TÜRKİYE CUMHURİYET MERKEZ BANKASI

Financial Accounts Report

2017-III

Summary

According to the financial balance sheets of sectors, the Turkish economy maintained its position as a net debtor as of 2017Q3, with households and the rest of the world being the two major financing sectors. The most indebted sector was the non-financial corporations sector, followed by the general government.

An analysis of the ratio of sectors' net financial transactions to GDP reveals that the domestic economy, which had been a net debtor since 2017Q1, attained a balanced position in 2017Q3 due to the decline in its net borrowing.

A comparison of households' and non-financial corporations' indebtedness ratios with those of several countries demonstrates that Turkey had the lowest household indebtedness and was also among the countries with low indebtedness of non-financial corporations.

This report is prepared together with the CBRT's Financial Accounts Statistics and aims to inform the public for a better understanding of these statistics.

Contents

1. Evaluations

In 2017Q3, total financial assets of the Turkish economy were TRY 10,526 billion while its liabilities were TRY 12,057 billion, creating a net liability of TRY 1,532 billion to the rest of the world. Thus, the largest contribution to the financing of the domestic economy came from the rest of the world and households sectors (Table 1).

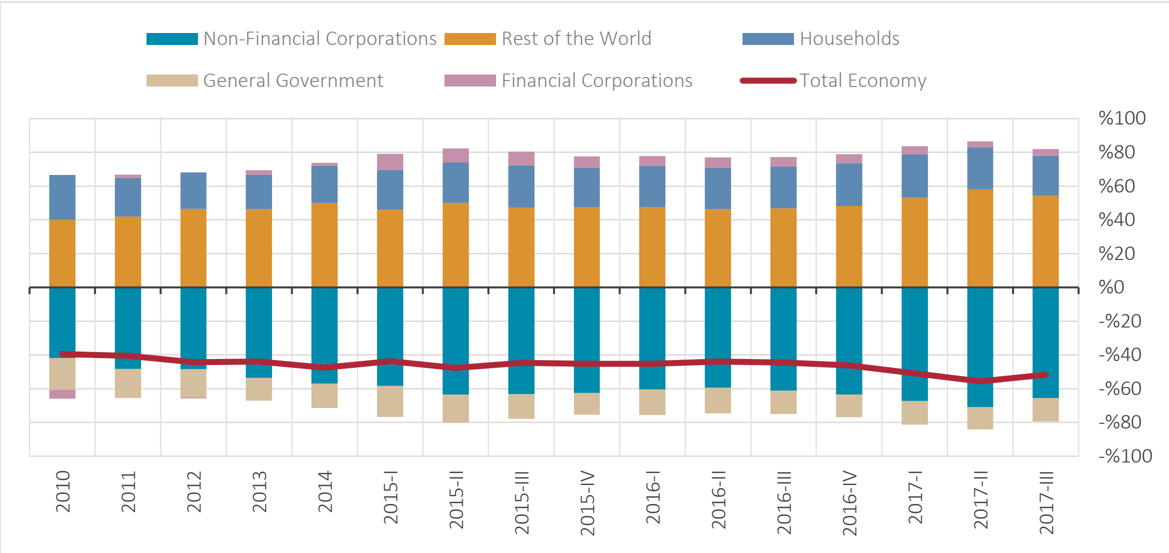
Table 1: Financial Net Worth by Sectors (2017Q3, TRY billion)[1,2]

	Total Economy	Non-Financial Corporations	CBRT	Other Monetary and Financial Institutions	Insurance Corporations and Pension Funds	Financial Intermediaries and Auxiliaries	General Government	Household	Rest of the World
Financial Assets	10,526	4,608	601	2,993	163	239	656	1,266	769
Liabilities	12,057	6,546	580	2,912	170	218	1,068	564	2,374
Financial Net Worth	-1,532	-1,938	21	81	-8	22	-412	703	1,605

Source: CBRT.

An analysis of the domestic economy's financial balance sheets by sectors for the period from 2010 to 2017Q3 shows that households and the rest of the world generated a financial surplus and assumed a creditor role, whereas non-financial corporations and the general government ran a financial deficit and assumed a debtor role. Meanwhile, due to their financial intermediation activities, financial corporations maintained their balanced position with a financial net worth close to zero (Chart 1).

