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A Warning from MSCI: A Historical Comparison for Türkiye

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Abstract

This research note examines the potential financial effects of a loss of market classification status following the decision announced by Morgan Stanley Capital International (MSCI) on October 15, 2026, concerning Turkish equity indexes, drawing on previous cases. To this end, it compares real stock market returns and real changes in exchange rates over the year following reclassification announcements in five countries that were previously downgraded from the emerging markets category. The findings indicate that adverse market movements were more common in the short term but that the magnitude and persistence of the effects varied considerably across countries. These differences appear to reflect not only MSCI decisions but also country-specific macroeconomic conditions, exchange rate regimes, and global financial developments. For Türkiye, a potential downgrade could put pressure on equity prices, capital flows, and the exchange rate although the scale and persistence of these effects remain uncertain.

1. Introduction

On October 15, 2026, Morgan Stanley Capital International (MSCI), which plays an important role in classifying global equity markets and guiding international portfolio investment, announced a freeze on certain updates to Turkish equity indexes until further notice (MSCI, 2026). The freeze covers changes that increase the foreign inclusion factors or share counts used in index calculations for Turkish companies, the addition of new constituents to the MSCI Turkey Investable Market Index, and the migration of existing constituents to larger market-capitalization segments. MSCI cited concerns raised by institutional investors regarding potentially coordinated transactions through investment funds linked to certain companies, the reliability of free-float ratios, and the transparency of ultimate share ownership as the principal reasons for its decision.

The significance of the decision lies not only in the restrictions imposed on current index updates but also in the risk it raises for Türkiye's classification in international capital markets. MSCI stated that if sufficient progress is not achieved by June 2027, it may consider initiating a consultation on reclassifying Türkiye, currently included in its emerging markets category, as a frontier or standalone market. Accordingly, while the present decision does not itself constitute a downgrade, it increases uncertainty about Türkiye's place in global equity indexes. Because international funds widely use MSCI indexes both to define their investment universes and to benchmark portfolio performance, a potential classification change could have significant financial implications.

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The first and most direct effect of a potential reclassification could be felt in international portfolio flows. If Türkiye were removed from the MSCI Emerging Markets Index, funds tracking that index might have to reduce their positions in Turkish equities to align their portfolios with the new index composition. Weaker foreign investor demand could exert downward pressure on equity prices, reduce market liquidity, and increase price volatility.

A second effect could arise through the exchange rate, risk premiums, and financial conditions. Foreign investors converting the proceeds from equity sales into foreign currency and transferring them abroad could increase demand for foreign exchange and put depreciation pressure on the Turkish lira. Moreover, if MSCI's decision heightens broader concerns about market transparency and investability, international investors may demand a higher risk premium on Turkish assets. Interactions among portfolio flows, exchange rates, and asset prices could then transmit a shock initially confined to the equity market to other financial markets.

A third important effect could emerge in interest rates and the yield curve. Short- and long-term interest rates may be affected through different channels. In the short term, pressure on the exchange rate from foreign capital outflows could influence inflation expectations through exchange rate pass-through and, in turn, affect monetary policy expectations. Greater exchange rate volatility or a deterioration in the inflation outlook could strengthen market expectations that central banks will adopt and maintain tight monetary policy for an extended period or tighten policy further if necessary. This could put upward pressure particularly on yields on short-term government securities and on forward interest rate pricing.

For long-term interest rates, country risk premiums, inflation expectations, term premiums, and bond market liquidity matter in addition to monetary policy expectations. If an MSCI decision adversely affects international investors' perceptions of a country's risk, they may require higher yields to hold long-term, local-currency government bonds. Consequently, long-term bond yields could rise even without a change in expectations for short-term policy rates. Similarly, a deterioration in perceptions of sovereign credit risk could affect the country's foreign-currency borrowing costs and Eurobond risk premiums.

Interest-rate effects also matter for the banking system, firms' financing costs, and real economic activity. Higher government bond yields and country risk premiums could raise the market borrowing costs of banks and companies. If banks pass their increased funding costs on to lending rates, access to finance for the private sector could become more difficult. Similarly, higher long-term market interest rates could reduce the present value of investment projects and adversely affect firms' decisions to undertake new investments. A contemporaneous decline in equity valuations and rise in borrowing costs could tighten both equity and debt financing conditions for companies. Thus, a shock originating in the equity market could indirectly affect investment, production, and economic growth through tighter financial conditions.

