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Risk of Company on Foreign Currency Exchange Borrowings in Turkey

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Abstract:

Foreign exchange risks strategies and techniques in managing the risks has become very important to international companies, while the risk of borrowing becoming low when the fluctuation of exchange rate is positively linked to income in the company. Due to the globalization, the foreign exchange markets are getting larger where exchange rate volatility is so severe. Higher volatility, higher risk for the companies with high foreign exchange borrowing. In last decades, Turkey had very rapid economic expansion. In this expansion, construction industry had rapid growth. Firms started big projects and some of them had foreign currency borrowing to finance their projects. These firms are exposed to a high risk from fluctuations of the currency when pay the foreign currency debt. Turkey had large stock of foreign currency debt. However, non-public sector borrowing is higher than public sector borrowing. This offers an additional risk for the markets and the companies. Firstly, country risk has been assessed, later the company's risk was assessed. Construction industry is one of the industry with high foreign exchange borrowing to finance the projects and importation of the input. The company was also chosen among the others with highest foreign debt. In this study, how foreign currency debt affects the company's financial position. The financial statement of the Company operating in the country with high stock of foreign exchange debt is analyzed. After the analysis it was found out that the company as it in Construction Company had a high foreign exchange risk in 2017, as of raises of foreign currency borrowing. The instability of exchange rate markets in Turkey affects the company in construction industry's profitability.

Keywords: exchange rate risk, foreign currency loans, borrowing risk, hedging, future markets, turkish's economy, current account deficit, international investment position

1. Introduction

The breakdown of Bretton Woods System at 1973 was one the first important step of today foreign exchange market's high volatility. Borrowing in a foreign exchange currency under fixed exchange rate system is preferable for firms, because there is limited exchange rate volatility, therefore, borrowers consider a high devaluation in a domestic currency to repay the loan. The adoption of flexible exchange rate system increases the currency mismatch. Especially for the countries like Turkey, this volatility is so severe that it has been increasing risk on economic performance. The main objective of this paper is to explain the risk of the fluctuation of currency exchange rate when borrowing from abroad, and how this risk can affect the profitability of the firm and decrease the wealth of the company in Turkey. After reviewing literature on foreign exchange borrowing, the main concern will be on company borrowing. The financial statements of one of the largest construction companies in Turkey have been analyzed to examine the risk of foreign currency exchange rate borrowing. This paper is focusing on the way can use in order to avoid the risk from fluctuation exchange rate, by using a derivative market, firms can using derivative instrument in order to minimize the risk of borrowing abroad.

2. Foreign Exchange Borrowing

The risk occurs from foreign exchange rate volatility has a strongly effect on the volume of the capital flows. There is an excessive relationship between the exchange rate volatility and the financial market fragility, in order to minimize this risk of financial fragility the government gives a guarantees to offer a bailout to domestic financial market users and guarantee to help the countries from the international community in case of crisis, this gives the investors the encouragement to invest and do not afraid from the full risks to make an investments, thus make the investors encourage to take a high risks, but these risks lead to a financial fragility, in case of reducing this financial fragility thee country should issue some robust supervision and regulate a vigorous decision of the financial system. Pegged exchange rate system is a type of implicit guarantee but in the same time it is a source of moral hazard, encouraging unhedged foreign currency borrowing in order it has low risk credible in the long term, but this unhedged a foreign currency borrowing like a bomb waiting to explosion, but when applying a more flexible exchange rate is a favorable to specify the short term capital inflows and increase the country stability (Hausmann & Eichengreen, 1999). Why some companies borrow money

more than others, and why some firms take loan in the short term while others obtain loan in the long term? The necessity for the firms to preserve 'the reserve borrowing capacity' although this flexibility is not obvious in such countries that are not frictionless in the capital market and when there are more debts the increment tax advantages from the borrowing decrease and the interest tax shield become less proven. Perhaps the bankruptcy costs (that the cost the company incur according to the transaction cost and re-establish again) that decrease the profitability in the firm from borrowing, sometimes the manager avoiding a high debt in order to maintain their position and protect their jobs to stabilize their wealth (Myers, 1977).

