

Snap | 14 July 2018 Turkey

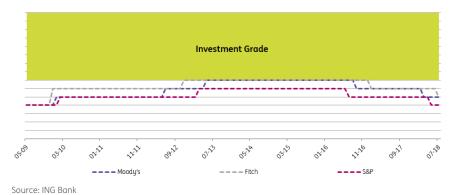
Turkey: Rating downgrade by Fitch, outlook still negative

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

https://think.ing.com/uploads/hero/140718-image-turkey_flag.jpg

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



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,

Snap | 14 July 2018 1

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.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Snap | 14 July 2018 2

 $Additional\ information\ is\ available\ on\ request.\ For\ more\ information\ about\ ING\ Group,\ please\ visit\ \underline{http://www.ing.com}.$

Snap | 14 July 2018 3