



PRIVATE SECTOR'S EXTERNAL DEBT

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INDEX

1. SHORT FX POSITION OF COMPANIES	2
2. EXTERNAL BORROWING	2
2.1. <i>Borrowing by Countries:</i>	4
2.2. <i>Borrowing by Sectors:</i>	4
3. MEASURES TO REDUCE PRIVATE SECTOR DEBT	5

PRIVATE SECTOR'S EXTERNAL DEBT

1. SHORT FX POSITION OF COMPANIES

The EUR/TRY appreciated 16.4% since the beginning of the year, while the USD/TRY has risen by 20% to 4.55 in the first five months of 2018 and has risen around 19.77% since the beginning of the year. As of the end of 2017, the rise in the basket rate exceeded 18%. The recent rapid rate of increase observed in the currencies is perceived as an important indicator of volatility in the market, while it also puts pressure on the private sector's external borrowing. Increased borrowing costs, volatility in the currencies, geopolitical and political developments along with the risk appetite that began to deteriorate abroad stand out as important risk factors affecting the performance of the real sector.

When we look at the foreign assets and liabilities of nonfinancial companies for the last 10 years, it seems that the real growth is realized with foreign exchange debt. As a matter of fact, for the first five months of 2018, foreign exchange debt of companies with USD 151 billion in 2008 reached USD 337 billion with an increase of 123%. On the other hand, the growth in foreign exchange assets of companies remained at the same level of 48.4% and the total foreign exchange assets of the companies were 119.4 billion USD. Thus, the net foreign exchange position deficit, which was 70.5 billion USD at the end of 2008, rose to 217.2 billion USD in the first five months of 2018. So that, the growth in the net FX short position reached 208% at the end of the year 2008 and at the end of the 2015 five-month period.

Although the recent data also attracts attention to the increase in companies' foreign exchange short position, while the increase in short-term net foreign currency positions shows that in recent years more companies take measures against the sudden exchange rates increase. As a matter of fact, while in 2013 it is seen that companies were giving a deficit of 3.5 billion USD, a surplus has been seen in the short-term net foreign exchange position in the following years and in the first 5 months of 2018 the surplus amounted to 6.5 billion USD.

Short FX Position of Real Sector (USD million)						
	Assets	Liabilities	Net FX Position	Short-term Assets	Short-term Liabilities	Short-term Net FX Position
2008	80.465	151.005	-70.540	69.631	65.237	4.394
2009	80.385	147.087	-66.702	67.727	57.447	10.280
2010	87.379	176.143	-88.764	73.964	63.911	10.053
2011	82.179	200.336	-118.157	66.625	70.393	-3.768
2012	89.367	225.748	-136.381	73.799	74.591	-792
2013	94.056	264.965	-170.909	77.392	80.903	-3.511
2014	101.968	281.023	-179.055	79.749	78.620	1.129
2015	99.835	289.625	-189.790	81.449	76.256	5.193
2016	99.139	304.768	-205.329	80.623	79.295	1.328
2017	115.476	328.961	-213.485	94.103	86.907	7.196
2018-January-March	114.528	337.237	-222.709	92.503	91.424	1.079
2018-April	117.987	339.129	-221.142	95.848	90.206	5.642
2018-May	119.407	336.662	-217.255	96.882	90.389	6.493

Source:CBRT

2. EXTERNAL BORROWING

Turkey's gross external debt stock as of the first quarter of 2018 is USD 466.6 billion, while net external debt stock stands at USD 303.2 billion. While 325 billion USD of the gross external debt stock belongs to the private sector, 70% of Turkey's total foreign debt is seen that due to the private sector. In the first quarter of 2018, about 70% of the total external debt stock of the private sector is made up of long-term debt, which strengthens firms' interest in exchange rate risk and volatility in the markets. Nevertheless, the rise in the private sector external debt stock of USD 325.1 billion, which was USD 188 billion in 2008, increases the risk of the private sector to a high level in terms of foreign exchange risk movements. The rise in the ratio of gross external debt to GDP since the second quarter of 2017, which exceeds the 50% level, shows that Turkey's foreign debt risk is increasing. As

PRIVATE SECTOR'S EXTERNAL DEBT

of the first quarter of 2018, the ratio of gross external debt stock to national income was calculated as 52.9%. Public debt stood at 140.8 billion Turkish lira in this period and the ratio of public debt stock to national income was determined as 8.4%.

