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# PANORAMA

## LOWER LIRA AND HIGHER DEBT: A BAD MIX FOR TURKISH BUSINESS

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By the Group Economist based in Istanbul



**D**uring 2015, Turkey's economy faced several challenges. On the political scene, the country went through two elections in 2015, bringing to four the number of elections over the last two years. After talks to form a coalition government fell through following the June 7 general election, the country returned to the polls on November 1. The combination of greater political uncertainty, security issues and global economic worries caused a sharp depreciation in the lira, which hit its all-time weakest level against the dollar in September.

With Turkey's acute dependence on capital inflows and input imports, its corporates have been negatively affect-

ed by the sharp fluctuations and strong depreciation of the lira. Compounding this, the euro's weakness against the dollar narrowed the profit margins of companies with production costs denominated in USD and revenues in euros. The volume and value of bounced cheques rose, indicating deterioration in payment performance. Rising regional tensions also pulled down export volumes, restricting corporate revenues. These developments weighed on the outlook of sectors such as metals (apart from iron and steel), construction and chemicals, especially during the first three quarters of the year.

With the significant easing of political tensions following the Nov 1 elections, the lira's sell-off has diminished. In the upcoming period, more precise

monetary policies from the US Federal Reserve could reduce the volatility of emerging currencies, including the lira. This, coupled with higher consumer confidence, could improve the sectorial risks. Nevertheless, regional security issues and the vulnerability of the country's economic structure to external developments will continue to weigh on risk levels. This panorama focuses on metals (excluding iron and steel) and the food and textiles sectors, as they are among the most affected ones by the lira's depreciation. Furthermore, recent geopolitical risks - such as tensions between Turkey and Russia, and violence in Syria and Iraq - are also weighing on these sectors and negatively impacting payment performance.



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