The lending to a foreign government exceeded in 1973s and 1982s more than before the World War. This wave that occurred make breakdown of repayment the loan, this repayment crisis are due to several reasons such as the depression of international trade some time related to the government budget crisis and sometimes due to revelation of financial abuses (Sachs, 1987).

2.1. Borrowing in Turkey

After 2001 financial crises in Turkey, the private companies preferred to borrow from foreign capital markets more in comparison to domestic one. Analyzing the international investments of Turkey shows how Turkish economy is sensitive to the extra ordinary foreign exchange borrowing of companies other than State's borrowing. The phenomenon of saving or lending in foreign currency is wide spread in emerging markets and in developing countries. Governments have encouraged dollarization, which enabling their citizens to open saving accounts and allowing them to borrowing in foreign currency. Some countries like Hungary or Latvia and Poland puts tightened requirement for the borrowing in foreign currency and have promote their banks to use moral suasion in order to prevent a retail foreign currency borrowing. Banks required to disclose the exchange rate risk of foreign currency borrowing to their clients required by the authorities in the country (Özsöz et. al., 2015). Following liberalization policies by 1980, Turkey experienced radical changes in production, trade and finance. Early years of liberalization policy implementation, Turkish economy was growing rapidly. However public sector borrowing were high in comparison to the GDP. The main purpose of the government was to privatize State Owned Economic Enterprises to finance budget deficits in addition to liberalization policies. 1990s were the years of instability years. At the 1994 as the crises in Turke the GDP is decrease and reach 5.5, start to improve in 1995 to become 7.2, in 1997 it become 7.5 but decrease to 1998 to reach 5, it improve a little in 1999 to become 4.7, in 2000 the GDP grew in Turkey to become 7.4 compared to 1999.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP (%)	6.64	5.96	6.43	5.61	9.64	9.01	7.11	5.03	0.85	-4.70	8.49
Domestic Producer Prices Index	51.4	61.6	50.1	25.56	11.09	5.89	9.34	6.3	12.72	1.23	8.52
Consumer Price Index	54.9	54.4	45	25.3	10.58	8.18	9.6	8.8	10.44	6.25	8.57
Export (FOB)	27,775	31,334	36,059	47,253	63,167	73,476	85,535	107,272	132,028	102,143	113,883
Import (CIF)	54,503	41,399	51,554	69,340	97,540	116,774	139,576	170,063	201,964	140,929	185,544
Foreign Trade Balance	26,728	10,065	15,495	22,087	34,373	-43,298	-54,041	-62,791	-69,936	-38,786	-71,661
Current Account Balance	-9,920	3,760	-626	7,554	14,198	20,980	31,168	36,949	-39,425	-11,358	-44,616
Current Account Balance/GDP (%)	-3.65	1.87	-0.26	-2.41	-3.52	-4.20	-5.69	-5.45	-5.08	-1.76	-5.78

Table 1: Macroeconomic Indicators in Turkish Economy for the Period 2000-2010

Source: <http://www.bumko.gov.tr/TR,7044/Temel-Ekonomik-Buyuklukler-2000-2018.html>

As shows above the export in Turkey chronology increased in 2000 the export was 27,775 and the import 54,503, in 2001 the export increased to reach 31,334 and the import decrease 41,399. And in 2010 the export increased to become 113,883 and te import 185,544.

	2011	2012	2013	2014	2015	2016	2017	2018/8
Growth Rate	11.11	4.79	8.49	5.17	6.09	3.18	7.42	5.50
Domestic Producer Prices Index Annual Average	11.09	6.09	4.48	10.25	5.28	4.3	15.82	32.50
Consumer Price Indices) Annual Average	6.47	8.89	7.49	8.85	7.67	7.78	11.14	17.57
EXPORT (FOB)	134,906	152,462	151,803	157,610	143,839	142,530	156,996	169,000
Import(Cif)	240,839	236,544	251,661	242,178	207,234	198,619	233,798	237,000
Foreign Trade Balance	-105,933	-84,082	-99,858	-84,568	-63,395	-56,089	-76,802	-68,000
Current Account Balance	-74,402	-47,962	-63,621	-43,597	-32,118	-33,137	-47,378	-40,000
Current Account Balance /GDP (%)	-8.95	-5.51	-6.69	-4.66	-3.73	-3.84	-5.57	-4.30

