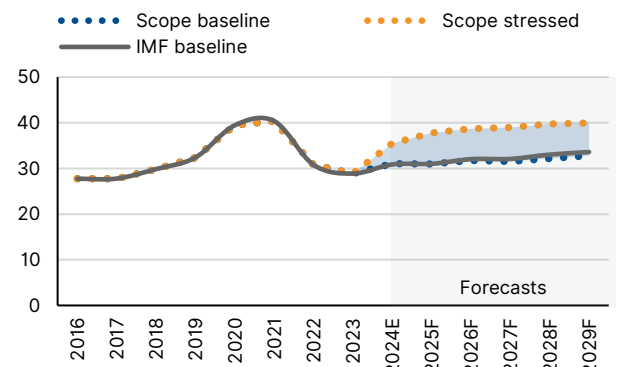
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Fiscal policy framework	Neutral	0	Stronger fiscal discipline balanced by wage and pension revalorisation, and earthquake related spending
	Long-term debt trajectory	Weak	-1/3	Low to moderate debt; shift of borrowing strategy towards lira denominated securities mitigates exposure to currency depreciation, but trajectory exposed to higher interest rates
	Debt profile and market access	Weak	-1/3	Developed domestic capital markets but elevated FX exposure in liabilities, higher financing costs

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

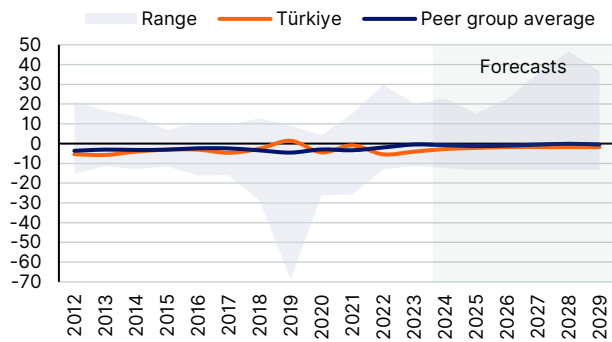
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Türkiye's External Economic Risk

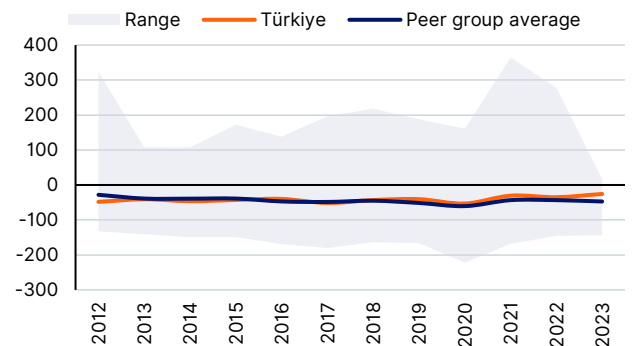
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CCC	Current account resilience	Weak	-1/3	Diversified exports; lower albeit persistent current-account deficits amid exposure to volatile energy and commodity import prices
	External debt structure	Weak	-1/3	Substantial short-term external debt; improving but negative net international investment position
	Resilience to short-term external shocks	Weak	-1/3	Inadequate reserve coverage; significant net foreign liabilities of the central-bank excluding foreign-currency swaps with commercial banks

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



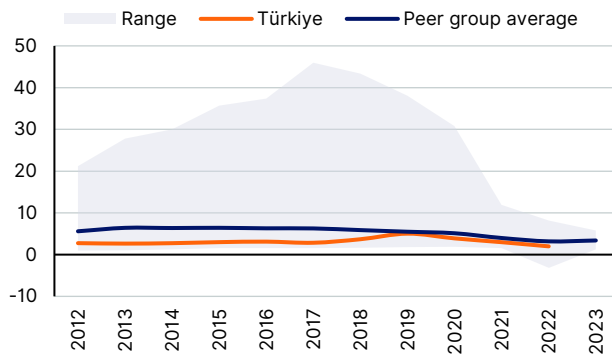
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Türkiye's Financial Stability Risk

