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Press Release: Rating Action

JCR affirms BB- (FC/LC) ratings on Turkey; Outlook Stable

Issuer: Republic of Turkey

<Description of Debts>

Issues	*Rating*	*Outlook*
FC (Foreign Currency Long-Term Senior Debts)	BB-	Stable
LC (Local Currency Long-Term Senior Debts)	BB-	Stable

JCR has affirmed its BB- ratings on the Republic of Turkey's foreign and local currency long-term senior debts. The outlook of the ratings is stable.

The Turkish economy posted an average real GDP growth rate 6.9% per year for five years through 2007. However, it deteriorated sharply later, registering a minus 6.2% growth in the fourth quarter of 2008 as the global financial and economic crisis spread into the real economy. As a result, the annual growth rate slowed down to 1.1% in 2008 from 4.7% in 2007. For 2009, with domestic demand centering on private consumption and private investment expected to become sluggish due mainly to slower exports and a worse employment environment, the economy is likely to fall into a substantial negative growth for the first time since 2001. For 2010, although it may return to recovery on the assumption of a moderate pickup of the world economy, the growth rate is likely to stay at lower levels.

The Turkish government has been negotiating with the IMF for a new standby arrangement. However, they have apparently yet to reach an agreement due to differences over conditions pertaining to Turkey's fiscal policy. In order to realize a sustainable economic development, the Turkish economy will have to overcome weakness of its external balance as exemplified by its current account deficit, which is apt to expand rather easily. In this sense, a new standby arrangement with the IMF is expected to play an important role in improving the country's international confidence especially when the economy deteriorates sharply. JCR will keep watching future developments of the matter as well as progress on reforms aimed at Turkey's EU membership.

On the political front, the ruling Justice and Development Party (AKP) managed to retain its position as the largest party in the unified local elections in March 2009. However, its share of the votes fell as compared with that in the previous elections. In recent years, the country has been faced with various political and social problems such as the terrorist attacks reportedly by the Kurdish Workers' Party (PKK), the presidential election and the prosecutor's legal action over the dissolution of AKP. It is crucial for the country to improve its political and social stability, a prerequisite for corporate investment, as it seeks to realize sustainable economic development in the medium and long term and overcome the weakness of its external balance. The Erdogan government needs to maintain the people's support and improve political and social stability amid the faltering economy. It also needs to maintain the country's international confidence by taking advantage of its new relationship with the IMF and through implementation of reforms geared for its EU membership.

(1) Economic situation

The Turkish economy grew an average 6.9% per year in real GDP terms for five years until 2007. However, it turned slowing down after peaking out at 7.3% in the first quarter of 2008. Especially, it plunged to a minus 6.2% real GDP growth rate in the fourth quarter of the year as the impact of the global financial and economic crisis spread across the real economy. As a result, the annual growth rate of the economy slowed down to 1.1% in 2008 from 4.7% in 2007. With domestic demand becoming sluggish due mainly to slower exports and increased unemployment, the economy is likely to fall into a minus 4.9% growth in 2009 for the first major contraction since 2001.

As for external balance, the widening current account deficit mainly caused by a bigger trade deficit has been one of concerns for the Turkish economy in recent years. However, the current account deficit to GDP ratio is expected to drop substantially to the level of 1% in 2009 from 5.6% in 2008, thanks to sharp reduction of the trade deficit due to the slower imports caused mainly by the sharp drops of oil and commodity prices and decline in exports of technology intensive sectors with higher import dependency in the second half of 2008 as well as a steep economic downturn. The Turkish economy needs to overcome the weakness in its external balance as represented by its current account deficit which tends to expand. This requires it to secure a stable inflow of capital centering on foreign direct investment (FDI).

Meanwhile, the government's fiscal position has significantly improved as compared with the one during the economic crisis in 2001, thanks to the efforts it made under its standby arrangement with the IMF. In 2009, however, the public debt/GDP ratio which had been on the decrease until 2008 is likely to turn rising again due to the fiscal measures to be implemented to stimulate the economy.

(2) IMF-supported economic reforms and EU membership talks

The IMF standby arrangement was completed in May 2008 when the Fund approved its seventh review and released the relevant tranche. The Turkish government has been negotiating with the Fund for a new arrangement amid the real economy hit hard by the global financial and economic crisis, like many other developed and emerging economies. However, they have reportedly yet to reach an agreement due to differences over conditions pertaining to Turkey's fiscal policy.

Meanwhile, talks on Turkey's EU membership have been making progress except for some areas (eight of 35 policy areas) which the EU decided to freeze in December 2006. In its Progress Report released in November 2008, the EU made a generally positive assessment of the improved stability of the Turkish economy while pointing out the necessity of further political reforms. In order for the Turkish economy to overcome the impact of the global financial and economic crisis as smoothly as possible and to realize sustainable economic development, the country needs to maintain its international confidence by taking advantage of a new standby arrangement with the IMF and through the implementation of reforms aimed at its EU membership. JCR will keep a close watch on future developments in the both areas.

Yoshihiko Tamura, Chief Analyst
Haruna Saeki, Analyst

The primary rating methods applied to the ratings are posted on JCR's website (http://www.jcr.co.jp) "Sovereign, International Public Finance and Multilateral Development Bank Rating Methodology." The rating methods are subject to change or addition. However, the changes and additions including those that have been made in the past are posted in chronological order. Please refer to the rating methods above after checking by comparing the date of press release about the ratings with the release date of the rating methods (effective date of each of such rating methods).

＜Bloomberg＞

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