Table 2: Macroeconomic Indicator in Turkish Economy for the Period 2011-2018

Source: <http://www.bumko.gov.tr/TR,7044/Temel-Ekonomik-Buyuklukler-2000-2018>

High current account imbalances continued since 2011. It was highest by 2011. In general, it has been due to high import volume. After 2014, export and import did not follow similar level of increase. At 2017, decrease at current account balances it was due to decrease in import rather than an increase at export.

Years	Assets	Liabilities	Net
2001	52,218	137,587	-85,369
2005	107,103	281,001	-174,624
2006	143,956	349,512	-205,556
2007	170,117	483,738	-313,621
2008	186,450	386,061	-199,611
2009	182,067	457,989	-275,922
2010	185,892	547,160	-361,268
2011	179,662	495,869	-316,207
2012	214,414	640,535	-426,121
2013	226,151	623,925	-397,774
2014	230,015	676,591	-446,576
2015	211,420	598,789	-187,369
2016	215,206	584,478	-369,272
2017	232,772	691,947	-459,175

Table 3: International Investment Position / Billion USD \$

Source: Central Bank of Republic of Turkey

[Http://www.Tcmb.Gov.Tr/Wps/Wcm/Connect/ B5fa3638-Ebb2-4a7d-B879-74bafcb45dd6/lip.pdf](http://www.tcmb.gov.tr/wps/wcm/connect/B5fa3638-Ebb2-4a7d-B879-74bafcb45dd6/lip.pdf)

MOD=AJPERES&CACHEID=Root work space-
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The International Investment Position (IIP) is an economic financial indicator calculated at specified time each year quarterly or annually in order to compare the country position with other country position in the world. When the value of external assets abroad more than the value of liabilities to then the country positive and in safe position, but if the total liabilities more than the value of current assets the value is negative and the country in danger position (Oberzut, 2018).

The International Investment Position in Turkey, according to the report submitted by the Central Bank of the Republic of Turkey (2017), shows that the third quarter in 2017 the net International Investment Position (IIP), increased in the negative way, and the increasing was according to the changing in the exchange rate and price. The (IIP) indicator shows the liabilities raised by 2% at the end of the third quarter of 2017 comparing to second quarter in the same year, and the total external assets raised by 1.2 % and the liabilities increased 1.7 %.

Years	Financial	Non-Financial	Total	Change %
2002	6,894	22,316	29,211	3.19
2003	7,425	22,718	30,143	22.74
2004	10,776	26,223	36,999	37.63
2005	21,365	29,555	50,920	61.42
2006	37,632	44,565	82,197	48.30
2007	52,129	69,772	121,902	15.70
2008	51,788	89,255	141,044	(8.90)
2009	45,221	83,272	128,494	(6.88)
2010	41,166	78,488	119,655	6.02
2011	47,869	78,991	126,860	10.74
2012	56,900	83,581	140,482	11.23
2013	72,503	83,752	156,255	7.65
2014	84,421	83,781	168,203	15.71
2015	104,572	90,053	194,625	4.32
2016	105,516	97,511	203,028	9.11
2017	113,479	108,046	221,526	3.19

Table 4.: Sectoral Composition of Long Term Debt in Turkey (Billion USD \$)

Source: Central Bank of Republic of Turkey

<http://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Statistics/Balance+of+Payments+and+Related+Statistics/Outstanding+Loans+Received+from+Abroad+by+Private+Sector-/Data/>

As it shows above the private sector's outstanding loans received in foreign currency from abroad gradually increasing to recorded 221.7 billion dollars as of June 2018 increased by 486 million comparing to the end of 2017. In private sector, one of the leading industry with high foreign debt is construction industry. All over the World and in

