

## Highlights of the Sovereign Rating on the Republic of Turkey

### Updated Rating

Long-term Local Currency: BBB<sub>i</sub>-

Long-term Foreign Currency: BB<sub>i</sub>

Outlook: Stable

### Previous Rating

Long-term Local Currency: BBB<sub>i</sub>

Long-term Foreign Currency: BB<sub>i</sub>+

Outlook: Negative

### Ratings Updated on

June 28<sup>th</sup>, 2016

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### Rating Opinions

United Ratings has downgraded the long-term local currency rating of the Republic of Turkey (hereinafter, "Turkey") from BBB<sub>i</sub> to BBB<sub>i</sub>-, and the long-term foreign currency rating from BB<sub>i</sub> to BB<sub>i</sub>, with Stable outlook. Although the military coup attempt on July 15<sup>th</sup> resulted in failure, the country's political turmoil is likely to exacerbate, and domestic security risks as well as geopolitical uncertainties are likely to rise. As a nation with lasting dependence on short-term capital inflows, Turkey faces increasingly severe risks in its investment environment, resulting in increased fragility of its economic growth. Furthermore, the soaring fiscal deficit could give rise to the currently moderate government debt burden. And the considerable deficit of the country's current account is adding to its relatively high foreign debt. The short-term external debt of its banking sector will keep increasing. In summary, the solvency of the Turkish central government in local and foreign currencies is declining.

### Reasons for Downgrading Ratings

- The failed military coup attempt on July 15<sup>th</sup> has seemingly intensified Turkey's domestic political confrontations and increased its domestic security risks.
- The country's geopolitics is worsening: relations with major powers are strained, and geopolitical uncertainties are rising.
- Risks relating to the investment environment is increasing. For such a financial system that has long been depending on external financing, the fragility of economic growth is increasing.
- The continuous high inflation rate worsens the quality of the country's economic growth.
- Deficit of the current account stays high, adding to its relatively high foreign debt.
- The prospect of political instability after the military coup attempt and depreciation of local currency will give rise to external liquidity risk.

## Outlook

Thanks to President Erdogan's efforts for power centralization, the political status of the nation won't go out of control, while remaining unstable. It is yet to be observed as to how the economic growth would be affected. The fiscal deficit is tending to increase;

however, the government has assured its willingness to enhance fiscal disciplines. In the short run, the government debt burden will stay at a low level compared with similar economies. In conclusion, United Ratings affirms the outlook for both long-term local and foreign currency ratings of the country at stable.

|  | 2011    | 2012    | 2013    | 2014    | 2015   | 2016 <sup>f</sup> |
|--|---------|---------|---------|---------|--------|-------------------|
| GDP (billion USD)                              | 774.6   | 789.0   | 823.0   | 798.8   | 717.7  | 710.3             |
| GDP per capita (USD)                           | 10464.7 | 10561.8 | 10918.2 | 10504.7 | 9360.0 | 9310.0            |
| Real GDP Growth Rate (%)                       | 8.8     | 2.1     | 4.2     | 3.0     | 4.0    | 3.0               |
| Inflation rate (%)                             | 6.5     | 8.9     | 7.5     | 8.9     | 7.7    | 8.0               |
| Total lending/GDP (%)                          | 77.0    | 80.0    | 105.4   | 114.4   | 123.4  | 125.6             |
| Domestic credit growth (%)                     | 15.7    | 13.8    | 25.3    | 16.5    | 17.9   | 18.8              |
| M2 Growth (%)                                  | 14.8    | 10.2    | 22.2    | 11.9    | 17.1   | 17.3              |
| Budget balance of governments/GDP (%)          | -1.4    | -2.1    | -1.2    | -1.3    | -1.2   | -2.0              |
| Primary balance of governments/GDP             | 2.9     | 1.3     | 2.0     | 1.6     | 1.5    | 0.7               |
| Public debt/GDP (%)                            | 40.0    | 37.6    | 37.4    | 35.0    | 34.7   | 34.9              |
| Current-account balance/GDP (%)                | -9.7    | -6.2    | -7.9    | -5.8    | -4.9   | -4.9              |
| Total foreign debt/GDP (%)                     | 39.4    | 42.7    | 47.3    | 51.1    | 55.5   | 56.8              |
| Total foreign debt/Current-account (%)         | 159.2   | 157.0   | 178.9   | 178.0   | 193.1  | 195.0             |
| Short-term foreign debt/Total foreign debt (%) | 26.7    | 29.7    | 33.5    | 32.5    | 26.4   | 26.0              |
| International reserves/Total foreign debt (%)  | 28.9    | 35.4    | 33.6    | 31.2    | 28.1   | 28.0              |
| Gross external financing requirement/GDP (%)   | 25.0    | 22.0    | 25.8    | 27.3    | 29.4   | 26.0              |

Source: Sovereign Rating Database of United Ratings.

Note: "f" stands for forecasts.