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EVALUATION NOTE

TÜRKIYE DID NOT BECOME ARGENTINA BUT COULD IT BECOME THE PHILIPPINES?

In the past year, a frequently asked question in Turkish economic discourse was whether Türkiye might face a trajectory similar to Argentina—marked by runaway inflation, debt default, and a potential program agreement with the IMF. Essentially: *Would Türkiye become Argentina?*

Over the past two years, both Türkiye and Argentina have experienced significant political and economic transitions. Türkiye, with the appointment of Mehmet Şimşek as Minister of Treasury and Finance, adopted a more orthodox economic approach. Though it avoided seeking IMF assistance, it pursued a stabilization strategy often dubbed an "IMF-less IMF program," marked by austerity and aggressive interest rate hikes.

Argentina, on the other hand, elected Javier Milei as president in late 2023, who launched a "shock therapy" program grounded in free-market reforms and a shrinking role for the state. By April 2025, Argentina had entered a 48-month IMF program agreement.

From 2023 to 2025, both countries adopted orthodox economic frameworks to curb inflation, restore fiscal discipline, and rebuild international credibility. While Argentina slashed inflation from over 200% to around 60% through painful austerity and sharp currency devaluation, it also saw poverty rates climb above 50%. Türkiye, meanwhile, initially allowed the lira to depreciate, then raised policy rates to 50%, bringing inflation down from over 80% to below 40%, while maintaining 3–4% growth. Türkiye chose a more gradual path, while Argentina opted for rapid, high-cost adjustments.

[1] https://www.tepav.org.tr/en/ekibimiz/s/1420

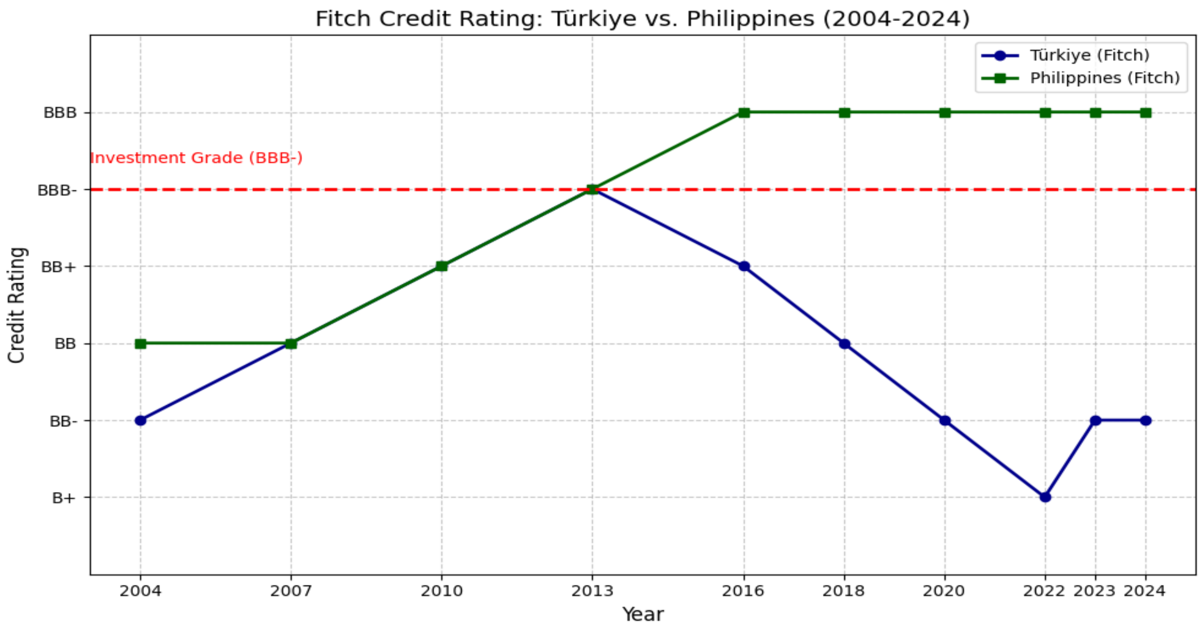
As noted in one of my earlier notes from November 2023 titled *"Will Türkiye Become Argentina?[2]"*, Türkiye ultimately did not follow Argentina's path.

