

A closer look: Political and Economic Outlook in Turkey

02/05/2017

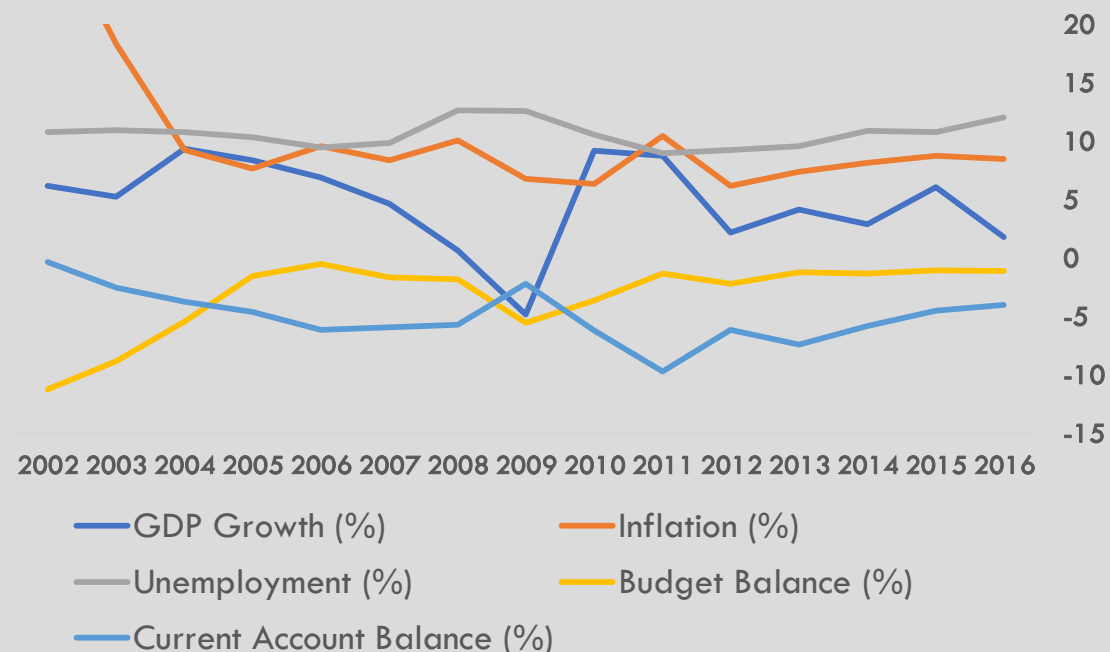


Key Figures: Turkey

TURKEY	2016	2017F	2018F
GDP (billion USD)	857	794	828
GDP Per Capita (USD)	10,743	9,826	10,151
GDP Growth Rate (%)	2.9	2.5	3.3
Inflation (%)	8.5	10.0	8.8
Budget Balance / GDP (%)	-2.3	-3.0	-2.0
Current Account Balance (%)	-3.8	-4.7	-4.6
Unemployment Rate (%)	10.8	11.5	11.0

Developing Countries	2017F	2018F
GDP Growth Rate (%)	4.5	4.8
Inflation (%)	4.7	4.4
Budget Balance / GDP (%)	-0.3	-0.3

Source: IMF



JCR-Eurasia Rating

As an affiliate of Japan Credit Rating Agency, Ltd. and having over 200 clients, JCR-ER holds %65 market share in corporate sector bond market. We highlight the following points based on the studies and insights on Turkish Economy;



(1) Indebtedness of corporates is rapidly increasing and the majority of the debt is in Foreign Currency terms. Volatility in FX deteriorates profits



(2) Duration of receivables is in inclining trend, indicating a contraction in liquidity



(3) Capital adequacy of the companies is still below required levels to stimulate new investments

4 Hot Topics in Turkish Economy

Sovereign Wealth Fund	Private Sector Debt
Mega Project Financing	GDP Data Revision

Sovereign
Wealth
Fund



Private
Sector
Debt

Mega
Project
Financing

GDP
Data
Revision

Top Sovereign Wealth Funds	Assets (bn USD)
Norway	922.1
China	813.8
UAE	792
Kuwait	592
Saudi Arabia	576.3

Countries either with surplus
or natural resources



- ✘ No budget surplus
- ✘ No natural resources
- ⚠ State-Owned Enterprises are embedded in
- ⚠ Designed as a collateral for securitization loans from abroad
- ⚠ Threat of losing the control of enterprises