THE GROSS EXTERNAL DEBT OF TURKEY (USD Million)											
	PUBLIC SECTOR			CBRT			PRIVATE SECTOR			TURKEY'S GROSS EXTERNAL DEBT STOCK	TURKEY'S GROSS EXTERNAL DEBT STOCK / GDP (%)
	SHORT TERM STOCK	LONG TERM STOCK	TOTAL EXTERNAL DEBT STOCK	SHORT TERM STOCK	LONG TERM STOCK	TOTAL EXTERNAL DEBT STOCK	SHORT TERM STOCK	LONG TERM STOCK	TOTAL EXTERNAL DEBT STOCK		
2016 – Q1	21.207	100.941	122.148	173	1.131	1.304	88.236	202.138	290.374	413.827	48,7
2016 – Q2	20.087	104.707	124.794	157	1.010	1.167	90.149	207.344	297.493	423.455	49,4
2016 – Q3	20.763	104.354	125.117	131	833	964	85.333	207.673	293.006	419.086	48,9
2016 – Q4	19.720	103.547	123.267	110	711	821	81.589	203.028	284.617	408.705	47,4
2017 – Q1	21.134	106.656	127.790	108	701	809	85.519	203.576	289.095	417.695	49,3
2017 – Q2	22.161	113.224	135.385	109	697	806	91.380	212.233	303.613	439.804	52,7
2017 – Q3	22.135	113.719	135.854	97	607	704	92.702	215.664	308.366	444.924	52,6
2017 – Q4	22.111	114.332	136.443	95	571	666	95.648	221.527	317.175	454.284	53,4
2018 – Q1	24.038	116.824	140.862	93	560	653	98.117	227.025	325.142	466.657	52,9

Source: The Ministry of Treasury and Finance

While private sector external debt and net foreign exchange position increases in recent years have shown that the private sector is not doing as well as expected, the recent increases in exchange rates and the deterioration in global markets indicate that fragilities have increased in terms of the private sector.

When we evaluate the credit borrowing developments provided by the private sector from abroad, announced by the Central Bank; in the first five months of 2018, long-term borrowing from the private sector abroad increased by 0.33% to USD 222.8 billion compared to end-2017, while short-term loan debt increased by 8.5% to USD 19.7 billion. Thus, in the first five months of 2018, the total borrowing of the private sector from abroad has increased by 1% to USD 242.5 billion compared to the end of 2017. According to the Central Bank's calculations, USD 8.9 billion of the private sector's long-term credit borrowing from abroad amounted USD 222.1 billion in 2017 is due to the exchange rate difference. The gradual increase in private sector borrowing in 2004-2018 period is noteworthy, and as of May 2018, it is seen that the sector credit borrowing provided from abroad totalled to 242.5 billion USD.

Credit Debt Developments Provided by Private Sector From Abroad (Billion USD)			
	Long-Term Credit	Short-Term Credit	Total Credit
2004	37,0	10,2	47,2
2005	50,9	13,3	64,2
2006	82,2	10,8	93,0
2007	121,9	8,6	130,5
2008	141,0	10,6	151,7
2009	128,5	6,6	135,1
2010	119,7	19,0	138,7
2011	126,9	24,9	151,7
2012	140,5	30,6	171,1
2013	156,4	41,3	197,7
2014	168,4	44,1	212,5
2015	195,0	20,4	215,4
2016	203,5	14,2	217,7
2017	222,1	18,2	240,2
2018-January- March	227,3	18,8	246,1
2018-April	225,3	20,2	245,5
2018-May	222,8	19,7	242,5

Source: CBRT

PRIVATE SECTOR'S EXTERNAL DEBT

2.1. Borrowing by Countries: As of May 2018, the long-term borrowing of the private sector from abroad has increased by 0.33% compared to the end of 2017 to USD 222.8 billion. In this context; the first three countries for long-term borrowing are the UK, Germany and the United States. On the other hand, as of May 2018, the debt of the private sector is USD 42.1 billion, and the distribution of these debt by nationalities is unknown.

