

Country Insight Snapshot

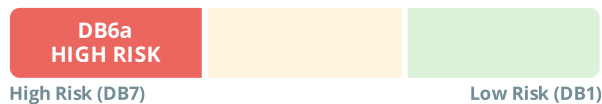
Türkiye

March 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: March 2023 (DB6b → DB6a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

WorldWatch Headline

Owing to a lower-than-expected economic impact than our initial estimates, we have adjusted upwards Türkiye's 2023 growth forecast and reverted the overall country rating to pre-earthquake levels.

Recent Changes

- Overall country rating reverted to DB6a due to lower-than-expected economic fallout after the 6 Feb earthquake.
- In light of the latest data since the devastating earthquake of 6 Feb, we have adjusted our forecast for Türkiye's 2023 full-year real GDP growth to 2.5% from 2.0%; our pre-earthquake forecast was 3.0% growth.
- The upward adjustment to our 2023 growth forecast reflects a smaller-than-expected adverse impact on overall industrial activity, relatively contained impact on national supply chains and a smaller-than-expected rise in inflation.
- However, the bigger picture is still that of a marked expected slowdown in economic growth to 2.5% vs. 5.6% in 2022, owing to weaker global growth, which will result in reduced goods export growth and manufacturing activity in 2023.

Events to Watch

- Security/political risks will likely be elevated until the parliamentary and presidential elections due on 14 May 2023; in contrast to the consensus view, we think the AKP and Erdogan could still exceed expectations.
- There is likely to be evidence of continued improvements in domestic consumption owing to higher minimum wages, falling inflation and a more stable lira, as well as the ongoing tourism recovery.
- While Türkiye appears to be benefiting in some ways from trade and investment flow reallocation stemming from the Ukraine war, this also entails a risk of potential 'secondary sanctions' for specific companies.

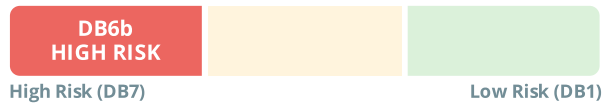
Call to Action

- Note that the lira is still generally a high-risk currency; as such recent reduced volatility could present an opportunity to hedge exposure to the currency at a relatively lower cost.
- Monitor the potential risk of 'secondary sanctions' against Turkey, particularly for specific companies, if they are perceived to be profiteering excessively from not participating in Western sanctions against Russia.
- Perform enhanced due diligence of key management personnel and investors in the wake of Russian capital influx in Türkiye.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: February 2023 (DB5d → DB6b)
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- Rating outlook is **STABLE**

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Risks and Opportunities

- Compared to our initial post-earthquake assessment in February, we have adjusted upwards our 2023 Türkiye growth forecast, reflecting a lower-than-expected adverse impact on overall industrial activity, relatively contained impact on national supply chains and a lower-than-expected rise in inflation.
- However, the bigger picture is still that of a marked expected slowdown in economic growth to 2.5% vs. 5.6% in 2022, owing to weaker global growth, which will result in reduced goods export growth and manufacturing activity in 2023.
- The outlook is better for domestic consumption owing to higher minimum wages, falling inflation and a more stable lira, as well as the ongoing tourism recovery, which will boost domestic services sectors such as hotels, restaurants and retail.
- Accordingly, the credit risk outlook is more challenging for external-demand-orientated companies but better for domestic-consumption-exposed and domestic-orientated service sector companies.

Trade Terms

Description	Terms
Minimum Terms	LC
Recommended Terms	CLC
Usual Terms	0-90 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Ekspor Kredit Fonden (EKF)	Limited cover available, conditions apply
ECGD	Full cover available
Euler Hermes AG	Limited cover available, conditions apply

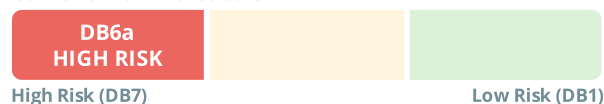
Source: Export Credit Agencies

Call to Action

- Note that while high inflation is intrinsically problematic for any economy, the negative impact of this is allayed to some extent in Türkiye by deeply negative real interest rates, which remain supportive for credit growth and bank profits.
- Note that policy rate changes are relatively less consequential in Türkiye because the normal transmission mechanism does not seem to be working; case in point, 20%+ lira bank deposit rates are far above the 8.5% policy rate.
- Note though that (despite much greater stability in recent months, including in the post-earthquake period), the lira is still generally a high-risk currency, which can also have counterparty credit risk implications.
- Monitor the lira; its frequent bouts of pronounced weakness are inflationary and increase credit risk for companies with large FX debts, especially those with revenues paid mostly in lira, and/or those with significant reliance on imported items.