Chart 1. Ratio of Financial Net Worth to GDP by Sectors (%)[2]

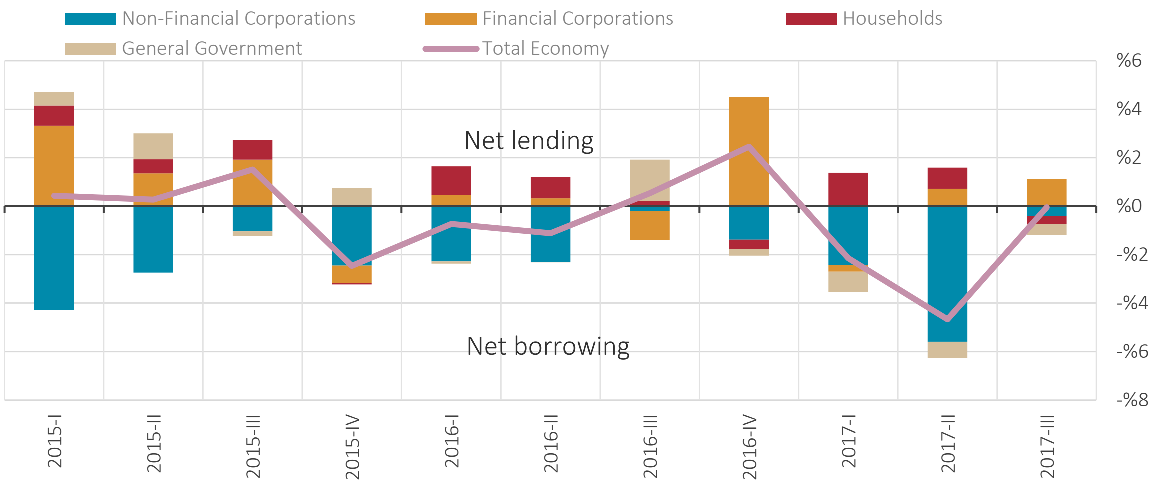


Source: CBRT, TURKSTAT.

[1] Pursuant to the methodology, there is a difference between the financial net worth of total domestic economy and rest of the world since there is no counterpart sector for monetary gold. The rest of the world has been reported based on residency, so as to be compatible with the International Investment Position Statistics.

[2] The households sector also covers non-profit institutions serving households.

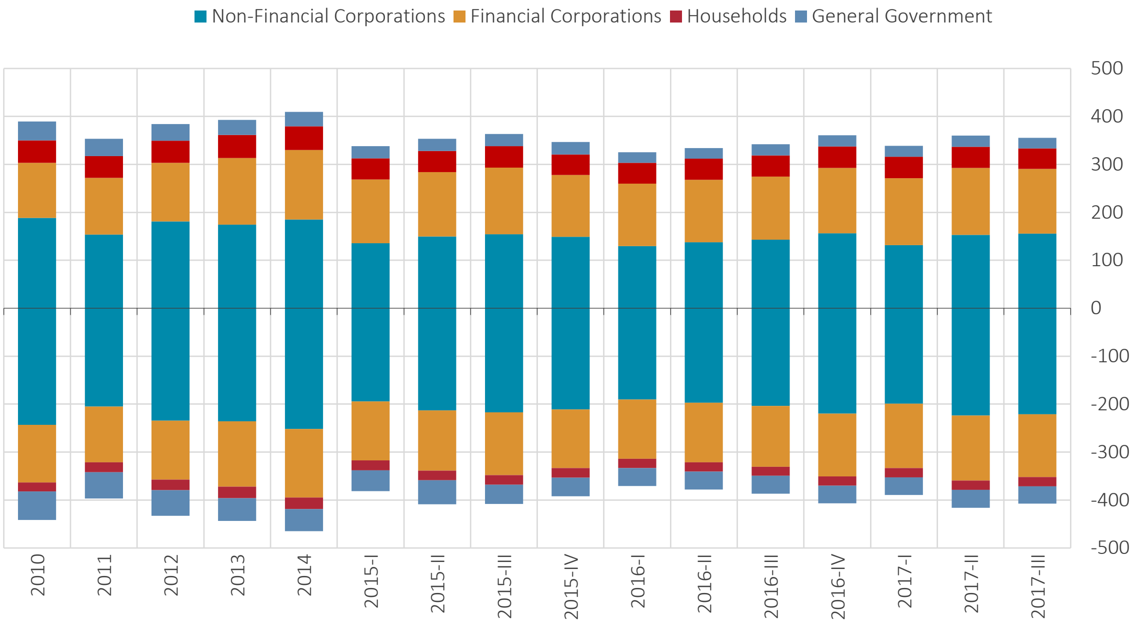
Chart 2: Net Lending/Borrowing, Ratio to GDP, by Sectors (%) [2]



Source: CBRT, TURKSTAT.

