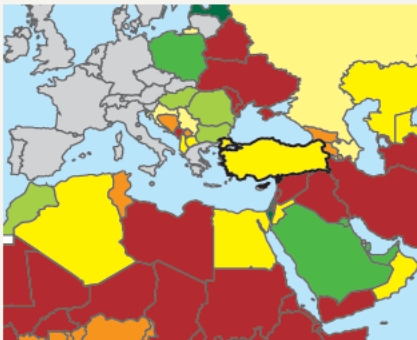


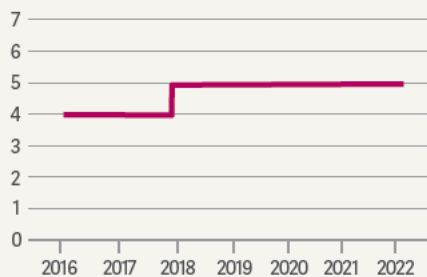
Basic facts (2020)

Population: 84 million
GDP, nominal: USD 720 billion
GDP/capita: USD 8 610



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

- + Middle-income country with a large and diversified economy.
- + Stable public finances with sustainable debt and budgetary control.
- + Banking system with buffers that can withstand a temporary economic downturn.

Weaknesses

- Expansionary monetary policy that exaggerates economic imbalances
- Weakening of the currency and reduced international reserves increase risk due to large external financing needs.
- Rising political tensions

Years of economic turmoil

Sharp currency weakening, large capital outflows and high inflation have characterised Turkey in recent years. In the years before the pandemic, the country had weak economic development as a result of the financial crisis in 2018. The economic activity rebounded in 2019, thanks to fiscal stimulus measures and credit growth, meaning the structural problems remained unresolved. The Turkish economy is large and well diversified, and public finances are sound and have remained a stabilising factor for the economy as a whole. Government debt adds to 38 per cent of GDP, which is low compared to other emerging markets. The fiscal deficit remains at a sustainable level at 5 per cent of GDP, although it increased during the pandemic.

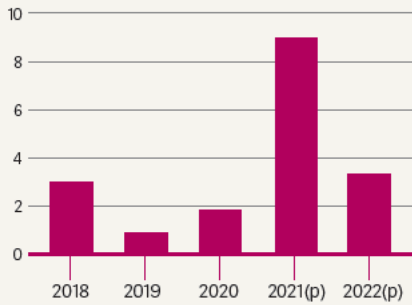
The external position remains critical. The current account deficit and combined with a large stock of external debt create a dependence on external financing. The deficits are mainly financed through short-term external debt, making the economy sensitive and particularly exposed to short-term capital flows. The Turkish lira is one of the more sensitive currencies in the emerging world. The currency has weakened markedly in the political turmoil of recent years. The private sector is particularly exposed to a weaker lira because companies have a large part of the external debt. The negative trend in foreign exchange reserves in recent years, which has deteriorated due to attempts to stabilise the exchange rate, has led to a low level that now covers just under three months of imports.

Macroeconomic imbalances remains elevated

Turkey was one of the few countries that managed to grow in 2020. The IMF estimates that the economy will rebound with a GDP growth of 9 per cent in 2021. However, it should be noted that the growth in 2021 was driven by very loose monetary policies and boosted by credit and consumption. This implies that the unbalances in the economy will remain. Recently, the credibility of the country's monetary policy and its independence from the government's influence have been questioned. In the past four years, The central bank governor has been replaced four times. The lack of a credible economic policy is reflected in a volatile currency. In 2021, the Turkish lira weakened nearly 45 per cent against the US dollar. The depreciation of the currency is expected to continue as a result of lack of credibility of the unorthodox monetary policy. In the short term, inflation is expected to be high due to low interest rates, rising import prices and higher commodity prices. The economic activity in the country is expected to be subdued in the coming years. The IMF estimates a GDP growth around 3 per cent 2022.

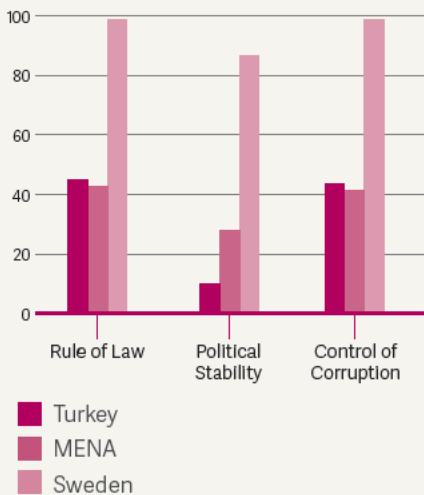
Political risk in the country has increased and there is increasing hostility towards President Erdoğan. Politically, Turkey is facing increased international isolation on several fronts. Erdoğan's expanded power as president, the pressured situation for media and activists, and Turkey's involvement in risky and costly conflicts in Syria and Iraq are contributing causes. Popular dissatisfaction in the country has increased as a result of the ongoing currency crisis. In the run-up to the 2023 elections, there is an increased risk that the government will continue its expansive monetary policy to drive growth, contributing to continued high inflation. If the government continues to give fiscal stimulus to

