2. International Economic Developments

The downtrend in global economic activity, which started in the second quarter of 2018, continued in the first quarter of 2019. In this period, stemming mostly from the favorable growth performance in the US and Japan, advanced economies displayed a better outlook, while the downturn in emerging economies grew more pronounced due to Eastern Europe and Latin America. Leading indicators for the second quarter hint at a worse growth performance due to the re-escalation of trade disputes between the US and China, political uncertainties regarding Brexit, and geopolitical developments centered on the Middle East. Positive expectations following the G20 summit at the end of June and the monetary policy easing in advanced economies in the second quarter are considered to boost global economic activity in the second half of the year. On the other hand, persisting risk factors of the second quarter in the remainder of the year and considerably vague global economic policies sustain downside risks to global growth outlook for 2019.

Headline inflation rates increased at a global scale in the second quarter of 2019, with emerging economies in the lead. Commodity prices continued to fluctuate in this period. The downside risks to crude oil prices strengthened due to the high level of uncertainty over global trade and the unfavorable outlook in economic activity. However, tightening in the labor market in advanced economies continues to pose upside risks to core inflation. Weak prospects for global economic activity and high uncertainty depress the commodity market, while restricting the spillover of the tightening in the labor market in wage increases. Accordingly, global inflation rates in 2019 are projected to remain flat depending on the course of moderate global growth and commodity prices.

Heightened global uncertainties caused a considerable change in monetary policies in the last six-month period. In the first quarter of 2019, due to this uncertainty and heightened concerns over international trade, expectations for slower normalization in major central banks manifested the expectations for monetary policy easing in the second quarter of the year. Therefore, global financial conditions eased, while bond rates receded in all maturities. Contained inflation facilitates this monetary easing. Meanwhile, the robust growth and employment developments in the US economy and high wage increases partially limit the expectations for easing in the monetary policy, but trade disputes are likely to temper growth. In sum, the course of global uncertainty is critical to global monetary policy in the upcoming period.

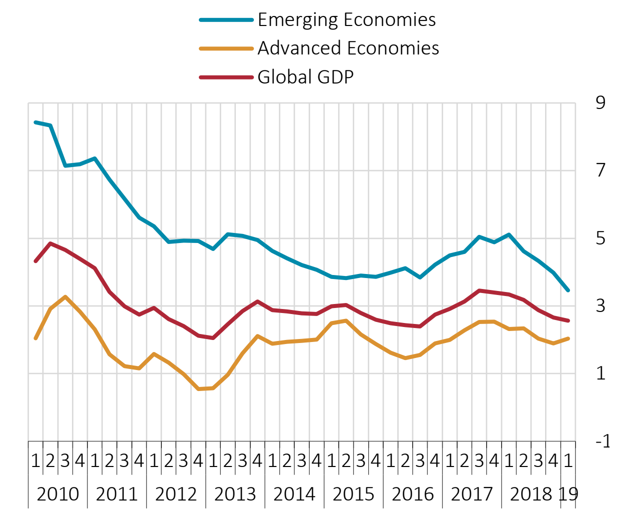
Stronger easing in monetary policies of major central banks stands as a significant factor to boost portfolio flows to EMEs in the upcoming period. However, globally elevated levels of uncertainty over global growth prospects, persisting geopolitical problems, re-mounting protectionist trends and fragilities specific to EMEs[1] stand out as factors that may limit portfolio flows to these economies. Accordingly, emerging economies with healthier financial conditions and business environments more eligible for international investors may curb the dampening effect of deteriorated global economic or financial conditions on inflows to their economies more strongly than others. Therefore, to reduce vulnerabilities, it is important that macroeconomic policies be implemented not only effectively and in a coordinated manner but also be supported by structural reforms and appropriate trade policies.

[1] Observations on high debt stock levels of EMEs with these fragilities are presented in Box 2.1.

2.1 Global Growth

The downtrend in global economic activity continued in the first quarter and the pace of global economic growth lagged behind that of the previous quarter. This is attributed to the persisting slowdown in the pace of growth in EMEs. In the first quarter of the year, advanced economies displayed better growth figures on a quarterly basis on the back of the US and Japan (Chart 2.1.1). In contrast to this, the downturn in the euro area grew more pronounced. On the emerging economies front, the pace of growth in the first three-month period slowed further across all regions. Deceleration in growth proved more visible in Eastern Europe and Latin America (Chart 2.1.2). In this period, the Chinese economy, which offered the greatest contribution to growth in EMEs, exhibited higher-than-expected growth figures and preserved the growth rate of the previous quarter.

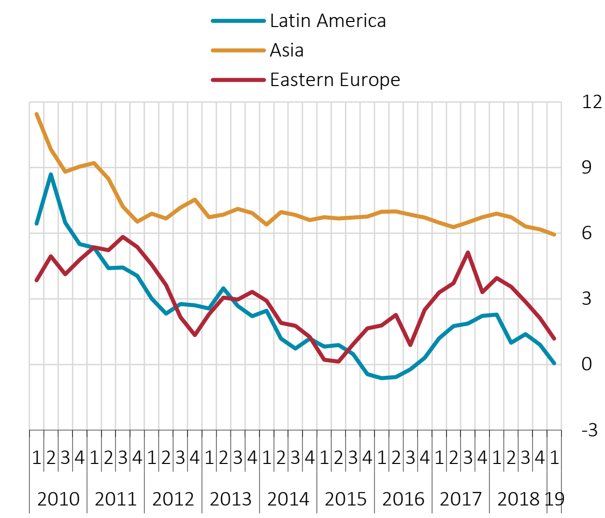
Chart 2.1.1: Global Growth Rates* (YoY Change)



Source: Bloomberg, CBRT.

* Weighted by each country's share in global GDP.

