



IIRA Reaffirms Sovereign Ratings of Türkiye

Manama, October 24, 2025 – The Islamic International Rating Agency (IIRA) has reaffirmed the long-term and short-term foreign and local currency ratings of Republic of Türkiye ('Türkiye' or 'the Country') at 'BB+/A3' (Double B Plus / Single A Three) on the international scale, and 'AAA (tr)/ A1+ (tr)' (Triple A/ Single A One Plus) on the national scale. The outlook on the ratings remains 'Stable'.

Economic growth has been impacted from tight monetary and fiscal policies as well as geopolitical headwinds; however, growth in 2026 is forecasted to be above that in 2025, owing to expected recovery in both domestic and external demand. Despite the significant decline from peak levels, headline inflation remained stickier than envisaged by policymakers in recent months, as food prices and service sector inflation remained elevated. Due to pricing rigidities, CBT's rate cuts have decelerated more recently, following relatively sharper cuts in prior meetings. On the fiscal front, there was discernible improvement in primary balance signifying the positive impact from savings measures, however, improvement in headline deficit is relatively modest due to surging interest expenditures.

The Turkish economy decelerated in 2024, growing by 3.3% YoY (2023: 5.0%), and followed by 3.6% in H1'25. Softening private consumption on QoQ basis in the last two quarters was supportive for the disinflation process, as targeted by Central Bank of Türkiye (CBT). As per the most recent Medium-Term Program (MTP) announced in September 2025, the Government expects 3.3% growth for the current year which is expected to accelerate to 3.8% and 4.3% respectively, in 2026 and 2027. Despite the moderation in aggregate demand in Q3'25, as confirmed by leading indicators, IIRA expects full year GDP growth for 2025 to be modestly above MTP target at around 3.6%, and settle around 4.0% in 2026. Continuation of monetary easing by CBT, as well as expected improvement in external demand, as indicated by the enhanced estimate for global growth index weighted by Türkiye's trade partners, at 2.3% in 2026 and up from 1.9% for 2025, will be key drivers.

The Country's Climate Law came into effect in July 2025, as its first comprehensive law setting up the legal foundation for national climate change policies and strategies, introducing key regulations on greenhouse gas emissions reduction, climate change adaptation, implementation and planning tools, and the establishment of an emissions trading system. This will serve as a key step in the sustainability drive and alignment with international practices.

Having peaked at 75.4% in May'2024, headline inflation softened to 33.3% as of September 2025, supported by tight monetary policies of CBT coupled with contained energy prices. CBT's forecast inflation for YE2025 is between 25% and 29%, falling to 13% to 19% for YE2026. However, the impact of adverse weather conditions on food prices, pricing rigidities in services sector on account of backward-indexation, and elevated inflation expectations, pose upside risks to the outlook.

In its meetings held in July and September 2025, CBT lowered the policy rate to 40.5% with a cumulative rate cut amounting to 550bps as the disinflationary impact of demand conditions has strengthened and

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underlying inflation indicators pointed to further disinflation going forward. However, the pace of rate cuts was reduced to 100bps in October 2025 as the most recent data flow pointed to slowdown in disinflation process. CBT is expected to continue monetary easing, while ensuring the level of tightness required by the projected disinflation path, in line with the interim targets, which foresee 16% inflation by YE2026. IIRA expects continued softening of domestic demand, which along with increasing fiscal tightness, supports the current disinflationary trends and expects CBT to lower the policy rate to 38.0% by the end of current year and 30.0% by YE2026.

