

Republic of Turkey

This annex refers to the release of the monitoring note of 26 March 2021

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

Implied rating of core variable scorecard (CVS)		bb
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	Neutral
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)		-2
Additional considerations (notches)		-1
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)		bb
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	Neutral
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)		-2
Additional considerations (notches)		0
Final rating		B+ NEG

Annex II: Selected indicators

Selected macroeconomic indicators	2016	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD '000s)	10.9	10.6	9.5	9.2	8.6	7.7	8.4
Real GDP, % change	3.3	7.5	3.0	0.9	1.8	6.2	-
CPI, % change	7.8	11.1	16.3	15.2	12.3	14.2	10.6
General government balance, % of GDP	-2.3	-2.2	-3.7	-5.6	-9.9	-8.5	-8.1
General government debt, % of GDP	28.0	28.0	30.2	33.0	42.0	48.0	52.0
Current account balance, % of GDP	-3.1	-4.7	-2.7	1.2	-5.1	-5.5	-4.0
Gross external debt, % of GDP	47.7	48.1	57.0	53.5	-	-	-

Source: Macrobond, IMF, Turkish Ministry of Treasury and Finance, Scope Ratings GmbH

Annex III: Economic development and default indicators

IMF Development Classification ³	EMDE
5y USD CDS spread (bps) as of 26 March 2021	461

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

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

Annex IV: Analytical rationale for QS assessments

Turkey	March 2021	Assessment	Analytical rationale
Peers*	Greece, Georgia		
	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	Neutral	Large and diversified economy; however, significant macro-economic imbalances including high inflation, elevated credit growth and an economy prone to crisis
	Public finance risk		
	Fiscal policy framework	Neutral	Appropriate countercyclical response to Covid-19 crisis, but deficits expected to remain elevated after the crisis is past
	Debt sustainability	Weak	Weak 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, growing 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 poor reserve adequacy
	Resilience to short-term shocks	Weak	Inadequate reserve coverage of short-term external debt, (negative) net reserves ex-swaps at all-time lows
Financial stability risk			
Banking sector performance	Strong	Well-capitalised and resilient banking system able to provide significant liquidity to the 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 elevated credit growth and significant net FX liabilities of the non-financial corporate sector	
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	