

Regional & Local Gov't Credit Rating

New Update

Sector: Subnational
 Administrations-Municipalities
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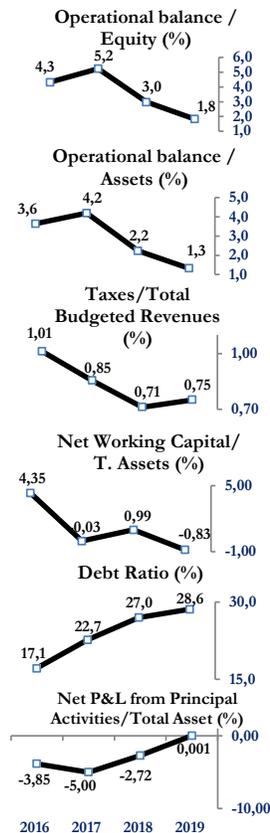
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RATINGS

		LT	ST	
International	Foreign Currency	BB+	B	
	Local Currency	BB+	B	
	Outlook	FC	Negative	Negative
		LC	Negative	Negative
Issue Rating	-	-		
National	Local Rating	AAA (Trk)	A-1+ (Trk)	
	Outlook	Stable	Stable	
	Issue Rating	-	-	
System Support		1	-	
Sovereign*	Foreign Currency	BB+	-	
	Local Currency	BB+	-	
	Outlook	FC	Negative	-
LC		Negative	-	

*Assigned by JCR on April 10, 2020



İBB-İSTANBUL BÜYÜKŞEHİR BELEDİYESİ (MMI-The Metropolitan Municipality of Istanbul)

JCR Eurasia Rating, by assessing “the Metropolitan Municipality of Istanbul” within the highest investment grade category, affirms ratings of **‘AAA(Trk)’** on the Long-Term National Scale along with **‘Stable’** outlook. On the other hand, the ratings for the Long-Term International FC and LC notes were assigned as **‘BB+ / Negative’**.

Turkey's largest municipality with its pivotal position in the economy, the Metropolitan Municipality of Istanbul (MMI) is one of the most prominent municipalities in the world regarding asset size and range of services. The Municipality serves the city limits of Istanbul and operates through 28 subsidiaries and 2 affiliated administrations namely, IETT and ISKI.

With a population over 15 million and ranking among the largest international economies in terms of national income, Istanbul is among the world's major cities with regard to history, culture and geography and holds a prominent place in the Turkish economy with its share of nearly over 30% in the GDP.

The MMI, consisting of 39 counties, is administered by a council of 312 members and also includes a 11-member Executive Committee, 10-member Council Clerk and a 5-member Ethics Committee. The current distribution of seats in the council are shared amongst AKP (55.77%), CHP (38.78%), IYI (4.17%) and MHP (1.28%) while CHP candidate was elected as the mayor.

Strengths

- High level of fiscal support by the central government as secured by law
- Asset growth rates and internal profitability supporting robustness of balance sheet structure
- Adequacy of current capitalization level despite deteriorating trend line
- Undervalued real estate portfolio offering hidden reserve and providing manoeuvring capability in case of adverse circumstances
- Impulsive force of Istanbul within the Turkish economy marked by high tax generation capacity and significant tourism potential together with rich historical background and cultural heritage
- Debt structure preserving its resilience to depreciation of Turkish Lira through low level of exposure
- Resource efficiency, specialization, service effectiveness and a degree of discretion on revenues attained through a business approach of performing services through its subsidiaries
- High cash generation capacity and financial strength of some of its subsidiaries

Constraints

- Municipalities' own revenue generation capabilities still remaining below adequate levels
- Net working capital indicators exhibiting notable declining path and requiring further improvement
- Coverage of budgeted expenditures by budgeted revenues required to be significantly improved
- Persisting resource requirements through ongoing huge projects
- High leverages of some of its subsidiaries and affiliated administrations
- High level of impaired receivables
- Relative scarcity of water resources
- Adversities through Covid-19 pandemic with regional intensity particularly in Istanbul
- Persistent building problems and defects in infrastructure despite earthquake risks

While the MMI sustains its solid financial structure, adequate operational performance and the stable outlook despite deteriorating equity ratios, JCR Eurasia Rating will monitor developments in the periods to come with regard to effects of measures taken to curb OPEX and CAPEX by reprioritizing projects; direction of the net working capital indicators during 2020 and 2021; reflection of any revisions of the sovereign rating notes of Turkey on the MMI's notes in the international category; and effects of FC-denominated bonds issue on the funding structure.

All of the abovementioned facts with regard to central government support indicate high level of central systemic support as defined by and secured under the laws for all of the municipalities and the metropolitan municipalities in particular across the country compared to the world averages. Also, regarding the fact that per capita income and welfare level in Istanbul are higher than averages of those in Turkey despite adversities stemming from continuing migration and transportation problems and growing resource requirements therein through ongoing huge projects in this respect, the general administrative system support note for the MMI is affirmed at the highest level of (1).