An analysis of sectors' net financial transactions reveals that the domestic economy, which had been a net debtor since 2017Q1, attained a balanced position in 2017Q3 due to the decline in its net borrowing (Chart 2).

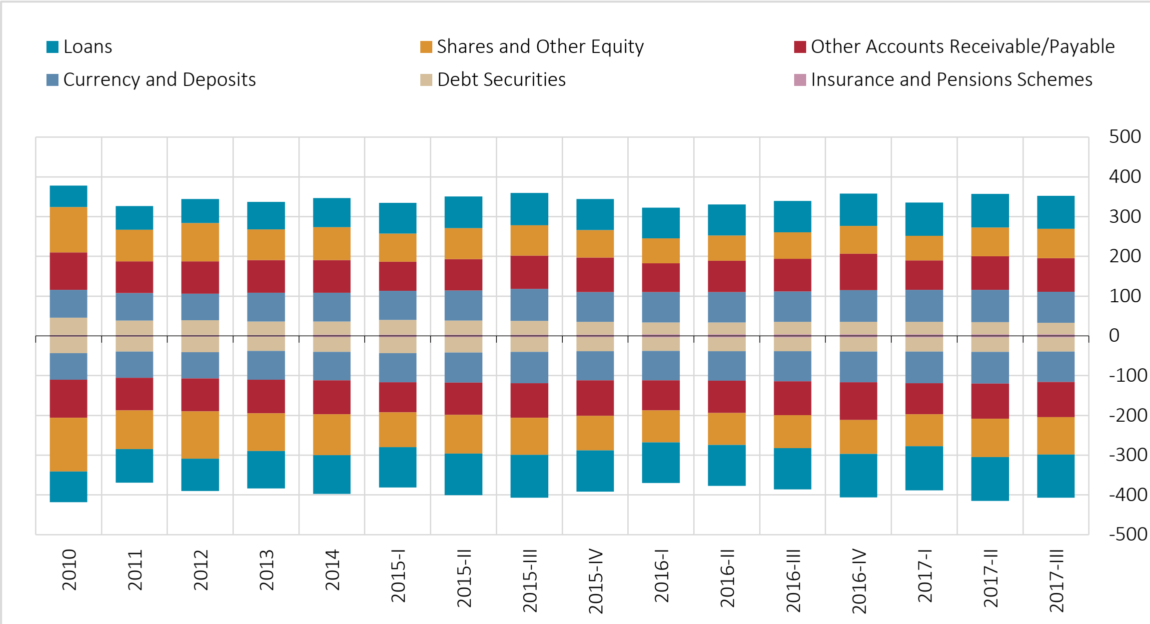
Chart 3: Ratio of Financial Assets and Liabilities to GDP by Sectors (%) [2]



Source: CBRT, TURKSTAT.

An analysis of financial assets and liabilities by sectors as of the recent period suggests that the non-financial corporations sector was the biggest sector on both the liabilities and assets sides, followed by financial corporations (Chart 3).

Chart 4: Distribution of Financial Instruments-Total Economy, Ratio to GDP* (%)