However, perhaps the more relevant question was never *"Will Türkiye become Argentina?"* Rather, we should be asking: **"Could Türkiye become more like the Philippines?"** Even though it is not on the agenda in Turkey as much as other countries such as Argentina, Brazil, South Africa and even Indonesia and Thailand, there are lessons to learn from the Philippines' experience in the last 20 years.

I. Diverging Paths in Creditworthiness: Türkiye vs. the Philippines

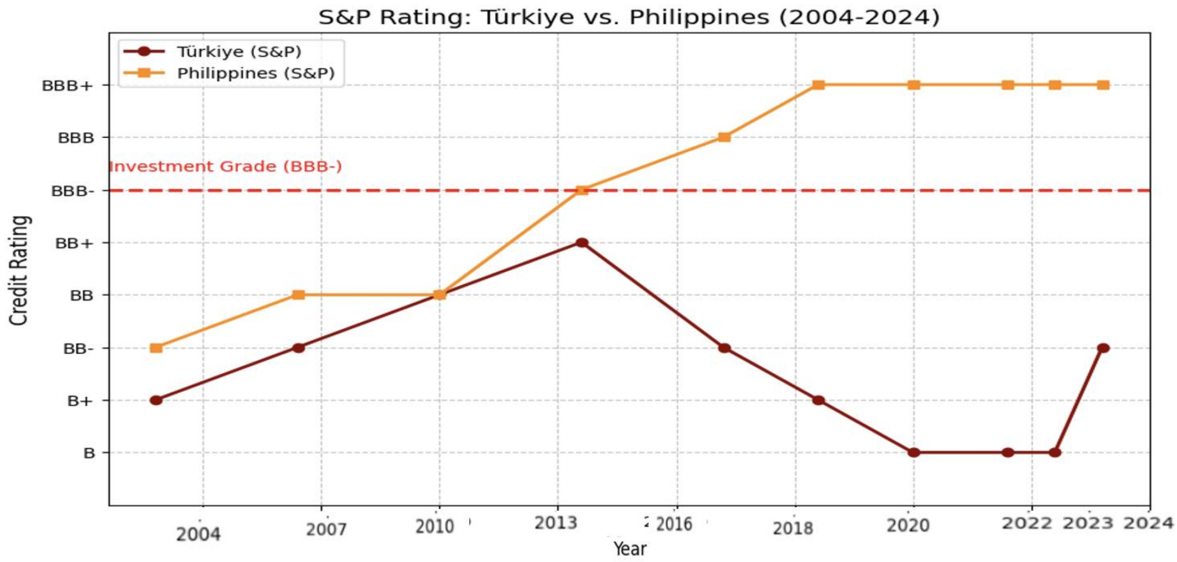
In the global economy, a country's credit rating functions as a compass for international investors. Credit ratings, assigned by leading agencies such as Standard & Poor's (S&P), Moody's, and Fitch, indicate a government's capacity and willingness to meet its debt obligations in full and on time. Ratings in the "investment grade" category open the door to low-cost financing, while "speculative grade" or "junk bond" ratings signal heightened risk and lead to more expensive and restrictive borrowing conditions.

Looking back over the past two decades, Türkiye and the Philippines have followed strikingly divergent credit rating trajectories. While the Philippines succeeded in gradually raising its credit rating into the investment grade zone, Türkiye, despite achieving investment grade status after years of reform, experienced a swift reversal and has since remained in speculative territory.



Source: Author's visualization using Fitch data

[2] https://www.tepav.org.tr/tr/haberler/s/10662



Source: Author’s visualization using the S&P data

The underlying reasons for these dramatic differences can be evaluated under main headings such as macroeconomic stability, fiscal policies, political conjuncture and institutional governance.