Given that Türkiye is currently classified as an emerging market and any potential change would be downward, a historical comparison is most meaningful when focused on countries downgraded from this category to frontier or standalone market status. These cases provide a basis for assessing the possible financial market effects of reclassification. This study examines changes in the equity and foreign exchange markets of Sri Lanka, Jordan, Pakistan, Argentina, and Morocco, which are the countries downgraded from emerging market status to the frontier or standalone categories into which Türkiye could also be

placed, over horizons ranging from one month to one year following the announcement of reclassification. Real changes are used in the calculations to account for inflation in each country.[1]

Although no decision to downgrade Türkiye has yet been announced, examining financial market developments in the selected countries after their reclassification announcements offers an important comparative basis for evaluating the potential effects of a downgrade on Turkish financial markets. Nevertheless, because macroeconomic conditions and the reasons for reclassification differ across countries, historical findings should be assessed in a comparative framework rather than applied directly to Türkiye.

2. Historical Country Cases

MSCI classifies countries' equity markets into four categories: Developed Markets, Emerging Markets, Frontier Markets, and Standalone Markets. Classification is based on three main criteria: economic development, market size and liquidity, and market accessibility for international investors. Economic development is used only to determine developed market status, whereas market size, liquidity, and accessibility are more important in distinguishing emerging from frontier markets.

MSCI reviews country classifications regularly and may upgrade or downgrade markets in response to changes in the relevant criteria. Because these classifications play a significant role in defining the investment universes and benchmark indexes of international investment funds, reclassifications can trigger portfolio adjustments and repricing of financial assets.

MSCI has made a number of country classification changes over the years.[2] According to its historical classification records, countries downgraded from emerging markets to lower categories include Sri Lanka, Venezuela, Jordan, Pakistan, Argentina, and Morocco. Sri Lanka reclassified as a standalone market in June 2001. Venezuela moved to the same category in May 2006. Jordan downgraded to frontier market status in November 2008, and Pakistan moved to standalone market status in December 2008. Argentina was also downgraded from emerging to frontier market status in May 2009, followed by Morocco in November 2013 (see Table 1). In November 2013, MSCI also downgraded Greece from developed to emerging market status, marking a downward reclassification from the developed markets category.

Classification changes have not, however, been exclusively downward. Israel was upgraded from emerging to developed market status in May 2010 while Qatar and the United Arab Emirates were upgraded from frontier to emerging market status in May 2014. In addition, Pakistan's upgrade from standalone to frontier market status in May 2009 and Sri Lanka's corresponding upgrade in November 2007 show that downgrades need not be permanent.

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[1] Because suitable interest rate and credit default swap indicators were not available for these countries, the study focuses exclusively on equity and foreign exchange markets. Venezuela was also excluded from the analysis because reliable market data were unavailable. Real changes were calculated using each country's monthly price changes over the period from the announcement date to the relevant time horizon.

[2] https://www.msci.com/eqb/gimi/stdindex/market_classification.html

Table 1. Countries Downgraded from Emerging Market Status

Country	Date	Previous category	New category
Sri Lanka[3]	April 10, 2001	Emerging Markets	Standalone Markets
Venezuela[4]	April 25, 2006	Emerging Markets	Standalone Markets
Jordan[5]	June 18, 2008	Emerging Markets	Frontier Markets
Pakistan[6]	December 10, 2008	Emerging Markets	Standalone Markets
Argentina[7]	February 18, 2009	Emerging Markets	Frontier Markets
Morocco[8]	June 11, 2013	Emerging Markets	Frontier Markets