GDP growth (fixed prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

boost the economy with credit growth, these tensions risk exacerbating economic problems in terms of sudden new capital outflows and a falling exchange rate. The fear is that the government's economic policy is creating a new overheating by pushing banks to increase their lending. Such a policy risks a sharp decline in international reserves and continued financial turbulence. With each crisis, the level of debt in the corporate sector increases. The debt burden risks becoming unsustainable. The bill will end up with the banks and ultimately with the government, the two remaining strengths in the economy.

In the longer term, the country faces several challenges. The Turkish government and the economy are used to crises, but the risk of balance of payments problems has increased. Turkey has good conditions to create growth thanks to relatively strong government finances, a young population and a good investment climate. Nevertheless, increased credibility of domestic economic policy is required. Only through long-term structural reforms can this vulnerability be reduced. As of today, there is financial space for such initiatives, but the government's willingness to reform appears to be limited.

Business environment

The World Bank ranks Turkey's business climate in 33rd place out of 190 countries, on a par with the Balkans and Eastern Europe, but better than its neighbours in the Middle East. Turkey's ranking has improved since last year. Strengths include access to credit information, low trade barriers and the possibility to enforce contracts. EU reforms in the judiciary began in the early 2000s and have come a long way. New courts for commercial disputes have been set up, but problems in the form of time-consuming litigation persist. Political interventions affect individual sectors and businesses. According to several analysts, the economy is now less rule-driven than before. In Transparency International's Corruption Index, a negative trend has been seen in recent years and Turkey ranks 86 out of 180 countries. The World Bank's Governance Indicators (WBI) rank Turkey below the average for the region for all measurements of the quality of institutions and the regulatory environment. In the majority of the indicators, an alarming negative trend has been seen in the country in recent years.

The Turkish corporate and banking sectors are accustomed to crises and have previously proven to be resilient to the country's weak external position and domestic financial turmoil. The banking sector is relatively strong and ensures that capital flows into Turkey. The capital inflow to the banks is short term. Bank supervision follows international standards and is based on the reforms implemented under the IMF programme in the early 2000s. Banks must hedge their borrowing in hard currency and have to satisfy capital adequacy requirements above international requirements. The share of bad loans in the banks' loan portfolios was around 4 per cent in 2020. This proportion is expected to rise further in the wake of the pandemic. Problem loans that are emerging now are mainly loans to the construction, manufacturing and power sectors and derive from the strong lending during 2017. The main systemic risks are the banks' dependence on external financing, a low level of saving in the economy and the exposure of some banks to individual borrowers and projects. The banks' risk management is deemed to be good overall.

Swedish export to Turkey

	MSEK
2020	14 808
2019	13 142
2018	14 142
2017	14 051
2016	11 821

Source: SCB

EKN:s exposure

	MSEK
Guarantees	4 544
Offers	7 594

EKN:s policy

Since 2018, EKN has classified Turkey in country risk category 5 (of 7). This assessment is carried out in collaboration with the OECD. Turkey was downgraded to country risk category 5 from 4 in 2018 due to increased economic imbalances. Normal risk assessment applies to all buyer categories. Budgetary discipline and relatively strong government finances justify normal risk assessment for public counterparties. No restrictions exist for transactions where banks are the counterparties. In the case of transactions with corporates as counterparties, particular attention is paid to the debtor's currency exposure.

EKN:s commitment and experience

During the period 2017–2021, EKN issued guarantees for 351 transactions with a total value of just over SEK 15 billion for Swedish companies exporting to Turkey. Demand for EKN's guarantees has increased since 2018 due to the deteriorating risk situation and the increased need for Swedish banks to share letters of credit risk. Letters of credit, where EKN shares risk with banks that confirm letters of credit on behalf of Swedish exporters and where the counterparties are Turkish banks, are common and form a large portion of guarantees.

Payment delays occur, but indemnifications have remained small. Only a couple of small transactions have been indemnified since 2018. The majority of the problem transactions have been in sectors sensitive to economic fluctuations such as the mining and construction sectors. In the case of transactions with corporates as counterparties, particular attention is paid to the debtor's currency exposure. Recovery proceedings have been slow. EKN's experience in bankruptcies is that the claim, according to Turkish bankruptcy legislation, is converted into lira.