Türkiye's Credit Rating Journey: From Rise to Decline

In the early 2000s, Türkiye implemented a series of far-reaching economic reforms, overhauled its banking system, and pursued full EU membership, setting the stage for a period of robust transformation. Inflation was brought under control, public debt was reduced, capital inflows increased, and a favorable investment climate emerged.

Ascent Period (2004- 2013):

By 2004, Türkiye’s ratings were still below investment grade (BB-, B1, B+ across agencies), but the country began to reap the benefits of fiscal discipline, structural reform, and abundant global liquidity. In 2013, Fitch upgraded Türkiye to investment grade (BBB-), followed shortly by Moody’s. This era can be seen as a "golden decade" in which Türkiye earned investor trust, borrowed at lower costs, and attracted significant foreign direct investment.

Decline Period (2016 - 2023):

A turning point came in 2016. Following the failed coup attempt, geopolitical tensions, declining rule of law, weakening institutional independence, rising political polarization, and—critically—a sharp break from orthodox economic policy (such as rate cuts amid high inflation and politicized central bank governance) undermined investor confidence. Ratings agencies responded by stripping Türkiye of its investment grade status and issuing successive downgrades. Risk premiums (CDS spreads) surged, borrowing costs increased, and foreign portfolio and direct investment inflows were discouraged. The Turkish lira depreciated rapidly, and inflation escalated.

Recovery Attempts (Post-2023):

After the 2023 general elections, a new economic management team signaled a shift back to "rational ground." Interest rate hikes, monetary tightening, renewed fiscal discipline, and improving reserves prompted the first signs of credit rating outlook upgrades. Yet Türkiye remains rated as speculative. A durable return to investment grade will require sustained disinflation, credible monetary policy anchored in central bank independence, comprehensive structural reforms, and reinforcement of the rule of law and separation of powers.

The Philippines' Credit Rating Journey: Stability as Strategy

Compared to Türkiye, the Philippines began the 2000s with a more modest macroeconomic profile. Yet, over the past two decades, it has managed to steadily improve its credit ratings—especially in the last ten years, during which it has increasingly been labeled one of the "Asian Tiger" economies. This progression has played a key role in establishing the country as a reliable destination for global investors.

Attaining Investment Grade (2004- 2014):

In 2004, the Philippines' credit ratings were also in the speculative zone (BB-, Ba1, BB), similar to Türkiye. However, a consistent commitment to sound macroeconomic policies, fiscal prudence, anti-corruption efforts, and public sector reforms gradually led to a series of upgrades. Particular emphasis was placed on reducing budget deficits and improving public debt management.

By 2013–2014, the Philippines had achieved investment grade status across all three major rating agencies—S&P, Moody's, and Fitch (BBB-, Baa3, BBB). This transition reduced the perceived risk among international investors and allowed the country to borrow at lower costs while attracting more foreign direct investment. Stronger fundamentals created a sustainable base for long-term economic growth.

Sustaining and Strengthening Investment Grade Status (Post-2014):

Since 2014, the Philippines has not only preserved its investment grade status but also received further upgrades from some agencies. The country's young and expanding population has fueled robust domestic demand, while consistent inflows from overseas workers (remittances) and the booming business process outsourcing (BPO) sector have generated solid foreign exchange earnings.

Even during the COVID-19 pandemic, which brought widespread economic shocks globally, the Philippines' credit ratings remained resilient. This endurance reflected the underlying strength of its fiscal framework and economic institutions. Continued discipline, infrastructure investment, and reform momentum were key to sustaining investor confidence.

In 2024, Japanese rating agencies JRC and R&I upgraded the Philippines' sovereign rating to A-. While these agencies are less globally influential than the "big three," they are known for their agility, and their moves created expectations that similar upgrades might follow from the major agencies.

