



IIRA assigns first-time credit ratings to the Republic of Turkey

Istanbul / Bahrain, October 05, 2008 – IIRA has assigned following credit ratings to the financial obligations of the Republic of Turkey :

Global Scale

BBB- for long-term local currency obligations
BB+ for long-term foreign currency obligations
A-3 for short-term local currency obligations
A-3 for short-term foreign currency obligations

National Scale

AAA ns for long-term obligations
A-1+ ns for short-term obligations

Outlook Stable

Turkey has achieved extraordinary progress in the last seven years largely as a result of sound economic and financial management leading to very significant lowering of the debt burden relative to GDP, shifting much of the government's external debt to a domestic basis, gaining control of inflation, and broadening the export base.

Improving economic fundamentals reflect a strong and diversifying economy which achieved average real GDP growth of 6.6% over the past three years coupled with control over inflation which remained under 10% during the last 4 years. (2007 8.4% and 2006 9.6%). Due to the volatilities in the external environment, the growth has slowed down to 4.5% in 2007 and going forward with inflation expectation of 11% in 2008, IIRA expects real GDP growth to be 3.5%.

Total government debt declined to YTL 333.5 billion in 2007, equal to 38.9% of GDP. Equivalent figures for 2006 were YTL345 billion, equal to 45.5% of GDP. Of these totals, the government's external debt was reduced from an amount equivalent to 12.3% of GDP to 9.1%. Consistent with the recent trends, the total government debt to GDP ratio is expected to decline further in 2008, ultimately reaching the target of 30% in a few years time. Despite the relatively low debt to GDP burden, because of the high interest rate environment, government debt servicing relative to the government revenues remain comparatively high, calculated at 25.7% in 2007 (2006 26.5%)

As a result of the increased burden of transfer payments, the Government's primary fiscal balance (before interest) declined from 5.4% in 2006 to 4.1% during 2007. The overall fiscal deficit in the country's high interest rate environment increased to 1.6% of GDP in 2007 up from 0.6% the prior year. Due to continuing fiscal discipline IIRA expects fiscal deficit to come down to approximately 1% of GDP in 2008.

Increasing imports resulting from the effect of higher oil prices, rising capital equipment imports and consumption have contributed to a current account deficit of USD37.5 billion in 2007, up from USD 31.9 billion the prior year. The deficit is 5.7% of GDP stated in dollars, In recent years, the deficit has been funded by foreign direct investment and investment the government classifies as "Other." This is principally interbank funding and corporate borrowing for expansion. Turkey has accumulated USD 108.2 billion of foreign exchange and gold reserves, up from USD90.7bn in 2006. Current import cover is 7.34 months of imports.

Turkey is a candidate country to join the European Union and many of its strategies have been geared to further this objective. According to the Central bank's publications, the country is sensitive to the global environment and increasingly volatile external environment caused by the sub-prime mortgage crisis and rising food and energy prices. Going forward IIRA will continue to monitor the potential impact of these factors on the country since this could have substantial bearing on the credit standing.

These ratings were carried out on IIRA's initiative. For further information on this rating announcement, please contact J. M. McMullen (Senior Vice President- Ratings) or Mr. Umer Zuberi (Assistant Vice President) at +973-1721 1606 or fax no +973 1721 1605

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