# Turkey: Rating downgrade by Fitch, outlook still negative

Fitch downgraded Turkey's sovereign debt, the second move in less than two years. The agency's decision to keep the outlook negative signals that it remains alert for the stance of the new government over market-friendly policies

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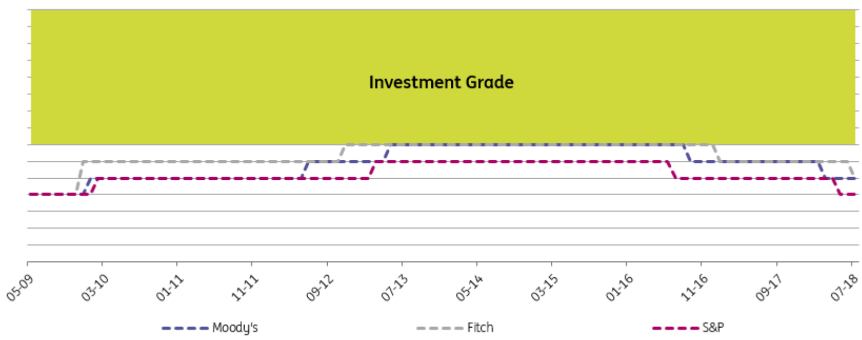
Following the placement of Turkish banks' ratings on watch negative at the beginning of June, Fitch moved further by cutting Turkey's credit rating deeper into non-investment grade at "BB", down from "BB+", while the outlook is "Negative". The move also came one-and-a-half years after the rating agency had lowered Turkey's rating in January 2017. Now, the ratings of Fitch's (negative) and Moody's (negative rating watch) are two notches below investment grade, while S&P (stable) is three notches below investment grade.

## Turkey rating over time




Source: ING Bank

According to the accompanying statement, the drivers that weigh on Turkey's credit rating are: (1) political pressure on monetary policy as well as uncertainty over the commitment to macro stability; (2) high external financing needs and a low international liquidity ratio; and (3) erosion of checks and balances leading to a political environment with a likely adverse effect on economic policymaking.

Turkey has witnessed a series of moves and actions by the rating agencies this year with downgrades from Moody's and S&P in March and May, respectively, while we see increasing warnings for adoption of policies that should take the Turkish economy to a sustainable growth, protect the government's fiscal strength and re-establish price stability. According to Fitch, drivers that can lead to another downgrade are: (1) a more challenging flow outlook with a sudden stop or hard landing of the economy; (2) failure to implement structural reforms and rebalance the economy; (3) increase in the government indebtedness; and (4) a serious deterioration in the political or security outlook.

Following the downgrade, Fitch's decision to keep Turkey's outlook negative also signals that the agency remains alert for the stance of the new government and economy management team over market-friendly policies in a backdrop of increasing economic concerns due to high inflation, high external imbalances, rising borrowing costs and volatile currency with a less supportive global environment. For a stabilisation of outlook, the agency cites a sustainable rebalancing of the economy with a reduction in external vulnerabilities and improvement in the political and security environment leading to a strengthening of the macro outlook as two major drivers.

> Economy and Finance Minister Berat Albayrak pledges to prioritise the rebalancing of the economy and tackling inflation, adding that fiscal policy will support those goals. Given that these are broadly aligned with what the rating agencies expect from the government, the challenge for the economy management would be to take these pledges into action by engineering a credible programme without a delay.

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