

Reviewing Measures of External Debt - The Case of Turkey

Osman Cagatay Mutlu

Central Bank of the Republic of Turkey, Ankara, Turkey cagatay.mutlu@tcmb.gov.tr

Abstract

The financial crises experienced in the 1990's, particularly the 1997-1998 Asian Crisis and the recent Global Financial Crisis, have demonstrated again the importance of timely, comprehensive, coherent and internationally comparable external debt statistics (EDS) in identifying the external vulnerabilities of the countries at an early stage from the perspective of both monetary policy and financial stability analysis. The favorable global liquidity conditions and the monetary easing in advanced economies, respectively before and in the aftermath of the recent crisis have led to strong capital inflows particularly to emerging economies, resulting in acquisition of external debt. Against this background, this paper will mainly discuss the country practice of Turkey regarding the compilation and dissemination of EDS, which will cover in detail the supplementary external debt presentation tables. In the case of Turkey, balance of payments statistics, EDS of the private sector and short-term external debt statistics are disseminated monthly whereas the overall EDS and international investment position are disseminated quarterly. The further presentation tables such as external debt on a foreign and domestic currency basis, on a short-term remaining maturity basis and on a creditor by borrower basis facilitate to a great extent the analysis of external debt. As regards the EDS of the private sector, the maturity, currency and interest rate composition along with the sectoral breakdown of the borrower also enables a more in-depth analysis. Outstanding bonds issued in international markets and data on debt securities issued by residents and held by non-residents will be discussed as well.

Key Words: short-term remaining maturity, currency composition, creditor breakdown, sectoral breakdown

1. Introduction

Gross external debt statistics (EDS) of Turkey are compiled in two different institutions; the Undersecretariat of Treasury (UT) and the Central Bank of the Republic of Turkey (CBRT), Statistics Department, Balance of Payments Division, which is also responsible for the compilation and dissemination of the monthly BOP and quarterly international investment position (IIP) statistics, which are also published monthly as an indicator. The Treasury is responsible for the long-term public sector & Treasury guaranteed EDS and the CBRT is responsible for the long-term private sector EDS along with the short-term EDS of all sectors.

Gross EDS and Treasury guaranteed EDS of Turkey are released at the Undersecretariat of Treasury's (UT) web site on a quarterly basis according to a year-ahead release calendar, which is also announced to public on the web site. The timeliness of the data is one quarter following the end of the reference period. In addition, the central government debt statistics are released at the web site of UT and long-term EDS of the private sector along with the short-term EDS (on an original and remaining maturity basis)

of all sectors are released at the web site of the CBRT on a monthly basis, also according to a year-ahead release calendar.

Private sector's long-term EDS, which are being monitored by the CBRT since October 1, 2001 includes long-term external loans of resident private banks, private non-bank financial institutions and private non-financial institutions and real persons, bond issues of the private sector in the international markets and long-term trade credits. Meanwhile, short-term EDS of Turkey are composed of deposits within the CBRT, external loans of resident banks and other sectors, deposits of non-resident real/legal persons and banks within resident banks and trade credits, all with an original maturity of one year or less. Details on long-term external loans, bonds and trade credits and short-term external loans and bonds of the private sector, which comprise information on borrower and creditor, currency denomination, disbursements, principal/interest payments and repayment schedule, are compiled via the intermediary resident banks' transaction basis reporting forms submitted monthly to the CBRT.

CBRT's monthly publication of long-term EDS of the private sector comprises borrower, creditor, creditor by borrower, maturity, currency composition and exchange rate effect, country of creditor, NACE Rev. 2. sectoral composition of the borrower, repayment projections and interest rate composition on a NACE Rev. 2. sectoral basis breakdowns whereas the monthly publication of short-term EDS comprises the borrower, creditor, currency composition breakdowns as well as short-term EDS on a remaining maturity basis with the borrower and debt instrument breakdowns.

