



****Coronavirus Covid-19 Update****

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

Country Insight Snapshot

Turkey

September 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB5d

High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.



Rating Outlook: Deteriorating

CORE OUTLOOK

- + Turkey's position at the crossroads of Europe, Asia and the Middle East gives it an unrivalled locational advantage.
- A poor education system, a low savings rate and a structural current-account deficit are among the main challenges facing Turkey.
- Tensions are elevated across a number of axes: government vs Gulenists; government vs Kurds; government vs traditional secular elite; and Islamic State is also present.
- President Erdogan's unorthodox economic approach and increasing authoritarianism are undermining investor belief in Turkey.

KEY DEVELOPMENT

The economy enters recession for the second time in two years, raising risk for doing cross-border business as company liquidations rise and payments performance worsens.

CREDIT ENVIRONMENT OUTLOOK



Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



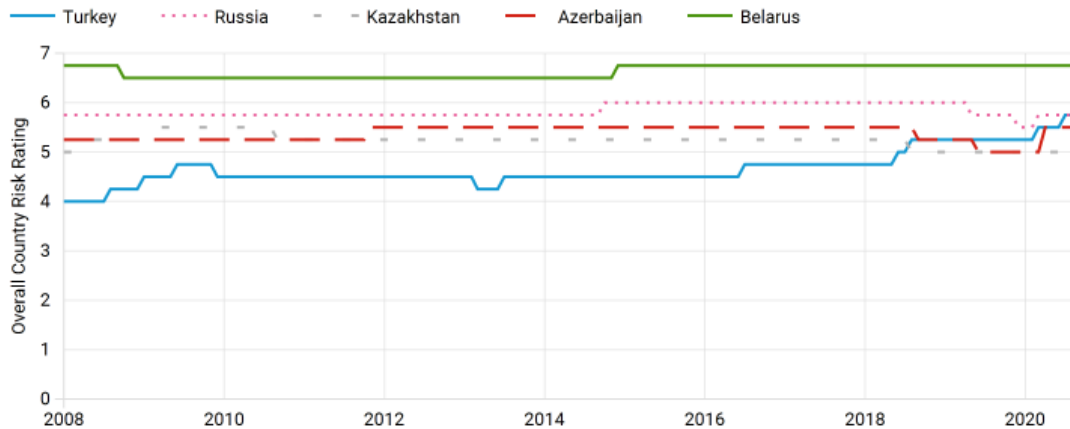
Trend: Deteriorating

Key Development has had a negative impact on the outlook.



