

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

## Republic of Turkey (security code: -)

### <Affirmation>

Foreign Currency Long-term Issuer Rating:	BBB-
Outlook:	Stable
Local Currency Long-term Issuer Rating:	BBB-
Outlook:	Stable

### Rationale

- (1) The ratings are supported by the country's largest economic base in the Middle East, financial soundness of the banking sector and restrained level of government debt. Meanwhile, the ratings are constrained by macroeconomic imbalances as seen in its low saving rate and chronic current account deficit, large external financing needs and dependence on the international financial markets, and political and social conditions which needs further improvements. The political base of the government has been steadily strengthening since the constitutional amendment aimed to introduce executive presidency was passed by majority in a referendum in April 2017. Since then, domestic political conditions and economic activities have been recovering. Transition to the executive presidency is planned to be implemented following presidential and general elections scheduled for November 2019. It is expected that there will be no large-scale national elections until that time. JCR considers that domestic political conditions will keep its status quo in general and economy will continue to grow moderately during that period. All these considered, JCR has affirmed its ratings with Stable outlook. It will closely monitor whether the government will accelerate structural reforms to correct the macroeconomic imbalances on the basis of a strengthening power base.
- (2) Located at the junction of Europe and Asia, Turkey is a major power in the Middle East with a population of nearly 80 million that is expected to become a major export base to the EU and Islamic countries. The country's GDP totaled USD857.2 billion and its per capita GDP was USD10,807 in 2016. It is a member of the Group of Twenty (G20). Its economy contracted temporarily after an abortive coup in July 2016. However, domestic demand has substantially recovered with the help of the stimulus measures taken by the government and exports have been expanding in keeping with a pickup of the global economy. Against this backdrop, it is likely that the country's real GDP growth rate will accelerate from 3.2% in 2016 to a 5% level in 2017. That said, JCR holds that the growth in 2018 and 2019 will slow down to a 4% level due mainly to the fading of the stimulus measures.
- (3) The country's long-standing current account deficit stood at 3.8% of GDP in 2016, almost flat from the year earlier. The failed coup attempt triggered a large-scale outflow of foreign capital and a substantial depreciation of the Turkish lira in the latter half of 2016. However, with an appropriate monetary policy response swiftly taken by the central bank, foreign capital transactions have again turned into a net inflow and the lira has stabilized since the beginning of 2017. On the other hand, the country's external debt has been on the rise, standing at 47.2% of GDP at the end of 2016. The banking sector accounts for much of the external debt. However, banks are making progress on rolling over its external debt with longer maturity and their net open foreign exchange position is kept restrained at 1.3% of their equity capital under the monetary authority's regulations. Moreover, foreign currency-denominated short-term assets and liabilities held by non-financial corporations stay almost balanced. Nonetheless, the country's external financing needs, based on the combined total of the current account deficit, principal and interest payments on external debt and short-term external debt outstanding at the end of the previous year, remain high at 160% of the foreign exchange reserves, indicating its dependence on international financial markets is still high.
- (4) The banking sector's capital adequacy ratio at the end of August 2017 stood at 17.2%, slightly up from the beginning of the year, with the nonperforming loan ratio (gross) staying little changed at 3.2%. These indicate that the banking sector has retained its soundness even after the lira's depreciation in the latter half of 2016. On the fiscal front, the central government retained a primary balance surplus equivalent to 0.8% of GDP and kept its fiscal deficit restrained at 1.1% of

GDP in 2016. Much of the deficit was financed with medium- to long-term domestic bonds. The fiscal deficit is expected to widen to 2.0% of GDP in 2017 due largely to stimulus measures and increased defense spending. The general government debt stayed restrained at 28.3% of GDP in 2016, maintaining a downward trend amid a continuing primary balance surplus. The new Medium-Term Program (MTP) unveiled by the government at the end of September 2017 calls for cutting the annual budget deficit to less than 2% of GDP for the period of 2018-2020 and further reducing the general government debt/GDP ratio through a continued primary balance surplus. JCR considers that the government debt will be kept constrained going forward barring significant economic deterioration.

Toshihiko Naito, Shinichi Endo

## Rating

Issuer: Republic of Turkey

<Affirmation>

	Rating	Outlook
Foreign Currency Long-term Issuer Rating	BBB-	Stable
Local Currency Long-term Issuer Rating	BBB-	Stable

Rating Assignment Date: November 7, 2017

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<http://www.jcr.co.jp/en/>).

Outline of methodology for determination of the credit rating is shown as "Sovereign and Public Sector Entities" (November 7, 2014) in Information about JCR Ratings on JCR's website (<http://www.jcr.co.jp/en/>).

The aforementioned credit ratings are unsolicited. Except in cases of a credit rating for a sovereign, JCR indicates affix "p" after a rating symbol to distinguish it from a rating with solicitation. The undisclosed information, which has material influence on the credit rating, was obtained from the rating stakeholder.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

### Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Republic of Turkey
Rating Publication Date:	November 10, 2017

1

The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2

The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3

The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Economic Base

The likelihood of a given debt payment is highly conditional to the issuing government's ability to maintain/expand the economic base into the future with maintaining soundness of financial systems.

