COUNTRY RISK CATEGORY

5

OF 7

FEBRUARY 2025

Türkiye

COUNTRY ANALYST

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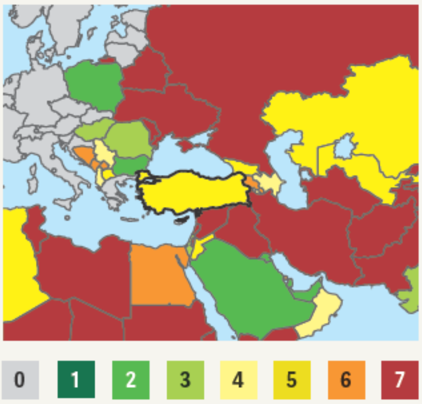
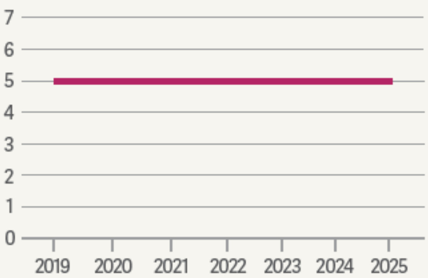
Basic facts (2024)

Population: 86 million
GDP, nominal: USD 1 344 billion
GDP/capita: USD 15 666



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
+ Banking system with buffers against temporary economic downturns

Weaknesses

– Long-standing weakening of institutional capacity
– Significant external financial imbalances
– Geopolitical tensions in the region

Growth slowdown and declining inflation

Under President Erdoğan's rule over the past 20 years, the Turkish economy has grown by an average of 5.5 per cent per year. At the same time, the ambition to achieve growth at any cost has resulted in a series of economic crises in recent years, rooted in growth that has been driven primarily by high credit expansion rather than productivity improvements or increased competitiveness. Since 2021, inflation has averaged 52 per cent annually, and Erdoğan's increasingly firm grip on the state apparatus — the country now has its sixth central bank governor since 2019 — has at times deterred foreign capital from Türkiye.

Following an extended period of growth above potential, driven by domestic demand (mainly consumption), GDP growth is expected to moderate in the coming years as monetary and fiscal policy are calibrated in a continued contractionary direction.

At the end of 2024, the central bank of Türkiye cut its policy rate for the first time since May 2023, after having raised it rapidly in several steps to 50 per cent (from 8.5 per cent). The policy rate, combined with restrictions on credit growth, has had a cooling effect on the economy, resulting in declining inflation expectations. The currently positive real interest rate environment has also improved confidence in the Turkish lira, leading to reduced demand for FX deposits and increased inflows of foreign capital into lira-denominated assets.

A decline in imports, combined with capital inflows, has strengthened the foreign exchange reserve from previously very low levels. According to the IMF, inflation is expected to reach 24 per cent by the end of 2025 (down from 44 per cent at the end of 2024), and to continue falling to around 15 per cent over the subsequent two years.

Türkiye is the 17th largest economy in the world in terms of GDP. The economy is open (exports account for over 40 per cent of GDP) and diversified. Demographic trends are favourable, with a median age of 33 (compared with 44 in the EU) and an annual population growth rate of 1.1 per cent (compared with 0.1 per cent in the EU).

The private sector is sophisticated, export-oriented, resilient, and benefits from the country's customs union with the EU, which absorbs more than 40 per cent of goods exports and one quarter of services exports.

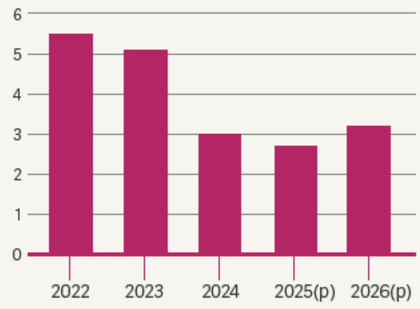
Public debt amounts to 26 per cent of GDP, which is low by emerging market standards. Budget deficits are expected to decline over the coming years as reductions in electricity and gas subsidies are implemented.

The risk landscape is dominated by the possibility that the government may prioritise a return to unsustainable growth at the expense of continued inflation control — particularly given the long-standing weakening of institutional capacity.

The central bank's commitment to disinflation remains firm

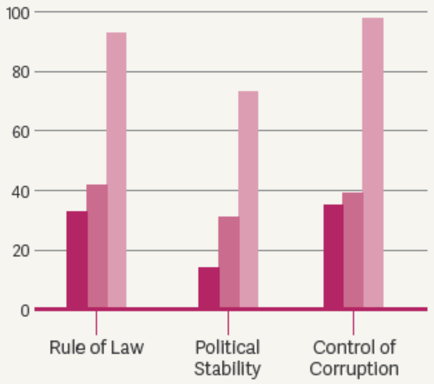
Confidence in the central bank's continued adherence to its current conventional monetary policy stance — which, together with a restrictive fiscal

Real GDP growth (constant prices, % per annum)



Source: IMF WEO, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Türkiye

	MSEK
2023	23 809
2022	20 445
2021	15 159
2020	14 808
2019	13 142

Source: SCB

EKN:s exposure

	MSEK
Guarantees	11 506
Offers	3 463

position, is expected to support further disinflation — has strengthened over the past year. Interest rate hikes have been complemented by credit tightening measures, leading to a slowdown in credit growth via reduced domestic demand. For example, commercial bank credit growth has been capped at two per cent per month (and 24 per cent on a 12-month basis), resulting in significantly negative real credit growth.

