



FINANCIAL OVERVIEW OF TURKISH ECONOMY

Sectoral Approach



OUTLINE



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- ✓ Financial Ratios
 - ✓ Liquidity
 - ✓ Leverage
 - ✓ Profitability
- ✓ General Outlook
- ✓ Sectoral Performance
- ✓ Covid-19 Shock
- ✓ Financial Fragility Index
- ✓ Tradables vs Non-Tradables

FINANCIAL RATIOS

LIQUIDITY

- ✓ Measure of a company's ability to pay off its short-term liabilities.

Current ratio is used as a liquidity indicator.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- ✓ Higher ratio indicates the business is more capable of paying off its short-term debts.
- ✓ These ratios will differ according to the industry, but in general ratios from 1.5 to 2.5 is acceptable.



LEVERAGE



- ✓ Assesses the ability of a company to meet its obligations.
- ✓ **Ratio of total loans to total assets** is used in our analysis to observe the reliance on liabilities.

$$\text{Leverage} = \frac{\text{Total Loans}}{\text{Total Assets}}$$

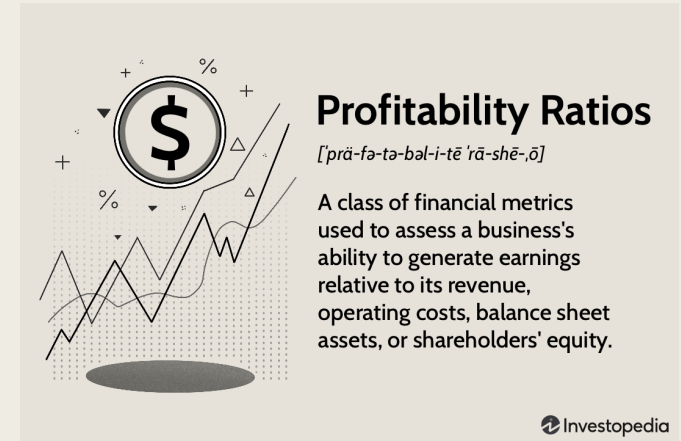
- ✓ What portion of companies' assets is financed through liabilities.

PROFITABILITY

- ✓ Assesses how profitable a company is in relation to its total assets.
- ✓ Return on assets (ROA) is used in our analysis as a profitability indicator.