B) Fiscal Base

The likelihood of a given debt payment is highly correlated to fiscal balance, public debt and other factors of the issuing government's fiscal condition.

C) External Positions

The likelihood of a given debt payment is highly correlated to the liquidity positions which change along with the international balance of payments and the international investment position.

D) Social and Political Bases and Economic Policy

The likelihood of a given debt payment is highly conditional to the social and political stability, effectiveness of economic and monetary policies as well as international economics.

E) Related Parties' Stance of Support/ Assistance for the Government

The likelihood of a given debt payment is affected by the stance of the credit enhancement provider and other related parties with regard to their stance of support/ assistance for the issuing government.

F) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuing government's will, and/ or its rank relative to other debts of the same government in the order of seniority in principal/ interest payment which is determined by design as financial product or by international practice, etc.

## 4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

## 5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

## 6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

## 7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

## 8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.
- A) Informational and explanatory materials presented by the rating stakeholders with regard to the economy and fiscal management policy, etc. of the issuing government
- B) Statistics and reports published by an independent organization with regard to the economy and fiscal status, etc. of the issuing government

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR does not receive payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Economic Base

The credit rating is subject to alteration if there is an improvement or deterioration of the issuer's economy or financial systems, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### B) Fiscal Base

The credit rating is subject to alteration if the issuer increases/ decreases its fiscal deficit/ surplus and its public debt and thereby makes given debt payment liability less/ more bearable. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### C) External Positions

The credit rating is subject to alteration if there is a change in the issuer's international balance of payments and international investment position and thereby an improvement/ deterioration of its liquidity positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### D) Social and Political Bases and Economic Policy

The credit rating is subject to alteration if there is a change in the issuer's social and political conditions or economic/ monetary policies, etc. and thereby an improvement/ deterioration of its economy and fiscal positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

#### E) Related Parties' Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the credit enhancement provider or other related parties with regard to their stance of support/ assistance for the issuing government and thereby an improvement/ deterioration of its economy, fiscal positions and liquidity positions. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

#### F) Order of Seniority in Debt Payment

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts, due to improvement/ deterioration of the issuer's fiscal condition and/or will. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

#### G) International Economies

The credit rating is subject to alteration if there is a change in the international economies, commodity or foreign exchange markets, etc. and thereby, through international balance of payments, an improvement/ deterioration in the issuer's fiscal balance or debt payment capacity. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

#### H) Various Events

The credit rating is subject to alteration on occurrence of various events, such as domestic unrest, war, natural disaster, etc. which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's economy, fiscal positions, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12

Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<http://www.jcr.co.jp/en/service/company/regu/nrsro/>

13

Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

#### A) Economic Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's economy or financial systems, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's economy or financial systems on some drastic change in environments, etc.

#### B) Fiscal Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's fiscal conditions in terms of annual balance or public debt. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's fiscal condition on some drastic change in its economy.

#### C) External Positions

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions reflecting

improvement or deterioration of the international balance of payments and the international investment position. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in the country's economic/ fiscal conditions and financing activities, etc.

D) Social and Political Bases and Economic Policies

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's social and political bases and economic/ monetary policies. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the country's situation changes drastically, making the issuer's social and political bases and economic/monetary policies significantly improved or deteriorated.

E) International Economics

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of the international economies or commodity/ foreign exchange markets, etc. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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## The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Republic of Turkey	Issuer(Long-term)(LC)	March 12, 2004	B+	Positive
Republic of Turkey	Issuer(Long-term)(LC)	March 10, 2005	BB-	Positive
Republic of Turkey	Issuer(Long-term)(LC)	December 28, 2007	BB-	Stable
Republic of Turkey	Issuer(Long-term)(LC)	June 4, 2009	BB-	Stable
Republic of Turkey	Issuer(Long-term)(LC)	February 1, 2010	BB	Stable
Republic of Turkey	Issuer(Long-term)(LC)	February 21, 2011	BB	Stable
Republic of Turkey	Issuer(Long-term)(LC)	June 28, 2012	BB	Positive
Republic of Turkey	Issuer(Long-term)(LC)	May 23, 2013	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(LC)	July 11, 2014	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(LC)	August 28, 2015	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(LC)	October 7, 2016	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	December 28, 2007	BB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	June 4, 2009	BB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	February 1, 2010	BB	Stable
Republic of Turkey	Issuer(Long-term)(FC)	February 21, 2011	BB	Stable
Republic of Turkey	Issuer(Long-term)(FC)	June 28, 2012	BB	Stable
Republic of Turkey	Issuer(Long-term)(FC)	May 23, 2013	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	July 11, 2014	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	August 28, 2015	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	October 7, 2016	BBB-	Stable



## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Atsushi Masuda  
General Manager of International Rating Department

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