TURKEY

OUTLOOK 2026

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Executive Summary

The jailing of Istanbul mayor Ekrem Imamoglu in March 2025 overturned all previous expectations, though that's not so uncommon in Turkish politics. The rate-cutting cycle was disrupted by the subsequent turbulence. Confidence in the financial markets was lost. Political stress became the main theme.

Neverthless, attractive interest rates sustained carry trade flows and, thanks to the subsequent recovery in the central bank reserves, external debt inflows remained strong, albeit no significant foreign interest in lira papers was observed.

In 2026, currency gains will again not be available, as the smooth nominal devaluation and real lira appreciation policy remains in place.

Thus, foreign interest in lira papers, awaited as in 'Waiting for Godot' since the appointment of the "orthodox" economy management officials in June 2023, may also not be observed in 2026, while the carry and debt channels are expected to remain open.

The rate cuts will remain limited. The policy rate was reduced to 38% at end-2025. It stood at 50% at end-2024. For 2025, a decrease of around 10pp is again on the cards. As a result, lira papers will again offer parallel capital returns.

Borsa Istanbul remains a hopeless case, with a lack of foreign interest.

Judicial operations in Turkey, which marked the year throughout 2025, will continue in 2026. No significant reactions are expected.

Domestic politics are kept under control. Society has been subjected to systematic pacification. Imamoglu was posing a challenge to the order of things, but he has been eliminated.

Foreign policy has never posed a challenge to Turkey's ruling regime. Donald Trump's dominance has now limited the noise created by US proxies in the region. Nevertheless, there are minor spats and jostling, with controlled clashes and wars of words.

Whether there will be an "Iran War" remains an open question. Is Israel planning a significant move in 2026? It will be watched. Turkey and the Kurds are ready to serve.

1.0 Political outlook

In recent years, *bne Intellinews* has stuck with the advice: "If Turkey cannot manage somehow smoothly to get rid of the Erdogan regime, nothing would be a surprise amid the turmoil engulfing the country. Erdogan could at any time engage in wars, fuel violence at home, create more economic dilemmas, announce he is moving against another attempt at a 'coup', or conspire in and engender many other things that we can scarcely imagine at the moment."

"Intolerable" Imamoglu

Turkey's government provides space for a controlled opposition in the country's political system. This helps to create confusion over the actual situation in the country.

In March 2019, Ekrem Imamoglu challenged the official Istanbul result released at the conclusion of the local elections.Three months later, he managed to take over the municipality with a poll re-run held in June 2019. This was tolerated.

However, Imamoglu's plan to repeat such a feat in the next presidential contest was not seen as tolerable.

Ozgur Ozel to play new Kilicdaroglu

The main opposition Republican People's Party (CHP) chair Ozgur Ozel is supposed to run for the presidency in the next elections. Unlike his predecessor Kemal Kilicdaroglu, Ozel is expected to make some noise on election night.

However, a repeat of Istanbul 2019 is not on the cards as Imamoglu has been removed from the picture.

Jailed mayors

On November 11, the number of jailed CHP mayors fell to 18 after Ahmet Ozer, former mayor of Esenyurt district in Istanbul, was released.

The government has also taken over 15 CHP municipalities in addition to 10 municipalities held by the pro-Kurdish DEM Party.

When the mayors who have joined the AKP with "free will" are added, the number of municipalities that have been taken over by the government approaches a hundred in the current presidential term.

"Competitive authoritarianism"

Turkey's regime refrains from claiming massive "80%" victories in elections (something the Putin regime and similar regimes are known for) since Ankara is dependent on external borrowing. It cannot escape the constant need to source plenty of dollars.

Thus the Erdogan henchmen stage some theatre (the observer, for instance, can expect a "49%" victory in the first presidential voting round and a "52%" triumph in the second round) that, from space, can be said to resemble "competitive authoritarianism".

Turkey is a big country. There are around 60mn voters and more than 0.2mn ballot boxes across the country and abroad.

The ballot boxes not scrutinised by opposition polling station appointees represent around 30% of all ballot boxes, covering around 10% of the national vote (they are located in small polling stations set up in villages located, for instance, in mountainous territory, rather than in the crowded polling stations of the towns and cities).

The government distributes the 10% in question as it wishes. And the end result of an election is always a tiny majority for the government. That keeps opponents' hopes alive and creates 'competitive' confusion among observers.

His Majesty's Opposition

The state of the opposition within Turkey remains farcical. It should be reiterated that there is no place in this political theatre for anyone that poses a real threat to the regime (for instance, Ekrem Imamoglu).

If a UK allegory is employed for the sake of truly describing the so-called opposition in Turkey, it could be said that it amounts to "His Majesty's Opposition", His Majesty being Erdogan in this case. It does not serve as a true opposition that aims for regime change to create a true republic.

Again, when observed from space, it appears that there is an opposition within the political system of the country. But when seen from the ground, this is not the case in reality.

Limited worth of local elections

The local elections also serve to create an appearance that seems to reflect some "competition" in the country.

Turkey, a seriously unitary state, has been governed from Ankara for about a century and by a single man since 2017, when the result of a constitutional referendum was released as a tiny majority in favour of 'Yes' to an amendment that did away with the parliamentary republic and invested any power worth having in the "executive president".

Prior to the referendum, it was Turkey's de facto regime and Erdogan's junior ally, namely the National Movement Party (MHP) leader Devlet Bahceli, who called for a constitutional amendment to fit articles of power and governance to their preferred reality.