Sovereign Wealth Fund

Billion TRY	2002	2016	2002 GDP	2016 GDP
Public Debt	271.6	803.8	77%	31%
Private Debt	94.4	2,149.3	27%	83%
Total Debt	366	2,953.1	104%	114%

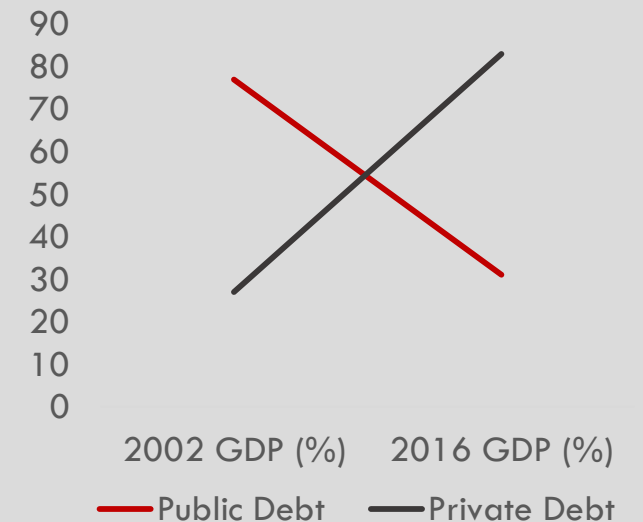
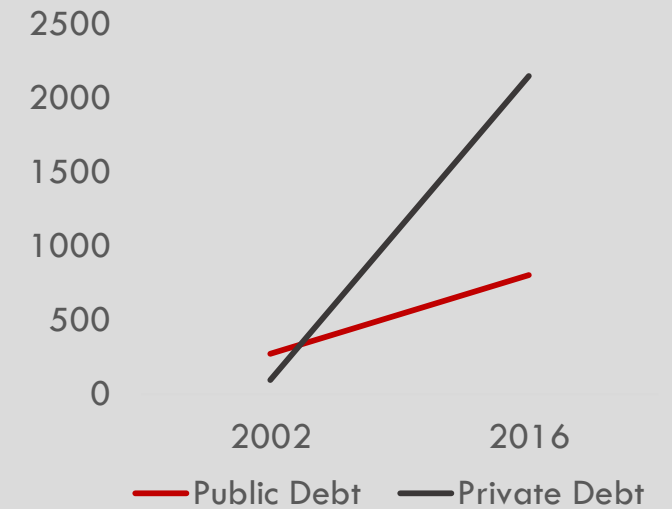
Private Sector Debt

Private Debt	2002	2016	2002 GDP	2016 GDP
Non-Financial	87.8	1,709.5	25%	66%
Household Debt	6.6	439.8	2%	17%

Mega Project Financing

Million USD	2017/02
Public Debt	27,388
Private	133,795
Financial Institutions	80,727
Non-Financial Institutions	53,068
External Financing Requirement	161,183
Current Account Deficit (e)	35,000
Total External Fin. Requirement	196,183