SUPPLY ENVIRONMENT

Current Risk Indicator:



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Risks and Opportunities

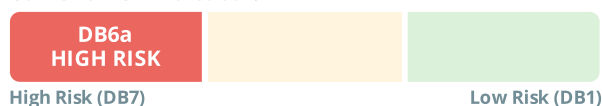
- The recent devastating earthquake of 6 February 2023 caused an estimated (direct) damage worth USD34bn, according to the World Bank, and led to severe business activity disruption in 10 southeastern provinces.
- However, national-level disruption seems less severe than initially feared, with some mitigation coming from the most affected southeastern areas being relatively lowly industrialised; for example, exports from the region account for a relatively modest 8% of the total and affected provinces' combined GDP is estimated at around 10% of the total.
- As anticipated, the earthquake caused a spike in food inflation in February, but overall inflation of 55.2% y/y continued its downward trend, which is like to persist throughout 2023 owing to the very high base level of 2022.
- As anticipated, the news of earthquake had some negative impact on tourism, with total visitor count in February at 1.87m declining 19.5% m/m; however, on a y/y basis, there was a rise of 21.4%, and the overall strong recovery trend looks intact.

Call to Action

- Account for the risk of political demonstrations and terrorist attacks that could interrupt supply chains; extra caution is advisable in the lead-up to parliamentary and presidential elections due on 14 May 2023.
- Account for the risk of adverse climatic conditions (aside from earthquakes, forest fires and flooding are also risks) that could interrupt supply chains and business continuity.
- Be aware that unpredictable political events can cause problems for conducting cross-border business.
- Monitor the progress of the USD15bn Istanbul Canal project - a 30-mile artificial strait connecting the Black Sea to the Sea of Marmara; this could greatly ease ship traffic in the Bosphorus Strait, one of the world's busiest shipping lanes.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: February 2023 (DB5d → DB6a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **DETERIORATING**

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Risks and Opportunities

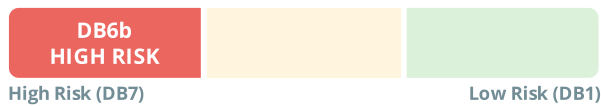
- Slowing global economic growth implies a weaker outlook for goods exports and manufacturing activity, which will both expand much more slowly than in 2022.
- While the overall economic fallout of the 6 February earthquake is proving manageable, within the real estate sector, which accounts for upwards of 20% of Türkiye's GDP, the construction sector (about of 5% of GDP), in particular, faces tougher conditions going forward.
- Owing to increased safety scrutiny, development costs and legal expenses will likely increase for construction companies whose buildings fared poorly in the earthquake.
- Türkiye has not participated in US-led sanctions against Russia and has arguably been one of the few net beneficiaries of the Ukraine war; this is reflected in its surging exports to Russia, discounted energy imports from Russia and surging Russian investment in the Türkiye property market.

Call to Action

- Note that oil prices are now well below pre-Russia/Ukraine conflict levels and lower energy prices help the country's external balance position.
- Be aware that while Türkiye appears to be benefiting in some ways from trade and investment flow reallocations stemming from the Ukraine war, this also entails some risks of secondary sanctions against specific companies.
- Perform enhanced due diligence of key management personnel and investors in the wake of Russian capital influx in Türkiye.
- Note that Türkiye companies most exposed to periods of lira weakness are those with large FX debts, combined with revenues in lira and/or significant operating costs in FX (for example, if a company is highly import-reliant).
- Note that Türkiye banks should continue to benefit immensely from being able to lend at significantly higher rates than official central bank funding rates. At the same time, demand for loans is supported by deeply negative real interest rates.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: November 2021 (DB6a → DB6b)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **DETERIORATING**