KEY INDICATORS

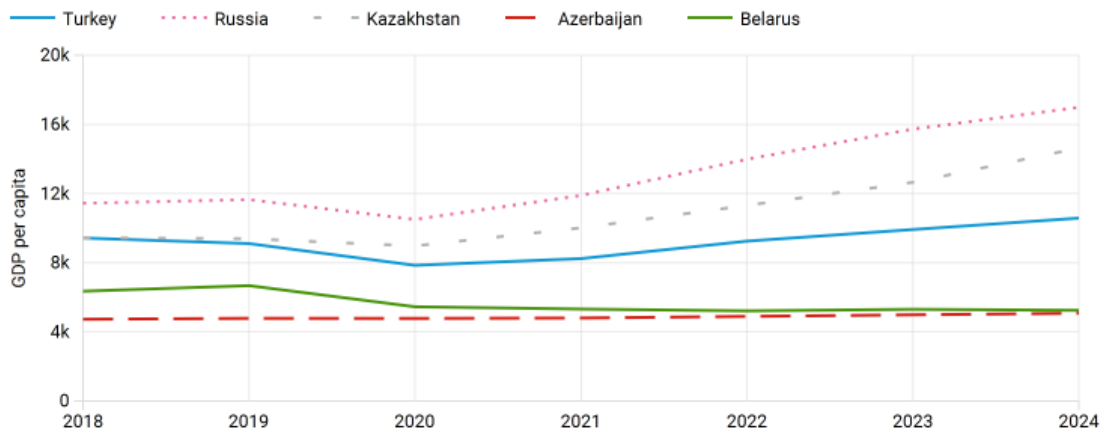
Rating History and Comparison



Source: Dun & Bradstreet

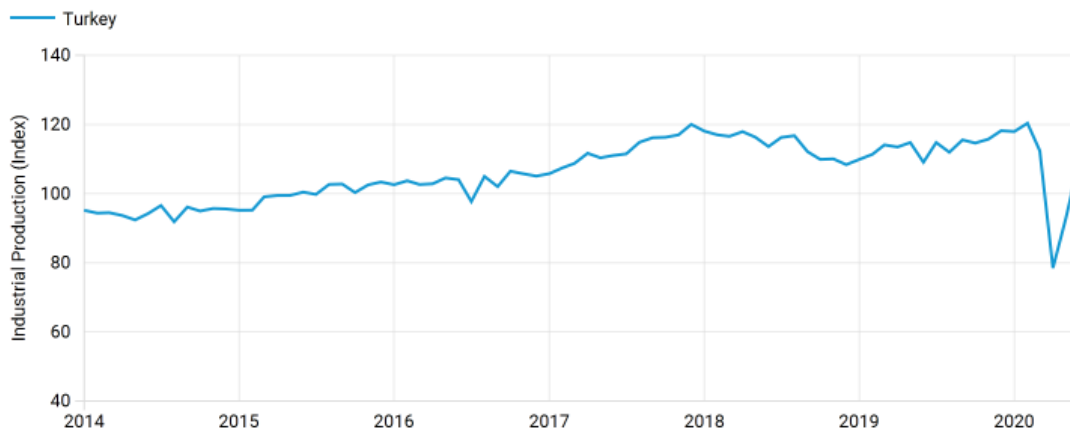
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

| Indicator | 2017 | 2018 | 2019 | 2020f | 2021f | 2022f | 2023f | 2024f |
|-------------------------------|------|------|------|-------|-------|-------|-------|-------|
| C/A balance % GDP | -4.7 | -2.6 | 1.2 | -4.5 | -4.6 | -2.8 | -3.0 | -3.3 |
| Govt balance, % GDP | -2.0 | -2.8 | -3.2 | -6.1 | -5.1 | -4.5 | -1.5 | -1.1 |
| Inflation, annual avge % | 11.1 | 16.2 | 15.5 | 11.9 | 9.8 | 7.5 | 6.8 | 6.2 |
| Real GDP Growth, % | 7.5 | 3.0 | 0.9 | -6.1 | 0.8 | 2.3 | 2.5 | 2.4 |
| Unemployment (annual avge, %) | 10.9 | 11.0 | 13.7 | 13.8 | 13.6 | 12.8 | 11.8 | 10.6 |

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In June, the Turkish Statistical Institute's Industrial Production Index continued its rebound from the Covid-19-induced low of 78.46 in April, to reach 108.88 - still well below the pre-Covid high of 120.33 in February. We expect the Index to remain weak through the remainder of 2020 and into 2021 due to the continuing negative impacts of the pandemic. In this context, the country's forward-looking indicators are providing a mixed picture. Thus, the Economic Confidence Index issued by the Turkish Statistical Institute, although strengthening for a fourth successive month in August to 85.87, is still below the 2020 high of 97.53 recorded in February. More positively, the Central Bank of Turkey's Real Sector Confidence Index also strengthened for a fourth successive month to 105.2 in August; this moved it close to the February level of 106.7. In contrast, in June the Consumer Confidence Index fell for a second consecutive month to reach 59.79; however, this is still above February's pre-Covid level of 57.38 (but below the 10-year average of 69.85). In the meantime, our minimum terms remain LC, but we are now advising CLC for the recommended terms.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: CLC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

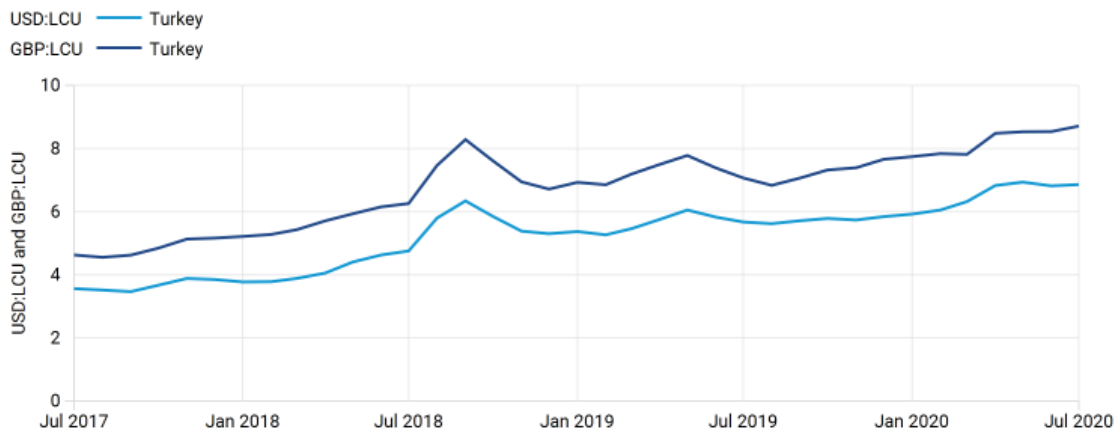
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: No delays reported

