

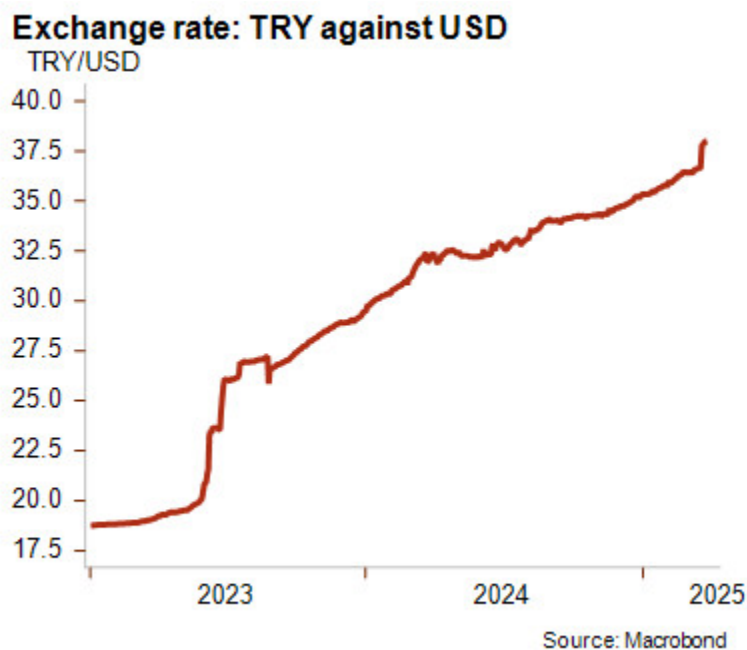
Türkiye: Large protests and lira depreciation following the arrest of Istanbul Mayor Ekrem İmamoğlu | Credendo

Event

The authorities have jailed Istanbul Mayor Ekrem İmamoğlu on corruption allegations. Thousands took to the streets to protest against his arrest, which is alleged to be politically motivated as he is President Erdoğan's main political rival. The protests have been the largest since the 2013 Gezi Park protests. Despite a ban in many cities, demonstrations continue across the country.

Impact

The financial market and exchange rate reacted strongly to İmamoğlu's arrest and the related protests. As shown on the graph, the exchange rate depreciated. The central bank and Minister of Finance, Şimşek, reacted to calm the financial markets. Among others, it is reported that the central bank intervened heavily to support the exchange rate. This will inevitably lead to a drop in gross foreign exchange reserves.



More broadly, it remains to be seen whether the country will maintain the more orthodox monetary policy stance it adopted since Erdoğan's re-election in May 2023. As a result of this new attitude, a welcome rebalancing was underway and investors' confidence increased, leading to more capital inflows. Amid these positive developments – notably lower exchange rate volatility – Credendo upgraded its rating for the business environment to category F/G (from G/G) last year and had a positive outlook for the ST political risk, that represents the liquidity of a country. Now, it remains to be seen whether Türkiye's monetary policy will remain orthodox. The large intervention to support the exchange rate and capital outflows are also likely to weigh on the gross foreign exchange reserves, that have been more stable since mid-2024. Moreover, the duration and impact

of the ongoing protests are still unclear. In this context, Credendo has changed its outlook for Türkiye's ST political risk rating and MLT political risk rating, that represents the solvency of a country, to stable (from positive).

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