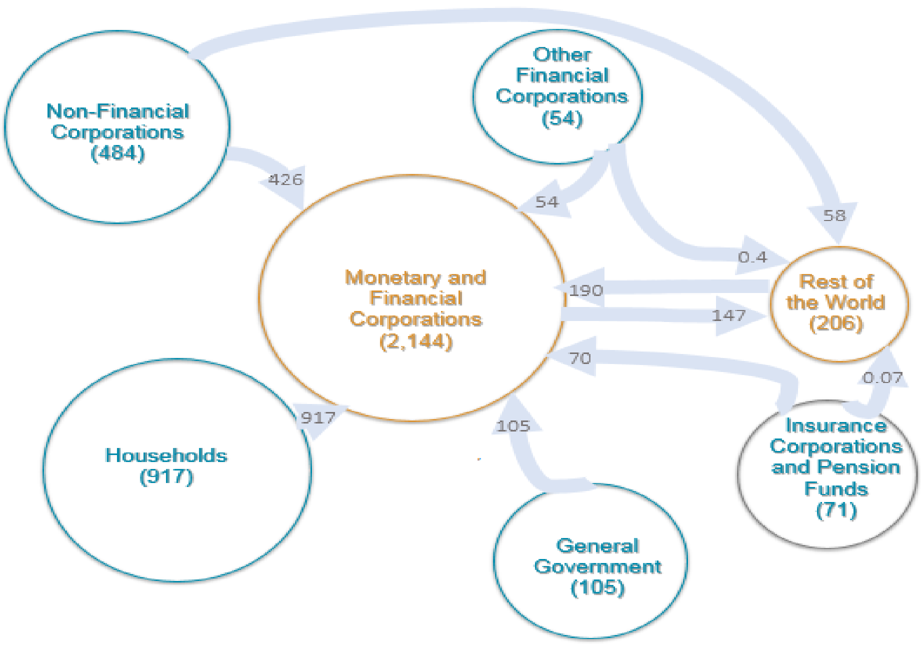


Source: CBRT, TURKSTAT.

(*)Monetary gold and SDR have been excluded.

As for the financial instrument distribution, loans and other accounts receivable had the largest weight in assets as of 2017Q3 while the loans and the shares and other equity items had the largest weight in liabilities, respectively (Chart 4).

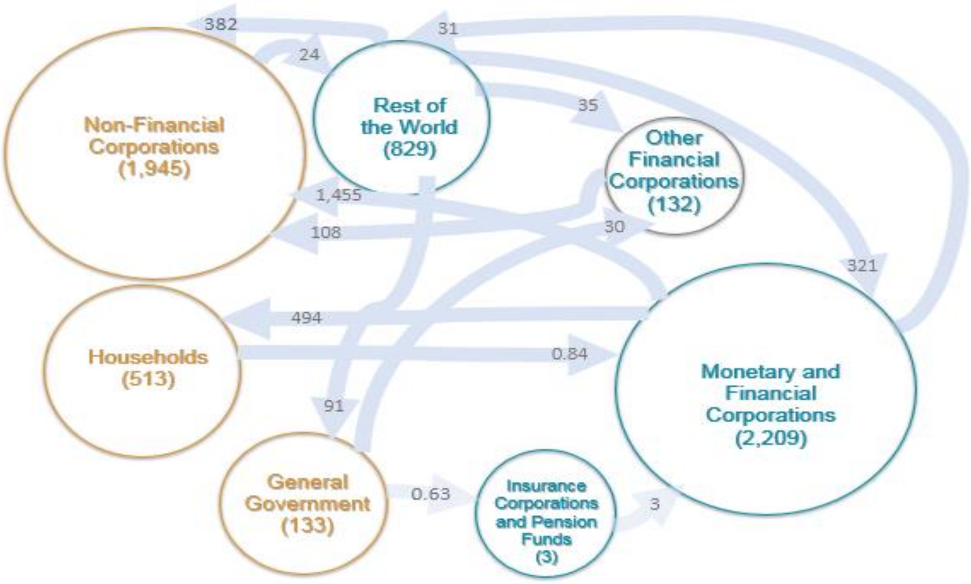
Diagram 1: Deposits, From-Whom-to-Whom Matrix (2017Q3, TRY billion) [2, 3]



[3] Deposit-taking sectors are shown in yellow, and sectors that open deposits are shown in blue.

Of the total TRY 2,350 billion worth of deposits opened by domestic and foreign sectors, TRY 2,144 billion were taken by monetary and financial institutions and TRY 206 billion by the rest of the world. A large portion of deposits taken by monetary and financial institutions belongs to households (TRY 917 billion) and non-financial corporations (TRY 426 billion). On the other hand, the majority of deposits taken by the rest of the world (TRY 147 billion) was opened by monetary and financial institutions (Diagram 1).