Local municipalities in Turkey collect rubbish, operate water utilities and attend to other commonplace, everyday stuff. They are important in that they distribute the building permits (i.e. they decide who will make the money to be had from construction projects) and run tenders (i.e. they decide who will grow rich from their spending).

The central government seizes municipalities when it sees it as necessary.

Snap polls or referendums always on cards

At present, no elections are scheduled to take place until May 2028, when the presidential and parliamentary elections are supposed to be held.

Under the passed 2017 constitution, the president cannot serve more than two consecutive five-year terms in full. But by cutting short his current term, Erdogan would be eligible to run for a third term, which would actually be his fourth term; he argues that his first term does not count as it came before the 2017 constitutional amendment.

Calling a snap election requires the support of at least 360 of the 600 members of parliament. The ruling Justice and Development Party (AKP) has 272 seats.

Its junior coalition partner, the Nationalist Movement Party (MHP), has 47 and the Kurds, who essentially returned to the ruling coalition in February 2025, have 56.

Those MPs added together total 375 while smaller members of the ruling bloc, namely Hudapar (4), Yeniden Refah (4) and DSP (1), boast nine lawmakers, bringing the total sum to 384.

CHP leader Ozel is also ready to provide the required support to hold a snap election.

So, the timing of the next election will be Erdogan's decision. Perhaps, he will wait for 2028. He could use his current term through to near the end and hold a snap poll a few months before the June 2028 legal deadline.

A referendum on another constitutional amendment also requires 360 seats in parliament. Erdogan wishes to scrap the "50% plus one vote" rule on declaring a victory in the first round of the presidential election.

He is also supposed to provide the Kurds with some local government benefits as a reward for their return to the ruling coalition.

Foreign policy

Major players of the international stage, ranging from the US to China, remain part of a global consensus supporting a continuation of the Erdogan regime.

With Donald Trump in the White House, there is no need for more noise to fool the masses. Erdogan occasionally targets Israel's PM, Benjamin Netanyahu. However, since Hamas was pushed to surrender, the attacks on Netanyahu have become less and less frequent.

Kurds, Syria and Iran

bne IntelliNews noted in its Outlook Turkey 2025 report: "After Trump takes office on January 20, the Erdogan regime may find itself in a position that makes it necessary to recognise the de facto Kurdish regional government in Syria just as it recognised the Kurdish regional government (KRG) in Iraq."

The Kurdistan Workers' Party (PKK) eventually returned to a collaboration with Turkey's ruling regime in February 2025. A relationship with the Kurdish government in northern Syria has also been established.

Syria remains a mess but no challenge is expected to the current Western-backed management in Damascus.

Observers are watching for developments as regards the Iran operation.

During the Iran operation, which if pursued would be an operation three times bigger than the Syria and Iraq operations, the US may allow Erdogan to attack Kurdish forces, as it did during previous Syria and Iraq events. It would do so if Erdogan feels cornered at home. At the end of the day, the Turks and Kurds worked in harmony in serving Syria and Iraq on a silver platter to Israel and the US, despite some violent clashes staged at various points in long-term operations.

Trump's world

The Ukraine war continues. No end is in sight for the near future.

When it comes to the economy, Trump is certainly inflationary. He has imposed some trade tariffs.

Trump has been pushing the Fed to cut rates more extensively and pump in more liquidity. The Fed has so far managed to slow down the delivery of his plans.

However, he will appoint a new governor in May 2026. From that point, his wishes are supposed to come true.

Under normal conditions, this would mean a weaker dollar and lower borrowing costs.

That sounds like good news for Turkey. However, Trump runs hot and cold. He could decide to administer a slap to the face of Erdogan with a tweet at any given moment.

So perhaps it is best to remain cautious when it comes to the Orange Man.

Erdogan's health

The physical and mental performances of Erdogan (who will turn 73 at the end of February) certainly remain somewhat erratic.

Erdogan at any time can go missing from public view for a few days. He displays some physical difficulties in front of the cameras.

Recently, however, he has looked well. The neverending discussions over his likely successor, meanwhile, create confusion about his state of health. It is speculated that Erdogan plans to prepare his son Bilal to succeed him.

Not to be forgotten

Scientists continue to sound the alarm over the catastrophic damage and casualties that could be inflicted by a major earthquake striking Istanbul, a city of at least 15mn that is full of unregulated construction and old building stock.

Longer horizon

Turkey never solves its problems. Its difficulties steadily become more and more gangrenous. It is among the "semi-colony" prototypes, typically referred to as EMs, in the post-World War II global system that exists under the US hegemony.

The media loves the end-of-US-hegemony talkfest. Russia, a US ally in the first two world wars, has again eliminated itself from the wider contest, this time with the Ukraine mistake. China is a serious threat, but it has yet to claim Washington's throne.

In this talkfest, it is perhaps good to keep in mind that Turkey is a member of Nato. The military bloc is not a club of ignorant politicians but a highly integrated single army that defends itself against any kind of internal or external political threat. To put it more clearly, a politician in Turkey could find less painful ways to commit suicide than by posing an internal threat to Nato.

Post-colonialism is the most advanced form of colonial practice. It has reached extremely superior levels since its emergence following World War II. Some ballot boxes are put before the masses and some media reports suggest some “sovereign” governments challenge the US hegemony. Yet it is all part of the game of herding those masses, which is called politics.

Throughout the post-World War II era, Turkey’s economic and political cycles, in parallel with those of its peers, have continuously alternated between good and bad periods.

The intervals generally last a decade (or are a little less or more), though the financial cycles have become dramatically shorter during the last decade.