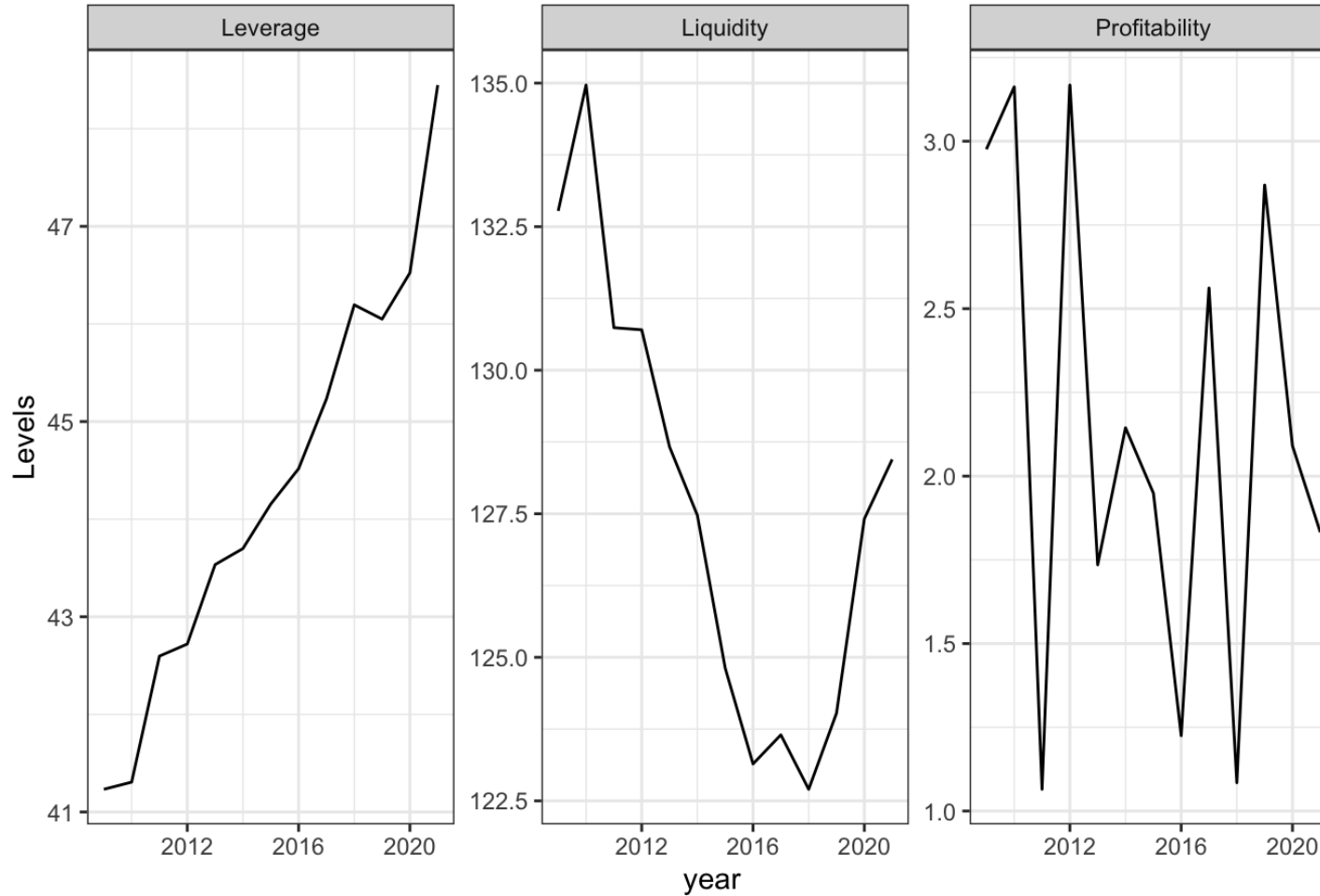
$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

- ✓ Market participants use ROA to see how well a company uses its assets to generate profit.