3. Stock Market Performance Following MSCI Reclassifications

An examination of stock market performance in countries removed by MSCI from the emerging markets category reveals substantial differences in returns across countries and evaluation horizons following reclassification (Table 2). In three of the five countries (Sri Lanka, Jordan, and Pakistan) inflation-adjusted stock indexes declined during the first month after the announcement while Argentina and Morocco recorded modest positive returns. The results diverge as the time horizon lengthens. Over one year, Sri Lanka, Argentina, and Morocco posted positive real returns whereas real losses persisted in Jordan and Pakistan. Across the five countries, average real returns were -9.1% over one month, -4.4% over three months, 0.5% over six months, and 24.0% over one year. Median returns over the same horizons were -2.4%, -4.0%, 1.3%, and 5.1%, respectively. The one-month mean is influenced by Pakistan's losses whereas the one-year mean is driven by Argentina's exceptionally strong returns. These findings suggest that the loss of emerging market status does not invariably lead to a permanent decline in equity market values.

Table 2. Stock Market Changes in Reclassified Countries (percent)

Country	1 mo.	3 mos.	6 mos.	1 yr.
Sri Lanka	-2.4	1.3	1.3	43.4
Jordan	-10.6	-23.7	-41.9	-44.1
Pakistan	-32.8	-39.0	-24.1	-3.1
Argentina	0.4	43.4	62.1	118.9
Morocco	0.1	-4.0	5.1	5.1
Mean	-9.1	-4.4	0.5	24.0
Median	-2.4	-4.0	1.3	5.1

Source: Financial market data were obtained from the Bloomberg Terminal and monthly inflation data from theglobaleconomy.com; calculations by the author.

Understanding the differences across countries requires considering both the reasons for reclassification and the economic conditions prevailing when decisions were made. Market

[3] https://www.msci.com/downloads/documents/press-releases/media-room/20010410_pr.pdf
[4] https://www.msci.com/eqb/pressreleases/archive/20060425_2_pr.pdf
[5]https://www.msci.com/downloads/documents/indexes/consultations/equity/MSCIyüzde2Bannouncementyüzde2B-yüzde2BJunyüzde2B18yüzde2B2008.pdf
[6] https://www.msci.com/downloads/documents/press-releases/media-room/68efd512-aaee-495b-b273-a0b1d9c0a591.pdf
[7]https://www.msci.com/downloads/documents/indexes/consultations/equity/MSCIyüzde2BAnnouncementyüzde2B-yüzde2BFebyüzde2B18yüzde2B2009.pdf
[8] https://www.msci.com/eqb/pressreleases/archive/2013_Mkt_Class_PR.pdf

size and liquidity, foreign investor access, and restrictions on capital movements are among the main determinants of MSCI classifications. Consequently, removal from the emerging markets category does not always arise from macroeconomic deterioration. It may also reflect structural market characteristics or investability conditions.

Sri Lanka is an example of a country that recorded strong positive returns over the medium term after reclassification. Following MSCI's April 2001 announcement, the equity index declined by 2.4% in real terms in the first month but rose by 1.3% over both three and six months and by 43.4% over one year. According to World Bank data, the Sri Lankan economy contracted for the first time since 1972 during this period. The civil war taking place in Sri Lanka at the time may have contributed to the contraction. Nevertheless, the decline in real interest rates to as low as 0.5% and expectations emerging from the election that the civil war might be resolved may have contributed to the sharp rise in the equity index by the end of the year.

Jordan experienced the most persistent real decline following the classification announcement among the countries examined. After the June 2008 decision, its equity index fell by 10.6% over one month, 23.7% over three months, 41.9% over six months, and 44.1% over one year. The main reason for MSCI's decision was that a significant share of Jordanian companies did not meet the size and liquidity requirements for emerging markets (MSCI Barra, 2008a). The timing of the decision, however, was also important. The fall in Jordanian equities coincided with the deepening of the 2008 global financial crisis. The substantial real losses in Jordan, therefore, cannot be attributed solely to MSCI's reclassification. Declining global risk appetite, changes in regional capital flows, and liquidity problems in the domestic market must also be considered.