A period arrives that brings an inflow of dollars. The Turks then object that the country is developing too much, too quickly.

Subsequently, the dollars disappear and Turkey falls back to a point that is behind the point from where the cycle started (for instance, Turkey more or less had food security in 2002, but it lost this thanks to a period of so-called rapid development).

And, it repeats.

Between 2020 (firing of then central bank governor Naci Agbal) and June 2023 (appointment of current finance minister Mehmet Simsek), the dollars flooded out. Now, they have returned.

Thanks to the dirty float regime applied in the currency market, the country is presently avoiding market shake-ups.

The financial and political cycles generally occur simultaneously. However, in some periods they can diverge.

Since 2013, Turkey has been enduring a bad decade, and it has turned into a long decade.

Currently, the country is enduring another short-term positive financial cycle within a negative longer-term political cycle.

It is perhaps time to acknowledge that Turkey has passed the point of potentially achieving regime change at the ballot box. The mechanism as it stands will simply install Erdogan’s successor.

The brain drain, along with inflows of uncontrolled migration, further darkens the future. The regime simply imports millions of new voters, while Turkey becomes increasingly barren thanks to human capital flight.

Turkey, as *bne IntelliNews*' *Istanbul* Blog column has long contended, is collapsing on all fronts. Under the diabolical regime that prevails, it can only continue to do so.

The external environment also supports the country's slide, given Trump in the White House and Europe's troubles.

Since 2018, the destruction of Turkey across each province of life – ranging from the economy to the judiciary, to education, health, the financial markets, the food commodity markets and so forth – has continuously tested fresh limits.

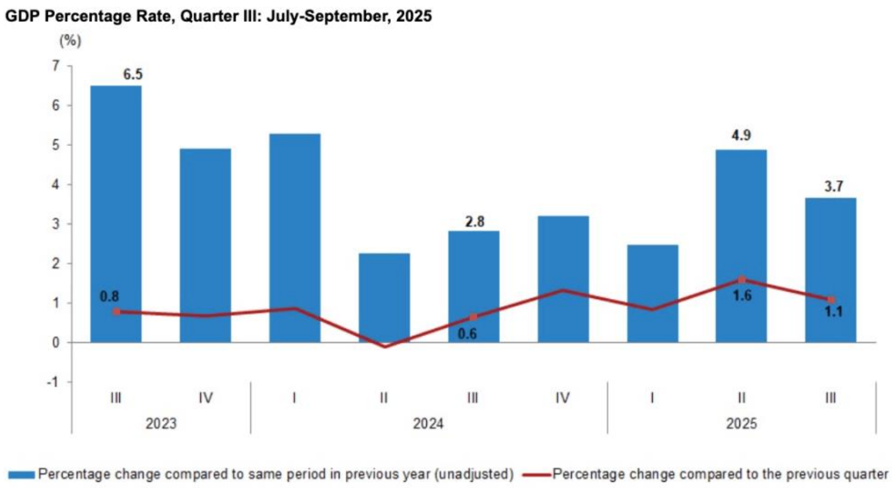
We are yet to hit rock bottom, but it must be acknowledged that a yawning abyss awaits.

2.0 Macro Economy

Main Macro Indicators	2021	2022	2023	2024	Q1-25	Q2	Q3	Q4	2025
GDP Growth (y/y, %)	11.0	5.6	5.1	3.3	2.3	4.9	3.7	-	-
Electricity Consumption (y/y)	12.4	-1.0	0.2	5.6	3.1	3.6	3.4	0.7	2.7
Employed (active, mn)	27.0	29.3	30.7	32.7	32.5	32.5	32.6	-	-
Population (mn)	84.7	85.3	85.4	85.7	-	-	-	-	-
GDP (per capita, $)	9,539	10,655	13,243	15,463	-	-	-	-	-
GDP (current, TRYbn)	7,209	15,007	26,546	44,587	12,538	14,606	17,425	-	-
GDP (current prices, $bn)	803	906	1,130	1,358	347	378	433	-	-
Inflation (y/y, %, eop)	36.1	64.3	64.8	44.4	38.1	35.1	33.3	31.0	31.0
Lira-loans (%, y/y)	20.4	80.4	54.5	28.5	26.7	34.4	39.1	-	-
Policy Rate (%, active, eop)	14.0	9.0	42.5	50.0	42.5	46.0	40.5	38.0	38.0
CA Balance ($bn, Oct)	-14.9	-48.8	-41.0	-10.4	-12.6	-10.6	8.2	-	-
CA Balance/GDP (%)	*-1.9*	*-5.4*	*-3.6*	*-0.8*	*-3.6*	*-2.8*	*1.9*	-	-
Budget (TRYbn)	-192	-139	-1,375	-2,108	-711	-270	-237	-	-
Budget Balance/GDP (%)	*-2.7*	*-0.9*	*-5.2*	*-4.7*	*-5.7*	*-1.8*	*-1.4*	-	-
USD/TRY (eop)	13.3	18.7	29.5	35.3	37.9	39.8	41.6	42.8	42.8

It is not advisable to plan, price or draw inferences based on Turkish Statistical Institute (TUIK, or TurkStat) data. There is widespread concern about the reliability of Turkey's official data series.

2.1 GDP



Turkey's official gross domestic product (GDP) expanded by 3.7% y/y in 3Q25, the Turkish Statistical Institute (TUIK, or TurkStat), said on December 1.

The 1Q and 2Q outcomes were, meanwhile, revised up to 2.5% and 4.9%, respectively.