Chart 2.1.2: Regional Growth Rates for Emerging Economies* (YoY Change)

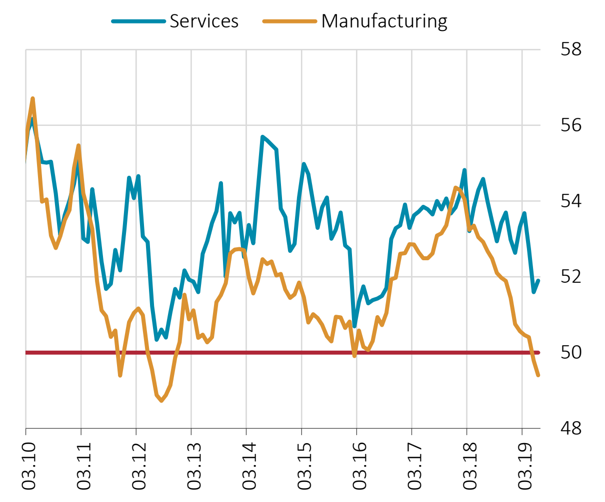


Source: Bloomberg, CBRT.

* Weighted by each country's share in regional GDP.

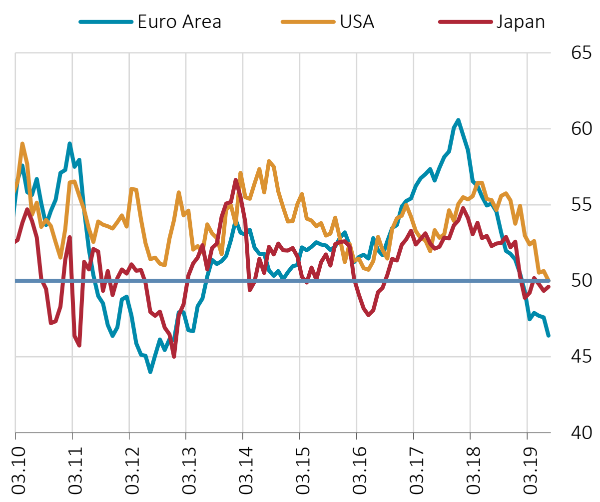
Global PMI data for the second quarter of 2019 indicate a worse growth performance than the first quarter (Chart 2.1.3). In this period, especially the industrial sector global PMI indicator, which fell below 50 threshold level, implies that the industrial sector, one of the leading drivers of economic growth and international trade, exhibits deceleration at a global scale. Recession in global PMI data stems not only from advanced but also emerging economies (Charts 2.1.4 and 2.1.5). This implies that the slowdown in global economic growth continues in the second quarter on the back of both advanced and emerging economies; and supports the expectations that growth rates will remain below the first-quarter data. In the second quarter of 2019, the deepening of persisting uncertainties in global trade for an extended period as well as political uncertainties such as Brexit and geopolitical risks originating from the Middle East emerge as the main factors to depress economic activity, chiefly in the manufacturing industry.

Chart 2.1.3: Global PMI



Source: IHS Markit.

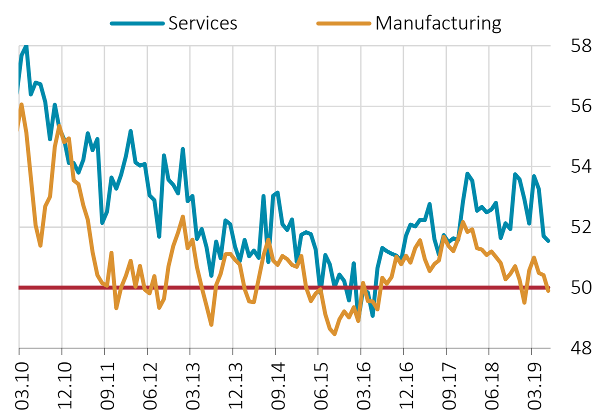
Chart 2.1.4: Manufacturing Industry PMI in Advanced Economies



Source: IHS Markit.

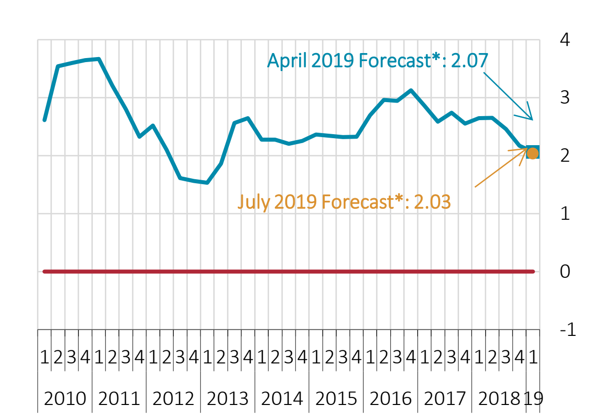
Regarding the reasons underlying the slowdown in global activity, the course of these factors in the upcoming period will shape global growth for the rest of the year as well. These risk factors are projected to slow capital inflows to EMEs and depress their economic growth further. In fact, growth forecasts for 2019, which were revised downwards for a large number of EMEs in July Consensus Forecast bulletins, support this projection. Nevertheless, following the G20 summit at the end of June, positive expectations regarding the solution of trade disputes between the US and China will improve economic growth and international trade in the upcoming period. The sustained easing in monetary policies, with major central banks in the lead, can also be considered as a booster of global economic activity.

Chart 2.1.5: Emerging Markets PMI



Source: IHS Markit.

Chart 2.1.6: Export-Weighted Global Production Index (Annual Average % Change)



Source: Bloomberg, CBRT.

* Average growth forecast for 2019.

The global growth forecast for 2019 has remained unchanged since the previous Inflation Report (Table 2.1.1). July Consensus Forecasts bulletins suggest that growth forecasts for 2019 have remained the same for the euro area and the UK, and have been revised upwards for the US and Japan compared to April. On the emerging economies front, growth forecasts for 2019 have remained unchanged for Eastern Europe, and have been revised downwards for Latin America and Asia Pacific. IMF World Economic Outlook forecasts for 2019 move in tandem with Consensus Forecasts in July. The annual growth forecast of the export-weighted global production index for 2019 revised by the July Consensus Forecasts has inched down compared to the figures in the April Inflation Report (Chart 2.1.6).