GDP Data Revision

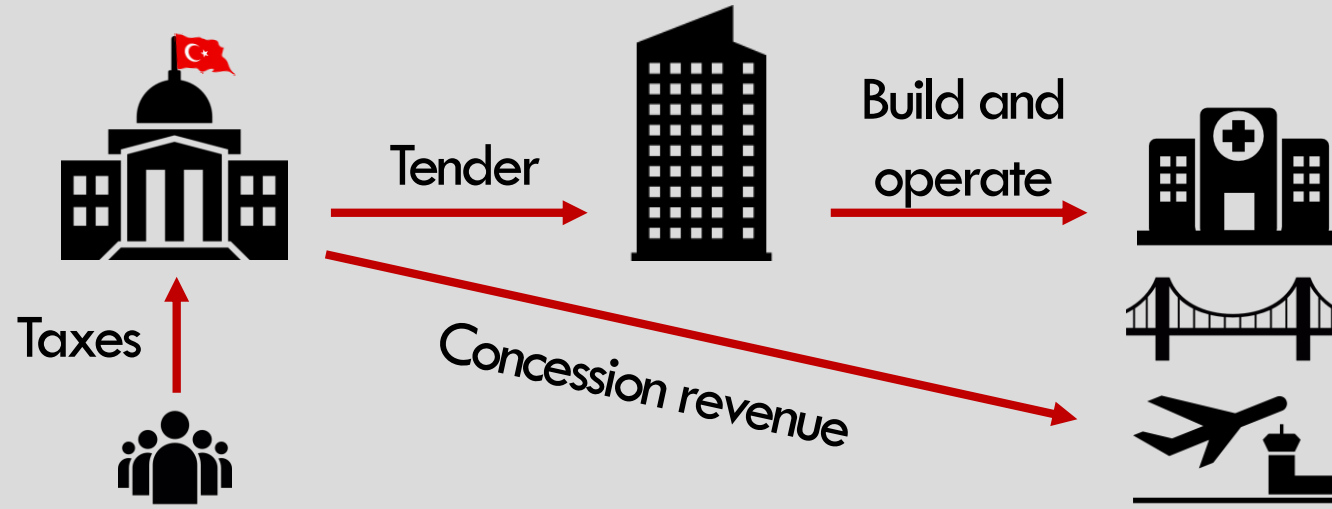


Sovereign
Wealth
Fund

Private
Sector
Debt

Mega
Project
Financing

GDP
Data
Revision



Guarantees given by Treasury (USD bn)	2006	2016
Public Sector Guarantees	2,281	9,200
Private Sector Guarantees	2,021	3,156
Total Guarantees	4,302	12,356

The amount will increase in near future, due to the fact that gov't will launch massive projects in near future.

Sovereign
Wealth
Fund

Private
Sector
Debt

Mega
Project
Financing

GDP
Data
Revision

2 Major Changes in Calculation of GDP in 2016

2009 is taken as base year,
when the Turkish economy contracted
4.7%

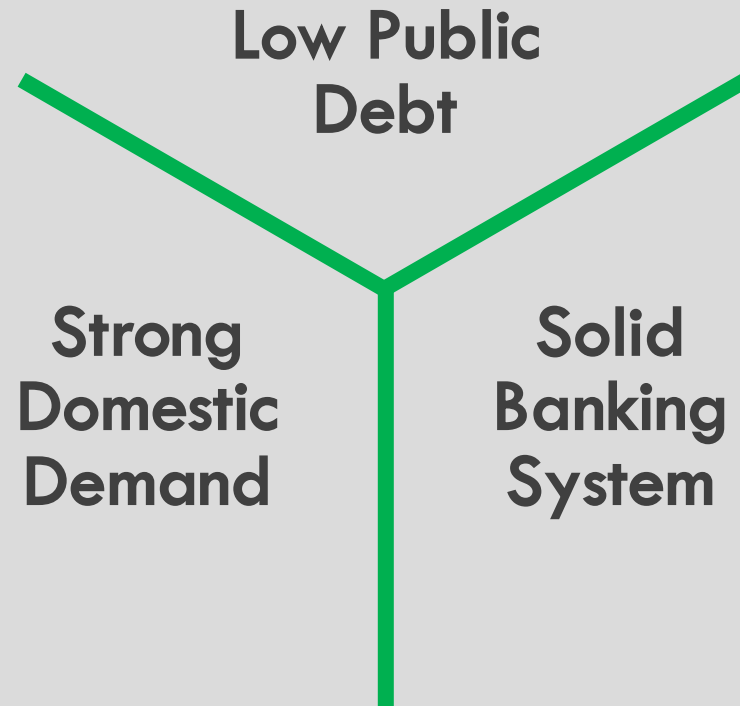
Financial & tax statements are used instead of
industry-wide surveys, potential for artificial
production

2015 GDP Growth from **4%** to **6.2%** vs Industry Prod. Index **2.9%**

2016 Q3 GDP Growth **-1.8%** to **-1.3%**

2016 GDP Growth is calculated as **2.9%** vs Industry Prod. Index **1.8%**

3 Competitive Advantages of Turkish Economy



Low
Public
Debt

- Compared to peers, relatively low public debt burden of Turkey is one of the strong suits, despite early warning signs

- Prudent fiscal policy, inherited from the post 2001 crisis structural program had largely been a policy anchor

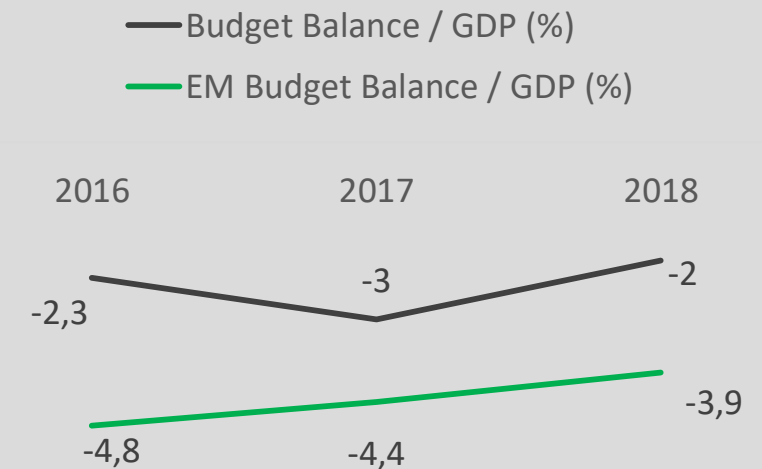
Strong
Domestic
Demand

- The Government is at a crossroads; whether to reinstitute strong fiscal discipline and long-term reforms, or continue following short-term populist agenda for the sake of 2019 elections