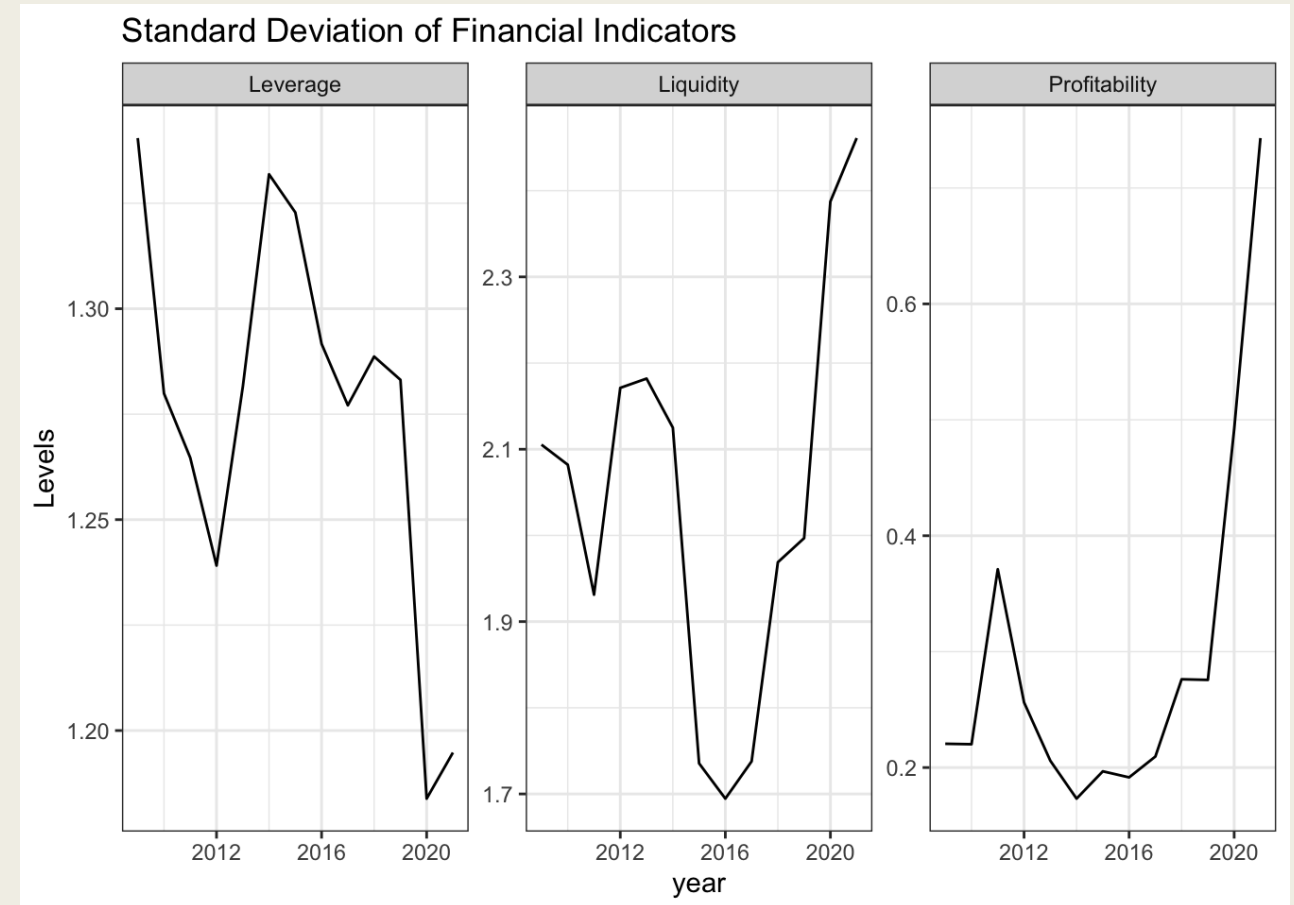
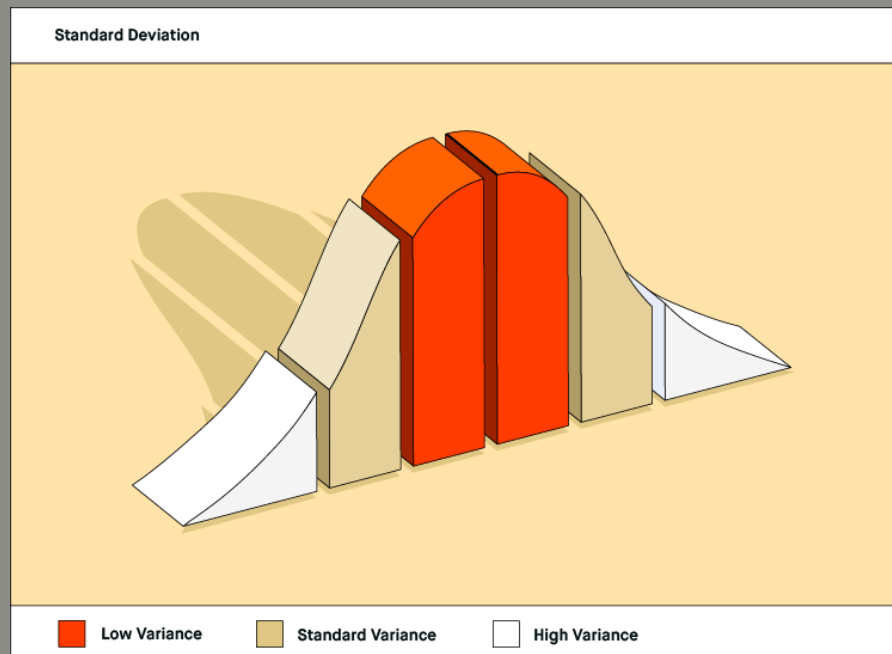
GENERAL OUTLOOK