2.2 Commodity Prices and Global Inflation

Commodity prices remained volatile in the second quarter of 2019. The uptrend in the first quarter of the year continued until the end of April. Then, they declined amid plummeting energy prices, and this trend was replaced by an uptick again in the second half of June due to soaring prices in energy, precious metals and agricultural products. Accordingly, commodity prices registered a quarter-on-quarter increase of 4.2% on average. In this period, energy prices surged by an average 7.3% quarter-on-quarter due to the low base, while industrial metal, agriculture and precious metal prices declined on average by 2.4%, 0.9% and 0.1%, respectively (Chart 2.2.1).

Supply constraints in the industrial metal market since 2018, expansionary policies introduced by China to boost growth as well as the improved risk appetite pushed prices slightly upwards in the first quarter of 2019. Then, following the re-escalation of trade tensions between the US and China, prices fell back to the levels of the start of the year in the second half. Following the G20 summit, alleviation of this trade tension and announcement of an additional program to stimulate growth by China coupled with the ongoing supply constraints in the industrial metal markets gave way to some rebound in industrial metal prices towards the end of June. Meanwhile, the worse-than-expected global economic activity keeps downside risks to these prices brisk.

Table 2.1.1: Growth Forecasts for 2019 and 2020 (Annual Average % Change)

	April		July	
	2019	2020	2019	2020
Global	2.7	2.8	2.7	2.7
Advanced Economies				
USA	2.4	2.0	2.5	1.9
Euro Area	1.1	1.3	1.1	1.2
Germany	0.8	1.5	0.7	1.4
France	1.3	1.3	1.3	1.3
Italy	0.0	0.5	0.0	0.4
Spain	2.2	1.9	2.3	1.8
Japan	0.6	0.5	0.7	0.3
UK	1.3	1.5	1.3	1.3
Emerging Economies				
Asia Pacific	5.5	5.4	5.4	5.3
China	6.2	6.1	6.2	6.0
India	7.2	7.3	6.9	7.1
Latin America	1.6	2.5	0.9	2.2
Brazil	1.9	2.6	0.9	2.2
Eastern Europe	1.9	2.6	1.9	2.6
Russia	1.5	1.8	1.1	1.9

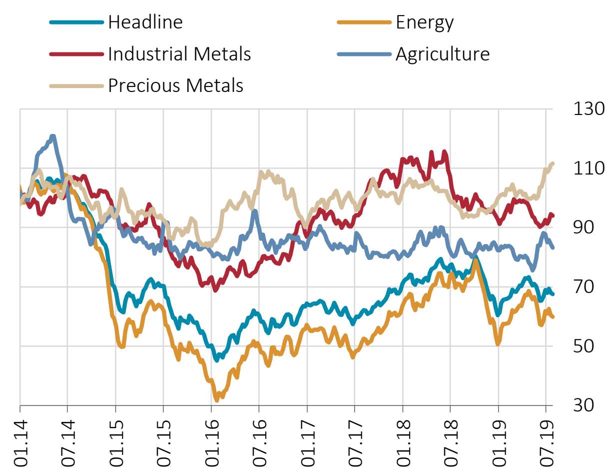
Source: Consensus Forecasts.

Although global agricultural production and grain stocks hit historically-high levels, the supply surplus stemming from China's reduction in imports from the US due to the trade disputes led to a decline in agricultural product crops in the new planting season in the second quarter of the year and an increase in prices. On the other hand, it should be noted that an upward movement may be witnessed also in agricultural prices in proportion to the effects of the China's growth-boosting program depending on the increase in China-driven demand.

Instabilities in EME markets, trade disputes between the US and China, the political tension between the euro area and the UK, elevated geopolitical uncertainties, and the easing in monetary policies of advanced economies pushed prices of precious metals, chiefly gold, upwards. The upcoming period is also likely to be marked by upward movements in precious metal prices due to the high uncertainty in global economic policies.

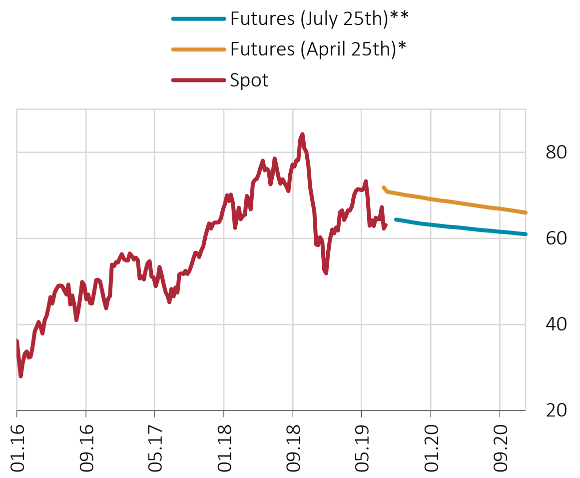
In the first quarter of 2019 crude oil prices exceeded USD 70, as OPEC and Russia cut oil production, Venezuela, Iran and Libya witnessed lingering geopolitical turmoil, the production of the US shale oil lost pace and the trade tension between the US and China re-emerged as of mid-April. Meanwhile, amid strong expectations of sustained slowdown in demand, crude oil prices fell below USD 70 again in the second half of May.

Chart 2.2.1: S&P Goldman Sachs Commodity Index (January 2014=100)



Source: Bloomberg.

Chart 2.2.2: Brent Crude Oil Prices (USD/ bbl)



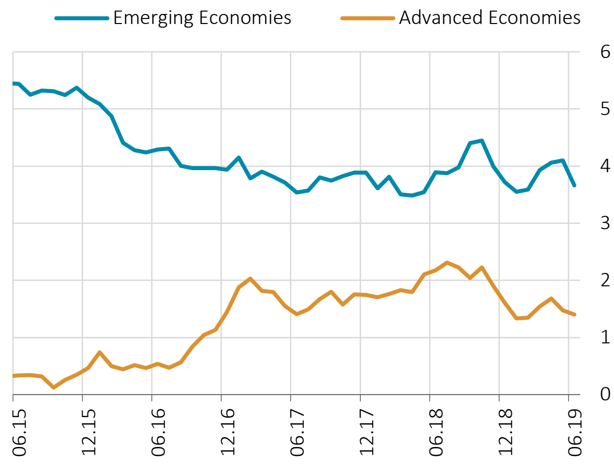
Source: Bloomberg.