Pakistan represents a different case as serious problems in the functioning of its stock market were already present when the classification decision was made. Real index losses reached 32.8% in the first month after the December 2008 announcement and 39.0% over three months. The loss then narrowed to 24.1% over six months and 3.1% over one year. MSCI's decision followed the introduction of a price floor on the Karachi Stock Exchange in August 2008 that prevented share prices from falling below a specified level. This measure distorted price discovery, substantially reduced trading volumes, and made it difficult for investors to exit the market. MSCI explicitly cited these investability problems as the reason for removing Pakistan from the emerging markets index (MSCI Barra, 2008b). The release of pent-up selling pressure after the price floor was removed on December 15, 2008, may help explain the sharp short-term declines. A partial market recovery in subsequent months contributed to the pronounced reduction in the one-year real loss. Pakistan illustrates how classification changes may be intertwined with problems in market functioning.

Argentina recorded the strongest real equity market performance following reclassification. After the February 2009 decision, the index increased by 0.4% in the first month while real returns reached 43.4% over three months, 62.1% over six months, and 118.9% over one year. MSCI's principal reason for downgrading Argentina to frontier market status was the continued presence of restrictions on capital inflows and outflows (MSCI Barra, 2009). At the same time, the decision coincided with the beginning of a recovery in international equity markets after the global financial crisis. Following a decline of approximately 50% in 2008, Argentina's equity market rebounded strongly in 2009. Thus, its high real returns should be considered in the context of the post-crisis price recovery and improving global risk appetite,

rather than interpreted as a positive effect of reclassification. Moreover, concerns about the reliability of Argentina's official inflation statistics during the period (OECD, 2019) call for caution in interpreting the magnitude of real returns, which depends on the price index used.

Morocco, by contrast, exhibited relatively stable performance following reclassification. Real returns were only 0.1% in the first month after the June 2013 announcement, followed by a 4.0% loss over three months and positive real returns of 5.1% over both six months and one year. Persistent declines in liquidity in Morocco's equity market since 2008 were decisive in MSCI's decision. MSCI indicated that the market's size and liquidity characteristics were more consistent with the frontier markets category (MSCI, 2013). Therefore, Morocco's reclassification reflected longstanding structural market problems rather than a sudden economic crisis. The fact that a potential change in Morocco's status had been under consideration since 2012 also suggests that the decision may not have been unexpected. Accordingly, the relatively limited real market movements after the reclassification should be considered in a context shaped by both structural problems and pre-existing expectations.

Overall, the cases examined suggest that removal from MSCI's emerging markets category does not have a uniform or permanent effect on equity returns. Negative real returns were more common in the short term but one-year outcomes differed markedly across countries. This suggests that reclassifications may create short-term price pressure as investment funds rebalance their portfolios while longer-term market performance is also shaped by macroeconomic conditions, investor expectations, and global financial developments.

In conclusion, MSCI decisions to remove countries from the emerging markets category should be viewed not as events that independently determine stock market performance but as developments that must be assessed alongside prevailing economic and financial conditions. The differences observed across the selected countries suggest that the effects of reclassification depend on structural market characteristics and the circumstances prevailing at the time of the decision.

4. Overview of Changes in Real Exchange Rates

An examination of real changes in exchange rate performance in countries removed by MSCI from the emerging markets category shows that negative changes generally predominated following reclassification although patterns varied substantially across countries (Table 3). Four of the five countries recorded negative real exchange rate changes in the first month. Over one-year, negative changes persisted in Sri Lanka, Pakistan, and Argentina while Jordan and Morocco recorded positive changes. Argentina experienced the largest negative one-year change at -8.6%, followed by Sri Lanka at -8.2% and Pakistan at -5.7%. By contrast, changes in Jordan and Morocco were limited to 1.1% and 2.3%, respectively. The average real exchange rate changes over one, three, six, and twelve months were -1.0%, -1.2%, -1.5%, and -3.8%, respectively. The corresponding medians were -0.9%, -1.3%, -1.8%, and -5.7%. These findings indicate that real exchange rates did not move in the same direction or by the same magnitude across all countries after the loss of emerging market status.

Table 3. Exchange Rate Changes in Reclassified Countries (percent)

Country	1 mo.	3 mos.	6 mos.	1 yr.
Sri Lanka	-0.9	-1.9	-2.0	-8.2
Jordan	1.9	1.1	1.0	1.1
Pakistan	-0.8	-1.3	-1.8	-5.7
Argentina	-3.6	-5.1	-8.4	-8.6
Morocco	-1.7	1.0	3.6	2.3
Mean	-1.0	-1.2	-1.5	-3.8
Median	-0.9	-1.3	-1.8	-5.7

Source: Financial market data were obtained from the Bloomberg Terminal and monthly inflation data from theglobaleconomy.com; calculations by the author.