Weighted Average of Financial Indicators

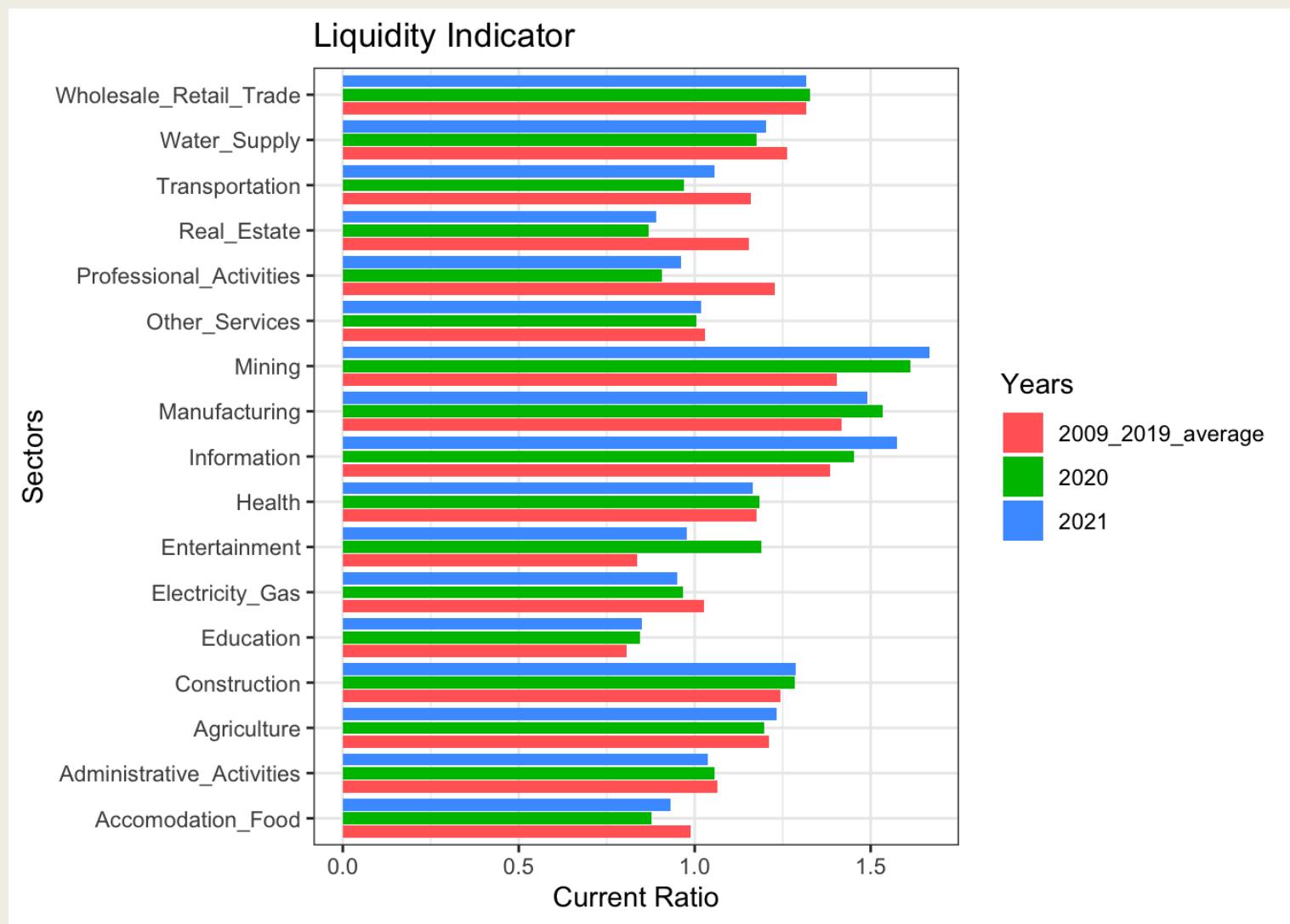


- ✓ The economy as a whole has become more leveraged.
- ✓ This result is not surprising and is considered a natural result of credit oriented policies adopted for the last decade in the Turkish Economy.
- ✓ Liquidity position of the firms deteriorated in this period although