MOODY'S
INVESTORS SERVICE

Rating Action: **Moody's upgrades Turkey's government ratings to Ba2/stable**

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London, 08 January 2010 -- Moody's Investors Service has today upgraded Turkey's government bond rating to Ba2 from Ba3, reflecting Moody's growing confidence in the government's financial shock-absorption capacity. The outlook was changed to stable from positive.

"Although Turkish growth has contracted very sharply - even more sharply than was seen in its 2001 financial crisis - the resilience of the public finances relative to past such crises has been notable," said Sarah Carlson, the lead analyst for Turkey in Moody's Sovereign Risk Group. "The ability of the government and the country more generally to regroup when faced with a very significant economic and financial challenge indicates that Turkey has reached a higher level of resiliency - which is what our ratings ultimately reflect."

Carlson said that the Turkish economy's ability to rebound from shocks, whether external or domestic, is the product of a significant improvement in the policy credibility over the last decade. She called the recent financial crisis a kind of 'stress test' for these policy reforms.

Looking ahead, the economy is now starting to recover and capital inflows have resumed. The Turkish government has proven access to foreign capital, as was demonstrated by its new US$2 billion 30-year Eurobond issue. This was the largest-ever emerging market sovereign transaction of that maturity.

"Moreover, the government's fiscal exit strategy has begun with the passage of the 2010 budget," said Carlson. "The budget was in line with the Medium-term Expenditure Plan, announced in September 2009, and represents a first step in a three-year plan towards reining in the budget deficit and returning the budget to a primary surplus position, barring election-related spending setbacks."

Moody's said that the foundations for Turkey's long-term growth are also looking robust, although growth is not likely to resume at the pace achieved in the mid-2000s due to both global and local factors. Still, the country has become increasingly open to the global economy and Turkish industry - which was already moving up the value chain - has used the financial crisis to expand into new export markets and therefore reduce their dependence on EU countries. The population dynamics are also its favor.

Carlson cautioned, however, that Turkey continues to face a range of downside risks.

Its debt affordability metrics are still poor by international standards, with interest/revenues estimated at 27% and debt/revenues at 219% in 2009. Its external vulnerability has improved in recent years, but it remains in the bottom quintile of the emerging markets universe. Turkey also lacks policy rules that would instill additional discipline to the budget process; these, in turn, would make the improvements in debt dynamics more durable and predictable, a decisive factor for any sovereign country to eventually become investment grade.

"If nominal interest rates are maintained in the single digits or low double digits going forward, the debt affordability ratios could improve fairly quickly," Carlson pointed out. "A fiscal rule targeting ongoing budget restraint would enhance the Turkish authorities' fiscal credibility, particularly given the slippage that occurred even prior to the onset of the crisis and the absence of an external anchor like the IMF or EU."

Other potential challenges come from the fact that Turkey may not benefit in the coming years of the same degree of government stability that it enjoyed during most of the decade. At Ba2, Moody's rating takes account of the fact that greater policy volatility is a distinct possibility in the next two years in light of the electoral calendar. Our rating also factors the usual political noise that comes with long-standing internal and external tensions.

In a related rating action, Moody's also raised the foreign currency bank deposit ceiling from B1 to Ba3 and the local currency bank deposit ceiling to A2 from A3. The outlooks on both are stable.

Moody's last rating action with respect to the Government of Turkey was on September 18, 2009, when a positive outlook was assigned to the government's Ba3 foreign- and local-currency ratings and the B1 country ceiling for foreign currency bank deposits.

The principal methodology used in rating the Government of Turkey is Moody's Sovereign Bond Methodology, published in September 2008, which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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