

**INTERNATIONAL INVESTMENT POSITION METHODOLOGY AND
PRACTICE OF TURKEY**

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INTERNATIONAL INVESTMENT POSITION METHODOLOGY AND PRACTICE OF TURKEY

I- INTERNATIONAL INVESTMENT POSITION

The international investment position (IIP) is a statistical statement that shows at a point in time the value and composition of financial assets of residents of an economy that are claims on nonresidents and gold bullion held as reserve assets and financial liabilities of residents of an economy to nonresidents.

The difference between an economy's external financial assets and liabilities is defined as the economy's net IIP. In other words, net international investment position reflects the net position of claims of Turkey on non-residents vis-a-vis liabilities of Turkey to non-residents. Net position may be positive or negative.

International standards, described in the Balance of Payments Manual - 5th edition (BPM5) of the International Monetary Fund (IMF), render the comparability of statistics between the countries. Currently, BPM5 remains in effect. Although the sixth edition of the Manual has been published, it has not been put into practice yet. Definitions, recording principles and classifications given in the text herebelow are based on the BPM5.

II - DEFINITIONS, CLASSIFICATION AND DATA SOURCES

IIP is composed of two dimensions as "Assets" and "Liabilities", which are divided according to the type of investment into four main investment groups and the associated sub-groups:

1) Direct Investment:

a) Definition:

Direct investment is defined in the BPM5 and OECD Benchmark Definition of Foreign Direct Investment - 4th Edition as the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise in another economy. The lasting interest implies the

existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise. Foreign direct investment (FDI) enterprise is defined as the enterprise in which a direct investor, who is resident in another economy, owns 10 percent or more of the ordinary shares.

Equity capital, reinvested earnings that consist of direct investor's share of earnings not distributed as dividends and added to the capital, and intercompany loans and trade credits between the foreign direct investor and the direct investment enterprise are recorded under the "Direct Investment" item.

b) Classification:

Direct investment item in the IIP is classified as follows:

i) According to the direction of investment:

- Abroad (under Assets)
- In Turkey (under Liabilities)

ii) According to the instrument:

- The acquisition of shares by a non-resident direct investor in the FDI enterprise and reinvested earnings are recorded under the "Equity Capital" item.
- Loans and trade credits obtained by the FDI enterprise from the foreign direct investor are recorded under "Other Capital" item.

b) Data Sources:

i) Foreign Direct Investment Abroad:

Data on residents' foreign direct investment abroad are based on an annual survey conducted by Undersecretariat of Treasury's (UT) in 2010 starting from 2008 data. Sectoral and geographical breakdown are also available.

ii) Foreign Direct Investment in Turkey:

Data on foreign direct investment in Turkey are obtained through an annual survey conducted since 2001 within the FDI enterprises in Turkey, which are selected on the basis of "stratified sampling" where enterprises are grouped into strata with respect to the size of their equity capital. In the survey, enterprises are stratified as

large, medium and small scale on the basis of specified thresholds of equity capital and while all of the large scale enterprises are requested to respond; from the pool of medium and small scale enterprises only enterprises selected via “stratified sampling” are requested to respond; and each year newly established enterprises are included in the survey by the same method. Both book values and market values of the FDI enterprises are reported in the survey. The mentioned values reported in the surveys are used to calculate the “market value” of the FDI stock in Turkey, which are reflected in the annual IIP and in the monthly IIP which is published as an indicator following the reference year.

In order to determine market values of the FDI enterprises, market values announced by the ISE are used for the FDI enterprises that are quoted at the ISE. As for the other enterprises, book values are multiplied with market value/book value ratios announced by the ISE for the related sectors. Geographical and sectoral breakdown are also made available by means of the survey.

