

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

## Republic of Turkey (security code: -)

<Credit Monitor Removal><Affirmation>

Foreign Currency Long-term Issuer Rating:	from #BBB-/Negative to BBB-
Outlook:	Negative
Local Currency Long-term Issuer Rating:	from #BBB-/Negative to BBB-
Outlook:	Negative
Bonds:	from #BBB-/Negative to BBB-

### Rationale

- (1) The growing tension between the US and Turkey over the country's detention of an American pastor sent the Turkish lira crashing in value on August 10, 2018. Accordingly, on August 14, JCR placed the country's issuer and bond ratings under Credit Monitor with Negative direction and has been examining the impact of the currency's plunge on its economy and public finance. Following the placement of the Credit Monitor, the lira has been somewhat recovering thanks to the policy rate hike and the improvement of the relationship with the US. Turkey's external balance has been improving with its current account balance turning to positive on a monthly basis due to declining imports, amid its economic slowdown. In addition, the government debt outstanding will stay within a restrained level of below-35% level at the end of 2018 although it has been affected by the lira's fall and the increase in interest payments. Meanwhile, the country's foreign reserves have been declining while its external financing needs remain high. Its refinancing has been facing downward pressure amid remaining uncertainty over the government's policy and external environment. All these considered, JCR has removed the ratings from the Credit Monitor and affirmed them with Negative outlook.
- (2) The Turkish economy has long been faced with the need to correct its macroeconomic imbalances as seen in a low level of domestic savings and a chronic current account deficit. The real GDP growth rate significantly exceeded the potential growth rate (estimated at around 5%) in 2017 and the first half of 2018 thanks to the effect of stimulus measures implemented by the government. However, the adjustment of the imbalances has been proceeding as evidenced by (i) a contraction of domestic demand brought by the rise of import prices as a result of the plunge of the lira and by the hike of domestic interest rates, and (ii) its current account balance turning to positive on a monthly basis. The economy is likely to see negative growth throughout the first half of 2019. The CPI inflation rate accelerated since the second half of 2018 in keeping with the lira's steep depreciation. However, the inflation is expected to peak out within 2019 if the lira stays at its current level. Accordingly, the economy will recover at a moderate pace.
- (3) The government announced its New Economic Program (NEP) in September 2018. In this plan, the government expects the fiscal deficit to widen to 2.7% of GDP in 2018, but thereafter it sees that the general government debt-to-GDP ratio would decline to a 20% level through fiscal consolidation. JCR assumes that the fiscal deficit in the near future is likely to expand further due to sluggish tax revenues amid the economic slowdown and increased interest payments stemming from the higher interest rates. Nonetheless, JCR also holds that the debt-to-GDP ratio will stay at a mid-30% level in the next three years, demonstrating certain fiscal room still maintained by the government.
- (4) The country's external debt outstanding kept increasing amid the accumulation of current account deficits, reaching 52% of GDP at the end of June 2018. The banking sector, which has a large amount of short-term external debts, holds foreign currency liquidity assets enough to cover much of those debts. Its foreign currency position is kept almost balanced through utilization of hedges. Therefore JCR holds that the sector's foreign exchange losses on the lira's fall would be rather limited. However, the country's external financing needs remain high. The rollover of the large amount of short-term external debts especially in the banking sector remains susceptible to market trends. How the situation will unfold needs to be closely watched.
- (5) The banking sector's financial condition remains sound, with its capital adequacy ratio and nonperforming loan ratio (gross) standing at 18.1% and 3.3%, respectively, at the end of

September 2018. Its financial condition is likely to deteriorate in the months ahead given the impact of the lira's steep fall and the sharp rise in interest rates. Nonetheless, the impact will be eased to some extent by the remedial measures taken by the Banking Regulation and Supervision Agency and the efforts for collective restructuring of corporate debts led by the Banks Association of Turkey.

Toshihiko Naito, Shinichi Endo

## Rating

Issuer: Republic of Turkey

<Credit Monitor Removal><Affirmation>

Foreign Currency Long-term Issuer Rating: BBB-

Outlook: Negative

Local Currency Long-term Issuer Rating: BBB-

Outlook: Negative

Issue	Amount(bn)	Issue Date	Due Date	Coupon	Rating
Japanese Yen Bonds Series E Series 1 (2017)	JPY 37	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-
Japanese Yen Bonds Series E Series 2 (2017)	JPY 2	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-
Japanese Yen Bonds Series E Series 3 (2017)	JPY 1	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-
Japanese Yen Bonds Series E Series 4 (2017)	JPY 0.7	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-
Japanese Yen Bonds Series E Series 5 (2017)	JPY 3	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-
Japanese Yen Bonds Series E Series 6 (2017)	JPY 2.4	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-
Japanese Yen Bonds Series E Series 7 (2017)	JPY 3.6	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-
Japanese Yen Bonds Series E Series 8 (2017)	JPY 3	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-
Japanese Yen Bonds Series E Series 9 (2017)	JPY 3.6	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-
Japanese Yen Bonds Series E Series 10 (2017)	JPY 3.7	Dec. 7, 2017	Dec. 7, 2020	1.81%	BBB-