On a seasonally and calendar adjusted basis, TUIK's GDP series showed growth of 1.1% q/q in 3Q following the 1.6% that was posted for 2Q.

Heading for around 3.5% in 2025

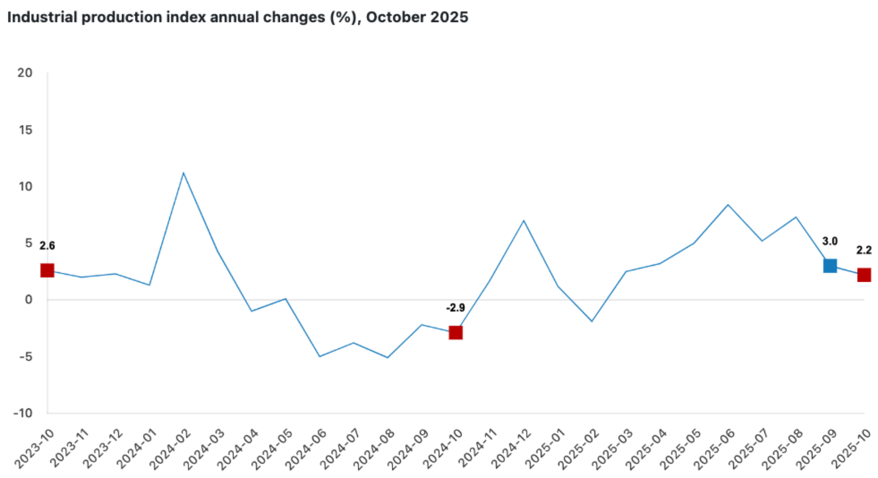
In September, Turkey's government cut its official GDP growth target for 2025 to 3.3% y/y in its new medium-term economic programme (OVP) from the 4% pencilled in a year earlier in the previous programme.

In response to the 3Q release, finance minister Mehmet Simsek said on December 1 that Turkey is poised to release the 2025 figure a little above the OVP target.

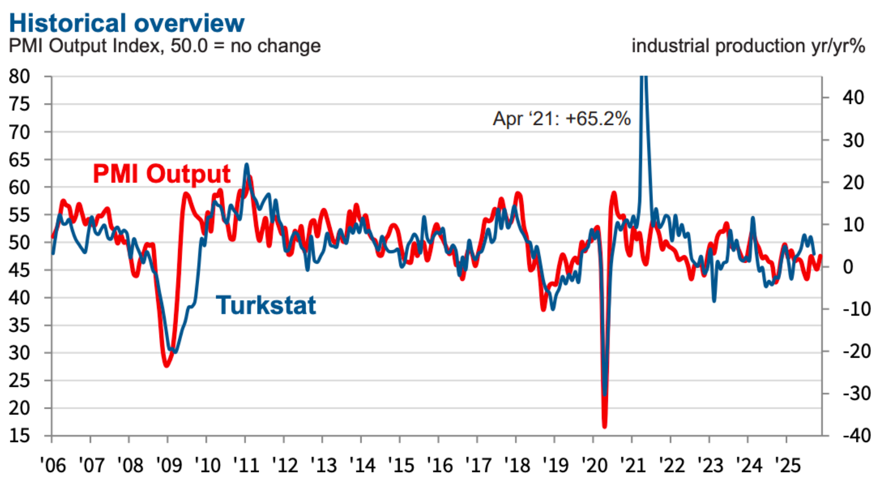
The 2026 figure is, meanwhile, expected to attain the higher level, as provided in the OVP, Simsek also noted.

The 2026 target stands at 3.8%.

2.2 Industrial Production & PMI



Turkey's official industrial production index was up 2.2% y/y in October, TUIK said on December 10.



Turkey's manufacturing purchasing managers' index (PMI) rose to 48.0 in November from 46.5 in October, S&P Global said on December 1.

Turkey's long-term industrial policy includes subsidising energy prices, the exchange rate and loan rates. As a result, economic activity simply produces a trade deficit.

When the finance industry decides to stop financing Turkey's trade deficit, sharp corrections in the currency take place. Sooner or later, a sharp monetary tightening is employed to curb economic activity and, as a result, the trade deficit.

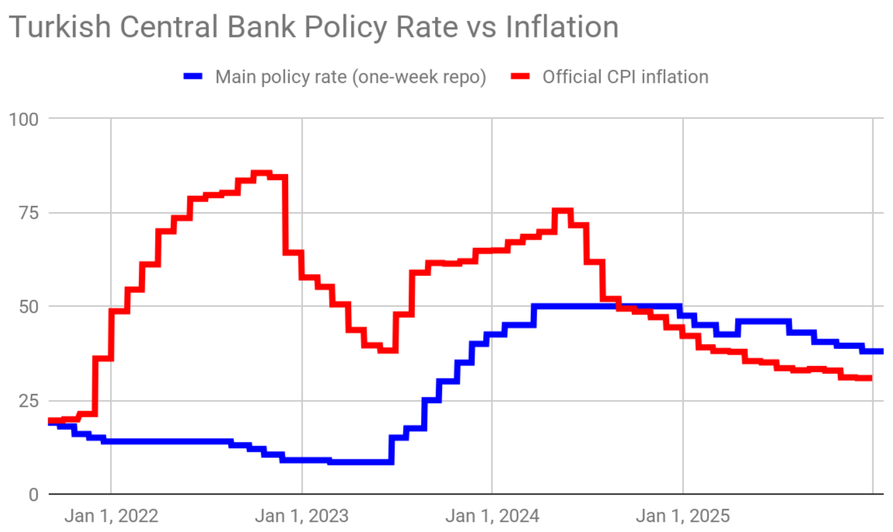
The country is currently in the sharp monetary tightening phase of this cycle and industrial activity along with exports is declining.

