



IIRA upgrades sovereign ratings of the Republic of Turkey.

Manama, January 5, 2011 – Islamic International Rating Agency (IIRA) has upgraded the long term foreign currency sovereign rating of the Republic of Turkey from 'BB+' to 'BBB-'. The long term local currency sovereign rating has also been upgraded from 'BBB-' to 'BBB'. The short term credit rating on both foreign and local currency scale has been maintained at 'A-3'. On the national scale, ratings have been reaffirmed at 'AAA/A-1+(tr)'. Outlook on the assigned ratings is Stable.

The upgrade reflects Turkey's improved economic fundamentals, with the country having achieved domestic demand driven recovery in 2010 and having posted GDP growth of 9% after the contraction of 4.8% in 2009. In the backdrop of fiscal and monetary tightening measures, growth rate has exhibited a quarter-by-quarter decline in 2011, though full year GDP growth is still likely to be high at around 7.5%. Moderation in GDP growth rate may be expected in the coming years. Additional monetary tightening may also be expected in the face of rising inflation, which is around 10% for full year 2011.

Turkey has undergone major changes in fiscal structure over the last decade. It has succeeded in reducing fiscal deficit as a percentage of GDP from 11.9% in 2001 to 1.8% in 2008. The ratio increased in 2009 to 5.5%, however, with the growth in 2010, this again declined to 3.6%. The fiscal balance in 2011 has received support from collections against a tax restructuring scheme announced by the government, which is a temporary phenomenon and more long term, sustainable measures would be required to achieve the planned reduction in fiscal deficit in relation to GDP.

While the pace of accumulation of additional debt had slowed down considerably in line with improving fiscal balances, the same accelerated in 2008 and 2009, as the economy slowed down and faced contraction. Gross debt stock as a percentage of GDP increased to 46.1% in 2009, though declining subsequently to 42.2% by end-2010. Government has projected reduction in gross debt stock as percentage of GDP to as low as 32% by 2014. In addition to internal policy measures, the ability to achieve these levels greatly depends on external factors, given the country's dependence on foreign flows. Furthermore, the government's plan to enhance the maturity profile of domestic debt will be tracked by IIRA.

Turkey has a manageable external debt position. Over the last seven years, external debt servicing (including private sector external debt) has remained in the range of 7-8% of GDP, with the exception of 2009, when it peaked to 9.4% due to the decline in GDP. Gross international reserves with the CBRT (Central Bank of Republic of Turkey) represented slightly under 100% of short term external debt, with this ratio having depicted a declining trend over time.

The high import content of Turkey's domestic and external demand is reflected in its large current account deficit. The absence of the current account deficit during the crisis and assertive re-emergence in 2010 underlines a lack of external competitiveness. The widening Current Account Deficit (CAD) contributed largely by a burgeoning trade deficit and slower FDI receipts raises concerns as regards the country's external balances. Containing the external gap from further expansion will be essential in coming months and future developments in this regard may need to be closely monitored. With the European markets still being the major export destinations, future export potential is linked to the health of these economies. Furthermore, major proportion of Foreign Direct Investment has also been received from European countries in the past.

Turkish banks were seen to be less impacted by the global developments. Despite the growth in risk weighted assets, primarily in the form of increased lending activity, capitalization levels were maintained at satisfactory level of 16.6% at end October 2011. Loan delinquencies of the banking sector, while increasing to 5.3% in 2009, declined to 2.7% by October 2011. While banks may experience some increase in infection rates in 2012, as the economy slows, the central bank does not expect this ratio to increase materially. The privatization of state-owned banks, which have a sizeable share in the banking sector, has yet to be undertaken.

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