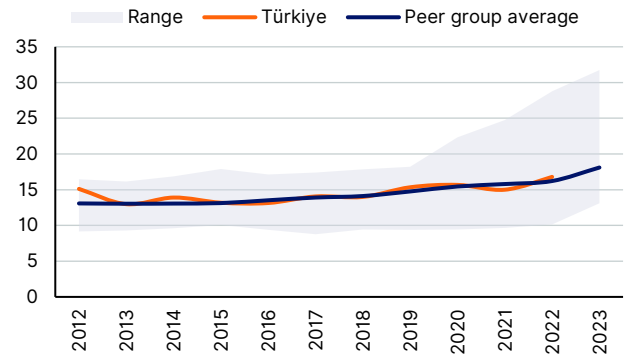
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Resilient banking system able to provide significant liquidity to the sovereign, low NPLs, but lira depreciation could weigh on capitalisation ratios
	Financial sector oversight and governance	Weak	-1/3	Ongoing simplification of macroprudential framework follows years of state-coerced banking system interventions in exchange rate and credit conditions
	Financial imbalances	Weak	-1/3	Moderate private-sector debt, but large sovereign-bank nexus, lower albeit still significant net FX liabilities of corporates

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



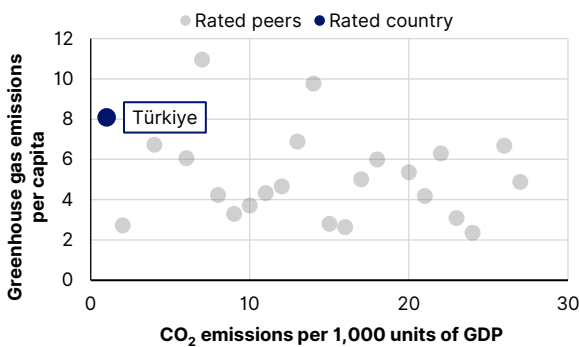
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Türkiye's ESG Risk

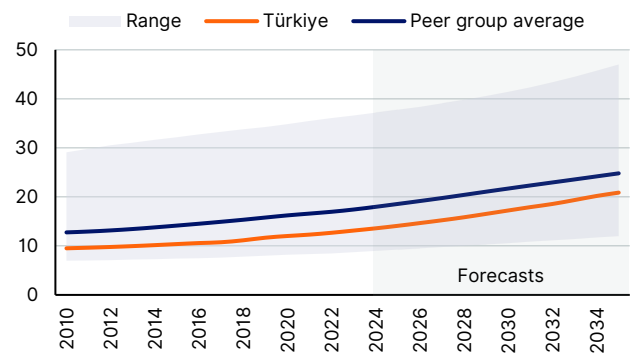
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Environmental factors	Weak	-1/3	Significant exposure to a broad range of natural risks; high economic reliance on fossil fuels; weaker preparedness for climate change
	Social factors	Neutral	0	Relatively favourable demographics, high income inequality, progress in reducing poverty levels and improving educational outcomes
	Governance factors	Weak	-1/3	Significant institutional challenges; risks compounded by geopolitical tensions and high regional instability

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

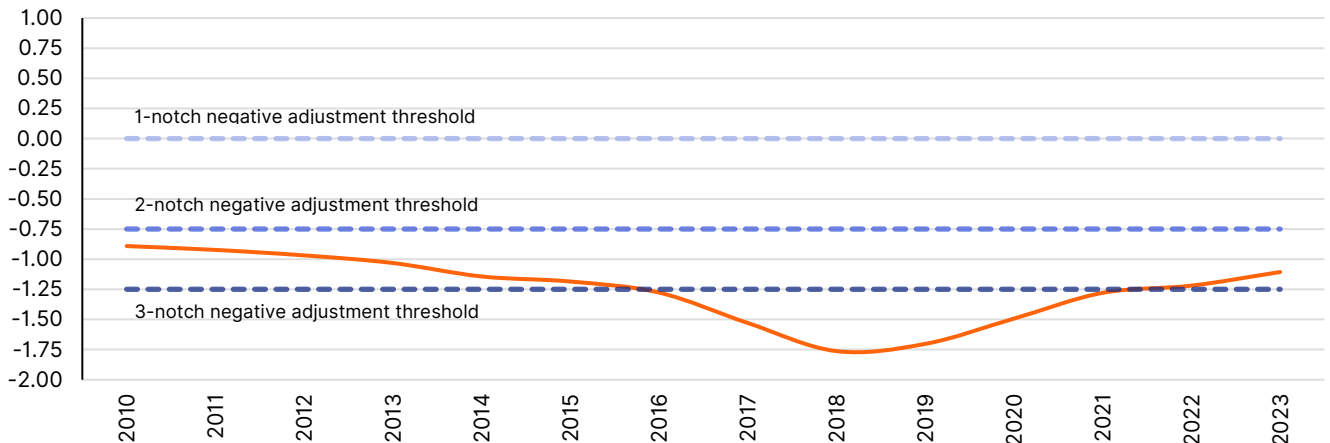
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Türkiye, 3-year moving average