Diagram 2: Loans, From-Whom-to-Whom Matrix (2017Q3, TRY billion) [2, 4]



Source: CBRT

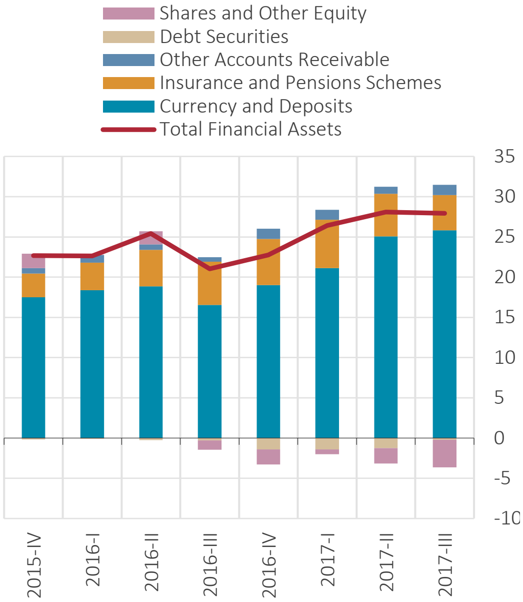
Analyzing the from-whom-to-whom matrices of loans, the biggest connection was observed between non-financial corporations and monetary and financial institutions in 2017Q3. Monetary and financial institutions extended a total of TRY 2,209 billion worth of loans, granting TRY 1,455 billion of it to non-financial corporations and TRY 494 billion to households. The rest of the world offered TRY 829 billion worth of loans, with non-financial corporations receiving TRY 382 billion and monetary and financial institutions getting TRY 321 billion (Diagram 2).

[4] Debtor sectors are shown in yellow and creditor sectors in blue, and the amounts displayed by arrows show the largest amounts of loans obtained/offered.

2. Households

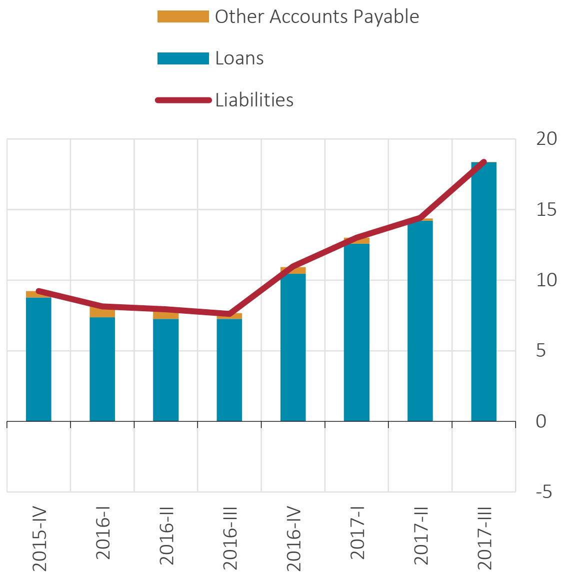
In the third quarter of 2017, financial assets and liabilities of households remained flat quarter-on-quarter. While the rise in assets was mainly driven by deposit transactions in assets, the increase in liabilities originated from loan transactions in liabilities (Charts 5 and 6).

Chart 5: Financial Assets (Transaction, Moving Average of 4 quarters, TRY billion)



Source: CBRT.

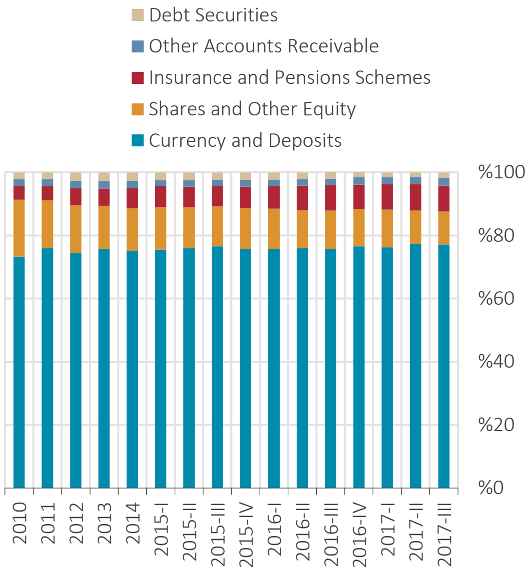
Chart 6: Liabilities (Transaction, Moving Average of 4 quarters, TRY billion)



Source: CBRT.