a slight correction is observed in the last few years.
- ✓ Profitability of real sector firms followed a volatile pattern throughout the period.

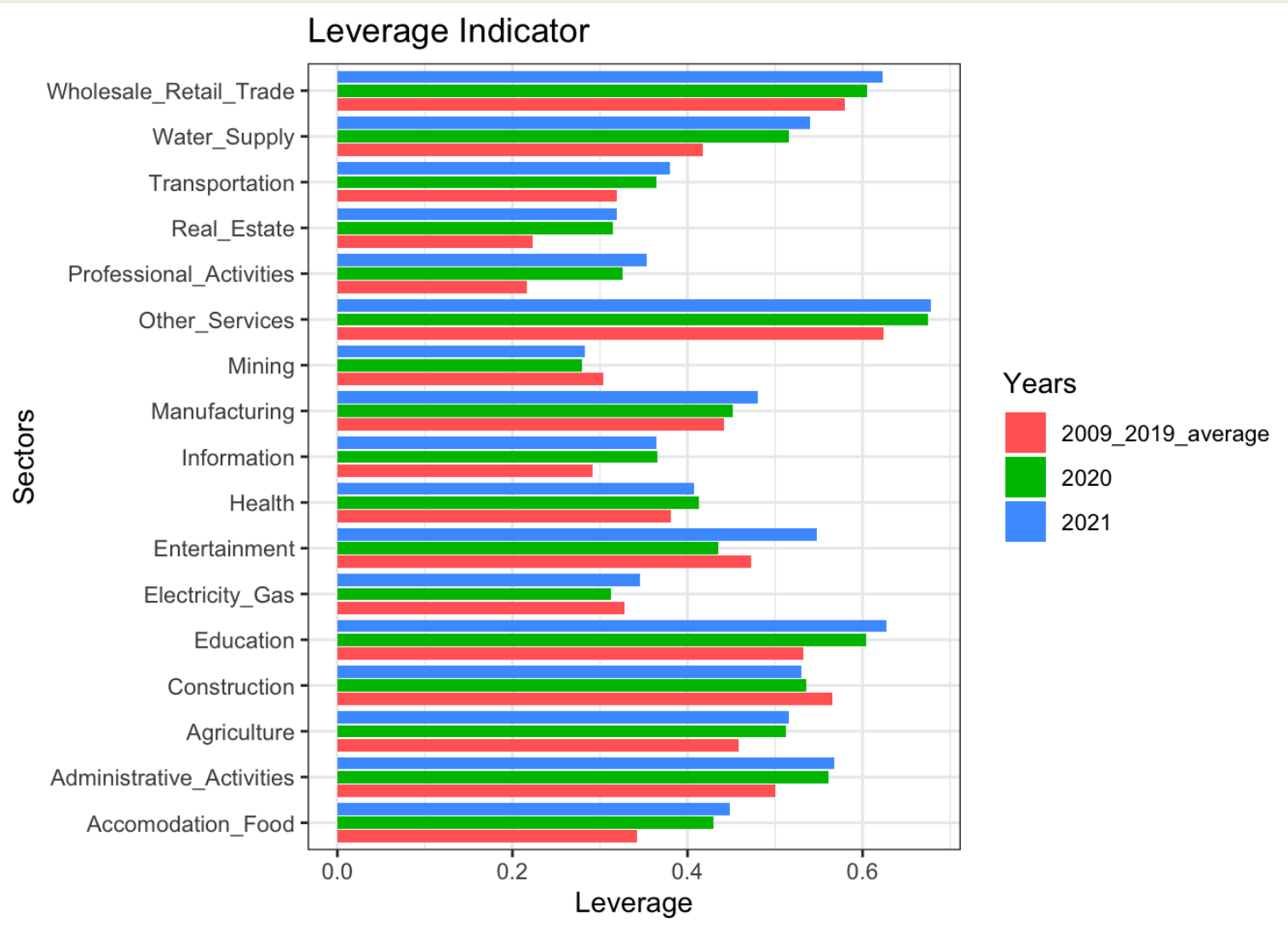
- ✓ **Leverage** of real sector firms increase in a synchronised way.
- ✓ Variation across sectors increases significantly for **liquidity and profitability** indicators.