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

Risks and Opportunities

- Contrary to some fears that the recent earthquake could be used as a pretext to delay elections, on 1 March, President Erdogan confirmed that parliamentary and presidential elections would go ahead on 14 May 2023.
- President Erdogan certainly faces many challenges (including some issues relating to the recent earthquake), but it is still by no means certain that he and his AKP-led governing alliance will lose the 2023 parliamentary and presidential elections.
- The 'Table of 6' opposition coalition suffers from being an 'unnatural alliance' that includes Islamists and left-wing secularists; furthermore, the recently declared joint opposition presidential candidate, Kemal Kilicdaroglu, is widely considered uncharismatic, under whose leadership the CHP party has failed in the last 4 general elections, with worse results each time.
- Although still trailing the opposition bloc, opinion polls since the earthquake have suggested no diminution in support for the ruling AKP-led alliance; furthermore, all polls still show that by itself, the AKP remains Turkey's single most popular party.

Call to Action

- Expect security and political risk to remain elevated until the next scheduled parliamentary and presidential elections, which will take place on 14 May 2023.
- Do not rule out another AKP/Erdogan victory given some recent polling evidence and an opposition alliance composed of unnatural allies, that is led by an uninspiring 'compromise' presidential candidate with a poor electoral record.
- Be aware that despite the relative calm of recent years, Türkiye still faces some risk from IS terrorism and attacks by the Kurdistan Workers' Party (PKK) against the security forces and government targets.
- Expect previously strained relations with Gulf countries (especially Saudi Arabia) to continue their recent improving trend - this could support investment into Türkiye.
- Expect the ruling party to keep pushing additional populist measures, to shore up its support base ahead of elections in May.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022e	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	3	0.8	1.9	11.4	5.6	2.5	3	3.5	3.8	4.1
Nominal GDP in USDbn	776	758	715	813	896	1,133	1,301	1,532	1,627	1,702
Nominal GDP in local currency	3.7tn	4.3tn	5.0tn	7.2tn	14.8tn	22.3tn	28.4tn	34.2tn	39.2tn	44.2tn
GDP per Capita in USD	9,370	9,079	8,504	9,592	10,502	13,206	15,078	17,672	18,678	19,432
Population (year-end, m)	82.8	83.5	84.1	84.8	85.3	85.8	86.3	86.7	87.1	87.6
Exchange rate (yr ave, USD-LCU)	4.8	5.7	7	8.8	16.6	19.7	21.8	22.3	24.1	26
Current Account in USDbn	-21.2	10.2	-30.3	-8.7	-48.8	-35.7	-25.9	-28	-25	-21
Current Account (% of GDP)	-2.7	1.3	-4.2	-1.1	-5.4	-3.2	-2	-1.8	-1.5	-1.2
FX reserves (year-end, USDbn)	71.4	77.1	48.5	64.8	75.4	82.9	95.4	109.7	122.9	137.6
Import Cover (months)	3.5	4.1	2.5	2.8	2.4	2.4	2.5	2.5	2.6	2.7
Inflation (annual ave, %)	16.3	15.5	12.3	19.4	72	48	24	17	11	8.7
Govt Balance (% GDP)	-1.9	-2.9	-3.5	-2.8	-0.9	-5.7	-3.3	-2.5	-2.6	-3

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Türkiye	Russia	Kazakhstan	Azerbaijan	Belarus
Income per Capita (USD)	13,206	13,852	12,207	6,023	6,779
Country Population (m)	85.8	144.4	19.6	10.4	9.5
Internet users (% of population)	77.7	85	85.9	84.6	85.1

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	0-2 months

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Türkiye	Eastern Europe & Central Asia	OECD Average
Restrictions on non-Residents' Accounts	0	0.12	0.06
Restrictions on Payments for Imports	0	0.75	0.06
Restrictions on Payments for Invisible and other Current Transfers	1	1.56	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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User Guide

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