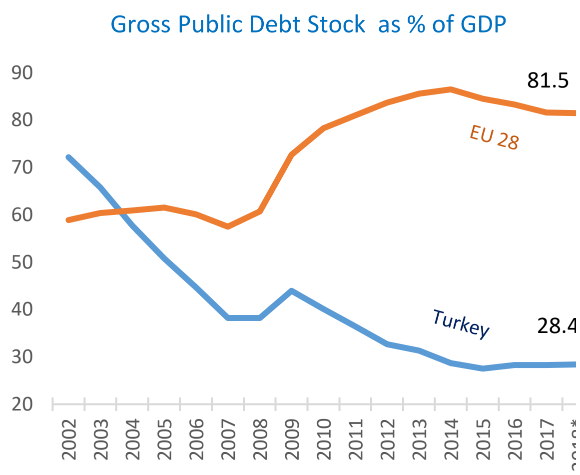
Special Report: A Current Snapshot of Turkish Economy

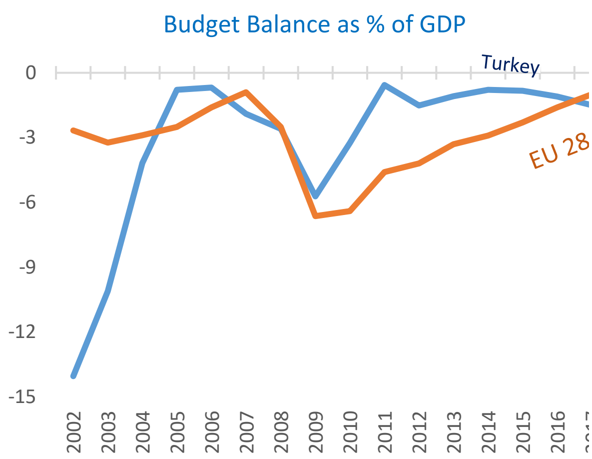
Recent fluctuations do not match with existing economic fundamentals

Recent global developments have triggered high fluctuations in Turkish Lira (TRY). For the past few months, the USD has been gaining considerable strength against all currencies, and this trend has been more pronounced in emerging markets (EM), e.g. MSCI EM currency index tracking the main emerging markets currencies drop 0.66% on 13th August Monday. Ongoing political tensions combined with this global trend led to an additional depreciation in TRY.

Concerns over the current account figure of Turkey cannot be the main underlying reason to the recent developments in TRY. Turkey's current account deficit to GDP ratio is around 5.7% recently. However, such an impact in TRY was not observed even when oil prices had passed USD 100 or when the current account deficit ratio was close to double digits.

The macroeconomic indicators show the solid fundamentals of Turkey's economy





Source: Eurostat

A. Turkey has an impressive track record in managing public finance over the past 15 years. Budget deficit to GDP ratio has drastically decreased from over 10% to less than 1-3%, below the well-known EU's Maastricht criteria (3%) and considerably low comparing to the most European economies.

B. Turkey holds a strong position in public debt to GDP ratio as well, another significant macroeconomic indicator, which is around 28% according to the latest available data. As a result of successful budget management, Turkey has significantly reduced its public debt over the past 15 years. Public debt to GDP ratio has been reduced from over 70% to below 30%, outperforming Maastricht criteria of 60% for the past 14 years.

C. Turkey is able to manage its total debt. The overall liabilities to be due within a year is USD 180.6 billion.

1. Out of this total, the share of **the banking system** is USD 102 billion:
   - Half of which is deposited by non-resident investors and is not assumed as debt.
   - The other half, roughly USD 50 billion, is the amount to be paid back as liabilities.
   - Turkey's 12-month cumulative roll-over ratio of this type of liabilities is above 100%, demonstrating the banking sector's ability to pay back this type of liability without any difficulties.
2. Coming to the debt amount assumed by the real sector, accounting for USD 73 billion:
   - 65% (over USD 48 billion) of the debt is the commitments against goods and services that expand or contract in accordance with economic activities, not posing any risk to the banking system.

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- The record of the 12-month cumulative roll-over ratio for the remaining debt (USD 25 billion) is around 137%, indicating no difficulty has been experienced to honor this type of debt. That shows that the Turkish real sector has a high credibility among international financial system.

The authorities of economy policy are taking necessary measures to support financial stability and sustain the effective functioning of financial markets in Turkey

The punctual and prudent measures taken by both the Central Bank of the Republic of Turkey (CBRT) and the Banking Regulation and Supervision Agency (BRSA) support financial stability and sustain the effective functioning of financial markets in Turkey.

- The banks in Turkey are limited with FX swap transactions, receiving USD against Turkish Lira, up to 25% of their equity capital. BRSA has limited FX swap transactions to curb the decline in and stabilize the value of TRY.
- CBRT has pulled down the required reserve ratios for both TRY and foreign exchange denominated liabilities. With this measure, TRY 10 billion, USD 6 billion, and USD 3 billion equivalent of gold liquidity have been provided to the financial system to further decrease the trivial possibility of liquidity crunch.

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