COVID-19: WINNERS VS LOSERS



- ✓ **Transportation, Accomodation-Food, Real Estate and Professional Activities** are the sectors whose liquidity position deteriorate most during Covid-19.



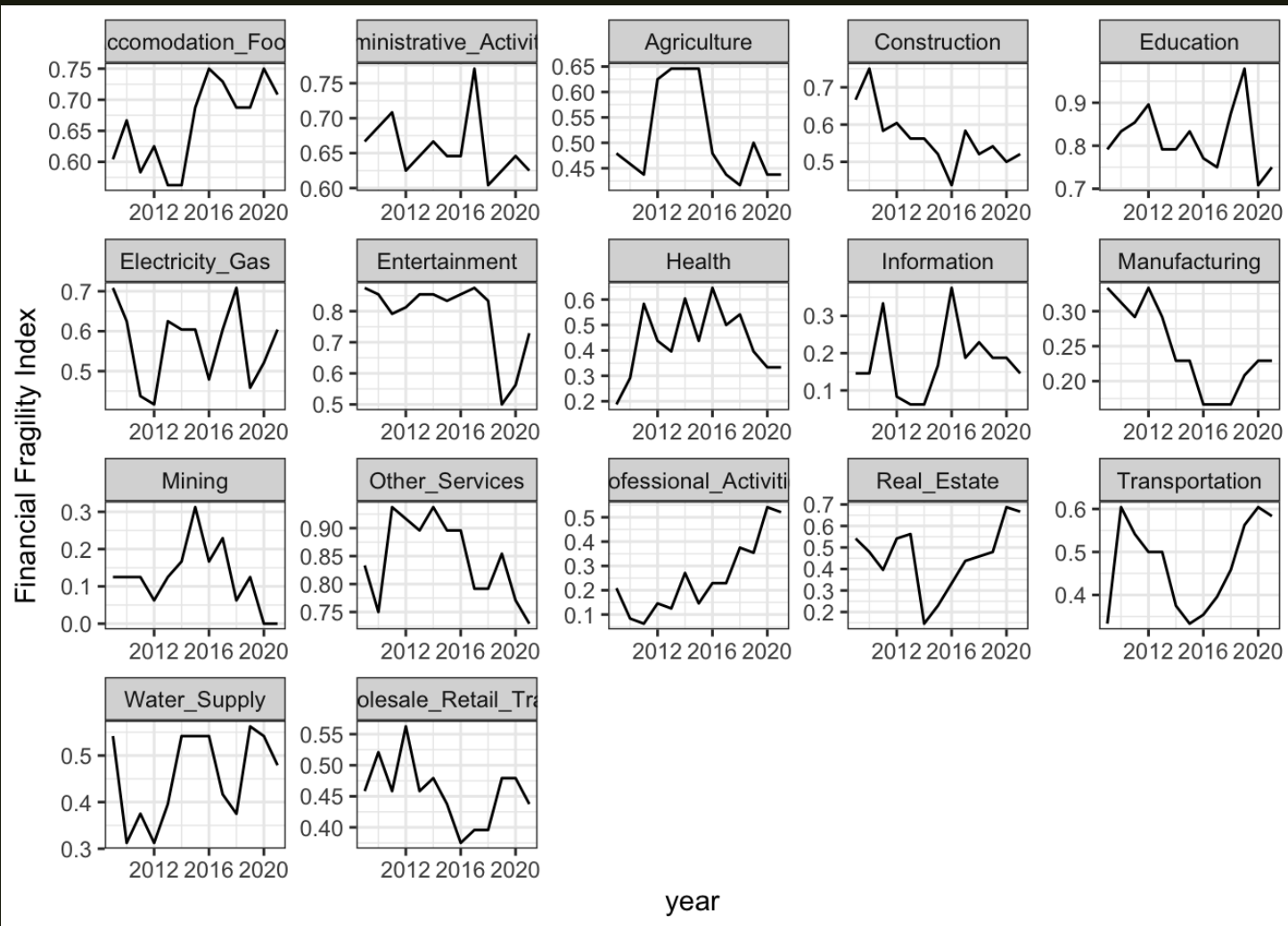
- ✓ Leverage indicator seemed to rise throughout the economy except a few sectors such as **Mining, Entertainment** and **Construction**.



