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## IIRA Maintains Sovereign Ratings of Republic of Turkey

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**Manama, November 09, 2018** –The Islamic International Rating Agency (IIRA) has maintained the long term and short term foreign currency ratings of Republic of Turkey ('Turkey' or 'the Country') at 'BBB- / A3' (Triple B Minus / Single A Three) and local currency ratings at 'BBB/A3' (Triple B/ Single A Three), on the international scale, with 'Negative' outlook. National Scale ratings have been maintained at 'AAA (tr)/ A1+ (tr)' (Triple A/ Single A One Plus).

The current ratings of the country are reflective of Turkey's inherent economic resilience, sustained fiscal discipline and a well-developed social infrastructure. While the banking system has so far withstood the increasing vulnerability stemming from the foreign currency indebtedness of the non-financial corporate sector, risk levels are heightened. After registering strong growth in 2017 and H1'2018, Turkey is going through an economic slowdown with expected annual growth of below 4% for 2018 and still lower in 2019. Volatility of the Turkish Lira, high inflation and increasing unemployment may be viewed as constraining factors in our assessment of the outstanding rating of the Republic of Turkey. While the local currency has lately posted some recovery, and significant monetary tightening in recent months is likely to begin to curb inflation, the recovery of the economy is expected to be gradual.

Over the years, the government has demonstrated fiscal discipline, which has assisted in implementing appropriate countercyclical policies as needed. Tax amendments introduced during 2017 yielded positive results with higher tax revenues. However, growth in government expenditure is estimated to outpace government revenues growth in 2018, and is likely to result in widening fiscal deficit to around 2%. Fiscal pressures are estimated to persist through 2019, with an economic slowdown hampering revenue growth.

Turkey's current account deficit widened in 2017, and further in H1'2018. Merchandise exports registered a strong increase due to higher global demand; however it was outpaced by growth in import bill during 2017 driven primarily by higher gold imports, followed by higher energy prices, and despite some recovery in tourism revenues. Trends have shown some reversal during Q3'2018 with deceleration in imports and higher exports growth, due also to currency depreciation, which if sustained may reduce the current account deficit compared to the previous year.

As of June 2018, Turkey's gross external debt remained at a level comparable to end-2017, following continued increase since 2015. The level of indebtedness in the private, non-financial sector, remains a concern, heightened by the volatility of the Turkish Lira, and the economic slowdown anticipated in the coming few quarters. Moreover gross international reserves (excl. gold) stand lower against short term external debt at 84.5% as of June 2018 (Dec: 2017: 95.5%).

While banking sector health indicators remained largely intact, we expect some deterioration during H2'2018. Absolute levels of non-performing loans ("NPLs") have increased both for TL and FX denominated loans, which is expected to grow further in the light of prevailing economic uncertainties. Considering banking sector's significant utilization of foreign currency denominated funding, and increasingly high risk exposure to Turkey's corporate sector, which carries considerable FCY liabilities on its balance sheet, the banking sector is exposed to notable risk. IIRA believes that these risks are as yet manageable; however will continue to monitor the sector, for adverse trends.



The 'Negative' outlook signifies Turkey's on-going economic difficulties including a volatile Turkish Lira, high inflation, expected though as yet manageable deterioration in banking sector indicators, portfolio outflows and a widening fiscal deficit. IIRA may lower the ratings if:

- a. Economic slowdown is steeper than indicated in this release,
- b. Inflation levels do not post meaningful reversal by end H1'2019,
- c. Material deterioration is witnessed in banking sector stability indicators.

IIRA may consider revising the outlook to 'Stable', if and when

- a. Economic growth begins to recover and inflation and interest rates achieve a degree of normalcy,
- b. No material deterioration is witnessed in the banking sector stability indicators.

For further information on this rating announcement, please contact IIRA at [iira@iirating.com](mailto:iira@iirating.com).