Private Sector Credit Debt from abroad Provided by Country				
Country	2017	2018 – Q1	2018-4	2018-5
United Kingdom	28.645.996.199	29.192.865.404	29.537.476.227	30.361.528.406
Germany	22.717.658.157	23.381.212.532	22.834.477.059	22.104.107.367
United States	20.347.120.574	20.423.796.357	20.192.237.485	20.110.843.208
Netherlands	15.597.313.401	15.817.984.212	15.946.371.982	14.011.948.541
Luxembourg	9.261.272.616	8.462.295.314	8.409.977.583	8.095.903.823
Bahrain	10.622.191.187	11.310.334.142	11.101.071.369	11.097.401.123
Austria	8.517.767.145	8.297.944.008	8.179.643.288	7.246.543.996
France	7.694.580.256	7.956.541.133	7.887.860.541	7.597.576.991
U.A.E	6.563.858.987	7.066.954.486	7.495.891.551	9.639.370.325
Japan	6.267.380.342	6.381.464.016	6.283.620.133	6.192.865.064
Bond	41.960.006.585	43.948.646.192	42.531.620.825	42.113.743.327
Other	43.875.267.015	45.021.025.287	44.872.417.280	44.224.501.743
TOTAL	222.070.412.464	227.261.063.083	225.272.665.323	222.796.333.912

Source: CBRT, *The UK (England, Wales, North Ireland)

2.2. Borrowing by Sectors: When the distribution of the long-term credit borrowing provided by the private sector from abroad is examined, USD 113.1 billion of USD 222.8 billion of debts belongs to financial institutions, and USD 109.7 billion belongs to non-financial institutions. The borrowing of the banks included in the financial institutions constitutes 43% of the total debt. On the other hand, industrial sectors account for 18.7% of the total debt and the services sector accounts for 30.3%.

Sector Distribution of Long-Term Loans Provided to Private Sector					
SECTORS	2016	2017	2018 Jan-Mar	2018-4	2018-5
FINANCIAL	105.889.224.109	113.896.199.267	115.618.047.761	114.573.416.059	113.091.001.305
i- Banks	86.980.772.860	96.092.851.866	97.422.714.671	97.403.762.749	96.229.686.659
ii- Insurance, Reinsurance and Pension Funds	17.316.491	32.348.361	36.352.930	39.636.277	45.282.954
iii- Companies	6.074.031.477	4.886.287.589	4.745.045.512	4.676.741.438	4.814.673.791
iv- Other(**)	12.817.103.281	12.884.711.451	13.413.934.648	12.453.275.595	12.001.357.900
NON-FINANCIAL	97.605.177.467	108.174.213.197	111.643.015.322	110.699.249.265	109.705.332.607
AGRICULTURAL SECTOR	603.057.784	567.824.506	537.148.897	528.329.580	520.148.636
Agriculture, Forestry and Fisheries	603.057.784	567.824.506	537.148.897	528.329.580	520.148.636
INDUSTRIAL SECTORS	39.893.662.754	43.274.950.008	43.924.979.248	42.664.568.733	41.731.990.882
Mining and Quarrying	3.566.418.758	3.786.275.681	3.825.216.514	3.735.116.226	3.770.375.645
Manufacturing	24.956.770.943	26.548.991.085	27.106.088.205	26.031.340.652	25.368.176.939
Electricity, Gas, Steam and Air Conditioning Production and Distribution	11.341.958.228	12.918.688.532	12.977.701.472	12.883.149.912	12.579.895.415
Water Supply, Sewerage, Waste Management and Improvement Activities	28.514.824	20.994.710	15.973.056	14.961.944	13.542.883
SERVICES SECTOR	57.108.456.928	64.331.438.683	67.180.887.176	67.506.350.952	67.453.193.089
Construction	13.269.654.090	16.333.028.585	17.740.546.124	17.683.124.218	18.098.955.512
Wholesale and Retail Trade	3.906.944.472	4.987.443.696	5.026.004.276	5.016.802.389	4.853.544.148
Transportation and Storage	16.351.620.661	17.643.020.296	18.745.759.643	18.574.857.723	18.732.129.168
Accommodation and Food Service Activities	2.361.164.767	2.159.612.771	2.078.603.387	1.910.715.663	1.855.079.812
Information and Communication	9.628.143.573	9.768.495.709	9.721.626.081	9.965.936.794	9.681.211.988
Real Estate Activities	5.003.652.364	4.875.173.861	4.841.822.425	5.095.110.771	5.169.634.133
Vocational, Scientific and Technical Activities	1.374.590.512	1.828.398.586	1.815.051.386	1.874.682.168	1.809.291.430