II. What Explains the Divergence?

The divergence in credit rating trajectories between Türkiye and the Philippines cannot be fully explained by macroeconomic indicators alone. It reflects deeper differences in economic governance philosophies, fiscal discipline, political stability, and institutional quality.

1. Macroeconomic Stability and Policy Credibility

Over the past two decades, Türkiye's macroeconomic performance has been marked by high volatility—particularly since 2016—while the Philippines has followed a more conservative and stable path.

A comparative summary of key macroeconomic governance features is provided below:

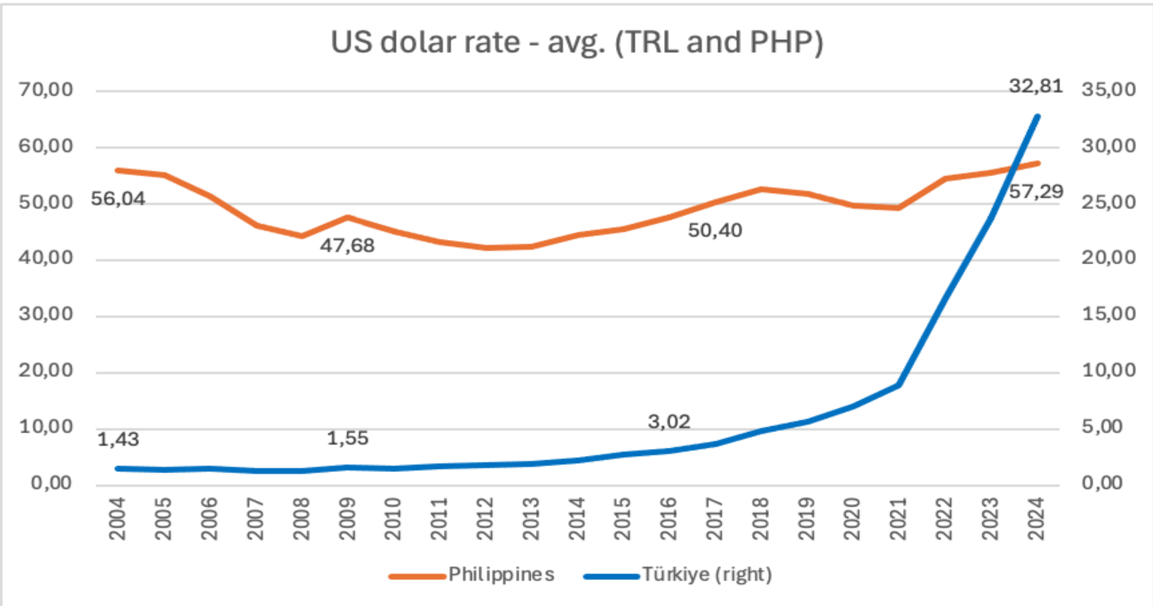
	Türkiye	Philippines
Macroeconomic Performance	High growth before 2016, followed by elevated volatility driven by political and economic instability	Stable and conservative policy orientation with an emphasis on sustainable growth
Inflation	Moderate inflation with targeting until 2018, followed by unorthodox rate cuts despite rising inflation, leading to entrenched expectations and reduced predictability	Inflation kept low and stable through credible inflation targeting and policy transparency
Current Account Balance	Persistent deficits due to energy and intermediate goods imports; heavy reliance on volatile portfolio flows; prone to currency shocks	Either surplus or manageable deficits; consistent remittances and strong BPO sector help sustain foreign exchange inflows
Central Bank Independence	Once strong and credible, the Central Bank's independence has eroded since 2018 due to frequent leadership changes and political influence over interest rate policy	Bangko Sentral ng Pilipinas (BSP) has largely operated independently, enhancing credibility and investor confidence

From 2004 to 2016, both countries demonstrated fairly stable macroeconomic conditions. However, post-2016 developments—especially in Türkiye—marked a sharp divergence. The Philippines maintained institutional stability, while Türkiye experienced policy unpredictability and weakening monetary governance.