*Average future prices on 14-day futures contracts up to 25 April 2019.

**Average future prices on 14-day futures contracts up to 25 July 2019.

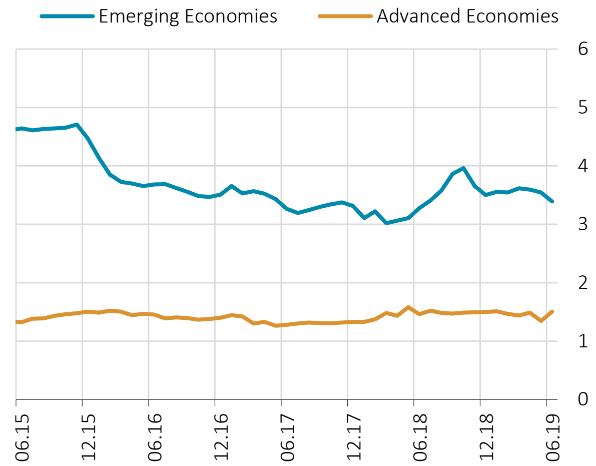
In the start of July, OPEC announced the decision to reduce the current production for another nine months, geopolitical turmoil persisted at a global scale and the US shale oil production continued to lose pace, yet the high uncertainty in global trade and global economic activity displayed an unfavorable outlook, which resulted in a downward movement in crude oil prices. Regarding the upcoming period, this trend is likely to continue and downside risks to crude oil prices stand out. Accordingly, Brent crude oil futures contracts imply that crude oil prices will hover around USD 65 on average in 2019 (Chart 2.2.2).

Chart 2.2.3: Consumer Prices in Advanced and Emerging Economies (YoY, %)



Source: Bloomberg, CBRT.

Chart 2.2.4: Core Consumer Prices in Advanced and Emerging Economies (YoY, %)



Source: Bloomberg, Datastream, CBRT.

In the second quarter of 2019, headline inflation rates increased in advanced and emerging economies (Chart 2.2.3), while core inflation rates decreased somewhat (Chart 2.2.4). Inflation expectations for 2019 have followed a flat course for many advanced economies compared to the previous reporting period (Table 2.2.1).

In the US, despite the rise in wages due to historically-low unemployment rates coupled with the negative effects of the soaring crude oil prices in the second quarter, survey-based long-term inflation expectations have not changed much. In the euro area, rising wages stemming from the tighter labor market notwithstanding, core inflation indicators exhibited a moderate uptick. Due to the ongoing positive output gap accompanied by the increased middle and long-term inflation expectations, projections of a modest rise in headline inflation to 2% from 1% in Japan are intact. On the other hand, in the UK, inflation has been hovering around 2 percent notwithstanding the still-tightening labor market and the increased unit labor costs in line with the targets.

Table 2.2.1: Inflation Forecasts for 2019 and 2020 (Annual Average % Change)

	April		July	
	2019	2020	2019	2020
Advanced Economies				
USA	1.9	2.2	1.9	2.1
Euro Area	1.3	1.4	1.3	1.4
Germany	1.4	1.6	1.5	1.6
France	1.2	1.4	1.2	1.4
Italy	0.9	1.3	0.9	1.2
Spain	1.2	1.5	1.0	1.3
Greece*	0.7	1.1	0.8	1.1
UK	2.0	2.1	1.9	2.0
Japan	0.6	1.0	0.6	0.8
Emerging Economies				
Asia Pacific	2.2	2.3	2.3	2.4
China	2.1	2.1	2.3	2.3
India**	3.9	4.3	3.8	4.3
Latin America (excl. Venezuela)	7.9	6.3	8.3	6.7
Brazil*	4.0	4.1	3.9	4.0
Eastern Europe	6.4	5.5	6.4	5.6
Russia*	4.6	4.1	4.4	4.0

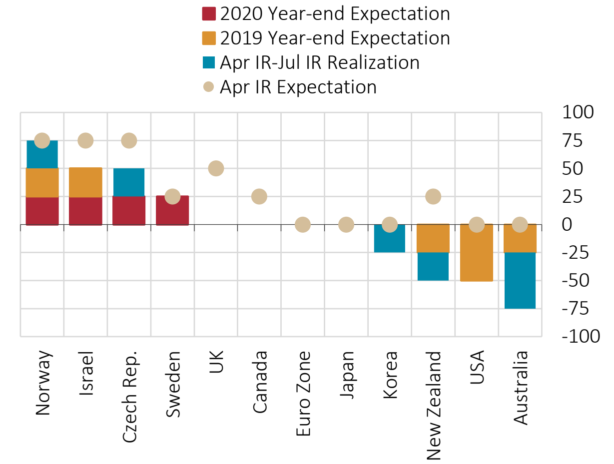
Source:Consensus Forecasts.
* Annual percentage change.
** Based on fiscal year.

The risks to crude oil prices for the upcoming period pose upward risks to inflation as well. In advanced economies, tighter labor markets and accelerated wage increases stand out as upside risk factors to core inflation. Meanwhile, the negative outcome of global trade negotiations and mutually-raised tariffs besides the probability of contraction in global trade volume and increase in uncertainties over economic policies may deteriorate the global growth outlook. Such a case poses a downside risk to the labor market and core inflation in advanced economies.