2. Long-term External Debt of the Private Sector

In 2012, private sector's long-term external debt stock increased by USD 11.3 billion and reached USD 138.3 billion compared to end-2011. Of this total amount, 40.2 billion belongs to banks, USD 13.2 billion to non-bank financial institutions and USD 84.8 billion to non-financial sectors. Creditor by borrower data reveals that USD 23 billion of the total debt is owed to the foreign branches and affiliates of the resident banks. (Table 1). The bond issues in international markets, in particular of the banks, have recorded a significant increase in 2012.

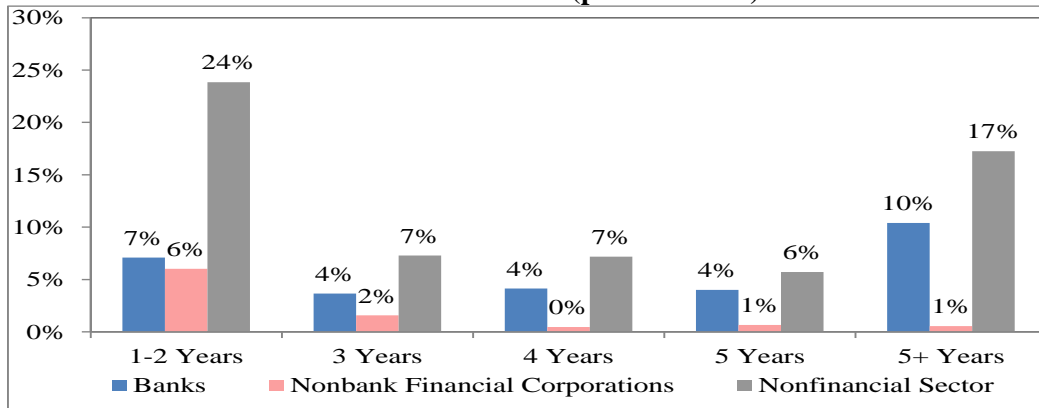
Table 1: Creditor by Borrower Composition of Outstanding Long Term External Debt Stock of the Private Sector - 2012 (US Dollars)

	2012				
	By Borrower				
	I- Financial (i+ii)	i- Banks	ii- Nonbank Financial Corporations	II- Nonfinancial	TOTAL
By Creditor	53.464.406.177	40.235.100.303	13.229.305.874	84.788.049.547	138.252.455.724
I- Official Creditors	8.297.586.155	8.043.470.228	254.115.927	3.888.069.862	12.185.656.017
i- Governmental Organizations	347.241.036	346.579.552	661.484	302.905.328	650.146.364
ii- Multilateral Organizations	7.950.345.119	7.696.890.676	253.454.443	3.585.164.534	11.535.509.653
- European Investment Bank	3.784.558.395	3.682.158.427	102.399.968	779.926.346	4.564.484.740
- Council of Europe Development Bank	276.311.088	243.331.088	32.980.000	0	276.311.088
- Islamic Development Bank	437.576.949	435.228.763	2.348.186	43.895.167	481.472.116
- International Fund for Agricultural Developmen	0	0	0	0	0
- International Finance Corporation	733.269.935	617.543.646	115.726.289	2.157.375.060	2.890.644.995
- International Development Association	0	0	0	0	0
- International Bank of Reconstruction and Deve	1.873.768.612	1.873.768.612	0	0	1.873.768.612
- European Bank for Reconstruction and Develop	844.860.141	844.860.141	0	603.967.961	1.448.828.101
II- Private Creditors	34.758.248.022	21.783.058.075	12.975.189.947	79.493.383.685	114.251.631.707
i- Nonresident Commercial Banks	28.341.695.757	19.715.499.516	8.626.196.241	38.909.642.342	67.251.338.098
ii- Foreign Branches and Affiliates of Resident Bank	1.775.689.072	57.624.130	1.718.064.942	21.249.239.203	23.024.928.275
iii- Nonbank Financial Corporations	2.638.929.548	1.795.456.051	843.473.497	4.642.671.144	7.281.600.692
iv- Nonfinancial	2.001.933.645	214.478.377	1.787.455.268	14.691.830.997	16.693.764.642
III- Holders of Bond Issues Abroad	10.408.572.000	10.408.572.000	0	1.406.596.000	11.815.168.000

Source: CBRT.