A significant wave of bankruptcies has not occurred thanks to regulatory forbearance measures. The regime simply does not let companies go bankrupt. Instead, it keeps them afloat with cheap financing.

In 2026, further rate cuts are expected, providing help that aims to avoid bigger difficulties.

Turkey: Production indicators									
y/y, %	2024	1Q25	Q2	Q3	Oct	Nov	Dec	Q4	2025
Official GDP Growth (y/y, %)	*3.3*	*2.3*	*4.9*	*3.7*	-	-	-	-	-
Electricity Consumption (watt, y/y, %)	**5.6**	**3.1**	**3.6**	**3.4**	2.4	-1.0	0.8	**0.7**	**2.7**
Employed (active, mn people)	**32.7**	**32.5**	**32.5**	**32.6**	-	-	-	**-**	**-**
Industry (≈ 20% of GDP, y/y, %)	**0.6**	**-0.4**	**4.8**	**5.9**	-	-	-	**-**	**-**
Industrial Production Index (unadjusted)	***0.4***	***-2.2***	***7.3***	***5.4***	*2.3*	-	-	**-**	**-**
Vehicle Production (unit, y/y, %)	**-7.5**	**-10.3**	**8.0**	**9.2**	2.1	2.8	-	**-**	**-**
Crude Steel Production (tonnes, y/y, %)	**9.4**	**-3.4**	**-1.1**	**5.4**	3.1	10.0	-	**-**	**-**
White Goods Production (unit,y/y,%)	**-1.7**	**-4.2**	**-12.3**	**-10.0**	-8.6	-11.0	-	**-**	**-**

2.3 Inflation



On December 3, TUIK said that Turkey's consumer price index (CPI) inflation officially moved down to 31.07% y/y in November from 32.87% y/y in October.

Official inflation stood at 44% y/y at end-2024. It stayed at around 33% between July and October.

Around 31% at end-2025

On December 5, Turkey's finance minister Mehmet Simsek (@memetsimsek) said that the country looked set to release end-2025 inflation at around 31% y/y.

On November 7, the central bank raised its end-2025 official inflation "forecast" range to 31-33% in its latest quarterly inflation report from the previously stated range of 25-29% that was provided in an August report.

January revision to solve "above-30%" deadlock

With the January 2026 data, the TUIK will change the base year in its official CPI series to 2025 from 2003. It will also employ wide-scope changes in its methodology and inflation basket.

The revision, which is entirely in line with Eurostat guidance, will most probably solve the "above-30%" deadlock.

Above 20% at end-2026

On February 12, the central bank will release its next quarterly inflation report, the first such report of 2026. It will include updated forecasts.

For end-2026, the authority's "forecast range" remains unchanged at 13-19%, with the "interim target" standing at 16%.

In the February report, an upgrade is not expected for the end-2026 numbers, while it is almost certain that they will move up across the year.

As things stand, the realisation is supposed to come in at above the 20%-level.

2.4 Monetary Policy

On December 11, the monetary policy committee (MPC) of Turkey's central bank cut its main policy rate (one-week repo) by 150 bp to 38%

in what was its final rate-setting meeting of 2025.

January 22, expect first rate cut of 2026

On January 22, the MPC will hold its first rate-setting meeting of 2026. Another rate cut is a near certainty. Uncertainty, however, abounds as to the likely size of the cut.

As things stand, another 150-200bp cut is on the cards.

At around 28% at end-2026

The central bank will hold nine rate-setting meetings in the coming year.

A 100-150bp rate cut on average per meeting and a combined cut of 1,000bp, which would bring the policy rate to 28% at end-2026, can be expected.

Bed of roses

The USD/TRY pair remains under control. Turkish borrowers' eurobond auctions have remained strong. Turkey's five-year credit default swaps (CDS) have fallen below the 250-level. On the loans side, high debt rollover rates and low costs are observed.

After a local court dropped a case targeting the headquarters of the main opposition Republican People's Party (CHP) on October 24, political stress that was bugging the finance industry dissolved.

2.5 FX

Under control

The non-capital controls and the government's full control on the lira market remain in effect. According to deputy central bank governor Cevdet Akcay, this approach is called a dirty float regime.

A return to a floating rate regime is not on the horizon for the near future.

Turkey's balance of payments always produces a deficit and the country's external liabilities are heavy.

As a result, the lira follows a secular depreciation trend, with some retreats during monetary tightening intervals.

The central bank closely follows FX transactions on the interbank money market. It still limits transaction hours.

The government still seizes 35% of export and tourism revenues.

The restrictions on the London offshore swap market remain in effect too.

Since 2018, when the lira entered the first phase of its unprecedented collapse, the lira squeeze on foreigners has been followed by periodically booming lira costs on the London offshore swap market.

Turkish banks are informally ordered to cut the lira supply on the market to prevent foreign traders from shorting lira, particularly when the stress on the local currency is high.

Banks are also subject to formal limits in their transactions.

Smooth nominal devaluation, real lira appreciation

Turkey applies a smooth nominal devaluation and real lira appreciation policy.

In 2026, the policy is expected to remain in effect.

The central bank's USD/TRY buying rate stood at 42.8457 as of end-2025, up 21.4% compared to 35.2803 at end-2024.

The official inflation rate will be released at around 31% y/y for end-2025, while an above-20% release is expected for end-2026.