2.3 Global Monetary Policy

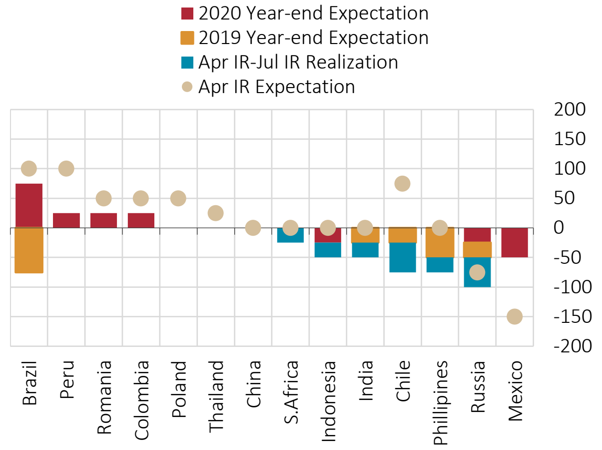
High global uncertainty and aggravated concerns over international trade led to a further easing in the monetary policy outlook in the second quarter of the year. Both advanced and emerging economies witnessed reductions in their interest rates in the April-July period; and forward policy rate expectations were revised downwards compared to the previous reporting period (Charts 2.3.1 and 2.3.2). For example, in Bloomberg April survey, the Fed as well as the central banks of Australia and New Zealand, which had been expected to keep policy rates unchanged or introduce increases over the 2019-2020 period, in the July survey they were projected to reduce policy rates in that period. Market pricing has also evolved in a similar way. Financial markets price lower policy rates for the four major central banks compared to the previous reporting period (Table 2.3.1).

Chart 2.3.1: Policy Rate Changes in Advanced Economies and Expectations: April 2019 – December 2020* (Basis Points)



Source: Bloomberg.
* Realizations pertain to 26 July 2019. Expectations are Bloomberg survey median values.

Chart 2.3.2: Policy Rate Changes and Year-End Policy Rate Expectations in Advanced Economies: April 2019 – December 2020* (Basis Points)



Source: Bloomberg.
* Realizations pertain to 26 July 2019. Expectations are Bloomberg survey median values.

At its June meeting, the Fed left its benchmark interest rate intact, yet sent a strong signal of forthcoming rate cuts. Uncertainties in global trade were emphasized and the policy rate forecasts of the FOMC members were revised downwards. The median estimate was that the policy rate will remain unchanged in 2019, but a significant number of members updated expectations for two rate reductions. In this context, the Fed's messages converged to the market pricing for 2019. However, divergence persists for 2020. None of the FOMC members projected more than two rate cuts until the end of 2020, while policy rates implied by options indicate that three rate cuts are fully priced in until the end of 2020, two of which are in 2019. The fourth rate cut was also priced towards the end of June, but the implied rate increased somewhat after labor data proved strong (Chart 2.3.3). As a result, the divergence between the Fed’s path and the rate path priced by the market continues for particularly 2020.

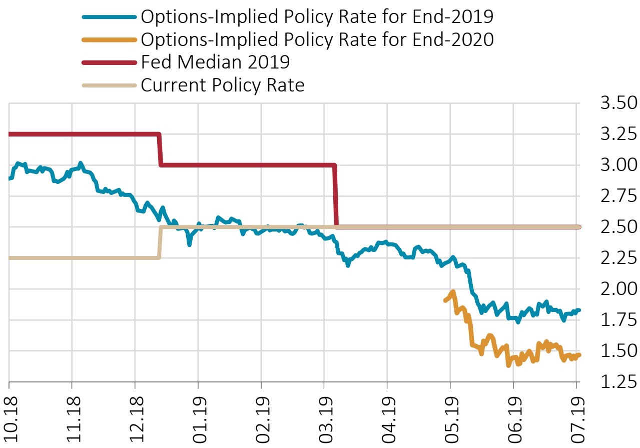
The ECB keeps policy rates unchanged, yet changed the forward guidance in the July meeting and announced that rates are likely to be the same or lower until the end of the second half of 2020, at the earliest. The expression "lower" added to the text hints at a signal that a policy rate reduction may be seen in the upcoming period. Moreover, the necessity of an accommodative monetary policy was emphasized, and the message was transmitted that probabilities were examined for a stronger forward guidance and new bond purchases. The announcement of the July meeting indicates that the ECB is more likely to opt for an additional monetary easing in the face of a downtrend in inflation.

Table 2.3.1: Options-Implied Policy Rates of Four Major Central Banks for End-2019 (%)

	Current Policy Rate (%)	2019 Year-end Market Implied Policy Rate (%) April IR	2019 Year-end Market Implied Policy Rate (%) 26.07.2019	Change From January IR (% points)
Fed	2,5	2,27	1,83	-0,44
ECB	0	-0,01	-0,18	-0,17
BoE	0,75	0,81	0,60	-0,21
BoJ	-0,1	-0,12	-0,20	-0,08

Source: Bloomberg.

Chart 2.3.3: Options-Implied Fed Policy Rate for End-2019(%, Upper Band)

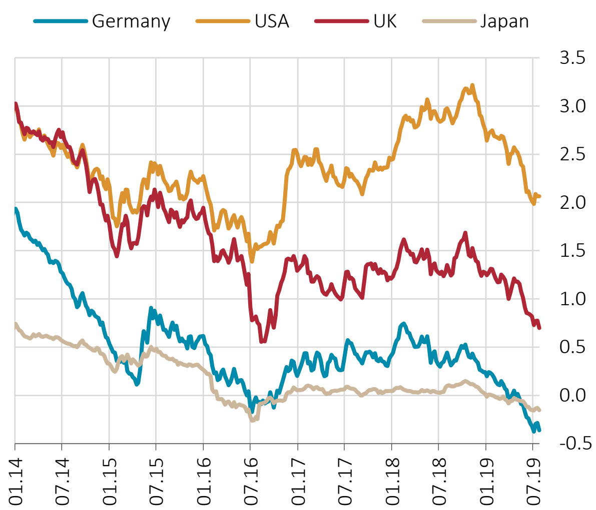


Source: Bloomberg.