Even when discounting global shocks such as the 2008 financial crisis and the COVID-19 pandemic, the Philippines has outperformed Türkiye in core metrics since 2016. While both countries posted comparable average annual growth rates over two decades (around 6%), inflation in the Philippines averaged just 4%, compared to Türkiye's 18.7%. Between 2016 and 2024, this divergence widened further—3,8% inflation in the Philippines versus 32,8% in Türkiye.

Source: Author's calculation and visualization using data from IMF World Economic Outlook, International Finance Statistics

Currency stability followed a similar pattern. The Philippine peso remained within a narrow range (42–57 per USD), with an average annual change of only 0,4%. Over 20 years, the peso depreciated by just 2,2%. By contrast, the Turkish lira lost 22 times its value against the dollar, with the average exchange rate rising from 1.43 TRY/USD to 32.81 TRY/USD.



Source: Author's calculation and visualization using data from IMF, International Finance Statistics

Overall, this suggests that Türkiye's growth was accompanied by significant macroeconomic imbalances—rising inflation, widening current account deficits, and currency depreciation—whereas the Philippines achieved comparable growth without sacrificing stability.

2. Fiscal Policy and Public Debt Management

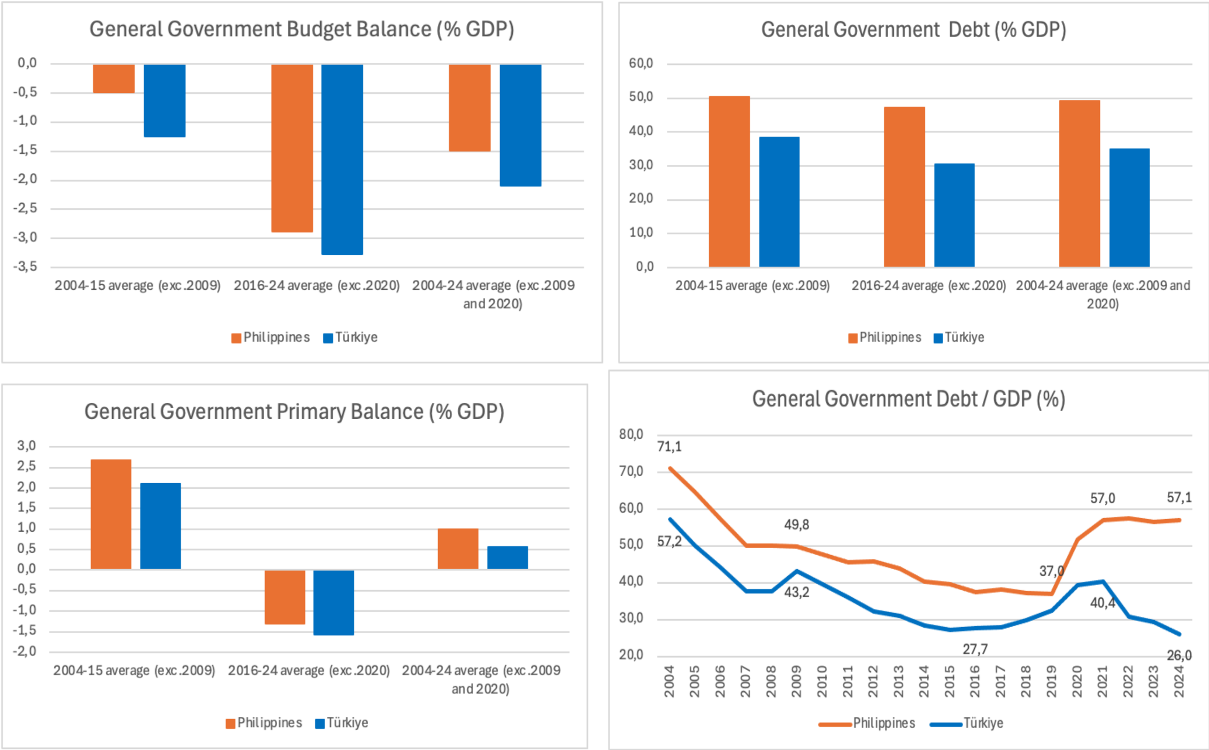
In the early 2000s, Türkiye made notable progress in public financial management, reducing its debt-to-GDP ratio through tight fiscal policy and comprehensive reforms. However, in more recent years, rising inflation and exchange rate shocks have contributed to a rapid nominal increase in public debt. Moreover, soaring interest costs have outpaced principal expenditures, driving up the debt service burden.