2) Portfolio Investment:

a) Definition:

Portfolio investment includes equity and debt securities. Unlike FDI, with the acquisition of less than 10 per cent of the shares, the non-resident investor does not have not an effective voice in the management. As regards the FDI, while production technology and know-how are also brought in along with the capital; in the portfolio investment the sole contribution is capital.

b) Classification:

Portfolio Investment item is classified as follows in the IIP:

i) According to the instrument:

- Equity securities
- Debt securities

ii) According to the sector:

- General Government
- Banks
- Other sectors

c) Data Sources:

i) Portfolio Investment – Assets:

Data on residents' portfolio investment of equities, bonds (excluding bonds issued abroad by UT) and other securities are obtained from annual “**Coordinated Portfolio Investment Surveys (CPIS)**” conducted at the end of the reference year within **banks, insurance firms, factoring and leasing firms, non-financial institutions**. In order to determine the stock value of residents' portfolio investments abroad, annual and quarterly CPIS has been conducted by the CBRT since 2001. and March 2006, respectively. Geographical breakdown is also available by means of the survey, which also provides data to the “Coordinated Portfolio Investment Survey” conducted by the IMF within the member countries in which Turkey participates on a regular basis since 2001.

ii) Portfolio Investment – Liabilities:

Regarding data on portfolio investment liabilities, **the stock of the bonds issued abroad by the public banks and the UT, are provided by the Treasury** and data on non-residents' **equity and debt security investments in Turkey are obtained from the custodians and the ISE.**

Starting from 2005, data on non-residents' equity investment positions in Turkey are obtained from the Central Registry Agency (CRA) on a daily basis. The positions calculated on a market value basis are reflected in the IIP as stock data, whereas **changes in positions between the reference periods are reflected in the balance of payments statistics as flow data after adjusting for price and exchange rate changes.** Equity security purchases at the ISE, which exceed the 10 per cent threshold and therefore deemed as direct investment, are deducted from “Portfolio Investment” item and recorded under “Direct Investment” item.

In compliance with the residency principle, **resident banks' and resident non-financial sector's holdings of bonds issued abroad** are deducted from UT's bond issues abroad figures starting from 2001 and 2003, respectively. Thus, bonds issued abroad by UT are presented in the external debt statistics of Turkey at full value without a distinction of ownership, whereas IIP figures present the actual external liabilities adjusted for resident holdings of such bonds. In addition, **non-residents' holdings of Government Domestic Debt Instruments (GDDI) are also included in the IIP.**

Accordingly, the difference between the external debt statistics and the IIP figures are explained with the example herebelow.

2008 (Million USD)	EXTERNAL DEBT - Bonds	IIP- Debt Securities
TOTAL	38.907	45.606
Bonds issued abroad		
(Holdings of non-resident)	38.907	25.173
Bonds issued in Turkey	-	
(Holdings of non-resident)		20.433

3) Other Investment:

a) Definition:

Other investment is a residual category that includes all financial transactions not covered in direct investment, portfolio investment or reserve assets. The items and the pertaining definitions in this category are as follows:

i) Trade Credits

Trade credits consist of claims and liabilities arising from the direct extension of credit by suppliers and buyers for transactions in goods and services and advance payments for work in progress that is associated with such transactions. Accordingly, the following types of payments in the foreign trade statistics are classified as trade credit: cash against goods, deferred payment letter of credit, acceptance credit and advance payments by buyers.

ii) Loans:

Consist of funds directly lent by a non-resident creditor to a resident debtor, principal and interest repayments of which are predetermined on contractual terms.

iii) Deposits:

Consist of foreign exchange and TRY stock of funds within the Banks.

b) Classification:

Other investment items in the IIP are classified as follows:

i) According to the instrument:

- Trade Credits
- Loans
- Deposits

iii) According to the sectors:

- Monetary Authorities
- General Government
- Banks
- Other sectors

iv) According to the maturity:

- Short-term (original maturity of one year or less)
- Long-term (original maturity of more than one year)

c) Data Sources:

i) Other Investments - Assets

Data on trade credit claims of residents are based on the sum of disbursements derived from the foreign trade statistics minus repayments calculated by the moving average method.