2.4 Global Risk Indicators and Portfolio Flows

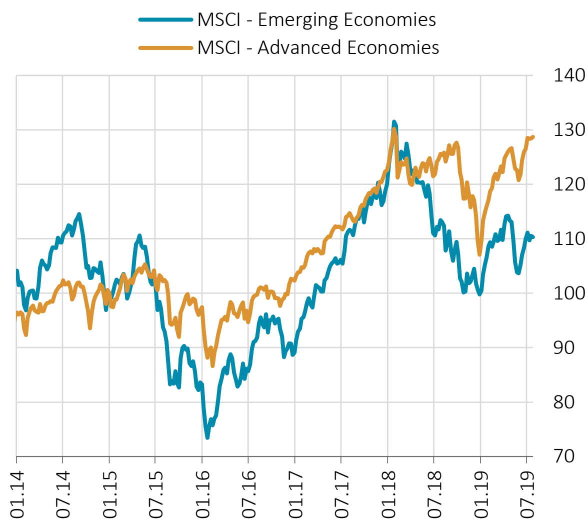
The relative easing in monetary policies of major central banks grew more pronounced through announcements that monetary expansion will continue in the second quarter of 2019 and policy rates may be reduced. Accordingly, 10-year bond yields of the US recorded a level below 2% for the first time since November 2016, while bond yields of Japan and the euro area continued to fall into the negative zone (Chart 2.4.1). The lack of a projection of a fast recovery in growth and inflation in the upcoming period is considered to constitute an atmosphere conducive for the maintenance of the monetary easing in advanced economies as well as the decline in bond rates.

Chart 2.4.1: 10-Year Bond Yields (%)



Source: Bloomberg.

Chart 2.4.2: MSCI Indices (January 2015=100)

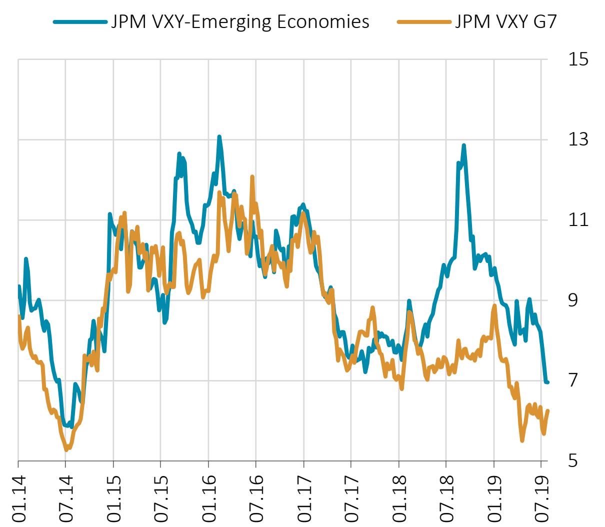


Source: Bloomberg.

In the second quarter of the year, due to the geopolitical risks that increased in addition to the uncertainties stemming from increased protectionism in trade since last year, simultaneous depreciations were recorded in stocks in advanced and emerging economies. Following the G20 summit at the end of

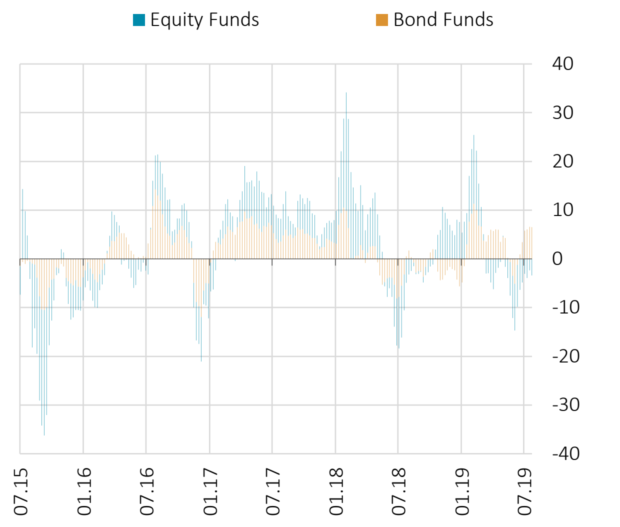
June and optimist expectations regarding the resolution of uncertainties over global trade, these losses were offset simultaneously (Chart 2.4.2). Amid the recent positive atmosphere and the monetary easing in advanced economies, the risk perception decreased and ensured the maintenance of the decline in exchange rate volatilities in advanced and emerging economies (Chart 2.4.3).

Chart 2.4.3: JP Morgan Exchange Rate Volatility Indices (Weekly)



Source: Bloomberg.

Chart 2.4.4: Weekly Portfolio Flows to Emerging Economies (Billion USD, 4-Week Cumulative)



Source: EPFR.

In the second quarter of 2019, global economic policies remained highly uncertain and the trade tensions between the US and China mounted again, which led to outflows from EME bond markets in the second half of May, while outflows from the EME equity markets, which started in February, gained momentum. Meanwhile, inflows to EME bond markets re-accelerated in June, in line with the signals for easing from major central banks in particular. Nonetheless, neither the change in monetary policies of advanced economies and the outcome of the G20 summit, nor the partial alleviation of the trade tension between the US and China were sufficient to improve portfolio inflows to EME equity markets (Chart 2.4.4).

A regional breakdown of EMEs shows that in the second quarter of 2019 there were portfolio outflows in Asia, Europe and Latin America (Table 2.4.1). Bond markets across all regions have been registering inflows again since the start of June. In this period, the relative easing in monetary policies of major central banks and the increase in global risk appetite directed international investors to EME bonds with higher risk. In the same period, all regions recorded further outflows from equity markets. However, the trade tension between the US and China, which mounted in May, eased somewhat, which led to a large deceleration in outflows from equity markets of Asian countries, with China in the lead.

The relative easing in monetary policies of advanced economies may prove more apparent in the upcoming period and have a boosting effect on portfolio inflows towards EMEs. However, high global uncertainty, ongoing geopolitical turmoil, re-mounting protectionism and country-specific fragilities in EMEs stand out as factors to decelerate portfolio inflows to these countries.