Turkey, construction industry has been one of the most important sector where it is considered as a locomotive industry. Its share on total the World economy equals to 12%. The global construction industry is expected to reach an estimated \$10.5 trillion by 2023, and it is forecast to grow at a CAGR of 4.2% from 2018 to 2023. In Turkey this share increases %8-9 (İsbank, 2018). The average growth rate of the industry at the World is about 3.5%, at Turkey, this is 5.4 % and above 3.2% Turkey's general growth rate (İsbank, 2018) From the beginning of the 1970's up to the present, Turkish contractors have completed almost 9300 projects in 119 countries. Their business volume abroad has reached approximately 356 billion US Dollars (TCM, 2018).

The chronological process of housing production in Turkey passed through several periods, these periods are 1923-1950s, 1950-1980s, 1980-2000s, 2000-current, Economic and political issues and changes affect the production process. At the period 1923-1950s, after the Turkey war of independence- slow urbanization. Period witnessed the reconstruction of country and the nation. At the period (1950-1980), after domestic immigration- Fast urbanization brought changes and transformation in the housing production and the way of housing supply. Starting practice, neo liberalization policies, by 1980, the economic crisis and how to find solution to the crisis were the important factors were affecting the housing production. The period between 2000 and 2010s, post-earthquake period, urban renewal made construction industry more dynamic and leader industry for raising GDP. Housing production has been financed by national and international organizations, banks, large number of investors which invest alone or by partnership (Koca, 2012).

Demirhan (2016) analysed the impact of credit growth and real effective exchange rate on current account deficit by ARDL bounds test approach to estimate short run and long run. In Demirhan's finding show that bank credit has a positive effects on current account deficit in the long-run .one percentage point increase in credit to GDP ratio increases current account deficit by 1.45 billion dollars.

Foreign currency borrowing allowed for the household and businesses. Since June 2009, all households are stopped to borrow in foreign currency, while businesses enable to continuo to keep the line of credit of foreign currency. The Central bank of republic of Turkey (CBRT) did not give any justification of stopping this practice (Rengifo et. al., 2013) In order to minimize the systematic risk that Turkey's firms face on borrowing the government decided to regulate rules to restrict the foreign currency borrowing for some companies of smallest size started on May 2018, while force the largest borrowers to hedge against their exposure to decrease the risk of exchange rate fluctuations (Courcoulas&Kandemir, 2018).

The economist's experts recommend firms do not following foreign exchange pegs, should concern about the monetary value of profit and the cost (Oral, 2016). When the firms have net foreign currency position positive, it means the firms have foreign currency surplus, firms then generate profit from foreign exchange fluctuation, but when the foreign currency position is negative, then it will be shortage of foreign currency, in this case the firms generate foreign exchange loss firms generate loss and the exchange rate decrease. Therefore, firms can use hedging with derivative instruments against foreign exchange risks (Oral, 2016).

Özmen and Yalcın (2007) discusses financial fragilities of Turkish corporate sector to exogenous financial risks stemming mainly from global imbalances, the realization of which may lead to substantial increases in international interest rates and/or a sudden stop or reversal of capital flows especially to developing countries, by using the CBRT Risk Center and CBRT Company Accounts firm level data over the 1996-2005 period. The magnitude of the impacts of real exchange rate depreciations or interest rate increases crucially depends on the financial conditions, debt structures and inter-sectoral fragility linkages of the main sectors of an economy. In the presence of financial fragilities including a substantial liability dollarization, real exchange rate depreciations may be contractionary. The findings of this study suggest that, in spite of improvements in the leverage ratios and interest risks after the 2001 crisis, liability dollarization and short maturity structure of debt still appear to be the main sources of fragility in Turkish corporate sector against exogenous financial shocks. Small sized or low exporting firms are found to be much more prudent to liability dollarization after the crisis. The positive and recently improving correlations of liability dollarization with both firm size and export ratios may be limiting the risks when we consider the issues of ability to access to financial markets and debt-revenue currency composition consistency. The exchange rate movements, along with globalization, deepening and widening financial markets, have become more important not only for financial institutions but also for real sector companies. Also exchange rate risk is important for non-financial companies regards to both assets and liabilities. Management of this exchange rate risk exposure has an impact on competitiveness of these companies. This paper reviews the impact level of exchange rate movements and also determination of the approaches to exchange rate risk management in the tobacco industry which has very high concentration level. It's found that the firms want to hedge against the exchange rate risk particularly in the export transactions. A significant number of firms don't use exchange rate risk management systematically. The firms prefer operational hedging much more than financial hedging. The primarily reasons of not using financial tools in the risk management are the presence of import transactions and the expectation of exchange rate increase. Finally, it's concluded that according to ascending and descending scenarios for 3 months (exchange rates will increase or decrease %10) the firms mostly intend to use various operational hedging techniques instead of financial hedging for exchange rate risk management (Doğanay, 2016).