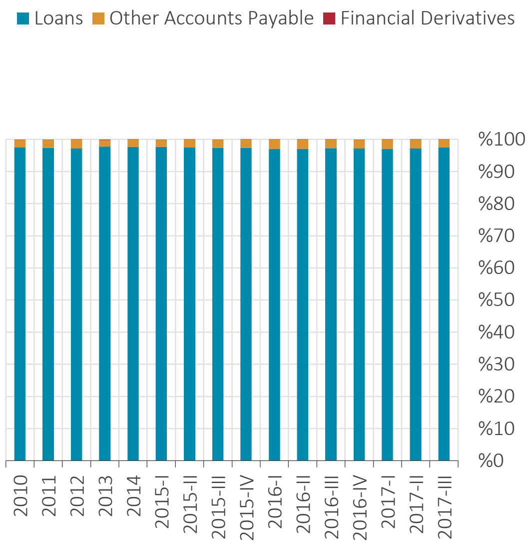
The leading instrument in household financial assets was deposits with a share of approximately 77 percent, followed by shares and other equity. During the data period, the share of the shares and other equity item in total financial investments decreased while that of deposits was flat (Chart 7). As for liabilities, almost all of liabilities were composed of loans (Chart 8).

Chart 7: Breakdown of Financial Assets by Instruments (%)



Source: CBRT.

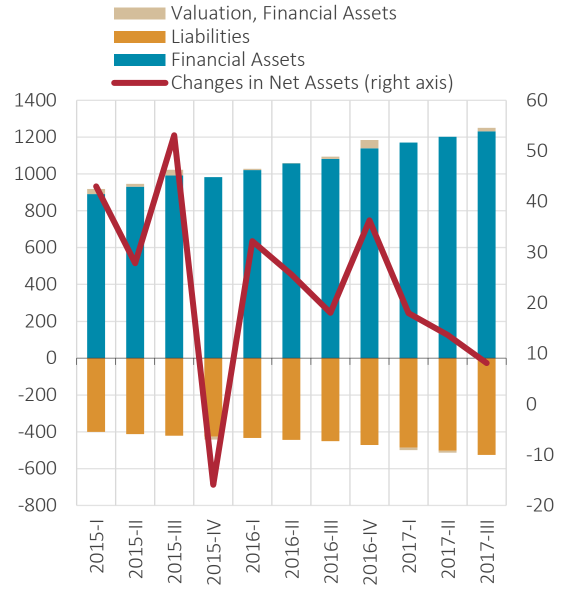
Chart 8: Breakdown of Financial Liabilities by Instruments (%)



Source: CBRT.

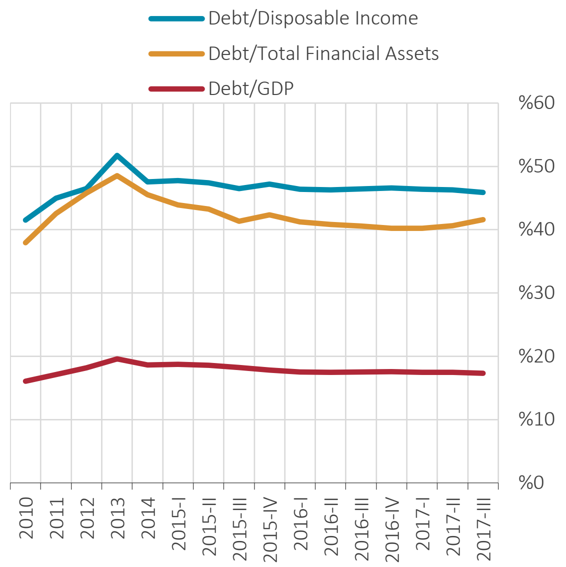
In the third quarter of 2017, the household net financial worth increased by TRY 8 billion quarter-on-quarter (Chart 9). Household indebtedness indicators suggest that the ratio of household debt to GDP remained at around 17 percent, and the ratios of debt to disposable income and debt to total financial assets were flat in 2017Q3 (Chart 10).

Chart 9: Change in Net Assets of Households (TRY billion)



Source: CBRT.

Chart 10: Household Debt* (%)

