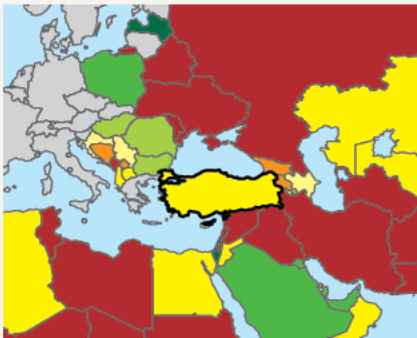


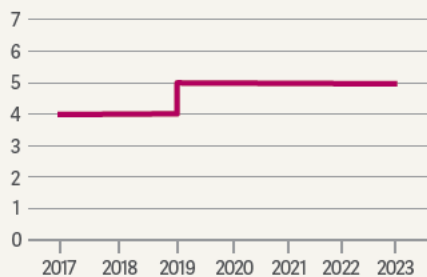
Basic facts (2021)

Population: 85 million
GDP, nominal: USD 817,5 billion
GDP/capita: USD 9 654



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.
- + Moderate public finances.
- + Banking system with buffers that can withstand a temporary economic downturn.

Weaknesses

- Unpredictable policymaking that creates major economic imbalances.
- Vulnerable external position. Increasing political tensions.

Continued economic turmoil

The Turkish economy has been in financial turmoil for over a year. Severe currency depreciation, high inflation and large external financing needs pose challenges for the government. Despite this, the government chooses to continue an unorthodox economic policy to boost credit and consumption-driven economic growth. But the economy has proven resilient in previous periods of financial stress. The Turkish economy is large and diversified. It is mainly driven by domestic manufacturing industry involving textiles, vehicles and electronic goods.

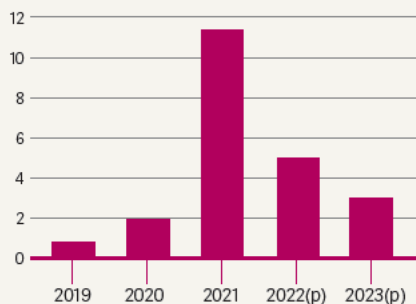
The economy's strengths, in terms of growth and stable government finances, provide security. The government debt is low compared to other emerging markets at 38 per cent of GDP. Budget deficits are expected to widen in 2023 as a result of the increasingly complex fiscal measures introduced by the government to stabilise the currency. The down-side risks are dominated by a weak external position due to high external financing needs, a low level of foreign currency reserves and a structural current account deficit. For 2022, the IMF forecasts a current account deficit of six per cent of GDP. The deficits are largely financed by short credits in foreign currency, making the economy sensitive and particularly exposed to short-term capital flows. Continued unorthodox economic policies to stimulate the economy have damaged investor confidence and raised questions about the country's ability to sustain the capital inflow needed to finance the current account deficit. The Turkish lira is one of the more sensitive currencies among emerging markets. From 2021 to 2022, the lira lost close to 50 per cent of its value against the US dollar. The level of international reserves has deteriorated in recent years, exacerbated by attempts to stabilise the exchange rate. The reserves is at a low level, barely two months of import coverage, and deeply negative when excluding banks' reserve requirements and swaps.

Increased risk ahead of the 2023 election

The consequences of the war in Ukraine with high commodity prices, a global financial tightening, as well as persistent inflation are having a negative impact on Türkiye. The country relies on energy imports and high energy prices put pressure on the economy. The government faces major challenges with high inflation, at 73 per cent year-on-year 2022, and large external financing gaps. On a positive note, the government continues to have access to the international capital markets. To stabilise the exchange rate, the government has taken increasingly complex fiscal measures, which have had some success in stabilising the lira and the dollarisation of the economy. However, the measures will come at a cost for the government. A slowdown in economic activity is expected in the coming years due to reduced domestic private consumption and global financial austerity.