Mutluay and Turaboğlu (2013) studies the effects of exchange rate fluctuations on firms. To this end, the effects of exchange rate fluctuations on the performance of publicly traded firms which are registered to Istanbul Stock Exchange (ISE) are investigated. This relationship is analyzed through regression models of both Adler and Dumas (1984) and Jorion (1990) using the data for the period between 1997 and 2007 on 55 publicly traded firms. The empirical results show that the exchange rate fluctuations affect firm's performance with some time lag. Moreover, the effect of exchange rate

fluctuations on firm performance, negatively depends on the share of export in total sales. Firms with higher export share are more vulnerable to exchange rate fluctuations.

2.2. Hedging Foreign Currency Risk via Derivatives

Derivative instruments it is a contract between two parts in which gives the right, and sometimes the obligation to buy or sell an underlying asset such as stock or money in a specified conditions such the quantities and value of underlying variables or the maturity date and the price and the money should be transfer between the parties (Nguyen, 2012). The derivative as a financial instruments in which values derives and depend on the other assets. Sometimes the underlying derivatives assets are the value of traded goods like a stock option whose value depends on the other price of stock derivative instrument can be determined by any other variable (Hull, 2012).

Firms are using the hedging techniques in order to reduce the risk from exchange rate fluctuation and sometimes use as speculation instruments to increase the profit of the company. As Hull (2012) said hedging can be used to minimize exchange rate risk and protect accompany from exchange rate losses in abroad companies when it is used as instrument of eliminating risk, whereas it can be uses to increase the profitability in the company when used as instrument of speculation (Feng, 2007).

Hedging defined by as a strategy the firms uses to defend against risks, the international firms that take a loan or lending money, undertaking hedging contract such as forward, future, and option or swapping assets and liabilities with other side (Gitman & Zutter, 2010). The idea of using different types of hedging techniques minimizes the risk of unfavorable exchange rate moving in the financial market (Nguyen, 2012).

2.3. Main Factors Affecting Corporate Decision to Hedge Foreign Currency Risk

Some firms the CFO in the company appoint someone foreign exchange capital market (FXCM), it is a broker responsible to make quarterly report to the finance committee about hedging strategy to make foreign exchange controls and foreign exchange performance. The FXCM meets every month with the finance committee to discuss about the position of foreign currency exchange and to approve a strategy the company choose for hedging and to put the strategy of using derivative to hedge the exposure of exchange rates also to specify the type and the value and the maturity of derivative contract (Brown, 1999). Stulz (1996) suggests that the firms' objective of using derivative market to manage the risk in order to reduce the possibility cost that cause a financial distress or to prevent the company of undertake the investment strategy. Froot et. al. (1993), sees that the value of hedging activities is increasing when the company depend more in external financing than using self-financing, because hedging ensures company to capable for finance their investment and avoiding under investment difficulties.

Berkman & Bradbury (1996) pointed out another key which determine the using derivative instruments the needs for derivative instrument increase when the corporate have high level of financial leverage, means the company depend more in credit than capital (Berkman & Bradbury, 1996). Nguyen (2012), sees when the firms have a high level of debt, then the firms have a high level of financial leverage which increase the needs of derivative market (Nguyen, 2012). Sivakumar and Sarkar (1993), agree with Berkman & Bradbury (1996), when the company have a high leverage, this means have a high level of credit, the hedging aids the firm to fall into financial distress (Berkman & Bradbury, 1996).