Economic conditions and exchange rate regimes prevailing at the time of reclassification appear important in explaining cross-country differences. In Sri Lanka, Pakistan, and Argentina, reclassifications coincided with periods marked by external financing difficulties and macroeconomic vulnerabilities. In contrast, the pegging of exchange rates to the US dollar or a currency basket in Jordan and Morocco may have helped limit movements in real exchange rates. In particular, the effects of the 2008 global financial crisis on Jordan and Pakistan demonstrate that exchange rate movements observed after reclassification cannot be explained by MSCI decisions alone.

Overall, the findings do not support the conclusion that MSCI reclassifications have a uniform and systematic effect on real exchange rates. Although reclassifications may affect foreign exchange markets through international portfolio investment and capital flows, the direction and magnitude of these effects may differ according to prevailing macroeconomic conditions, exchange rate regimes, and global financial developments. Therefore, it is not possible to assert that observed real exchange rate movements were caused directly by classification decisions. The cases nevertheless demonstrate the critical importance of country-specific economic conditions when evaluating the relationship between reclassification and real exchange rate performance.

Sri Lanka is among the countries that recorded a pronounced negative real exchange rate change over the year following the classification announcement. The change was -0.9% in the first month after the April 2001 announcement, -1.9% over three months, -2.0% over six months, and -8.2% over one year. MSCI's report associated Sri Lanka's removal from the emerging markets category with the insufficient size and liquidity of its capital market. However, the decision also coincided with significant domestic difficulties. The Central Bank of Sri Lanka adopted a floating exchange rate regime on January 23, 2001, in response to declining foreign exchange reserves, high import costs, and the loss of credibility of the existing exchange rate regime. Under the stabilization program, the country reduced its current account deficit, increased its net international reserves, and largely maintained exchange rate stability (IMF, 2002).

Jordan is the only country in the sample whose real exchange rate measure remained positive at every horizon following reclassification. After the June 2008 announcement, the change was 1.9% over one month, 1.1% over three months, 1.0% over six months, and 1.1% over one year. The main feature distinguishing Jordan's exchange rate performance from that of the other countries is the Jordanian dinar's peg to the US dollar. During the

uncertainty associated with the 2008 global financial crisis, this arrangement-maintained stability in the nominal exchange rate against the dollar while movements in the real exchange rate reflected relative price changes. Therefore, Jordan's relatively stable foreign exchange market performance appears to be more closely related to its exchange rate regime than to the classification decision. The Jordanian case consequently shows that the loss of emerging market status does not necessarily generate strong depreciation pressure on the exchange rate.

Pakistan was experiencing severe economic and financial instability at the time of reclassification. Following MSCI's December 2008 announcement, the real exchange rate change was -0.8% over one month, -1.3% over three months, -1.8% over six months, and -5.7% over one year. In assessing exchange rate developments during this period, however, it is important to consider conditions before the decision. IMF (2008) reported that the Pakistani rupee had depreciated by approximately 30% against the US dollar since March 2008 and that foreign exchange reserves had fallen to USD 3.4 billion by the end of October. High inflation, a widening current account deficit, and capital outflows further increased the country's external financing vulnerability. Pakistan consequently began implementing an IMF-supported stabilization program in November 2008. The immediate reason for MSCI's reclassification decision, however, was the price floor introduced on the stock exchange in August 2008, which prevented share prices from falling below a specified level and largely brought market trading to a halt (MSCI Barra, 2008b). Thus, the classification change occurred after substantial pressure had already emerged in the foreign exchange market. The negative real exchange rate change observed in the subsequent year may have reflected the continuation of existing external financing difficulties and macroeconomic instability.