A rise of around 10% in the central bank's USD/TRY rate would mean a figure standing at about 47 at end-2026.

A figure of 50 at end-2026 would mean a rise of around 17% y/y.

Turks relaxed, carry and debt inflows on track

The Turks remain relatively relaxed, as sharp moves on the FX markets are not taking place.

Carry and debt inflows continue.

No appreciation, no interest in lira papers

However, since the regime has not let the lira appreciate, nothing much has flowed into the government's lira papers.

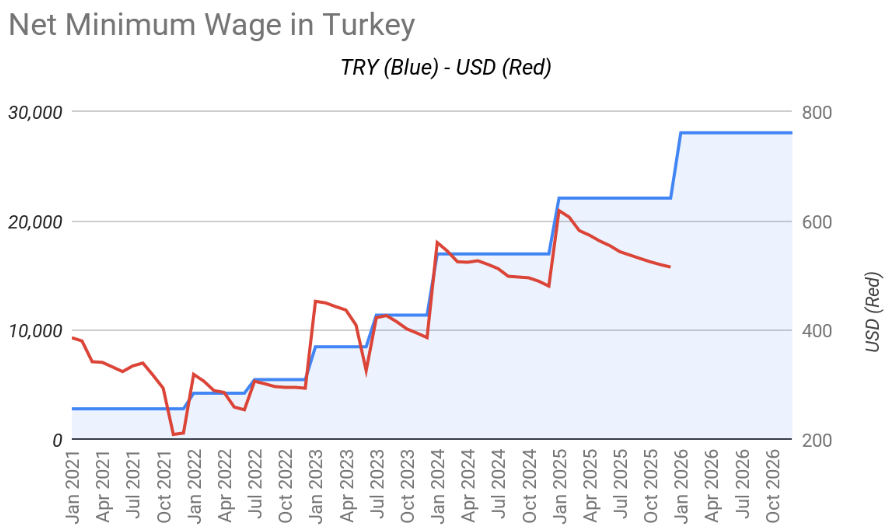
2.6 Income & Labour

Child hunger

In Turkey, child hunger is a particular and growing worry that is set to be a huge problem in the decades ahead.

The government ignores campaigns that urge it to provide at least one meal a day at lunchtime for all children in schools.

Half of workforce stuck on minimum wage



Turkey's hunger threshold, representing the required minimum monthly food expenditure for a four-person family, was up 45% y/y in November to TRY 29,828, according to a monthly survey conducted by yellow labour union Turk-Is.

The poverty threshold for a four-person household, meanwhile, stood at TRY 97,159 per month. The minimum cost of living for a single person was TRY 38,752.

Effective as of January 2024, the minimum wage was hiked by 49% to TRY 17,002. Effective as of January 2025, the minimum wage was hiked by 30% to TRY 22,104.

Around half of Turkey's labour force earns the minimum wage.

27% minimum wage hike for 2026

Effective as of January 2026, the minimum wage was hiked by 27% to TRY 28,076. The cost to the employer was pencilled in at TRY 39,553.

The finance industry had a single voice in pushing for a 25% minimum wage hike for 2026.

Wage-price spiral

Due to Turkey's hyperinflationary environment, minimum wage hikes were delivered twice in 2022 and 2023. In 2024, however, the Erdogan administration opted against a second hike.

Since 2022, Turkey has been in a wage-price spiral, although wage hikes have remained below both the official and actual inflation figures.

The minimum wage stood at TRY 2,826 at end-2021.

The economic "orthodoxy" greenlit by Erdogan in June 2023 means that the bill for breaking out of the wage-price spiral is made a burden on the wage earners.

It is written in the textbooks that demand has to be curbed in order to fight inflation. The problem with such economic theories is that they are written for large open economies, most particularly that of the US.

A large open economy has a hard currency and its monetary policies have a global impact.

Turkey is a small open economy. Inflation in the country is always cost-side, generally due to currency depreciation. Wage increases follow price increases.

Despite the ongoing impacts of inertial inflation, the pace of price rises is declining in parallel with declining lira devaluation rates.

3.0 External Environment

In 2024, monetary easing conducted by the Federal Reserve (Fed) and the European Central Bank (ECB) began later than expected.

The ECB concluded its easing cycle in June 2025, while the Fed, which had to take a pause due to uncertainties created by Donald Trump, still has a cut of at least 25bp to introduce in 2026.

In December, financial markets await the New Year rally. Traders and investors have a few drinks at new year receptions at their offices and then return to their desks in a mood that is more attuned to buying.

More seriously, everyone needs a better return to present in their end-year results. Thus, higher prices are better for everyone.

Until the end of February, the positivity may sustain. Then a reverse arrives, followed by a recovery.

May is a month that usually runs according to the principle of "Sell in May, go holiday."

Following a recovery, the summer liquidity dry-up then creates a shake-up in August.

It is followed by a recovery that takes place by November, when a shake-up occurs prior to the beginning of the new year rally.

The dates may differ each year but the cycles do not. Prices must move up and down on the financial markets. If there is no volatility, then there is no return.

Federal Reserve

The risks will be realised in May 2026, when Trump appoints his new Fed governor. The market reaction will begin a few months earlier, particularly after confirmation that Trump is set to announce a new puppet.

In the best case scenario, current governor Jerome Powell concludes the ongoing rate-cutting cycle and Trump has no reason to cut rates further.

If that is not the case, some market shake-ups and higher inflation are ahead.

In September 2024, the Fed launched its rate-cutting cycle. The upper limit of its federal funds target range was reduced to 3.75% on December 10, 2025. It stood at 5.50% on September 17, 2024.