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



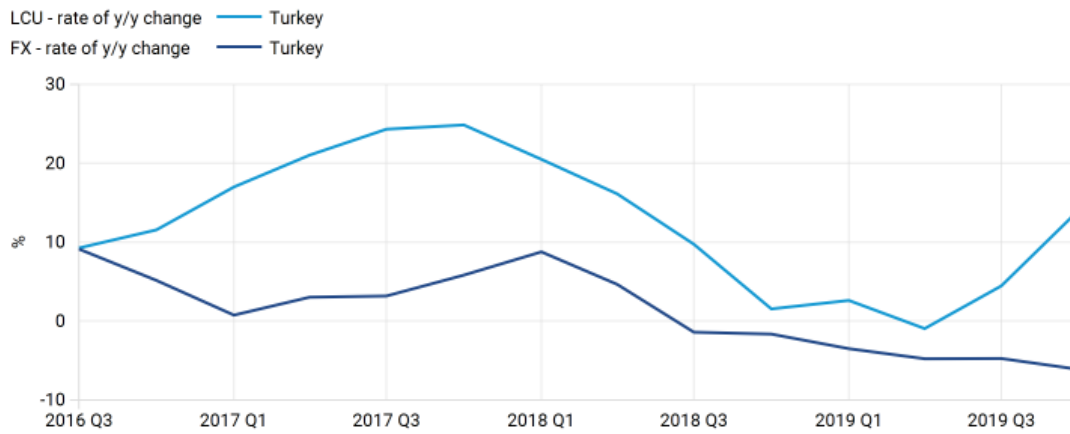
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (*Local currency unit*) = Turkish lira

Private Sector Borrowing



Source: Central Bank, Haver Analytics



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Economy enters recession again

The latest official data highlights that the economy has entered recession for the second time in two years. The economy contracted by a substantial 10.8% q/q in seasonally-adjusted real terms in Q2 2020, which follows a contraction of 1.1% in Q1. This means the economy contracted by 2.8% y/y in H1. The recession comes despite government attempts to offset the effects of the lockdown measures imposed in order to restrict the spread of Covid-19. Government's recurrent spending increased by 1.1% y/y in H1, and the fiscal deficit increased to 7.7% of GDP in Q2; the highest level since Q1 2009, at the height of the global financial crisis. In addition, bank lending in lira, driven by state banks, increased by an alarming and unsustainable 40.4% in June. Bank lending in lira has continued to grow, reaching almost 50% y/y in August, raising concerns of a potential crisis in the sector.

Looking ahead, both domestic and external demand will remain weak over the remainder of 2020. Domestic demand is being constrained by increasing unemployment (official figures, which probably understate the actual level, are at their highest for over a decade, at 14.3%) and double-digit inflation (11.8% y/y in August). Against this background, we have increased our forecast contraction for 2020 to 6.1% (from 3.1% previously), while our forecast for 2021 has improved from a contraction of 0.6% to weak growth of 0.8%. In the meantime, customers dealing cross border with counterparties in Turkey should expect an increase in liquidations and worsening payment performance over the next 12 months at least. As a result, we recommend closer monitoring of the counterparties, and, if possible, a tightening of terms.

FX Risk

Lira crisis continues

The lira, which has suffered a series of crises over the past decade, is again under pressure. On 8 September, it had fallen to a record close-of-market low of TRY7.49:USD, down by 25.8% since start-2020 and 97.5% since start-2018. Against the euro a similar picture emerges: a record close-of-market low of TRY8.84:EUR was experienced on 9 September; down 32.4% since start-2020 and 94.2% since start-2018. The drivers of this weakness include the weak FX reserve position, the growing current account deficit, the contracting economy (see above), too-rapid interest rates cuts (the one-week repo rate has been aggressively cut from 24.0% in July 2019 to 8.25% in May), and weak market sentiment concerning Turkey's political will to implement the policies needed to address fundamental structural economic issues.

We expect FX risk to remain higher than normal for at least the next 12 months as the central bank attempts to balance the competing objectives of reinvigorating the economy in the face of the coronavirus, reducing inflation, ensuring the current-account deficit remains manageable, and stabilising the lira against a background of continued political interference and tension. The lira will be subject to periodic bouts of pressure and higher than normal short-term volatility. Therefore, we recommend that customers hedge currency transactions against these factors.



COUNTRY PROFILE AND STATISTICS

Overview

Turkey lies at the eastern end of the Mediterranean, bridging Southeast Europe to the Middle East. Its strategic location affords Turkey control over the Turkish straits (Bosporus, Sea of Marmara and the Dardanelles) that link the Black Sea and the Aegean.

The Justice and Development Party (AKP), which has governed the country since 2002 and had moderate Islamic roots, is viewed as a threat to the secular traditions of the country's founder, Mustafa Kemal Ataturk. The military, which views itself as the guardian of these traditions, has overthrown governments in 1960, 1971 and 1980, before stepping aside; another failed coup took place in 2016. The country faces a violent and long-running insurgency by Kurdish separatists, in particular the Kurdistan Workers' Party, the PKK. The AKP was formerly economically liberal, pro-business and pro-EU entry, but under the leadership of Recep Tayyip Erdogan has shown increasingly authoritarian tendencies.