During 2024, fiscal deficit to GDP eased to 4.7% from 5.1%, however, it remained well above the 10-year average (2014-2023) of 2.2% mainly on account of earthquake-related spending, adjusted for which, it stood at 3.0% of GDP for 2024 vis-a-vis 1.6% in 2023. In the first 9 months of 2025, the fiscal deficit widened by 13.3% compared to the corresponding prior year period, despite a 51.0% surge in tax revenues exceeding the 37.0% increase in non-interest expenditures, as the 82.1% surge in interest expenditures, pressured fiscal balances. Meanwhile, a primary surplus of TL445.1bn for 9M'25, vis-a-vis a primary deficit of TL161.3bn for 9M'24, points to structural improvement to fiscal management. The government expects deficit to fall to 3.6% of GDP for 2025 followed by 3.5% in 2026 and 3.1% in 2027, incorporating an impact of 0.8%, 0.8%, and 0.4% of GDP respectively, in lieu of earthquake related expenditures. The moderate recovery in domestic demand, in line with expected interest rate cuts by CBT, bodes well for revenue generation in 2026. Meanwhile, at 24.1% as of June'25, Türkiye's 24.1% general government gross debt to GDP ratio also remains well below the emerging market countries' average of 69.5%.

Having averaged 2.5% of GDP between 2017-2023, the current account deficit (CAD) at 0.8% for 2024 underlines sustained and structural improvement to the external account. Current account dynamics were supported by a 35.1% YoY decline in the annual trade deficit to USD 56.0bn and the 10.2% YoY increase in services balance to USD61.4bn, on the back of stronger tourism performance. Portfolio inflows accelerated on the back of orthodox macroeconomic policies, accompanied by moderate improvement in FDI. In the 8M'25 period, current account deficit widened by 98.2% compared to 8M'24, driven by 17.5% increase in trade deficit whereas the improvement in services balances was muted at 2.3% and primary income outflows grew 16.0%. Thus, the trailing 12-months CAD reached USD 18.3bn and corresponded to 1.2% of GDP. The Government's CAD forecast as per the Medium-Term Program for 2025 stood at 1.4% and is expected to gradually reduce to 1.3% and 1.2% respectively, for 2026 and 2027.

Total external debt stock of Türkiye grew by 5.2% to USD517.4bn in 2024 mainly due to 19.0% increase in external debt of banking & FI sector. Nevertheless, external debt to GDP reduced to 38.1% from 42.7% and 14.8pps lower vis-a-vis 52.9% at YE2019. By Q2E'25, the gross external debt fell further to 37.2% of GDP depicting continued decline over a timeline. Significant improvement in coverage of external debt maturing in the next 12 months by gross FCY reserves was noted, which is forecasted at around 85% as of most recent data, supported also by the surging gold prices.

With total CAR of 18.3% and around 78% of regulatory capital being CET-1, the sector is well capitalized. The LCR and NSFR levels indicate adequate liquidity. Despite an exceedingly tight monetary policy along

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with the implementation of monthly loan growth caps, the sector's growth indicators have maintained some momentum, although having fallen in inflation adjusted terms and given that the growth caps are not universally applicable on all forms of lending. Asset quality marked some deterioration, yet at 2.2%, non-performing loan ratio as of August 2025, remained below the 10-year historical average of 3.2%. Moreover, stable stage-2 ratio trends and expectation of better GDP growth in response to CBT's rate cuts imply that risks to asset quality will likely ease off, without much impact to sector balance sheets given strong provision reserves held. Despite the notable decline during 2024 over 2023, return on assets remains favorable to historical average, whereas the expansion of TL loan-deposit spreads along with rate cuts as expected, would be supportive for near-term profitability prospects. Banking Regulation and Supervision Agency has issued a communiqué on the calculation of Green Asset Ratio with the aim of measuring the extent to which banks contribute to the financing of environmentally sustainable activities whereby reporting to the BRSA started from the end of June 2025, as a key step towards sustainability.

Indicators for Future Change in Ratings

Ratings may be viewed to be under downward pressure in case of:

- Realization on the consumer price inflation significantly deviating from the CBRT's forecast trajectory.
- Reversal from current monetary and fiscal policies leading to inflation exceeding IIRA's estimations and widening of fiscal and current account deficits.

Ratings may be upgraded in case of:

- Inflation trajectory converging towards CBT's interim target of 16% for year-end 2026.
- The coverage of external debt maturing over next-12 months by gross reserves continues its positive trend and improves significantly.

For further information on this rating announcement, please contact IIRA at iira@iirating.com.

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