PRIVATE SECTOR'S EXTERNAL DEBT

Administrative and Support Service Activities	1.424.011.884	1.750.767.680	1.822.967.930	1.855.133.465	1.781.665.709
Public Adms.Defence; Compulsory Social Security	16.034.461	642.787	30.783	30.198	29.033
Education	225.840.222	213.923.762	206.046.060	200.188.777	195.503.495
Human Health and Social Service Activities	2.058.381.061	3.162.255.971	3.308.683.256	3.408.904.964	3.332.274.090
Culture, Arts, Entertainment, Leisure and Sports	874.764.627	522.609.355	577.805.431	571.641.001	581.469.302
Other Service Activities	613.654.236	1.082.793.880	1.292.641.813	1.345.940.852	1.359.156.385
TOTAL	203.494.401.576	222.070.412.464	227.261.063.083	225.272.665.323	222.796.333.912

Source: CBRT

3. MEASURES TO REDUCE PRIVATE SECTOR DEBT

As stated by the Central Bank's Financial Stability Report in May 2018, with the increase in liquidity levels following the global crisis, the domestic and foreign borrowing rates on the real sector increased, while the ratio of financial debt of firms to GDP increased to 60% in 2018. As stated in the report; the long term borrowing in foreign currency used for investment within this period reached to 57% of financial debts of real sector companies. Meanwhile, the total foreign currency (FX) debt of real sector companies, 90% in terms of loans, is USD 337 billion and the net FX position is at USD 222 billion. (See also. [CBRT Financial Stability Report, May 2018](#), page 81.) On January 25, 2018 in the Decree No. 32 regulation changes were made on the use of loans denominated in foreign currency, the arrangement is entered into force in May 2, 2018. With the new arrangement, companies with domestic and foreign financial institutions and foreign partners' total FX liabilities totaling less than USD 15 million were included in the scope of regulation.

- For small and medium-sized companies with foreign currency loans less than 15 million USD, a total of 3-year foreign exchange rate scales were introduced and it was announced that these companies could not borrow over their 3-year total foreign exchange income. Regulation has been made to hedge the foreign exchange position for real sector companies with a debt of more than 15 million USD, in other words, to follow the current foreign exchange debts for these companies and to share this information with the Central Bank.
- The CBRT has started negotiated forward exchange transactions in the Turkish lira to provide exchange rate risk protection. With this application, which will reduce the risk of the real sector, the CBRT has limited the speculative exchange rate without decreasing its reserves with the compromised forward exchange transactions, and at the same time the real sector, which is open foreign exchange position, has taken a step to prevent the loss from excessive volatility in the currencies.
- The CBRT has developed the "Systemic Risk Data Tracking Model" for the establishment of a sound monitoring and analysis mechanism for the real sector exchange rate risk. As a first step of this process, a comprehensive data set was created in order to monitor firm-level foreign currency position, cash flow and the use of derivative products.
- The necessity of taking into account the link between the foreign exchange revenues of the companies and the foreign exchange liabilities and the necessity of using derivative instruments for foreign exchange risk management emerged.

On the other hand, the predominantly long-term financial liabilities of the private sector are important in terms of limiting the risks that may arise due to interest rate and exchange rate volatility. Concentration of foreign exchange-denominated debt in the real sector to significant large-scale firms may also be perceived as positively imposing a limited effect on the risk of unpaid debts.

The foreign exchange debt of firms outside the financial sector has increased over the last 10 years and continues to weaken the financial strength of private companies against the exchange rate rise. Another issue is that when we look at sectors that have grown rapidly in the last decade, especially those that are not exporting, energy, construction, and transportation. In case of sudden fall in capital flows along with reversal of the global risk appetite likely trigger the main risk of high foreign currency debt of the private sector. On the other hand, we consider the 128 billion TL incentive package announced by the government and approved within the scope of strategic investments as an important step towards improving the investment climate and we think that can support companies in terms of investment, export and employment.

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