The dynamic economy is a mix of modern industry and commerce, and also has a traditional agricultural sector. The private sector is strong and growing rapidly, but the AKP is showing increasing signs of politicising the business environment.

Key Facts

| Key Fact | Detail |
|----------------------------|----------------------|
| Head of state | Recep Tayyip ERDOGAN |
| Capital | Ankara |
| Timezone | GMT +02-00 |
| Official language | Turkish |
| Population (millions) | 83.4 |
| GDP (USD billions) | 759.7 |
| GDP per capita (USD) | 9,106 |
| Life expectancy (years) | 77.0 |
| Literacy (% of adult pop.) | 96.2 |
| Surface area (sq km) | 783,560 |

Source: Various sources/Dun & Bradstreet

Historical Data

| Metric | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------------------|--------|--------|--------|-------|-------|
| Real GDP growth (%) | 6.1 | 3.3 | 7.5 | 3.0 | 0.9 |
| Nominal GDP in USDbn | 862 | 868 | 856 | 776 | 760 |
| Nominal GDP in local currency (bn) | 2,345 | 2,622 | 3,123 | 3,749 | 4,311 |
| GDP per Capita in USD | 10,979 | 10,874 | 10,555 | 9,429 | 9,106 |
| Population (year-end, m) | 78.5 | 79.8 | 81.1 | 82.3 | 83.4 |
| Exchange rate (yr avge, USD-LCU) | 2.7 | 3.0 | 3.6 | 4.8 | 5.7 |
| Current Account in USDbn | -26.0 | -25.7 | -40.1 | -20.3 | 9.1 |
| Current Account (% of GDP) | -3.0 | -3.0 | -4.7 | -2.6 | 1.2 |
| FX reserves (year-end, USDbn) | 92.9 | 92.1 | 84.1 | 72.9 | 78.5 |
| Import Cover (months) | 4.9 | 5.1 | 4.0 | 3.5 | 4.2 |
| Inflation (annual avge, %) | 7.7 | 7.8 | 11.1 | 16.2 | 15.5 |
| Govt Balance (% GDP) | -0.9 | -1.7 | -2.0 | -2.8 | -3.2 |

Source: Haver Analytics/Dun & Bradstreet



Forecasts

| Metric | 2020f | 2021f | 2022f | 2023f | 2024f |
|------------------------------------|-------|-------|-------|-------|--------|
| Real GDP growth (%) | -6.1 | 0.8 | 2.3 | 2.5 | 2.4 |
| Nominal GDP in USDbn | 662 | 701 | 791 | 853 | 913 |
| Nominal GDP in local currency (bn) | 4,561 | 5,044 | 5,538 | 6,053 | 6,574 |
| GDP per Capita in USD | 7,848 | 8,238 | 9,247 | 9,919 | 10,578 |
| Population (year-end, m) | 84.3 | 85.0 | 85.6 | 86.0 | 86.3 |
| Exchange rate (yr avge, USD-LCU) | 6.9 | 7.2 | 7.0 | 7.1 | 7.2 |
| Current Account in USDbn | -30.0 | -32.0 | -22.0 | -26.0 | -30.0 |
| Current Account (% of GDP) | -4.5 | -4.6 | -2.8 | -3.0 | -3.3 |
| FX reserves (year-end, USDbn) | 40.8 | 42.9 | 45.0 | 47.3 | 49.6 |
| Import Cover (months) | 2.2 | 2.2 | 2.0 | 1.9 | 1.9 |
| Inflation (annual avge, %) | 11.9 | 9.8 | 7.5 | 6.8 | 6.2 |
| Govt Balance (% GDP) | -6.1 | -5.1 | -4.5 | -1.5 | -1.1 |

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

| Indicator | Turkey | Russia | Kazakhstan | Azerbaijan | Belarus |
|---------------------------------------|-----------|------------|------------|------------|-----------|
| Income per Capita (USD) | 7,848 | 10,501 | 8,969 | 4,776 | 5,451 |
| Country Population (m) | 84.3 | 145.9 | 18.8 | 10.1 | 9.4 |
| Internet users (% of population) | 71.0 | 80.9 | 78.9 | 79.8 | 79.1 |
| Real GDP Growth (% p.a., 2020 - 2029) | 1.0 - 5.0 | -0.5 - 3.5 | 0.5 - 6.0 | 1.0 - 4.0 | 1.5 - 3.5 |

Source: Various sources/Dun & Bradstreet



LINKS

User Guide

Please click [here](#) to visit our online user guide.

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