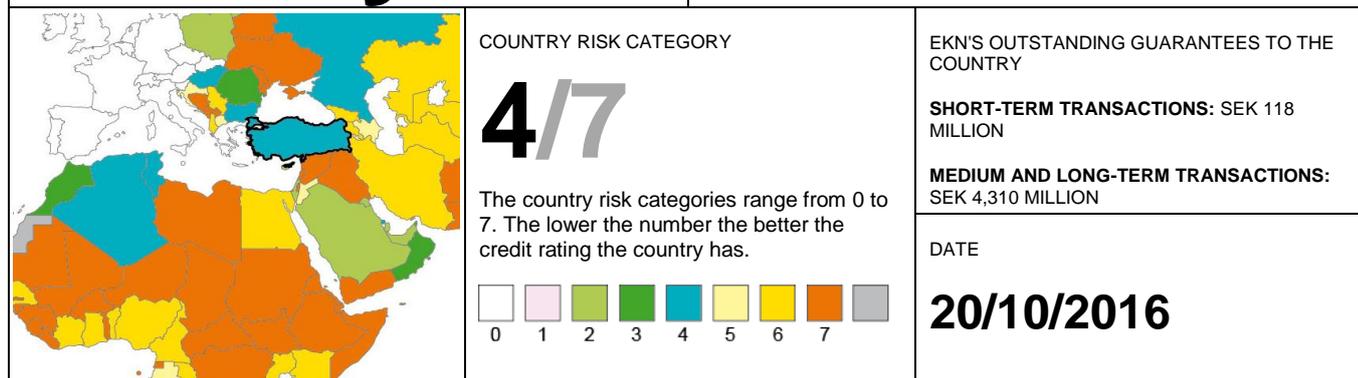


# Turkey



## Gloomier outlook in wake of coup attempt

Turkey's period of high growth and institutional development in the early 2000s is long gone. The country's already fragile political stability was exacerbated following the failed coup attempt in July 2016. The government has further fuelled tensions by cracking down on the opposition and suspected sympathisers. The coup attempt and its repercussions will harm Turkey's capital inflows, investment environment and growth. The Turkish economy is showing signs of stagnation.

The dependence on foreign financing is a risk factor for economic and financial stability. Turkey's currency has depreciated and it has a sizeable current account deficit. The risks are spilling over into the banking and corporate sector. The foreign currency debt of Turkish companies will impact their credit rating. EKN has high exposure and a large flow of transactions to Turkey. EKN's experience is mixed, with periods of large payment delays even though there have been relatively few indemnifications.

### THE COUNTRY'S STRENGTHS AND WEAKNESSES

#### Strengths

- Stable public finances with sustainable debt and budget control.
- Banking system with capital adequacy enabling it to withstand a temporary economic decline.

#### Weaknesses

- Domestic and regional political instability.
- High external financing requirements are a risk factor when political turbulence impacts capital flows and investments.
- Corporate sector sensitive to weak growth, rising interest rates and currency depreciation.

## EKN'S POLICY

EKN has categorised Turkey in country risk category 4 out of 7 since 2008 – an assessment made in collaboration with the OECD. Budgetary discipline and relatively strong public finances justify a normal risk assessment policy for sovereign risks. As a result of poor transparency on the part of other public entities, such as municipalities and state-owned companies, payment securities are sought in the form of a letter of credit, or a bank or government guarantee. There are no certain restrictions for bank risks. The banking system is in good shape with profitable and well-capitalised banks. The risk assessment policy for corporate risks is restrictive. Currency risk is a factor taken into account and assessed for each individual transaction.

## WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY?

### **The policy may be made less restrictive in the event of**

- More exports and foreign investments that improve the balance of payments.
- Reinstated EU reforms that improve the business environment in the long term.

### **The policy may be made more restrictive in the event of**

- Domestic policy turbulence and further political measures to crack down on the opposition.
- Lower capital inflow resulting in balance of payment problems.

## EKN'S EXPOSURE AND EXPERIENCE

### **Major exposure, mixed experience**

In the period between 2011 and 2015, EKN issued guarantees for 101 transactions totalling SEK 10.4 billion for Swedish companies exporting to Turkey. EKN's exposure is concentrated in the telecom sector, but sectors such as infrastructure, transport, construction and power also have major exposure. EKN's payment experience has been mixed. Payment arrears have been high periodically, but indemnifications have generally remained low. The majority of the problem transactions have been in industries sensitive to economic fluctuations such as the mining and construction sectors. The recovery proceedings in these transactions have been slow.