Rating Assignment Date: November 21, 2018

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of methodology for determination of the credit rating is shown as "Sovereign and Public Sector Entities" (November 7, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

## Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Republic of Turkey
Rating Publication Date:	November 27, 2018

1

The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2

The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3

The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Economic Base

The likelihood of a given debt payment is highly conditional to the issuing government's ability to maintain/expand the economic base into the future with maintaining soundness of financial systems.

B) Fiscal Base

The likelihood of a given debt payment is highly correlated to fiscal balance, public debt and other factors of the issuing government's fiscal condition.

C) External Positions

The likelihood of a given debt payment is highly correlated to the liquidity positions which change along with the international balance of payments and the international investment position.

D) Social and Political Bases and Economic Policy

The likelihood of a given debt payment is highly conditional to the social and political stability, effectiveness of economic and monetary policies as well as international economics.

E) Related Parties' Stance of Support/ Assistance for the Government

The likelihood of a given debt payment is affected by the stance of the credit enhancement provider and other related parties with regard to their stance of support/ assistance for the issuing government.

F) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuing government's will, and/ or its rank relative to other debts of the same government in the order of seniority in principal/ interest payment which is determined by design as financial product or by international practice, etc.

## 4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

## 5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

## 6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

## 7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

## 8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.
- A) Informational and explanatory materials presented by the rating stakeholders with regard to the economy and fiscal management policy, etc. of the issuing government
- B) Statistics and reports published by an independent organization with regard to the economy and fiscal status, etc. of the issuing government

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Economic Base

The credit rating is subject to alteration if there is an improvement or deterioration of the issuer's economy or financial systems, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### B) Fiscal Base

The credit rating is subject to alteration if the issuer increases/ decreases its fiscal deficit/ surplus and its public debt and thereby makes given debt payment liability less/ more bearable. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### C) External Positions

The credit rating is subject to alteration if there is a change in the issuer's international balance of payments and international investment position and thereby an improvement/ deterioration of its liquidity positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### D) Social and Political Bases and Economic Policy

The credit rating is subject to alteration if there is a change in the issuer's social and political conditions or economic/ monetary policies, etc. and thereby an improvement/ deterioration of its economy and fiscal positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

#### E) Related Parties' Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the credit enhancement provider or other related parties with regard to their stance of support/ assistance for the issuing government and thereby an improvement/ deterioration of its economy, fiscal positions and liquidity positions. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

#### F) Order of Seniority in Debt Payment

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts, due to improvement/ deterioration of the issuer's fiscal condition and/or will. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

#### G) International Economies

The credit rating is subject to alteration if there is a change in the international economies, commodity or foreign exchange markets, etc. and thereby, through international balance of payments, an improvement/ deterioration in the issuer's fiscal balance or debt payment capacity. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

#### H) Various Events

The credit rating is subject to alteration on occurrence of various events, such as domestic unrest, war, natural disaster, etc. which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's economy, fiscal positions, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

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Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

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Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

#### A) Economic Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's economy or financial systems, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's economy or financial systems on some drastic change in environments, etc.

#### B) Fiscal Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's fiscal conditions in terms of annual balance or public debt. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's fiscal condition on some drastic change in its economy.

#### C) External Positions

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions reflecting

improvement or deterioration of the international balance of payments and the international investment position. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in the country's economic/ fiscal conditions and financing activities, etc.

D) Social and Political Bases and Economic Policies

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's social and political bases and economic/ monetary policies. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the country's situation changes drastically, making the issuer's social and political bases and economic/monetary policies significantly improved or deteriorated.

E) International Economics

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of the international economies or commodity/ foreign exchange markets, etc. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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## The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Republic of Turkey	Issuer(Long-term)(LC)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Issuer(Long-term)(FC)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 1 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 1 (2017)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 2 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 2 (2017)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 3 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 3 (2017)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 4 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 4 (2017)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 5 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 5 (2017)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 6 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 6 (2017)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 7 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 7 (2017)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 8 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 8 (2017)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 9 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 9 (2017)	August 14, 2018	#BBB-	Negative
Republic of Turkey	Japanese Yen Bonds Series E Series 10 (2017)	December 1, 2017	BBB-	
Republic of Turkey	Japanese Yen Bonds Series E Series 10 (2017)	August 14, 2018	#BBB-	Negative

## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Atsushi Masuda  
General Manager of International Rating Department

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