Table 2.4.1: Composition of Fund Flows to Emerging Economies (Quarterly, Billion USD)

		Total	Portfolio Composition		Regional Composition			
			Bond Funds	Equity Funds	Asia	Europe	Latin America	Middle East and Africa
2015	Q1	-8.6	1.9	-10.5	-8.1	2.2	-2.4	-0.2
	Q2	-8.0	1.4	-9.4	-6.9	0.4	-2.0	0.4
	Q3	-45.3	-16.5	-28.8	-23.8	-6.5	-10.8	-4.1
	Q4	-22.3	-12.7	-9.6	-11.1	-3.0	-6.4	-1.9
2016	Q1	-4.5	-1.2	-1.6	-2.5	-1.4	-0.3	-0.3
	Q2	-1.4	7.3	-8.7	-4.5	0.7	1.9	0.6
	Q3	42.4	26.1	16.3	17.9	7.5	12.4	4.7
	Q4	-17.4	-9.3	-8.1	-12.6	-0.8	-2.7	-1.3
2017	Q1	32.7	19.9	12.8	8.2	7.7	12.4	4.3
	Q2	52.6	24.4	28.2	25.2	7.6	14.5	5.4
	Q3	37.1	17.3	19.8	19.4	4.9	9.2	3.5
	Q4	29.5	11.8	17.6	14.8	3.7	8.3	2.7
2018	Q1	57.9	12.0	46.0	34.1	6.5	12.0	5.3
	Q2	-10.4	-10.4	0.0	-0.7	-4.3	-3.3	-2.1
	Q3	-9.9	-3.6	-6.3	-4.6	-1.4	-3.2	-0.7
	Q4	4.5	-14.0	18.5	14.1	-4.5	-3.1	-2.0
2019	Q1	29.8	20.2	9.6	9.7	4.2	10.3	5.5
	Q2	-6.7	7.9	-14.6	-8.1	-1.2	-0.9	3.5

Source: EPFR.

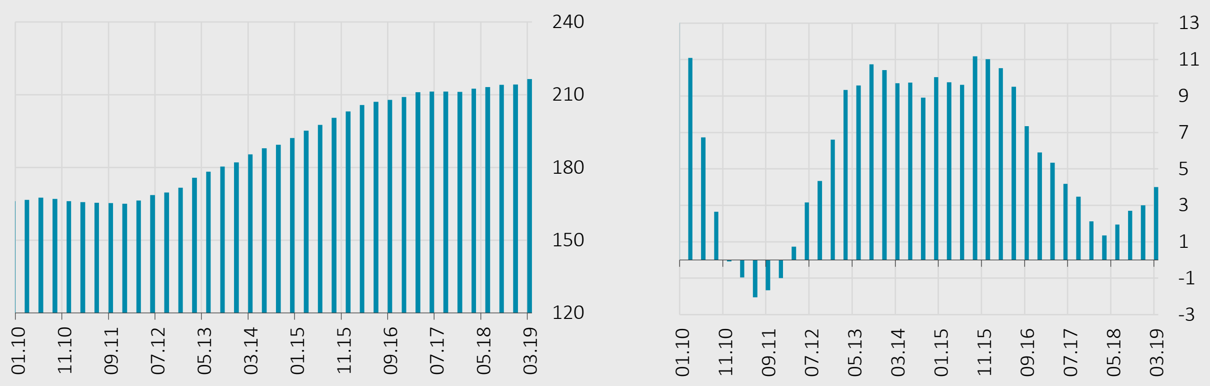
Box 2.1

Observations on the Debt Structure of Emerging Economies

The Institute of International Finance (IIF) has released the 2019 first quarter data on global debt stock. This box provides a brief overview of the debt stock data. In the first quarter of 2019, the ratio of the total debt stock to GDP in the emerging market economies (EMEs) that IIF covers[1] remained high, while the rate of increase in the debt, which had decelerated significantly in the preceding year, rose slightly. (Chart 1).

Chart 1: EME 30, Total Debt Stock to GDP

(%) | (annual % percentage point change)

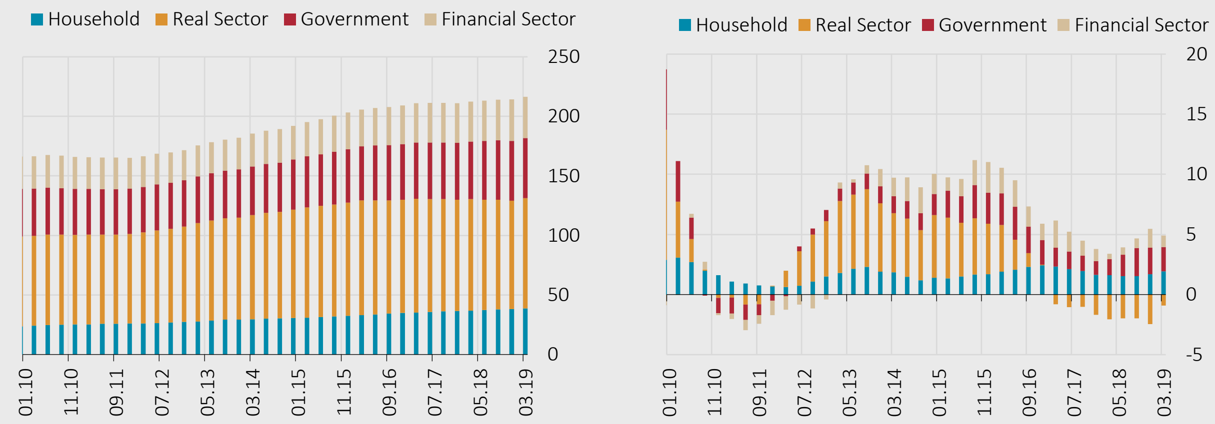


Source: IIF. | Source: IIF.

An analysis by subsectors indicates that the real sector has the largest share in debt ratio. Since 2017, while the increase in household and financial sector debt to GDP ratio slowed down across the emerging market economies (EMEs), the ratio of real sector debt to GDP declined; the ratio of public sector debt to GDP remained flat (Chart 2).