Argentina recorded the largest negative real exchange rate change following reclassification. The change was -3.6% in the first month after the February 2009 announcement, -5.1% over three months, -8.4% over six months, and -8.6% over one year. MSCI attributed Argentina's removal from the emerging markets category to the continuing restrictions on capital inflows and outflows (MSCI Barra, 2009). At the time of the decision, Argentina was still facing difficulties accessing international capital markets following its 2001-2002 debt crisis. These difficulties were compounded by the deterioration in external financing conditions caused by the 2008 global financial crisis. The Argentine peso depreciated in nominal terms against the US dollar in 2009 while international investors' risk perceptions and external financing conditions affected the foreign exchange market. Therefore, the negative real exchange rate change in Argentina cannot be explained solely by portfolio outflows induced by MSCI's decision. Concerns about the reliability of Argentina's official inflation data during this period also introduce additional uncertainty into the interpretation of the calculated real exchange rate changes.

Morocco stands out from the other cases for its relatively limited real exchange rate movements after reclassification. The real exchange rate change was -1.7% over the first month following the June 2013 announcement, 1.0% over three months, 3.6% over six months, and 2.3% over one year. A decline in liquidity that had persisted for several years in Morocco's equity market was decisive in MSCI's decision (MSCI, 2013). The reclassification can, therefore, be linked to structural capital market characteristics rather than to a sudden macroeconomic crisis. Moreover, the country's emerging market status had been under review since 2012, suggesting that market participants may already have partly priced in the

decision. Morocco's exchange rate regime was another important factor limiting currency movements. During the period examined, the Moroccan dirham was pegged to a currency basket consisting of 80% euro and 20% US dollar (Bank Al-Maghrib, 2007). Therefore, the limited real exchange rate fluctuations observed after MSCI's reclassification should be assessed alongside the nominal stability provided by this regime and the country's relatively balanced macroeconomic conditions.

5. Conclusions and Assessment

This research note examined real stock market returns and real exchange rate changes in Sri Lanka, Jordan, Pakistan, Argentina, and Morocco, which are the countries that were removed from the emerging markets category by MSCI, over periods of one, three, six, and twelve months following the respective reclassification announcements. The findings show that the financial market effects of MSCI reclassifications vary considerably across countries and that classification decisions cannot be regarded as the sole determinants of market performance.

Stock market performance indicates that negative real returns were more common shortly after classification announcements. Equity indexes declined in real terms in three of the five countries during the first month. As the evaluation horizon lengthens, however, country outcomes diverge markedly. Over one year, Jordan sustained a substantial loss and Pakistan a modest loss whereas Sri Lanka and Argentina recorded strong gains and Morocco a modest positive return. These cases show that reclassification does not necessarily cause a lasting decline in equity market values.

Real exchange rate changes also differed across countries. Four of the five countries registered negative real exchange rate changes in the first month after the classification decision. Over one-year, negative changes were recorded in Sri Lanka, Pakistan, and Argentina while Jordan and Morocco recorded positive changes. The largest negative one-year changes occurred in Argentina (-8.6%) and Sri Lanka (-8.2%). By contrast, the relatively limited real exchange rate movements in Jordan and Morocco suggest that exchange rate regimes and macroeconomic conditions may be important determinants of post-reclassification performance. Considering the equity and exchange rate results together, the two markets did not always move in the same direction. This divergence suggests that reclassification may affect stock and foreign exchange markets through different transmission mechanisms.

The economic conditions prevailing at the dates of reclassification play an important role in explaining these differences. Jordan's and Pakistan's removal from the emerging markets category occurred during the 2008 global financial crisis, when international capital flows and investor risk perceptions were under considerable pressure. Pakistan also faced restrictions on stock market trading and serious external financing problems. In Sri Lanka and Argentina, country-specific political and economic developments, together with financial market recovery dynamics, were decisive in the periods after reclassification. Morocco's downgrade was linked to longstanding structural liquidity problems while the relatively stable exchange rate regimes of Jordan and Morocco also help explain cross-country differences.

These findings suggest that two distinct mechanisms should be separated when evaluating the potential effects of MSCI reclassifications. First, the loss of emerging market status may cause investment funds tracking that category to rebalance their portfolios and reduce

demand for the country's equities. This could generate short-term price pressure, particularly between the announcement and implementation dates. Second, reclassifications often arise because of prevailing market conditions and structural problems.