Furthermore, an analysis of the maturity breakdown points out that 38.9 percent of the total debt is composed of debt to mature in 1-2 years, and that of the non-financial private sector has the largest share with 24.7 percent (Chart 1).

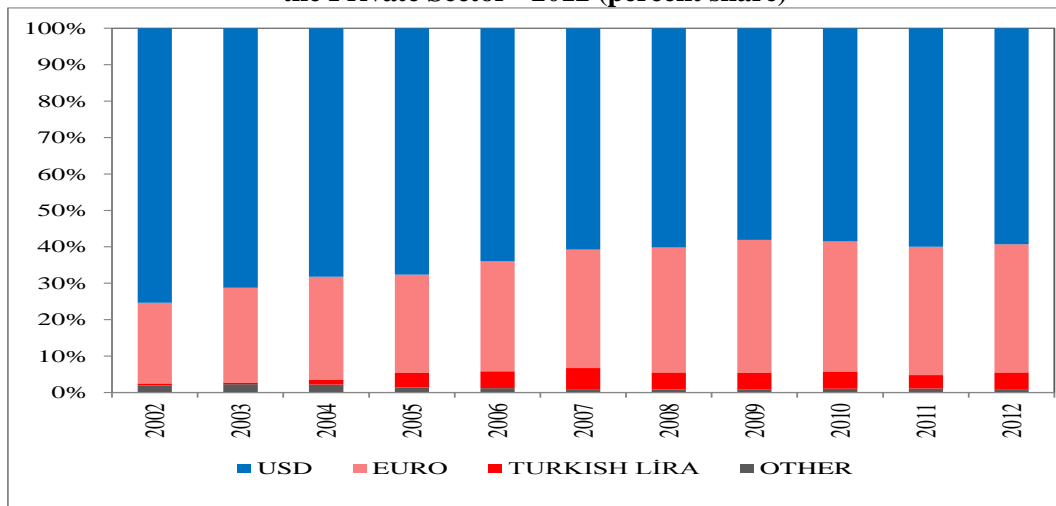
Chart 1: Maturity Structure of Outstanding Long Term External Debt Stock of the Private Sector - 2012 (percent share)



Source: CBRT.

Private sector’s long-term external debt stock is mostly composed of debt denominated in US dollar and Euro, nevertheless the share of debt denominated in US dollar has been decreasing since 2002 and that of Euro has been on the rise. Of the total amount, USD equivalent of 6.3 billion, in other words 4.6 percent is denominated in Turkish Lira.

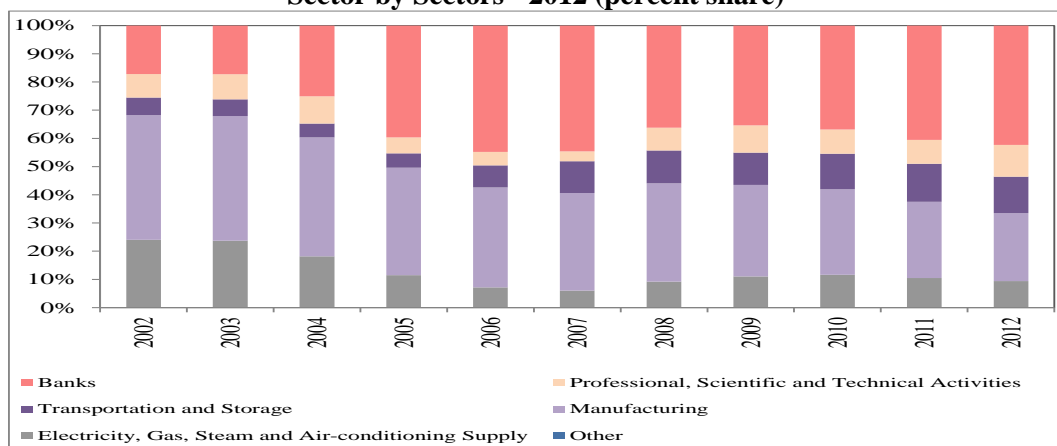
Chart 2: Currency Composition of Outstanding Long Term External Debt Stock of the Private Sector - 2012 (percent share)



Source: CBRT.