- ✓ During Covid-19, the winners are **Mining, Manufacturing, Information and Health** in terms of improvement in their profits and this improvement seemed to continue in 2021.
- ✓ On the opposite end of the picture, **Transportation and Services** sectors were seen to be in trouble in terms of profitability.



FINANCIAL FRAGILITY INDEX



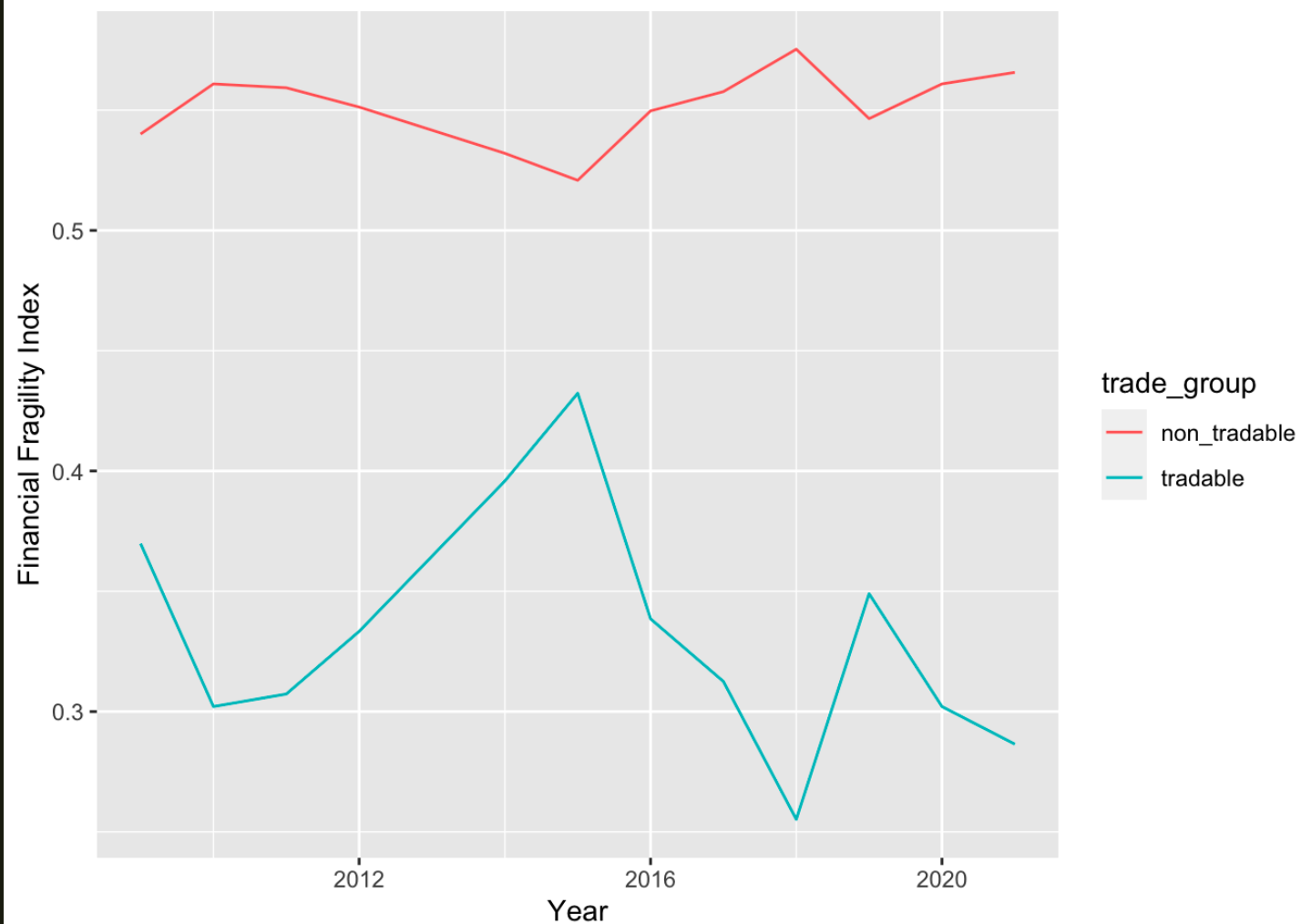
- ✓ Services sectors such as **Accommodation-Food, Real Estate and Transportation** have performed worse than other sectors and found themselves in a much more fragile position in terms of financial soundness