Currently, the ***Fed governors expect the rate to decline to 3.50% in 2026***. On March 18, they will release their updated projections.

The market's present expectation is for no change at the next rate-setting meeting to be held on January 28.

CPI inflation in the US fell to 2.7% in November 2024. The Fed targets 2%.

The Fed's balance sheet (dollars in circulation) saw a record $8.97 trillion as of April 12, 2022 before gradually declining to $8.55 trillion at end-2022, $7.71 trillion at end-2023, $6.85 trillion at end- 2024 and $6.58 trillion at end-2025.

The figure stood at around $4 trillion in 2019 (pre-Covid) and at around $900bn in 2008 (pre-global financial crisis).

On December 1, 2025, the Fed continued with reducing the balance sheet by $40bn per month ($5bn from Treasury papers and $35bn from mortgage-backed papers).

As of December 1, 2025, it stopped the balance sheet reduction.

As of December 12, 2025, it started buying $40bn worth of Treasury bills per month.

European Central Bank

The European Central Bank (ECB) brought its deposit facility rate to 2.00% by June 2025 from 4.00% in June 2024.

On February 5, the authority is expected to remain on hold at its next rate-setting meeting.

Inflation in the Euro Area fell to 2.1% y/y in November 2025. The ECB also targets a 2% inflation rate. It is already near its target, but it has bigger troubles when it comes to GDP growth.

According to the ECB's latest Survey of Professional Forecasters released on October 30, 2025, forecasters expected the ECB's deposit facility rate to stay at around 2.0% in Q4 2025 and to decrease to around 1.9% in Q1 2026 before increasing to 2.1% by 2027.

On February 6, 2026, the ECB will release its new survey.

Commodities

Donald Trump keeps the oil price under control. Other commodities break records due to strong money supply.

3.1 Trade dynamics

Turkey is among the lucky countries when it comes to the Trump tariffs. It enjoys a tax of only 10%.

Turkey does not have political problems in foreign trade. However, its problems are structural. Its economy simply produces a trade deficit.

3.2 Current Account dynamics

Between July and October 2025, Turkey's central bank released current account surpluses.

The problem here is that the country needs some warehouses in which to keep the excess dollars in question.

The good side here is that it already has a sovereign wealth fund and the excess hard currency cash can be transferred there.

4.0 Budget & Debt

Turkey currently has a BB-/Stable rating (at three notches below investment grade) from Fitch Ratings, a Ba3/Stable (at three notches below investment grade) from Moody's and a BB-/Stable (at three notches below investment grade) from S&P Global Ratings.

Moody's will release its Turkey reviews on January 23, 2026 and July 24, 2026.

Fitch is scheduled to review its Turkey's ratings on January 23, 2026 and July 17, 2026 while S&P has put pins in April 17, 2026 and October 16, 2026.

Following Moody's upgrade in July 2025, it looks like the rating firm is done for a while.

Outlook upgrades will be awaited in 2026 should Turkey's positive real policy rate approach remain in effect.

4.1 Central government budget

Turkey's budget deficit remains high and will remain high. The government's only option is to decrease the deficit to GDP ratio by inflating the denominator.

4.2 Debt & Gross International Reserves

Turkey has never had a problem when it comes to rolling its external debt.

The recovery path in international reserves will continue in 2026 given debt and carry trade inflows in addition to the world gold price increase.

5.0 Real Economy

5.1 Agriculture

Drought-related problems will be the main theme in 2026. However, no problem is expected in food security.

5.2 Construction & Real Estate

2026 marked another record year in home sales. Turkey never saves on construction.

5.3 Retail

Attractive market

It is thought that Turkey has a population of around 100mn when all migrants, both documented and undocumented, are included. Around 20-30% of the population are wealthy.

That means that Turkey's population of wealthy residents is bigger than the entire populations recorded by many countries in Europe.

The remainder of Turkey's people are immersed in serious economic difficulties. But the number of wealthy individuals and households means that Turkey remains an attractive market.

How to stop the rich splurging?

These 20-30mn wealthy people proved a serious difficulty in 2024 and 2025 in the battle to secure desired effects from the monetary tightening process.

During the negative real rates era, this section of the population kept their money in FX/gold, stocks and real estate. They turned to money market funds and deposits in 2024 to benefit from interest rates that jumped to around 50%.

Ipso facto, the monetary tightening boosts the income/wealth of the wealthy and demand from this population segment, but at the same time, Turkey's "orthodox" policy aims to curb demand.

In 2025, the number of people with means meant that more than 1mn new vehicles were purchased in Turkey (more than 70% of the vehicles were imported) as well as around half a million new homes.

Thanks to the growing demand of the wealthy population segment (in parallel with the rise in their wealth/income), the service sector (restaurants, landlords, tourism facilities, and so on) have simply been hiking their prices.

Turkey, as a result, has become one of the most expensive countries in Europe.

5.4 TMT

Turkey's telecommunications sector is largely resilient to the economic cycle and inflation, given strong pass-through mechanisms, S&P Global Ratings said on December 1 in its Turkish corporate outlook for 2026.

Capital investments in the industry are, meanwhile, high due to 5G development.

Interest rates could influence free cash flow and interest coverage metrics, according to S&P.

5.5 Manufacturing

Turkish manufacturing will continue to complain about the overvalued lira in 2026.

Many companies, particularly in the textile industry, have opted to move to alternative destinations such as Egypt, which are lower-cost.

5.6 Banking sector

Turkish banks' “reported” capital ratios were set to decline by an estimated 170-200 basis points on average following the removal of regulatory forbearance measures as of January 1, according to Fitch Ratings.

