

Republic of Turkey

This annex refers to the release of the monitoring note of 10 September 2021

Annex I.I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

Implied rating of core variable scorecard (CVS)		bbb-
Reserve currency adjustment		0
Weight	Qualitative scorecard (QS) for long-term foreign currency ratings	
20%	Growth potential of the economy	Neutral
	Monetary policy framework	Weak
	Macro-economic stability and sustainability	Weak
20%	Fiscal policy framework	Neutral
	Debt sustainability	Weak
	Debt profile and market access	Weak
20%	Current account resilience	Weak
	External debt structure	Weak
	Resilience to short-term shocks	Weak
20%	Banking sector performance	Strong
	Banking sector oversight	Neutral
	Financial imbalances	Weak
20%	Environmental risks	Neutral
	Social risks	Neutral
	Institutional and political risks	Weak
QS adjustment (notches)		-3
Additional considerations (notches)		-2
Final rating		B NEG

¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scoperatings.com

Annex I.II: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard²

Implied rating of core variable scorecard (CVS)		bbb-
Reserve currency adjustment		0
Weight	Qualitative scorecard (QS) for long-term local currency ratings	
20%	Growth potential of the economy	Neutral
	Monetary policy framework	Weak
	Macro-economic stability and sustainability	Weak
20%	Fiscal policy framework	Neutral
	Debt sustainability	Weak
	Debt profile and market access	Weak
20%	Current account resilience	Weak
	External debt structure	Weak
	Resilience to short-term shocks	Weak
20%	Banking sector performance	Strong
	Banking sector oversight	Neutral
	Financial imbalances	Weak
20%	Environmental risks	Neutral
	Social risks	Neutral
	Institutional and political risks	Weak
QS adjustment (notches)		-3
Additional considerations (notches)		-1
Final rating		B+ NEG

Annex II: Selected indicators

	2016	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD '000s)	10.9	10.6	9.5	9.2	8.5	9.3	10.1
Real GDP, % change	3.3	7.5	3.0	0.9	1.8	10.0	4.0
Unemployment rate, %	10.9	10.9	11.0	13.7	13.2	11.7	10.6
CPI, % change	7.8	11.1	16.3	15.2	12.3	13.6	11.8
Policy rate, %, EOP*	8.0	8.0	24.0	12.0	17.0	18.0	15.0
Fiscal balance, % of GDP	-2.3	-2.2	-3.7	-5.6	-5.4	-3.8	-3.7
Government debt, % of GDP, EOP	28.0	28.0	30.2	32.6	39.8	35.3	36.7
Current account balance, % of GDP	-3.1	-4.8	-2.8	0.9	-5.1	-3.4	-2.2

*Central bank 1-week repo rate. Yearly averages except where stated otherwise.
Source: IMF, Central Bank of the Republic of Turkey, Scope Ratings GmbH.

Annex III: Economic development and default indicators

IMF Development Classification³

5y USD CDS spread (bps) as of 10 September 2021

EMDE

367

² The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scooperatings.com

³ AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Turkey	September 2021	Assessment	Analytical rationale
Peers*	Greece, Croatia		
Domestic economic risk	Growth potential	Neutral	Strong growth potential, but realised growth has underperformed due to repeated crisis
	Monetary policy framework	Weak	Monetary-policy coherence undermined by frequent changes in central-bank governance, weak monetary policy credibility, independence and effectiveness
	Macro-economic stability & sustainability	Weak	Large and diversified economy; however, significant macro-economic imbalances including high inflation and unemployment
Public finance risk	Fiscal policy framework	Neutral	Deficits have been narrower than expected since Covid-19 crisis
	Debt sustainability	Weak	Weakening public-debt trajectory with high susceptibility to rises under adverse scenarios
	Debt profile & market access	Weak	Developed domestic capital markets but very high FX share of government debt, high debt financing costs and lack of access to sources of bilateral and multilateral financing
External economic risk	Current account resilience	Weak	Diversified exports; however, current-account deficit and reliance on “hot money” capital inflow
	External debt structure	Weak	Rising levels of external debt, risks to long-run external-debt sustainability due to inadequate reserves
	Resilience to short-term shocks	Weak	Inadequate reserve coverage of short-term external debt, (significantly negative) net reserves ex-swaps
Financial stability risk	Banking sector performance	Strong	Well-capitalised and resilient banking system able to provide significant liquidity to sovereign, low NPLs
	Banking sector oversight	Neutral	Banking system supervisory policies in the past have exacerbated macroeconomic imbalance
	Financial imbalances	Weak	Moderate private-sector debt but still-high credit growth and significant (though declining) net FX liabilities of non-financial corporate sector; growing sovereign-bank nexus
ESG risk	Environmental risks	Neutral	Exposure to natural disasters; improvement in certain areas on environment but deterioration in others
	Social risks	Neutral	Moderating but still positive demographic growth, high income inequality, moderate performance on health and health security preparedness indicators, moderate to weak educational outcomes
	Institutional and political risks	Weak	Significant institutional challenges, geopolitical tension, civil/domestic security concerns

*Peers relate to selected sovereigns with a similar indicative rating per Scope’s Core Variable Scorecard after the reserve-currency adjustment.

Additional considerations: One-notch downward adjustment to account for risks to long-run macroeconomic sustainability and propensity to crisis due to the governance framework. Additional one-notch negative adjustment of the rating for foreign-currency issuer and senior-unsecured long-term debt ratings to account for increasing risk of balance of payment crisis.