The Philippines, by contrast, has maintained consistent fiscal discipline over the past two decades. It has prioritized deficit reduction, transparency, and accountability in budgetary processes.

A comparative summary of fiscal approaches is shown below:

	Türkiye	Philippines
Overall Fiscal Policy	Strong fiscal consolidation and debt management reforms in the 2000s; increasing reliance on indirect taxes; post-2016 fiscal loosening marked by higher public spending and election-related expenditures	Sustained commitment to fiscal discipline, with strong emphasis on deficit control and prudent budgeting
Public Debt-to-GDP Ratio	Declined significantly in early 2000s, but increased again post-2016 due to inflation, depreciation, and pandemic-related spending	Declined from 71% (early 2000s) to 37% by 2019; rose moderately to 57% during the COVID-19 pandemic
Debt Structure	Initially high-risk profile improved through reforms; post-2018 rise in FX-, interest-, and inflation-linked debt	Balanced debt composition with limited exposure to FX and interest rate risk
Fiscal Transparency and Risk Management	Failed fiscal rule initiative (2010); increased use of PPPs and credit guarantees, raising off-balance sheet risks; concerns over transparency and accountability	Strong emphasis on transparent and predictable fiscal policy; proactive deficit and debt management

Between 2004 and 2016, both countries generally ran primary surpluses and maintained moderate budget deficits. Since 2016, Türkiye's fiscal performance has deteriorated, and it has shifted toward structural primary deficits. However, throughout the last twenty years, the Philippines has followed a tighter and more controlled fiscal policy than Türkiye



Source: Author's calculation and visualization using data from IMF World Economic Outlook, International Finance Statistics

Despite this, the debt-to-GDP ratio in Türkiye has remained somewhat contained in recent years—mainly due to a nominally inflated GDP base, driven by high inflation and growth, rather than improved fiscal fundamentals. By contrast, the Philippines' debt trajectory has been shaped by disciplined policy choices and a more stable macroeconomic context.

3. Political Context and Institutional Governance

Since 2016, Türkiye's political landscape has become increasingly polarized. Events such as the failed coup attempt, regional tensions, and frequent changes in key economic decision-makers have contributed to heightened uncertainty. Diminishing institutional transparency and abrupt policy shifts have undermined predictability, discouraging long-term investment. Meanwhile, concerns overrule of law and erosion of institutional checks and balances have been viewed by both investors and credit rating agencies as critical risk factors.

The Philippines, in contrast, has exhibited relatively greater political stability over the last decade. While the country is often classified as a "flawed democracy" in global indices, it has nevertheless implemented legal and institutional reforms aimed at improving governance and enhancing the business environment. Political transitions have generally respected continuity of economic policy, reinforcing investor confidence.

Although corruption has historically been a challenge in the Philippines, recent reform efforts, while incomplete, have been met with cautious optimism by the international community.