The decrease was to be driven primarily by the recalculation of foreign currency risk weight.

Nonetheless, Fitch said it expected most banks’ buffers above the regulatory minimums to remain adequate. It therefore considered the removal credit neutral and did not expect it to lead to rating changes.

Fitch did not expect the removal to affect the capital scores of most of the banks. However, capitalisation remained sensitive to further potential lira depreciation as well as loan growth.

Some banks (including medium and small sized banks) with more limited buffers may require capital enhancement to restore capital ratios and avoid the breaching of minimum ratios via subordinated eurobond sales (both additional Tier 1 (AT1) or Tier II debt issuances), capital injections or balance-sheet management.

Fitch said it expected banks’ net-of-forbearance capitalisation to be supported generally by improving profitability and slower loan growth in 2026.

Banks are also likely to prioritise capital retention through reduced or eliminated dividend payments, given the anticipated forbearance removal.

Outlook on Turkish banks neutral

On December 4, Fitch said in its Turkish Banks 2026 Outlook report that it was maintaining a neutral sector outlook over improved operating conditions and reduced refinancing risks that were counter-balanced by remaining challenges such as still-high inflation, lira interest rates, potential domestic political volatility and lingering macroprudential regulations.

Operating conditions have improved over the normalisation, and stronger record, of monetary policy. It supported several positive rating actions in 4Q25.

Refinancing risks remain sensitive to investor and depositor confidence

Fitch expects Turkish banks to keep their external market access in 2026, though issuance will be opportunistic given still-high costs, along with sensitivity to risk premiums and global macroeconomic conditions.

Nonetheless, refinancing risks remain sensitive to investor and depositor confidence given still-high short-term external debt and deposit dollarisation.

Manageable rise in NPLs

Sector asset-quality deterioration is set to continue in 2026, driven by non-performing loan (NPL) inflows across all segments, though mostly concentrated in the unsecured retail and SME portfolios.

Fitch forecasts that NPL ratios will rise to 3.4% by end-2026.

The rating firm expects deterioration to remain manageable given the banks' lower but still-adequate provisioning, pre-impairment profit buffers and still-high, though lower, nominal loan growth.

Fitch, meanwhile, predicts profitability will improve further in 2026 on margin expansion as lira interest rates are set to decline. Margin expansion should partially offset higher loan impairment charges and inflation-led pressure on operating expenses.

5.7 Automotive

The Turkish automotive industry is feeling the pressure from growing Chinese competition.

5.8 Metals & Mining

As of January 1, the EU's Carbon Border Adjustment Mechanism (CBAM) came into full effect. The bloc accounts for about 40% of Turkey's steel exports.

Producers using older blast furnace methods (integrated plants) will face higher costs. Electric arc furnaces, used in about 70% of Turkish production, will provide a distinct advantage versus operations of global competitors like China and India.

Turkey is expected to maintain its position as the largest steel producer in Europe.

5.9 Other Corporate & Sectors

High interest rates continue to be the most significant credit factor faced by Turkish companies, S&P Global Ratings said on December 1 in its Turkish corporate outlook for 2026.

The increase in leverage from high inflation, weakened demand, high interest rates and exchange rate fluctuations, materialised in 2024 and should not intensify, the rating agency also noted.

Weak demand and rising costs are stronger material risks for Turkish corporates than global trade factors, which are primarily impacting export industries such as steel and textiles.

S&P expects only a gradual recovery in domestic demand in 2026, even if the government achieves its inflation reduction targets.

6.0 Energy & Power

Turkey's government will stick with subsidising households' energy consumption in 2026.

6.1 Oil

Turkey is very much a net oil importer. It produces some oil on the border with Northern Iraq. The central government in Iraq is not happy with unofficial oil flows seen going from Northern Iraq to Turkey.

In 2026, oil refiners in Turkey are expected to cut their Russian crude oil imports further to comply with demands made by Trump.

6.2 Gas

Similarly, Turkey is very much a net gas importer. It produces a small amount of gas of its own in the Black Sea. In gas, however, the sea is most important in that it hosts pipelines running from Russia that still provide big volumes of gas to Turkey.

In 2026, Turkey is expected to further increase its liquefied natural gas (LNG) imports from the US.

6.3 Electricity

The Turkish Electricity Transmission Corporation (TEIAS) is planning to invest more than one billion dollars in upgrading the national grid in 2026.

6.4 Renewables

Turkey’s government plans to commission 2 GW of energy storage and 3 GW of floating solar capacity in 2026.

7.0 Markets Outlook

In 2026, foreign interest in the carry trade and debt is expected to continue. A solution to the lack of interest in Turkish lira papers is, meanwhile, not in sight.

7.1 Equity Capital Markets

Borsa Istanbul remains mired in a perfect mess. Given that the regime does not let the lira appreciate, currency gains are part of what is missing.

Local investors, who currently dominate the market, have turned to deposits and money market funds because of the attractive real rates offered thanks to the monetary tightening process.

2026 does not promise much when it comes to foreign interest in Turkey's stock exchange.

7.2 Debt Capital Markets

Investors in Turkish debt papers expect the strong momentum seen in the market in 2025 to extend into the new year, Dubai-based news service *Zawya* reported in November.

They also anticipate new issuances and refinancings to continue as political risks in the country remain contained. Finance industry representatives see Turkey as a high-yield EM credit with attractive yields and an improving macro story.

Turkey's five-year credit default swaps (CDS) was testing the 200-level in the first days of 2026.