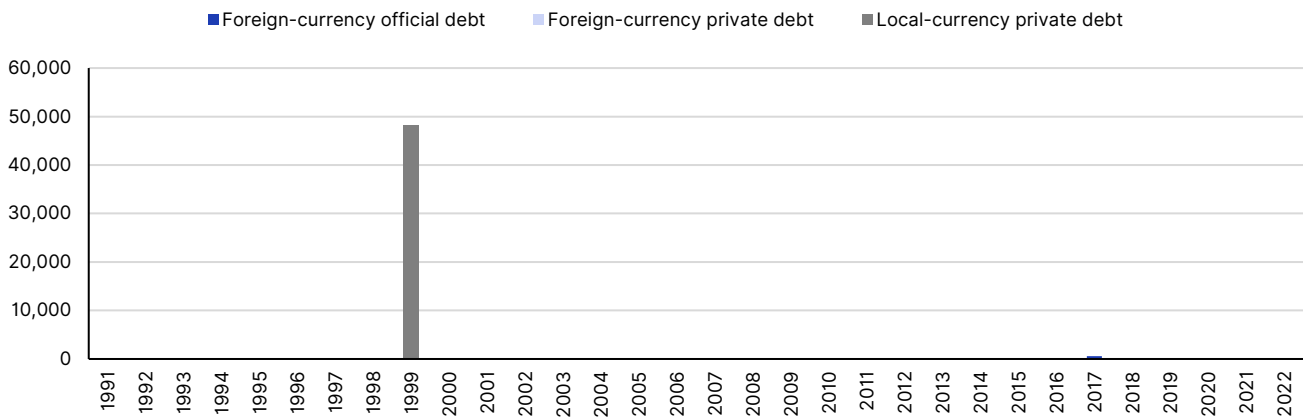
Source: WB, Scope Ratings

Additional considerations

An extraordinary two-notch downside adjustment is applied across foreign- and local-currency long-term ratings to account for years of significant weaknesses in macro-financial management and lower albeit still high economic imbalances. A further one-notch downside adjustment is applied for foreign-currency issuer and senior unsecured long-term ratings to account for lower albeit still high balance-of-payment risks.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
China
Georgia
Greece
Serbia

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bp) as of 25 April 2024	307.9

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope’s quantitative model, in line with Scope’s Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	29.3	29.6	30.4	35.0	39.3	42.1
	Nominal GDP, USD bn	IMF	780	761	720	818	906	1,108
	Real growth, %	IMF	3.0	0.8	1.9	11.4	5.5	4.5
	CPI inflation, %	IMF	16.3	15.2	12.3	19.6	72.3	53.9
	Unemployment rate, %	WB	10.9	13.7	13.1	12.0	10.4	9.6
Public Finance	Public debt, % of GDP	IMF	29.9	32.4	39.4	40.4	30.8	28.9
	Net interest payment, % of government revenue	IMF	4.9	6.3	6.5	6.0	4.7	6.5
	Primary balance, % of GDP	IMF	-1.7	-2.9	-2.8	-1.3	0.1	-3.7
External Economic	Current-account balance, % of GDP	IMF	-2.6	1.4	-4.4	-0.9	-5.4	-4.1
	Total reserves, months of imports	WB	4.2	5.2	4.6	4.4	3.7	-
	NIIP, % of GDP	IMF	-43.1	-40.6	-53.1	-30.6	-34.9	-
Financial Stability	NPL ratio, % of total loans	IMF	3.7	5.0	3.9	3.0	2.0	-
	Tier 1 ratio, % of risk-weighted assets	IMF	13.9	13.3	14.9	15.0	17.2	15.3
	Credit to the private sector, % of GDP	WB	67.5	65.5	75.2	72.4	54.5	-
ESG	CO₂ per EUR 1,000 of GDP, mtCO₂e	EC	185.2	177.2	173.9	169.2	169.2	-
	Income share of bottom 50%, %	WID	13.7	14.4	13.7	14.2	14.2	-
	Labour-force participation rate, %	WB	57.7	57.7	54.0	56.3	58.3	-
	Old-age dependency ratio, %	UN	11.1	11.7	12.0	12.3	12.7	13.1
	Composite governance indicators*	WB	-0.3	-0.3	-0.4	-0.4	-0.5	-
	Political stability, index	WB	-1.3	-1.4	-1.1	-1.1	-1.0	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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