Sectors	Liquidity	Leverage	Profitability	Financial Fragility Index
Education	85.13	62.71	2.67	75.00
Entertainment	97.87	54.81	-7.14	72.92
Other_Services	101.94	67.83	0.73	72.92
Accommodation_Food	93.09	44.88	-8.47	70.83
Real_Estate	89.10	31.88	-14.45	66.67
Administrative_Activities	103.79	56.77	1.25	62.50
Electricity_Gas	94.94	34.52	-8.61	60.42
Transportation	105.57	38.05	-9.90	58.33
Construction	128.66	53.06	-0.40	52.08
Professional_Activities	96.05	35.40	-0.28	52.08
Water_Supply	120.21	54.04	2.45	47.92
Agriculture	123.27	51.61	2.26	43.75
Wholesale_Retail_Trade	131.77	62.30	3.46	43.75
Health	116.63	40.70	4.27	33.33
Manufacturing	148.98	48.01	7.62	22.92
Information	157.52	36.48	7.10	14.58
Mining	166.78	28.28	14.86	0.00

FFI Scorecard

- ✓ Education is considered most risky sector mostly due to its poor liquidity and high leverage which increases the firms' probability of default as it raises doubts about payment of short term debts.
- ✓ Mining sector is the leading sector in terms of financial soundness according to all of the predefined metrics.

TRADABLES VS NON- TRADABLES



Tradable vs Non-Tradable Sectors

- ✓ Sectors that are more export/import oriented are found to be less vulnerable whereas non-tradable sectors that has higher exposure to local markets are considered to be riskier.

CONCLUSION

- ✓ Real sector firms become more vulnerable to shocks as their leverage increased and liquidity positions deteriorate. In addition, their profitability follows a volatile pattern with no clear trend.
- ✓ During Covid-19, the winners are **Mining, Manufacturing, Information and Health** in terms of improvement in their profits and this improvement seemed to continue in 2021.
- ✓ On the opposite end of the picture, **Transportation and Services** sectors were seen to be in trouble in terms of profitability.
- ✓ For 2021, a cross sectional analysis demonstrates that **services related sectors** are considered most risky in terms of financial metrics defined.
- ✓ **Education** is considered most risky sector mostly due to its poor liquidity and high leverage.