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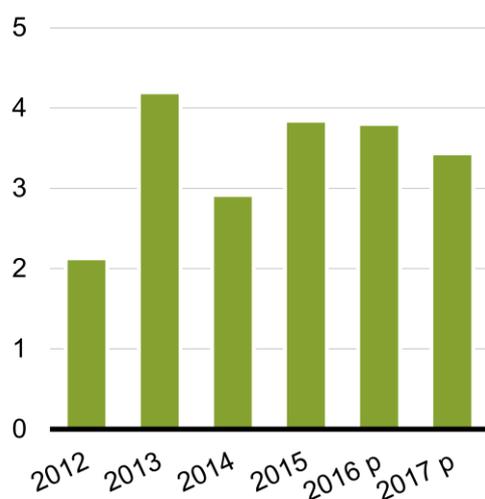
## RISK DEVELOPMENT

### Coup attempt harming economy

Turkey experienced a period of high growth and institutional progress until the 2009 global financial crisis. Investments were made in infrastructure and education and market-oriented economic reforms were implemented as well. Turkey came back strong after the 2009 financial crisis with a solid recovery in growth, but this growth rate has fallen off since then. Turkey's weak exports, low foreign investment and unbalanced growth driven by domestic consumption played a part in driving this trend. Foreign direct investment as a percentage of GDP is among the lowest in the region. This is largely due to political turbulence, but also erratic political meddling favouring certain sectors and investors.

Political instability rose in 2015 as Turkey got involved in the war in Syria, the peace process with the Kurdistan Workers' Party (PKK) was suspended and the parliamentary re-elections were held. The political landscape was further polarised following the coup attempt in July 2016. As a result, the government has carried out mass arrests of military and opposition figures. Tens of thousands of civil servants, mainly in education and the judiciary, have been suspended or relieved of their duties. The government has instituted a state of emergency and talked about reinstating the death penalty for those found guilty of treason. Relations with the Western world, which warned Turkey not to use the coup as an excuse to crackdown on the opposition, have deteriorated, making Turkey more isolated.

GDP GROWTH (% PER YEAR)



Growth is between three and four per cent.

Data: IMF

A return to the rapid growth rates of the 2000s is unlikely. In the long term, political turbulence and Erdoğan's authoritative leadership pose a risk of leading to failure to make reforms and lower foreign direct investment. An improvement in conditions

The coup attempt and its repercussions will harm Turkey's capital inflows, investment environment and growth. Turkey is dependent on capital inflows to finance its current account deficit. If investors are scared off from Turkey, this could decrease capital inflows and complicate refinancing the external debt, which is mostly short term. Turkey's international reserves only cover a couple of months of imports. This vulnerability is alleviated to a certain degree by the development of Turkey's local capital market, which has facilitated access to domestic financing. For example, the majority of the national debt is financed in local currency.

There is no imminent balance of payments crisis, but the growth rate has fallen to between

for the corporate sector is not expected and questions regarding monetary policies and the status of the central bank remain unanswered.

BUSINESS ENVIRONMENT

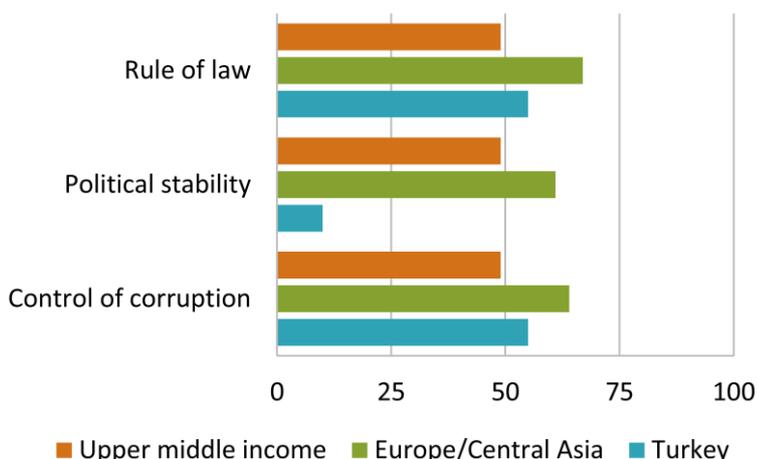
**Continuing reforms necessary**

The Turkish banking sector rests on a relatively solid foundation. There are no signs that the coup attempt has triggered problems in the banking sector. The Turkish central bank says it is prepared to provide liquidity support to the banks if needed. The weakness of the banking sector is its high external debt and dependence on foreign financing. Lending in foreign currency to Turkish companies accounts for one third of the total lending of the banks. The weakening of the lira over the past years will likely lead to more credit losses. Further sharp depreciation of the lira would seriously deteriorate the asset quality of the banks and put pressure on their capital.

Turkish companies are vulnerable to the current trend of low growth and a weaker currency. The lack of cheap medium-term financing in local currency restricts the room for manoeuvre of Turkish SMEs, which are instead attracted by US dollar and euro loans with lower interest rates. Companies have to either rely on shorter term US dollar and euro loans or convert a weaker lira to pay their US dollar loans, which increases their debt burden. EKN takes currency exposure into account when assessing the credit risk of companies.

Political intervention is still influencing individual sectors, companies and projects. The authority and independence of regulatory authorities are unpredictable. EU reforms in the judiciary were initiated in the 2000s and have come a long way. New courts have been

BUSINESS ENVIRONMENT  
Ranking from 0 (worst) to 100 (best)



Turkey is ranked relatively well in terms of rule of law and corruption, but worse with respect to political stability. Source: World Bank

established for commercial disputes, but structural problems remain in the form of time-consuming legal proceedings. Companies with links to the Gülen movement, which is classified as a terrorist organisation by Turkey, have been shut down following the coup attempt. The World Bank ranks

Turkey's business climate 55th out of 189 countries, in line with countries in the Balkans and Eastern Europe, but better than its neighbours in the Middle East.