Chart 3 below displays the breakdown of private sector’s long-term external debt by sectors. Data pertaining to the top 5 sectors that have the largest share in external debt by 2012 are displayed starting from 2002. While the manufacturing sector had the largest share as of 2002, the share of banks have grown over time; meanwhile, the shares of professional, scientific and technical activities; electricity, gas, steam and air-conditioning supply; transportation and storage sector have remained relatively flat.

Chart 3: Breakdown of Outstanding Long Term External Debt Stock of the Private Sector by Sectors - 2012 (percent share)



Source: CBRT.

The interest rate breakdown reveals that the share of the external debt with flexible rates outweighs that of the fixed rates as end of February 2013 (Table 2).

Table 2: Breakdown of Outstanding Long Term External Debt Stock of the Private Sector by Sectors and Interest Type - February 2013

SECTORS	% Share of fixed-interest rate	% Share of variable interest rate	USD Equivalent	% Share in total
TOTAL	46,6	53,4	138.717.609.984	100,0
I- FINANCIAL (K)	56,6	43,4	53.539.815.408	38,6
i- Banks	56,2	43,8	40.685.540.541	29,3
ii-Insurance, Reinsurance and Pension Funding	74,8	25,2	162.558.451	0,1
iii- Holding Companies	35,5	64,5	4.330.829.554	3,1
iv- Other (**)	69,0	31,0	8.360.886.862	6,0
II- NONFINANCIAL	40,2	59,8	85.177.794.576	61,4
AGRICULTURE	52,7	47,3	581.386.353	0,4
A. Agriculture, Forestry and Fishing	52,7	47,3	581.386.353	0,4
INDUSTRIAL SECTORS	40,2	59,8	33.697.645.614	24,3
B. Mining and Quarrying	32,8	67,2	2.351.324.530	1,7
C. Manufacturing	43,7	56,3	22.496.090.897	16,2
CA Manufacture of Food Products, Beverages and Tobacco	55,8	44,2	4.309.350.774	3,1
CB.Manufacture of Textiles and Textile Products	51,9	48,1	2.964.028.281	2,1
CC.Manufacture of Leather and Leather Products	62,0	38,0	127.666.579	0,1
CD Manufacture of Wood and Wood Products	39,8	60,2	267.801.939	0,2
CE. Manufacture of Pulp, Paper and Paper Products and Publishing and Printing	52,0	48,0	522.250.076	0,4
CF.Manufacture of Coke, Refined Petroleum Products and Nuclear Fuel	67,2	32,8	1.490.594.664	1,1
CG. Manufacture of Chemicals, Chemical Products, Basic Pharmaceutical Products and Materials	40,7	59,3	1.563.386.225	1,1
CH Manufacture of Rubber and Plastic Products	46,3	53,7	793.763.660	0,6
CI. Manufacture of Other Non-Metallic Mineral Products	14,7	85,3	1.028.720.314	0,7
CJ. Manufacture of Basic Metals and Fabricated Metal Products	28,0	72,0	4.011.427.696	2,9
CK Manufacture of Machinery and Equipment n.e.c.	44,6	55,4	399.347.644	0,3
CL.Manufacture of Computers, Electronic-Electrical and Optical Equipm	39,0	61,0	2.348.300.339	1,7
CMManufacture of Transport Equipment	36,1	63,9	2.286.394.473	1,6
CN Manufacturing n.e.c.	60,0	40,0	383.058.233	0,3
D. Electricity, Gas, Steam and Air-conditioning Supply	33,1	66,9	8.845.802.495	6,4
E. Water Supply; Sewerage, Waste Management and Remediation	82,1	17,9	4.427.693	0,0
SERVICES	40,2	59,8	50.898.762.609	36,7
F. Construction	48,0	52,0	6.442.712.797	4,6
G. Wholesale and Retail Trade	52,8	47,2	3.916.419.010	2,8
H. Transportation and Storage	28,3	71,7	12.113.619.380	8,7
I. Accommodation and Food Service Activities	61,5	38,5	1.801.039.110	1,3
J. Information and Communication Services	16,0	84,0	6.677.833.315	4,8
L. Real Estate Activities	18,5	81,5	3.490.288.110	2,5
M. Professional, Scientific and Technical Activities	46,3	53,7	11.240.256.626	8,1
N. Administrative and Support Service Activities	81,4	18,6	596.933.618	0,4
O. Public Administration and Defence, Compulsory Social Security	100,0	0,0	2.700.000	0,0
P. Education	57,6	42,4	127.030.512	0,1
Q. Human Health and Social Work Activities	31,1	68,9	752.465.573	0,5
R. Arts, Entertainment and Recreation	40,9	59,1	160.171.596	0,1
S. Other Service Activities	82,8	17,2	3.576.888.269	2,6
T. Activities of Households as Employers...	50,4	49,6	404.692	0,0
U. Activities of Extra-Territorial Organisations and Bodies	0,0	0,0	0	0,0