Solid
Banking
System

-Low oil prices decreased the share of current account deficit over GDP

Billion TRY	2002	2002 GDP (%)	2016	2016 GDP (%)
Public Sector Debt	271.6	77	803.8	31
Treasury Debt	242.7	69	759.6	29
Domestic	149.9	43	468.6	18
External	92.8	26	291	11
State Economic Enterprise	27.6	8	38	1.5
Municipality Financial Debt	1.3	0	15	0.6



Low
Public
Debt

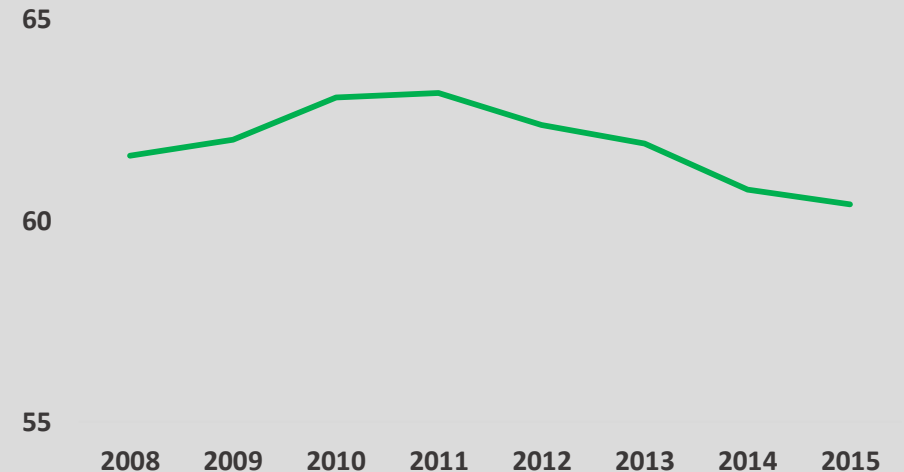
Strong
Domestic
Demand

Solid
Banking
System

Young population and strong middle class is a major growth driver

- More than 50% of the population is younger than 30
- Population of 80 million with a labor force of 31 million
- Positive consumer confidence outlook, upon the resolution of political uncertainties

Domestic Consumption to GDP



Low
Public
Debt

Strong
Domestic
Demand

Solid
Banking
System

	Turkey	South Africa	Brazil	Russia	Eurozone
NPL Ratio	3.25	3.2	3.8	9.2	5.4
CAR	15.6	15.9	17.1	13.0	17.2

	USD		TRY	
Banking Sector Snapshot	2016	2015	2016	2015
Asset Size (USD mio)	778,347	813,412	2,731,047	2,357,432
Loans	494,529	512,335	1,734,342	1,484,960
Total Equity	85,469	90,492	300,284	262,259
ROA	1.89	1.48	1.89	1.48
ROE	14.28	11.28	14.28	11.28
Loan to Deposits	119.00	120.00	119.00	120.00
Net Int. Inc to Assets	3.65	3.45	3.65	3.45

Resilient financial sector is one of the strong pillars of economy, with strong balance sheets, controlled currency exposure and reasonable capitalization levels and regulatory oversight

Political Atmosphere

New Government System

- Strong president
- Quick action
- Stability in politics

Referendum results show that President will focus on 'Economic Reforms'

Central Bank's steps are dynamic to adjust monetary policy considering devaluation of Turkish Lira

West or East?
Economic stability is available with positive relationship with Europe

To sum up,

(1) Serious economic issues are on the table

(2) Turkey preserves its competitive power

(3) Agenda of politicians will be primarily on Economic Reforms in 2017

(4) Results of new political outlook are blurry and needs monitoring to draw a clear conclusion

JCR affirms Turkey's sovereign rating at '**BBB-**' denotes investment grade and continues to monitor closely



info@jcrer.com.tr

www.jcrer.com.tr