There is strong relation between liquidity and hedging. As Nguyen (2012) sees when the firms suffering from capital shortage, then firms are falling into many problems like covering the fixed expenses and paying for debt payments and fall into financial distress (Nguyen, 2012). Scholes (1997) define liquidity as the cost of converting assets into cash immediately in short time.

Other factor can influence the demand for using derivatives instruments to hedge against foreign exchange fluctuation is the nature of operation can have influence the using of derivatives instruments, the firms that are most likely to use derivative instrument to hedge against foreign currency exposure, which have subsidiaries companies in different country and using different currency using in the function of export and import (Berkman and Bradbury, 1996).

There are variety of expenses the firms pay in order to use derivate instruments such as commission charges to broker, searching information cost, and site subscription. Firms before making hedging contract should compare the benefits obtain and the transaction cost pay for contract (Berkman and Bradbury, 1996).

3. Risk of Company on Foreign Currency Exchange Borrowings in Turkey : The Case Study in Construction Industry

The main objective of this paper is to explain the risk of the fluctuation of currency exchange rate when borrowing from abroad, and how this risk can affect the profitability of the firm and decrease the wealth of the company in Turkey. The financial statements of one of the largest construction companies in Turkey have been analyzed to examine the risk of foreign currency exchange rate borrowing. This paper is focusing on the way can use in order to avoid the risk from fluctuation exchange rate, by using a derivative market, firms can using derivative instrument in order to minimize the risk of borrowing abroad. The main question examined here is whether a company with high foreign exchange debt follows foreign exchange risk hedging policies, profitability change.

The industry has been chosen according to the Central bank of Republic of Turkey data. The data given by the Central bank states that construction industry had the largest foreign exchange borrowing at 2017. Similarly, by the data given by the Central bank, the company at this industry with highest foreign currency debt has been chosen. The company's financial risk has been analyzed via their financial statements. Trend analysis is used for the purpose of analyzing the financial statements. The main idea of using trend analysis is to the amount of money borrowing over 10 years from 2012-2017 and how it is changes and compare to the previous year. Trend analysis is useful in order to

calculate and evaluate the situation in the company. This mechanism depends on the data collected from the financial statements in order to calculate the liquidity ratios to see the ability in the company to pay its debt, Leverage ratios to evaluate a company debt level, operational efficiency ratios to measure how a company generate revenue from every investment in total assets, and to know the changing of borrowing over the 10 years, and to see changes of effective interest rate over the period, calculate debt ratio in order to measure the risk in the company over 10 years, and measure the DuPont analysis system over the period.

The main reason of conducting this research is to assess the level of risk in the company coming from foreign currency debt. The researcher has used one of the biggest construction company in Turkey with a high amount of borrowing for collecting data to make the analysis. These several ratios can be used by different companies to measure and evaluate the level of risk coming from the borrowing abroad and to pay attention how to manage this risk to avoid the risk of losing.

The main objective of using trend analysis when analyzing the financial statement is to measure the managerial performance and to know the efficiency in the firm in order to know the strength and the weaknesses in the firm and to calculate the forecasting for the future performance, which allow the analysts to make a decision related to operation and to make investment for expansion.

The table given below analyzes the borrowing history at Company A operation in construction industry for the period 2011-2017. Company A is a global engineering and construction firm the head quarter in Istanbul, Company A Company one of the biggest construction industry in Turkey, and have a high amount of borrowing.