Source: CBRT.

2. Short-term External Debt

As of end February 2013, short-term external debt of Turkey amounted to USD 109.2 billion of which USD 73.8 billion belongs to banks (Table 3). Of this total amount, USD equivalent of 15.0 billion or 13.7 percent in percentage terms is denominated in Turkish Lira.

Table 3: Short-term External Debt of Turkey - February 2013 (Million USD)

	2012				2013	
	Q1	Q2	Q3	Q4	Jan.	Feb.
CENTRAL BANK	1.287	1.171	1.117	1.082	1.111	1.066
BANKERS' CREDIT	0	0	0	0	0	0
OVERDRAFTS	1	0	1	0	1	0
DEPOSITS WITH CBRT	1.286	1.171	1.116	1.082	1.110	1.066
CTLD's & OTHER	0	0	0	0	0	0
GENERAL GOVERNMENT	0	0	0	0	0	0
BANKS	57.374	62.595	64.221	68.272	72.962	73.805
CREDITS	23.744	26.486	26.961	29.268	31.064	32.691
FX DEPOSITS	8.495	8.839	8.403	8.768	8.922	8.893
BANKS ACCOUNTS	15.947	16.633	17.286	18.588	19.766	21.927
TRY DEPOSITS	9.188	10.637	11.571	11.648	13.210	10.294
OTHER SECTORS	29.757	32.905	32.897	31.613	33.476	34.390
TRADE CREDITS	25.347	27.626	26.959	26.389	27.884	28.672
DUE TO IMPORTS	20.245	22.899	22.485	22.084	23.531	24.309
PRE-EXPORT FINANCING	5.102	4.727	4.474	4.305	4.353	4.363
OTHER CREDITS	4.410	5.279	5.938	5.224	5.592	5.718
PUBLIC	0	0	0	0	0	0
PRIVATE	4.410	5.279	5.938	5.224	5.592	5.718
TOTAL	88.418	96.671	98.235	100.967	107.549	109.261

Source: CBRT.

Short-term external debt on a remaining maturity basis is the sum of short-term external debt on an original maturity basis and the part of the long-term external debt on an original maturity basis which will be due in one year, in other words, it is external debt maturing within one year or less regardless of the original maturity. As presented in Table 4 below, USD 29 billion of the total amount is owed to the foreign branches and affiliates of the resident banks.