In conclusion, the cases examined indicate that losing emerging market status can have adverse consequences for financial markets but the magnitude and persistence of these consequences are not predetermined. Although portfolio movements related to reclassification may be important in the short term, longer-term performance depends on macroeconomic stability, market liquidity, investor confidence, and global financing conditions. MSCI classification decisions should, therefore, be viewed not as events that independently explain financial market performance but as developments to be evaluated in conjunction with prevailing economic and institutional conditions.

6. Implications for Türkiye

In 2026, the Capital Markets Board of Türkiye (CMB, 2026) introduced new rules concerning the activities of investment funds, the calculation of free-float shares, and ownership disclosures. Nevertheless, in its statement of October 15, 2026 (MSCI, 2026), MSCI indicated that the impact and effectiveness of these measures in practice could not yet be adequately assessed and temporarily froze certain index changes affecting Turkish equities. The freeze covered increases in the foreign inclusion factors and share counts used in indexes, the addition of new constituents to the MSCI Turkey Investable Market Index, and the migration of constituents to larger market-capitalization segments. MSCI also stated that if sufficient progress is not made by June 2027, it could initiate a consultation on reclassifying Türkiye as a frontier or standalone market.

Drawing on historical cases, the first potential effect for Türkiye concerns its equity market. If Türkiye were removed from the emerging markets category, investment funds tracking that category might have to reduce the weight of Turkish equities in their portfolios or exit those positions entirely. Such a development could create selling pressure, particularly in the shares of large and liquid companies with significant international investor participation. Expectations regarding index changes could also be reflected in prices before a final decision is announced. However, demand from funds able to invest in Türkiye under the new classification, the behavior of active investors, and portfolio adjustments made in advance could all alter the magnitude of the overall effect. Therefore, it would be inappropriate to conclude that a potential reclassification would necessarily produce a stock market decline of a particular size or duration.

A second important channel for Türkiye is the foreign exchange market. The loss of emerging market status could put pressure on demand for foreign exchange by reducing foreign portfolio investment or accelerating capital outflows. However, the effects on the real exchange rate would depend on the monetary policy stance, the adequacy of international reserves, the behavior of resident investors, and global financial conditions. The differing directions of real exchange rate movements in the historical cases indicate that a one-directional change cannot be predicted for Türkiye either. Unlike Jordan and Morocco, however, Türkiye has a floating exchange rate regime, which allows potential portfolio movements to be reflected more readily in the nominal exchange rate. Continued high inflation in Türkiye further complicates the assessment of how nominal exchange rate movements affect the real exchange rate.

Another important distinction between Türkiye and the historical cases is that the current classification debate relates primarily to the functioning of capital markets and international investor confidence rather than directly to an economic crisis. In this respect, Türkiye's situation resembles cases in which classification changed because of problems with market accessibility. Pakistan is particularly relevant in showing that restrictions affecting market functioning can be decisive in MSCI decisions. However, the price floor imposed on Pakistan's stock exchange in 2008 and the external financing crisis it faced differ substantially from Türkiye's current conditions. It would, therefore, be inappropriate to derive a direct equity price or exchange rate forecast from that case.

Under current conditions, two main scenarios stand out for Türkiye. In the first, effective implementation of regulations concerning market transparency and supervision addresses MSCI's concerns and Türkiye retains its emerging market status. Such an outcome could reduce classification uncertainty and support international investor confidence. In the second, the measures are deemed insufficient and a reclassification process is initiated. This could generate additional volatility in international portfolio flows, equity prices, and the exchange rate. The ultimate outcome, however, would depend on the scope and implementation timetable of the classification decision and on the economic conditions prevailing when it is made.

In this context, the priority for Türkiye is not only to preserve emerging market status but also to strengthen international investors' confidence in the functioning of its capital markets. Reliable calculation of free-float ratios, transparent identification of ultimate beneficial owners, effective supervision of market-disrupting transactions, and greater predictability in the regulatory framework are important in this regard. Lasting improvements in market accessibility could have positive consequences not only for MSCI classification but also for the long-term development of Türkiye's capital markets and access to international capital.

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