Policy rates are expected to remain contractionary (positive in real terms) and to decline gradually over the course of 2025, which will contribute to a slowdown in growth from 3.0 per cent in 2024 to 2.7 per cent in 2025. From 2026, growth is expected to pick up slightly to around 3.0 per cent according to the IMF, supported by more favourable financial conditions and a gradual recovery in the EU — Türkiye's most important trading partner.

There are political risks to the current policy direction, particularly due to the increasingly evident economic consequences and the potentially long period of high interest rates required to restore credibility. Given still-elevated inflation levels, any premature easing of monetary policy would quickly undermine investor confidence and reignite inflationary pressures, potentially jeopardising macroeconomic stability and the current account balance.

Nevertheless, the prevailing assumption is that the current economic policy direction continues to enjoy strong support from the political leadership, and with no presidential elections due before May 2028, there is ample time to address current imbalances.

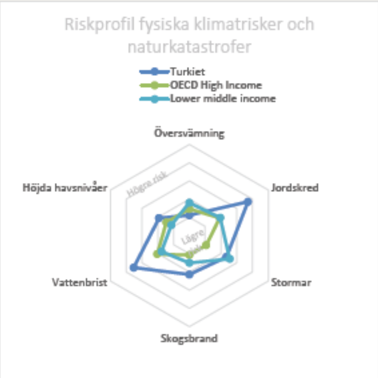
Türkiye's institutional strength, as measured by the World Bank's Worldwide Governance Indicators, has weakened over a prolonged period. The consolidation of power in the presidency has reduced the predictability of economic policy, while rule of law and anti-corruption indicators have deteriorated. On the other hand, the central bank's actions over the past 18 months are beginning to show results, strengthening monetary and macroeconomic effectiveness. The government's long-standing history of limited budget deficits also bolsters fiscal capacity.

In terms of physical climate risks and natural disasters, Türkiye faces a lower risk of flooding than the average for both OECD high-income and lower-middle-income countries. However, risks related to landslides and water scarcity are higher relative to both comparison groups.

Business environment

Türkiye's business environment is supported by good access to credit information, low trade barriers and enforceability of contracts. EU-led judicial reforms were implemented in the early 2000s and have made some progress. New commercial courts have been established, though lengthy legal proceedings remain an issue. Political interference affects certain sectors and companies. According to several observers, the economy today is less governed by formal rules than in the past.

Transparency International's 2023 Corruption Perceptions Index shows a negative trend in recent years, with Türkiye ranked 115th out of 180 countries. The World Bank's Worldwide Governance Indicators place Türkiye around the average on all indicators of institutional and regulatory quality. However, all these indicators have trended downward over the past decade.



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Türkiye's business and banking sectors are accustomed to crises and have previously shown resilience to the country's weak external position and domestic financial volatility. The private sector is particularly vulnerable to a weaker lira, as it accounts for a large share of external debt.

Turkish banks are profitable, well-capitalised and relatively well managed. High profitability, despite a challenging macroeconomic environment, can be explained in part by the banks' ability to conduct interest rate arbitrage under the current policy framework. The average capital adequacy ratio is 18 per cent. Asset quality remains solid. The average non-performing loan (NPL) ratio fell to around 1.5 per cent by the end of 2024 according to Fitch Ratings, but is expected to rise to around 3.0 per cent in 2025 as a result of declining GDP growth and ongoing credit expansion.

The main systemic risks include the banking sector's reliance on external financing, which will leave it exposed to global financial conditions and risk appetite, as well as to currency volatility over the coming years.

EKN's business assessment takes into account the risk of negative impacts on human rights. EKN focuses on the impact of the activity in which the exported goods are to be used. In this context, issues such as working conditions, child and forced labour, excessive use of force by security forces, indigenous peoples' rights and land rights are of particular importance.

In Türkiye, risks related to human rights violations relevant to business operations are broadly in line with the average for lower-middle-income countries. However, in the sub-index for security forces and human rights, the risk level is higher than in comparable countries.

EKN's policy

EKN has classified Türkiye in country risk category 5 out of 7 since 2018, an assessment made in cooperation with the OECD. The downgrade from category 4 to 5 in 2018 was due to growing economic imbalances. Normal risk assessment applies to all categories of buyers. Budget discipline and relatively strong public finances justify normal risk assessment for public-sector counterparties. There are no restrictions for transactions involving banks as counterparties.

EKN's commitment and experience

Between 2020 and 2024, EKN issued guarantees for 456 transactions, totalling just under SEK 32.8 billion, for Swedish companies exporting to Türkiye. The portfolio is dominated by infrastructure and transport sectors, involving both private and public counterparties, but the telecommunications sector is also significant.

Demand for EKN guarantees has increased following the economic turmoil in 2021 and due to a deteriorating risk environment. Letter of credit guarantees — where EKN shares risk with banks confirming letters of credit on behalf of Swedish exporters and where the counterparties are Turkish banks — have increased during the current financial turbulence and account for a large share of total guarantee volume.

EKN's payment experience is positive. Payment delays do occur, but indemnity payments have remained small. Only a few minor cases have required indemnity payments since 2019. Most problem cases have occurred in cyclical sectors such as mining and construction. Recovery processes have been slow. EKN's experience in cases of bankruptcy is that claims, under Turkish bankruptcy law, are converted into lira.