

BEST'S COUNTRY RISK REPORT

Turkey CRT-4

August 22, 2018

Region: Middle East & North Africa

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Turkey, a CRT-4 country, has a moderate level of economic risk and high levels of political and financial system risk. Real GDP growth accelerated in 2017 to 7.0% on expansionary economic government policies ahead of the June 2018 elections. As a result, inflation spiked above 16% year over year in the first half of 2018. Growth is expected to slow in the coming year, as the government stimulus wanes, political tensions with the west increase and persistent currency weakness pressures credit markets and debt repayment.
- The map depicts countries in the region that A.M. Best evaluates for country risk. The region contains countries with risk levels ranging from CRT-3 to CRT-5.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Middle East & North Africa

- Higher global interest rates, particularly if interest rates increase faster than expected, raise the potential for greater fiscal vulnerabilities and tighter credit conditions. According to the IMF, debt in the region has increased an average of 10% of GDP each year since 2013, owing to countries financing large fiscal deficits through increased borrowing and draw downs of fiscal buffers.
- Economic growth for the region is estimated to increase in 2018 on strengthening global growth, a moderate rise in oil prices, easing fiscal adjustments, reforms to promote non-oil sector growth, and growing infrastructure investment.
- Fiscal consolidation and revenue generating programs implemented over the last few years continue, albeit at a slower pace. Revenue measures include the introduction of a value-added tax (January 2018) in Saudi Arabia and the United Arab Emirates, with other countries likely to implement similar measures by the end of the year. Improving the efficiency of public spending (via a bill that lowers the government wage and benefits, for example) on the expenditure side is also a priority.

Vital Statistics 2017		
Nominal GDP	USD bn	849.48
Population	mil	80.8
GDP Per Capita	USD	10,512
Real GDP Growth	%	7.0
Inflation Rate	%	11.1

United Nations Estimates		
Literacy Rate	%	95.6
Urbanization	%	74.4
Dependency Ratio	%	50.1
Life Expectancy	Years	75.0
Median Age	Years	30.9

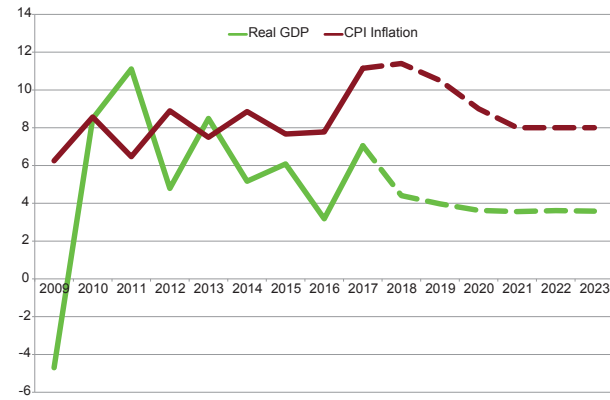
Insurance Statistics		
Insurance Regulator	Insurance Supervisory Board	
Premiums Written (Life)	USD mil	1,855
Premiums Written (Non-Life)	USD mil	10,200
Premiums Growth (2016 - 2017)	%	0.2

Regional Comparison	
	Country Risk Tier
Turkey	CRT-4
Cyprus	CRT-3
Egypt	CRT-5
Israel	CRT-3
Jordan	CRT-4
Lebanon	CRT-5

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Growth (%)



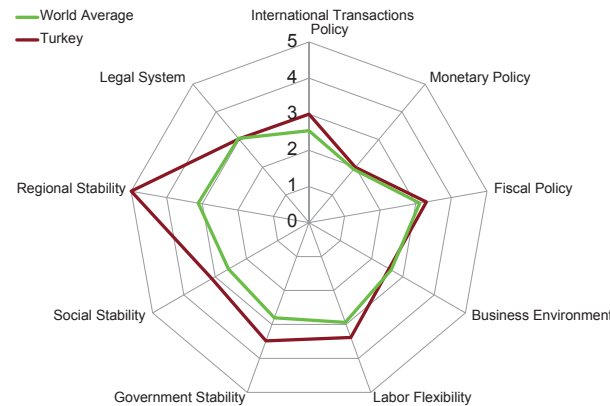
Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Moderate

- The government plays a major role in the economy. Government intervention has increased, resulting in rapid growth as well as above target inflation.
- Some sectors have been privatized, but most utilities and banks are still largely state-owned. Increased centralized control of the economy will likely lead to less transparency and weaker contract enforcement.
- The economy is highly dollarized, which makes the country vulnerable to potential exchange rate volatility and global market conditions. Recent currency weakness has increased these pressures which could result in increased defaults and further credit constraints.
- Unemployment remains high, at 9.6%, with a low labor market participation rate of 53%, given the strong economic growth.

Political Risk Summary

Score 1 (best) to 5 (worst)

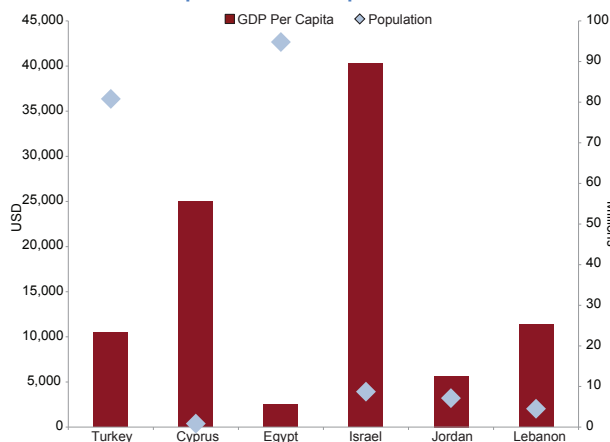


Source: A.M. Best

Political Risk: High

- President Recep Tayyip Erdoğan, from the Justice and Development Party (AKP), was re-elected as president in June 2018. The AKP was unable to secure a majority in parliament, but will be able to form a coalition, to pass legislation with junior partners.
- In 2017, the newly re-written constitution created an executive presidency that greatly increased the powers of the presidency, while diminishing the role of the parliament and previous checks and balances in the government.
- The country faces significant issues: corruption, nepotism, intolerance of dissent, a decline in personal freedoms, terrorist attacks, growing levels of unemployment and income inequality, and an influx of refugees.
- In July 2016, an attempted military coup looking to remove the president from power failed. In response, Erdoğan instituted a crackdown on media outlets, and mass arrests of military officers, academics, and politically active business leaders. The country remains under a state of emergency, which grants Erdoğan sweeping powers.
- Questions on human rights and political freedoms continue, which will continue to impede relations with the West and the EU.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: High

- The Insurance Supervisory Board is the primary insurance regulator in Turkey, under the Department of the Treasury.
- Banks hold over 90% of financial system assets and are vital to Turkey's financial stability. Insurance and pension fund assets each constitute less than 2% of sector assets.
- Concern among investors over the independence of monetary policy under President Erdoğan is growing. A recent sharp depreciation of the lira has caused market dislocation.
- The IMF has recommended that Turkey strengthen oversight and governance of the banking sector; of particular concern, is the highly leveraged corporate sector.