Data on loans extended and currency and foreign exchange and TRY deposits of banks held within foreign banks are obtained from banks' records. Data on residents' deposits abroad are obtained from Bank for International Settlements (BIS) statistics.

ii) Other Investments - Liabilities

Data on trade credit liabilities are based on foreign trade statistics along with resident banks' reports, which act as intermediaries for the said transactions.

Long-term external debt statistics of the public sector are compiled by the UT; whereas long-term external debt statistics of the private sector and short-term external debt statistics of all sectors are compiled by the Central Bank of Turkey (CBRT), Statistics Department, Balance of Payments Division.

Details on long-term loans received from abroad by resident banks, non-bank financial institutions, non-financial corporations and households excluding public banks and state owned enterprises are compiled via the intermediary resident banks' transaction basis reporting forms, which are based on information obtained from the debtors, submitted to the CBRT, Statistics Department, Balance of Payments Division. Furthermore, data on loans, which are disbursed and repaid abroad without a transfer to Turkey, are obtained from indebted firms.

Data on short-term loans received from abroad by resident banks with the maturities between 180 to 365 days and short-term loans received from abroad by non-banking financial corporations, non-financial institutions and households are compiled via the intermediary resident banks' transaction basis reporting forms, which are based on information obtained from the debtors, submitted to the CBRT, Statistics Department, Balance of Payments Division.

Data on non-residents' deposits held within resident banks and the CBRT are obtained from CBRT and banks records.

4) Reserves:

a) Definition:

Reserve assets consist of those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate and for other related purposes such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing.

b) Classification:

According to the instrument:

- i) **Monetary Gold:** Monetary gold is gold to which the monetary authorities have title and is held as reserve assets.
- ii) **Special Drawing Rights:** International reserve asset created by the IMF to supplement other reserve assets that is allocated to Turkey in proportion to its respective quota.
- iii) **Reserve Position in the Fund:** Turkey's reserve position is the sum of the reserve tranche purchases that Turkey may draw upon and any indebtedness of the Fund (under a loan agreement) that is readily repayable to Turkey.
- iv) **Foreign Exchange:** The CBRT's claims on non-residents that can readily be available for repayments in the forms of foreign currency, deposits and securities.

d) Data Sources:

Data on reserve assets are derived from the CBRT records.

III- FLOW-STOCK RECONCILIATION:

Stocks are measured **at current market prices** as of the dates involved (beginning and end of reference period) and converted into USD. Accordingly, **regarding the "Assets" and "Liabilities" items of the IIP, which are measured at end period market prices and exchange rates; the changes in the positions between the two end periods consist of flows recorded in the financial account of the balance of payments as well as price and exchange rate changes.**

For instance; non-residents' holdings of equity securities, which is recorded under the "Portfolio Investments - Liabilities" item and was USD 64.201 million as end of 2007, posted an increase of USD 716 million with the net purchases made during 2008, reflected in the balance of payments. However, the said holdings decreased by USD 41.721 million to USD 23.196 million as end of 2008 measured with 2008 year end market prices and exchange rate due to the decreases in equity prices and

changes in the exchange rate in 2008. In a similar manner, non-residents' holdings of GDDI, which is also recorded under the above-mentioned item as "Debt Securities-In Turkey" and was USD 32.166 million as end of 2007, realized as USD 20.433 million as end of 2008 with net sales in the amount of USD 5.073 million and the decrease in the amount of USD 6.660 million due to changes in the market value and the exchange rate.

The said transactions are reflected in the balance of payments and the IIP as follows. As can be seen, purchases and sales throughout the year are recorded in the balance of payments whereas changes in market value and exchange rate are reflected in the IIP. Therefore, changes in the market value and exchange rate, which are contained in the change in the stocks between the two periods, constitute the difference between the balance of payments and the IIP figures.