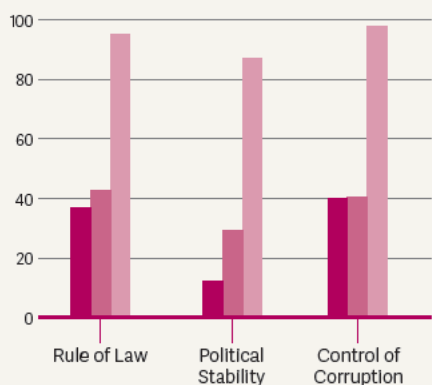
The political risk is expected to increase ahead of the upcoming presidential and parliamentary elections in May 2023. The government will continue with an expansionary monetary policy to ensure growth and employment, which will add to the imbalances in the economy. Although the main scenario is that President Erdoğan will win the presidential election, there is increasing hostility towards

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



■ Türkiye
■ Middle East & North Africa
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

the president. Erdoğan's expanded power as president, the pressured situation for media and activists, and Türkiye's involvement in risky and costly conflicts in Syria and Iraq are contributing causes. Popular discontent has increased as a result of the current economic turmoil.

In the longer term, the country faces several challenges. Türkiye has great economic potential thanks to relatively strong government finances, a young population, and a good investment climate. The government is used to crises, but the risk of balance of payments problems has increased. With each crisis, the level of debt in the corporate sector becomes higher and 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. The risks are balanced against the fact that banks and large companies, which account for a large proportion of the external debt, have shown strong resilience to past and present economic turmoil, thanks to, among other things, currency hedging. However, political unrest with a government perceived as increasingly authoritarian has made foreign investors hesitant about new investments. These tensions risk exacerbating economic problems in the form of sudden new capital outflows and a falling exchange rate. Only through long-term structural reforms can the vulnerability be reduced. In terms of fiscal policy, there is currently scope, but the government's willingness to reform appears to be limited.

Business environment

The World Bank ranks Türkiye's business environment 33 out of 190 countries, in line with the Balkan and Eastern European countries, but better than its Middle Eastern neighbours (2020). 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 made some progress. 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. Transparency International's Corruption Index shows a negative trend in recent years and Türkiye is ranked 96 out of 180 countries. The World Bank's Governance Indicators (WBI) rank Türkiye below the average for the region on all measurements of the quality of institutions and the regulatory environment. In the majority of the measurements, 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 private sector is particularly exposed to a weaker lira because companies have a large part of the external debt.

Turkish banks are profitable, well capitalised and relatively well run. High profitability, despite a difficult macroeconomic environment, is explained by the fact that, thanks to the current interest rate policy, banks are currently able to use an element of interest rate arbitrage. Capital adequacy is on average 18 per cent. On paper, the asset quality is still good. The average level of non-performing loans (NPLs) is low, around 2.5 per cent, which is a decrease since 2018. However, the proportion of NPLs is masked by expansive credit growth. The problem loans are mainly related to the construction, manufacturing, power and tourism sectors. In the long term, the banks' asset quality is expected to deteriorate due to high inflation and subdued economic growth, as it impairs

Swedish export to Türkiye

	MSEK
2021	15 159
2020	14 808
2019	13 142
2018	14 269
2017	14 051

Source: SCB

EKN:s exposure

	MSEK
Guarantees	5 961
Offers	9 021

borrowers' ability to repay. The dollarisation of the economy has declined slightly since last year as a result of government measures, but is still noticeable and about 60 per cent of total deposits are in foreign currency. 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.

EKN:s policy

Since 2018, EKN has classified Türkiye in country risk category 5 (of 7). This assessment is carried out in collaboration with the OECD. Türkiye 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 2018–2022, EKN issued guarantees for 409 transactions, with a total value at SEK 18 billion, for Swedish companies exporting to Türkiye. The exposure is dominated by the transport sector, but sectors such as telecoms and machinery also have considerable exposure. Demand for EKN's guarantees has increased since 2018 and the economic turmoil in 2021 due to the deteriorating risk situation. Letter of credit guarantees, where EKN shares risk with banks that confirm letters of credit on behalf of Swedish exporters and the counterparties are Turkish banks, have increased during the current financial turmoil and constitute a large proportion of the guarantees.

EKN's payment experience is good. 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.