Chart 2: EME 30, Sectoral Debt Stock to GDP

(%) | (annual % percentage point change)

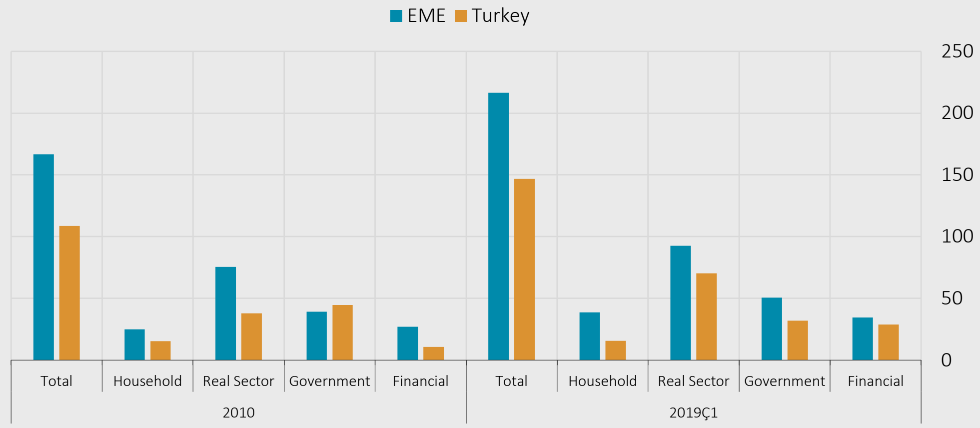


Source: IIF. | Source: IIF.

[1] 30 EMEs: Argentina, Brazil, Chile, China, Colombia, Czechia, Egypt, Ghana, Hong Kong, Hungary, India, Indonesia, Israel, Kenya, Korea, Lebanon, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand, Turkey, Ukraine, and the United Arab Emirates.

Turkey's total debt stock to GDP was below the EME average both in the first quarter of 2019 and in 2010. Turkey's debt to GDP ratio in all sectors but the public sector remained below the EME average in 2010. However, in the first quarter of 2019, Turkey ranked below the EME averages across all sectors (Chart 3). A sector-based analysis of Turkey's debt stock to GDP reveals significant changes between these two periods. Accordingly, while the public sector debt decreased noticeably, the real sector debt increased. In the same period, while household debt remained low, financial sector debt increased moderately.

Chart 3: Sectoral Debt Stock to GDP, EME-30 vs. Turkey (2010–2019 Q1)

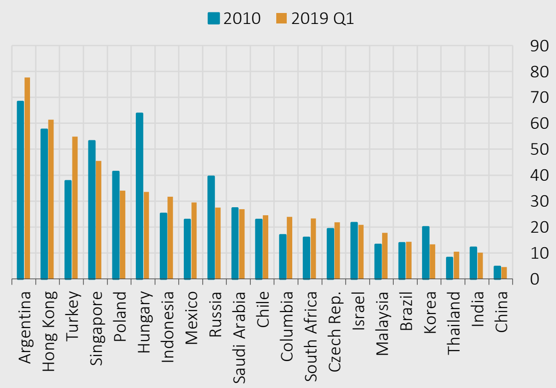


Source: IIF.

Currency decomposition of the total debt stock in EMEs is important in terms of providing guidance on the vulnerability of countries to interest rate and exchange rate shocks. In this context, an analysis of the EME total debt stock in terms of foreign currency-domestic currency breakdown suggests that the share of foreign currency in total debt decreased significantly in Hungary in the 2010-2018 period (Chart 4). With the onset of the 2008 global financial crisis, the Hungarian economy underwent major problems due to non-repayment of foreign currency denominated mortgages. Therefore, a series of measures were put in place in order to deter foreign currency borrowing, which resulted in a considerable decline.

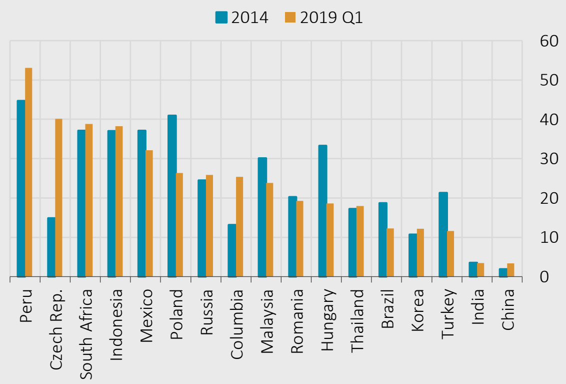
The foreign participation in local currency government bond markets seems to be on the decline in Turkey, Brazil, Mexico, and Malaysia, with Hungary and Poland in the lead (Chart 5).

Chart 4: Share of Foreign Currency in Total Debt Stock, 2010 vs. 2018 (%)



Source: IIF.

Chart 5: Foreign Participation in Local Currency Government Bond Markets, 2014 vs. 2018 (%)



Source: IIF.

The financial sector has the largest share of foreign currency in total debt across EMEs (Chart 6-a). Especially in Eastern Europe and Asia countries, the financial sector holds more than half of its debt stock in foreign currency. This ratio exceeds 80% in Colombia, India, Singapore and Turkey. On the other hand, the share of foreign currency in the real sector debt stock across EMEs is at more reasonable levels than that of the financial sector (Chart 6-b). However, the share of foreign currency in the real sector debt posted an increase not only in Argentina and Mexico but also in Turkey. The share of public sector debt in foreign currency remains at reasonable levels in countries except for Argentina (Chart 6-c).

Chart 6: Share of Foreign Currency in Total Debt Stock, Sectoral Breakdown

Source: IIF.

Source: IIF.

Household foreign currency debt stock is negligible in EMEs due to legal restrictions in place in most of those countries (Chart 6-d). Similarly, it should be noted that foreign currency borrowing of households is subject to legal restrictions also in Turkey. In Hungary after 2010, household foreign currency debt decreased to negligible levels following introduction of legal constraints. In Poland, although the household foreign currency indebtedness, mainly composed of housing loans, has decreased compared to 2010, it remains high. In Singapore, household foreign currency borrowing stems from loans used for housing and partially for durable consumption. However, it should be noted that the foreign currency debt ratio in Singapore is quite low compared to Poland.

In sum, in the first quarter of 2019 across EMEs, while the ratio of total debt stock to GDP remained high, the rate of increase in the debt, which had slowed down significantly during the preceding year, increased slightly. The real sector stands out as the most indebted sector. While the largest share of foreign currency debt in the total debt stock belongs to the financial sector, households have the smallest share in this sense. The share of public sector foreign currency debt stock remains at reasonable levels in countries other than Argentina.