Flow-Stock Reconciliation (Million USD)	Stock as end of 2007	Balance of Payments Transactions	Changes in market value and exchange rates	Stock as end of 2008
Equities	64.201	716	- 41.721	23.196
Debt Securities- In Turkey	32.166	-5.073	- 6.660	20.433

IV- SECTORS:

The four institutional sectors in the IIP classified on the basis of their common economic objectives and functions are as follows:

- 5) Monetary Authorities:** Central Bank of Turkey.
- 6) General Government:** Consists of central government, local administrations and social security funds operated by the government. State Owned Enterprises (SOEs) are excluded.
- 7) Banks:** Private and public banks including participation banks except for the CBRT. T.C. Ziraat Bankası A.Ş., Türkiye Halk Bankası A.Ş, Türkiye

İhracat Kredi Bankası A.Ş. and Türkiye Kalkınma Bankası A.Ş. are classified as “**Public Banks**”, while the others as “**Private Banks**”.

8) Other Sectors: The sub-sectors classified on the basis of their functions as follows:

- a) “**non-bank financial institutions**” including insurance companies, pension funds and other financial intermediaries,
- b) “**non-financial institutions (including SOEs)**”, including companies engaged in the production of goods and services,
- c) “**non-profit institutions serving households**” including such entities as trade unions, charities, etc.
- d) “**households**”; including real persons.

On the other hand, with regard to ownership, “Other Sectors” including SOEs is also defined as “**Other Sectors-Public**” whereas other privately owned companies and households are defined as “**Other Sectors-Private**”.

V- CLASSIFICATION OF ECONOMIC ACTIVITY:

The economic activity in the IIP is classified according to the **Statistical Classification of Economic Activities in the European Community - NACE Rev 1.1 (Nomenclature statistique des Activités économiques dans la Communauté Européenne - NACE Rev 1.1)**. The classification allocation is based on company reports or information obtained via banks and updated with improvement studies conducted at specific periods.

Stocks regarding non-residents’ purchases of equity securities at the ISE are classified according to the sectoral classification of the ISE.

VI- DISSEMINATION:

The international investment position (IIP), which reports the stocks of external financial assets and liabilities of Turkey at a reference date, has been compiled since 1996. Turkey’s IIP comprising portfolio investments, direct investment, other investment and reserve assets on the assets side; and direct investment, portfolio

investment and other investment on the liabilities side is published by the CBRT annually and monthly as an indicator in which direct investment item was included in 2000 both under assets and liabilities and portfolio investment item was included under assets in 2001.

1) IIP published annually on a yearly basis:

IIP figures are released **annually** at the end of each June **upon completion of the compilation of all data.**

2) IIP published monthly as an indicator:

Monthly IIP figures are released as an indicator at end-months **using provisional data with the necessary adjustments made in the “Direct Investment in reporting economy” and “Portfolio Investment-Assets” items** by means of a method described herebelow:

In the monthly IIP disseminated as an indicator, the market value of inward FDI stock is estimated based on annual FDI survey results, which are adjusted according to ISE data. Inward FDI balance of payments flow figure of the reference month is added to the said calculated market value of the monthly FDI stock.

Annual portfolio investment survey, which is the main data source for the “Portfolio Investment” item under “Assets”, is also conducted quarterly. The stock figure of portfolio investment assets obtained from the said survey is used in the IIP in the following months, and is revised according to the subsequent quarterly survey results. Also, data on deposits of resident non-bank sector, which are obtained from the BIS statistics, are reflected in the IIP under “**Assets-Other Investment**” with a delay as regards the publication dates of the BIS statistics.

The advance release calendar is disseminated at the following addresses in the website of the CBRT: <http://www.tcmb.gov.tr/yeni/veriyay/takvim.html> and <http://www.tcmb.gov.tr/die/rc/rc2001iiptr.htm>.