	2012	2013	2014	2015	2016	2017
Short term bank borrowing						
Turkish loan (TRY)	1,406	12,069	567	186	0	7
Foreign currency loan	34,341	64,287	13,914	17,481	85,443	151,266
Other loan from leasing	4,796	0	0	0	0	0
Plus current portion of loan term loan	240,237	141,209	100,065	101,107	149,502	141,815
Total short term loan	280,780	217,565	114,546	118,774	234,945	293,088
Long term bank borrowing						
USD (dollar)	192,198	12,991	1,410	0	0	0
Europe (EUR)	91,720	57,012	27,590	10,445	188,209	226,181
Turkey (TRY)	3,468	1,379	473	546	0	0
Japan (JPY)	189,014	154,195	202,560	171,231	243,256	260,946
Liabilities from financial leasing transactions	154,300	514,248	378,559	222,118	482,581	536,586
Less: current maturities	-240,237	141,209	-100,056	-101,107	-149,502	-141,815
Total long term borrowing	390,463	598,616	510,536	303,233	764,544	881,898
Total borrowing	671,243	816,181	625,082	422,007	999,489	1,174,986

Table 5: Company at Construction Industry'S Borrowing for the year 2011-2017 (Thousands of Turkish lira)

The table above analyse the borrowing history at A Construction Company for the period 2011-2017, shows in 2017 the company take the highest amount of borrowing which equal 1,174,986 TL. Especially the increasing in 2017, is related to the foreign currency borrowing to recorded 151,266,000 Turkish Lira in the short term, and the foreign currency borrowing in the long term 487,127,000 Turkish Lira.

Year	Liquidity ratio			Leverage Ratio				Operational Efficiency Ratio			
	Quick Ratio	Current Ratio	Net Working Capital	Debt To Equity	Debt To Capital	Debt To EBITDA	Interest Coverage	Inventory Turnover	Account Receivable Days	Account Payable Days	Total Assets Turnover
2012	1.95	2.19	3,077,852	0.56	0.07	0.60	0.50	15.76	56	41	0.72
2013	2.07	2.32	3,856,215	0.50	0.06	0.46	3.98	15.55	50	39	0.69
2014	2.21	2.40	4,424,572	0.50	0.05	1.51	3.79	15.98	48	34	0.70
2015	2.57	2.82	5,043,216	0.38	0.03	0.25	4.23	16.03	45	44	0.64
2016	2.59	2.90	5,686,286	0.33	0.05	0.53	4.95	10.17	50.98	46.55	0.45
2017	1.94	2.17	4,198,451	0.28	0.05	0.50	6.38	8.82	39.93	33.02	0.37

Table 6: Analyzing a Construction Company for the Period 2012-2017

The quick ratio in 2016 is the best year equal to 2.59, which the company can easily meet its short term liabilities. The current ratio in 2016 is the best and the company is healthy to meet its obligation. The net working capital in 2016 is greatest year 5,686,286 it means the company has high of its short term assets to meet its obligation.

The leverage ratio used to evaluate the company debt level. Debt to equity is less risky in 2017 the funding financing from shareholder's rather than from borrowing. Debt to capital is more risky in 2012 because the financial

leverage in the company is low. Debt to EBITDA is preferable in 2015 because the firm is not in danger to repeat back it is borrowing. Interest coverage ratio is best in 2017 which means the company is more capable to pay the interest obligation from it is earning. The operating efficiency ratio used to measure if company use it is capital and resources efficiently. Inventory turnover is best in 2015, which means the company sell and buy it is inventory 16.3 times per year. Account receivable per days is best in 2017, which equal 39.9 days to collect the money from sales, which the lower is better. Account payable per days is better in 2016 which means if the time to pay money for supplier increase, the money can use it, so number of days the company needs to pay to supplier 46 days. Total assets turnover is better in 2012 which equal to .72, because the company use it is assets efficiently in order to generate revenue.

4. Conclusion

The world economy after the Bretton Woods Systems ended in 1973 has been entered to the new economic era, the flexible exchange rate system offered a high uncertainty and a high risk in the foreign exchange markets. The main conclusion of writing this research is to show the reader the importance of the choice of exchange rate regime. In order to minimize the of exchange rate volatility Turkey, a fixed exchange rate system should setting up to strengthen and empower the role of Central Bank in the country.

Since the period after 2001 financial crises in Turkey, a private companies prefer to borrowing in foreign currency, while the interest rate is low in comparison to the borrowing in local currency with a high interest rate.