Table 4: Short-term External Debt of Turkey on a Remaining Maturity Basis - February 2013 (Million USD)

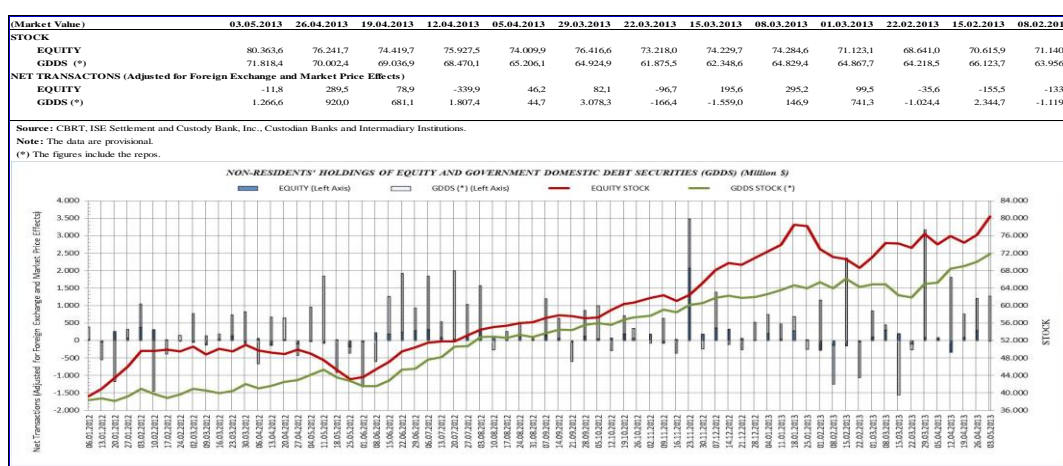
	February 2013
CENTRAL BANK	3.605
OVERDRAFTS	
DEPOSITS WITH CBRT	3.605
GENERAL GOVERNMENT (**)	5.011
BANKS	79.985
CREDITS	38.871
FX DEPOSITS	8.893
BANKS ACCOUNTS	21.927
<i>Branches and Affiliates Abroad</i>	<i>15.116</i>
TRY DEPOSITS	10.294
<i>Branches and Affiliates Abroad</i>	<i>4.567</i>
OTHER SECTORS	62.289
TRADE CREDITS	28.929
DUE TO IMPORTS	24.566
PRE-EXPORT FINANCING	4.363
OTHER CREDITS	33.360
PUBLIC	177
PRIVATE	33.183
<i>Branches and Affiliates Abroad</i>	<i>9.370</i>
TOTAL	150.890

Source: CBRT.

3. Non-resident Holdings of Securities

Residents' and non-residents' holding of securities, namely equity securities and debt securities (GDDS: government domestic debt securities and debt securities issued by the UT in international markets) data are collected from various sources and then published weekly as well as in a time series format at the CBRT's website with sector and maturity breakdowns for both nominal and market values.¹ Net weekly flow data on equities and GDDS held by non-residents are calculated by adjusting the stock data for foreign exchange rate effect and price changes (Table 5). Turkey also disseminates debt securities data (debt securities issued by residents in domestic and international markets) to the Bank for International Settlements on a quarterly basis.

Table 5: Non-residents' holdings of equity and government domestic debt securities (GDDS) (Million \$)



Source: CBRT.

3. Conclusion

The sector, currency and maturity breakdown of external debt play a crucial role in assessing the potential vulnerabilities of the economies particularly in the face of strong and volatile private financial flows. This paper mainly discussed the country practice of Turkey regarding the compilation and dissemination of EDS, which covered in detail the supplementary external debt presentation tables.

¹ As indicated in the IMF/SDDS/External Debt/Metadata/Summary Methodology, debt securities issued by residents in domestic markets and held by non-residents is not included in external debt and debt securities issued by residents in international markets and held by residents is not excluded from external debt. However, the necessary adjustment is made in the IIP. Non-residents' holdings of debt securities issued by residents in domestic markets are included and residents' holdings of debt securities issued by residents in international markets are deducted on a market price basis in the IIP: Liabilities/Portfolio Investment/Debt Securities/General Government, Banks and Other Sectors.