A comparison of international governance and institutional indicators provides further context:

Index /Organization	Türkiye (Trend /Status)	Philippines (Trend / Status)
Index of Economic Freedom (Heritage Foundation)	Declining trend; classified as “Mostly Unfree” (2024 score: 56.5; rank: 107/178)	Improving trend; classified as “Moderately Free” (2024 score: 64.6; rank: 59/178)
Doing Business (World Bank, last published 2020)	Downward trend in recent years (2020 rank: 33	Upward trend, with remaining room for improvement (2020 rank: 95)
Global Competitiveness Index (WEF, last published 2019)	Initial gains followed by decline (2019 rank: 61)	Gradual improvement, especially in market size and macroeconomic stability (2019 rank: 64)
Democracy Index (EIU)	Declining trend; “Hybrid Regime” (2023 score: 4.33; rank: 102/167)	Stable trend; “Flawed Democracy” (2023 score: 6.66; rank: 53/167)
Press Freedom Index (Reporters Without Borders)	Sharp deterioration (2024 rank: 158/180)	Mid-range performance, with concerns over journalist safety (2024 rank: 134/180)
Corruption Perceptions Index (Transparency International)	Worsening perception (2023 score: 34; rank: 107/180)	Slight improvement, but corruption remains a concern (2023 score: 33; rank: 114/180)
Rule of Law Index (World Justice Project)	Downward trend, especially in justice system and government accountability (2023 score: 0.40; rank: 117/142)	Low but improving levels in some areas (2023 score: 0.47; rank: 100/142)
Human Development Index (UNDP)	Upward trend; “Very High” human development (2022 score: 0.855; rank: 45/193)	Gradual improvement; “High” human development (2022 score: 0.710; rank: 107/193)
World Happiness Report (Oxford University)	Significant decline (ranked 25th in 2005, 92nd in 2024)	Stable trend (ranked 59th in 2006, 58th in 2024)

While different indices generally point to the negative effects of Türkiye's political and institutional development after 2016, the World Happiness Index, which summarizes all of these, points to a significant deterioration due to corruption and the deterioration in the perception of freedom, and the decline in generosity, despite the country's economic development and increasing income per capita.

III. Conclusion: Diverging Philosophies, Diverging Futures

The creditworthiness trajectories of Türkiye and the Philippines serve as clear reflections of their underlying economic governance philosophies and political strategies.

Despite both countries facing challenges related to democracy, corruption, and press freedom, the Philippines’ progress stems from a consistent commitment to macroeconomic stability, fiscal discipline, and institutional resilience. Low and stable inflation, strong foreign exchange inflows from remittances and the services sector, prudent debt management, and relative political stability have all helped the Philippines maintain—and even improve—its investment-grade status. The country has earned investor trust by offering a predictable policy environment and demonstrating sustained commitment to reform.

However, it is important to note that the Philippines is not without risks. Under the current administration, public spending has increased and concerns about rising populism and fiscal slippage have emerged. Persistently high income inequality and allegations that social transfers are being used for political purposes present further risks to long-term growth sustainability. Additionally, elevated poverty rates in rural areas and structural weaknesses in the labor market limit the translation of growth into widespread welfare gains.

While the Philippines' macroeconomic framework and institutional setting continue to support its credit standing in the short to medium term, inclusive reforms in governance, democratic consolidation, and fairness in income distribution will be essential to ensure sustainable development and further rating upgrades.

Türkiye, on the other hand, experienced a sharp deterioration in creditworthiness after abandoning orthodox policies and weakening institutional checks and balances post-2016. High inflation, exchange rate volatility, widening current account deficits, falling reserves, and declining central bank credibility have significantly undermined investor sentiment and increased borrowing costs.

Nonetheless, the post-2023 reorientation toward more orthodox and rational policymaking marks a potential turning point. Sustained disinflation, credible fiscal consolidation, accelerated structural reforms, and a strengthened rule-of-law framework will be critical for Türkiye to regain investment-grade status and restore investor confidence.

In sum, global investors prioritize stability, predictability, credible institutions, and legal certainty when assessing country risk and creditworthiness. In this regard, the Philippines has delivered a more consistent performance, positioning itself as a more reliable economy. While Türkiye has made important moves to rebuild that trust, it still faces a long road ahead.