Also this thesis puts a highlight on the importance of the risk when borrowing foreign exchange currency, the company losses a high amount of money, if there are a negative changes in foreign currency rates in the foreign exchange market during make a repayment the loan, but when the firms take loan in foreign currency and the domestic currency undervalued, so the company pay high amount in order to pay back the loan, but when the domestic currency is overvalued, it is make profit and increase the income.

The characteristic of economy and the inflationary history give country the choice between the fixed exchange rate and flexible exchange rate, when the country's has a long history of monetary instability, and the country's conjoined in both the capital and current account transactions with another country, it is sensible to choose fixed exchange rate.

The structure of Turkish economy is endowed from several resources from geographical to demographical, and to cultural to historical, which is return to rapidly growing industrialized country. The two major of Turkey's national income the services and industry, which equal to 87% of Turkey's national income (Ediger & Huvaz, 2006). Construction Industry in Turkey directly responsible for a significant share of GDP. Turkey construction sectors has been at the forefront of the country's recent economic developments.

The trend analysis is used to analyses the financial statements, the purpose of used trend analysis which gives an accurate analysis based on the information on the financial statements. The trend analysis provide ratios and information, which these measures can be compare to the previous years, and these data are important to the firms which enabling the analysts department to know the level of risks in the company and therefore the decision maker takes a right decision and make accurate predictions regarding these risks and find solution how to take correct actions to avoid this risk from volatility exchange rate.

The main objective of this research is to find out the risk on borrowing foreign exchange currency and how to find a way in order to minimize the risk. This paper explain the importance of derivative market and explain the types of instruments which it is the best way that can be used by the firms in order to protect the firm from losing and minimizing the profitability to avoid the risk of volatility the exchange rate.

The importance of discussion on Company A' industry, construction industry is returns to that it is a global engineering and construction firm the head quarter in Istanbul, Company A is one of the biggest construction industry in Turkey, and have a high amount of borrowing. While analyzing Company A, it is found the financial leverage is less in 2017 equal 21% from it is total assets which means the company have lower level of total liabilities when compared to total assets and the situation in COMPANY A company lower leverage and less risky and the company have easily ability to pay off it is liabilities from it is total assets. The quick ratio in 2016 is the best year equal to 2.59, which the company can easily meet it is short term liabilities. The current ratio in 2016 is the best and the company is healthy to meet it obligation. The net working capital in 2016 is greatest year 5,686,286 it means the company have high of it is short term assets to meet it is obligation. The leverage ratio used to evaluate the company debt level. Debt to equity is less risky in 2017 the funding financing from shareholder's rather than from borrowing. Debt to capital is more risky in 2012 because the financial leverage in the company is low. Debt to EBITDA is preferable in 2015 because the firm is not in danger to repeat back it is borrowing. Interest coverage ratio is best in 2017 which means the company is more capable to pay the interest obligation from it is earning. The operating efficiency ratio used to measure if company use it is capital and resources efficiently. Inventory turnover is best in 2015, which means the company sell and buy it is inventory 16.3 times per year. Account receivable per days is best in 2017, which equal 39.9 days to collect the money from sales, which the lower is better. Account payable per days is better in 2016 which means if the time to pay money for supplier increase, the money can use it, so number of days the company needs to pay to supplier 46 days. Total assets turnover is better in 2012 which equal to .72, because the company use it is assets efficiently in order to generate revenue.

As it shows in the table above Company A Corporation has a high foreign exchange risk in 2017, as of raises of foreign currency borrowing. And the instability of exchange rate in Turkey affect the company profitability, which proves the hypothesis H1 says the profitability does not change when the company apply foreign currency risk management, in order to hedge the risk on foreign currency risk on borrowing, as analyzing the financial statement of Company A company it is mentioned that the company does not use the derivative market to avoid the risk of exchange rate change, it is

suggested for Company A corporation to use derivative instrument in order to hedge the volatility on exchange rate fluctuation which is lost the company and absolutely affect the profitability.

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