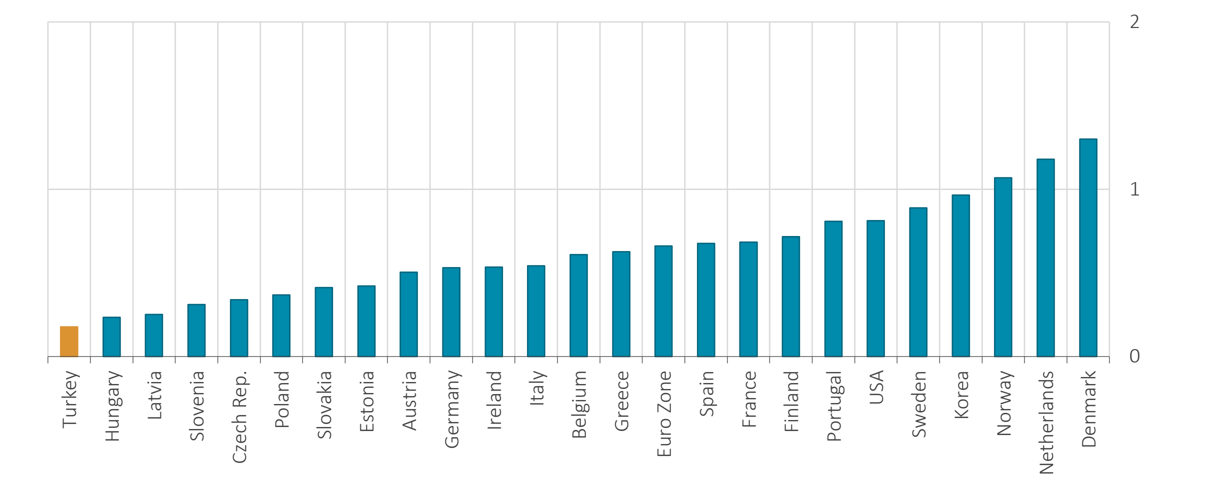


Source: CBRT, TURKSTAT.

*Household debt is composed of loans.

The ratio of household liabilities to GDP indicates that in 2017Q3, Turkey had the lowest level of indebtedness among countries compared (Chart 11).

Chart 11. Household Liabilities/GDP, Comparison (*)



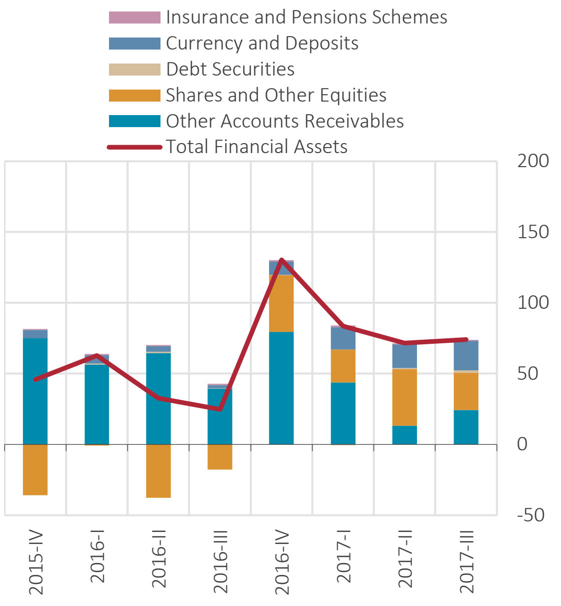
Source: CBRT, TURKSTAT, OECD.

(*)Other country data is as of 2017Q2.

3. Non-Financial Corporations

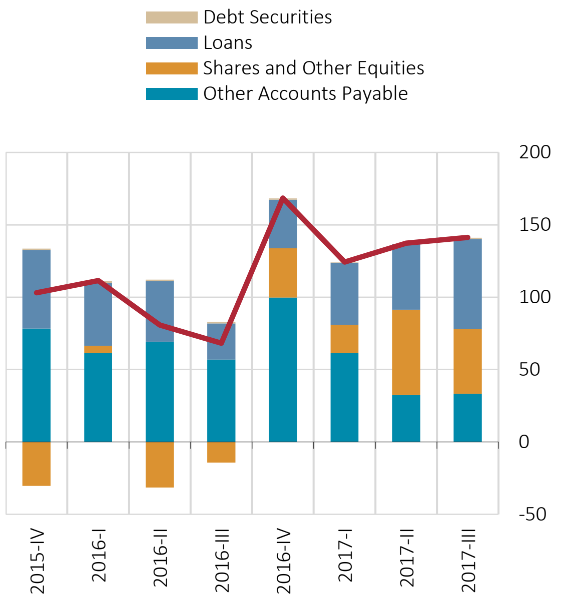
In the third quarter, financial assets and liabilities of non-financial corporations slightly increased quarter-on-quarter and this rise was mainly driven by the increase in other accounts receivable/ payable (Chart 12 and 13).

Chart 12: Financial Assets (Transaction, Moving Average of 4 quarters, TRY billion)



Source: CBRT.

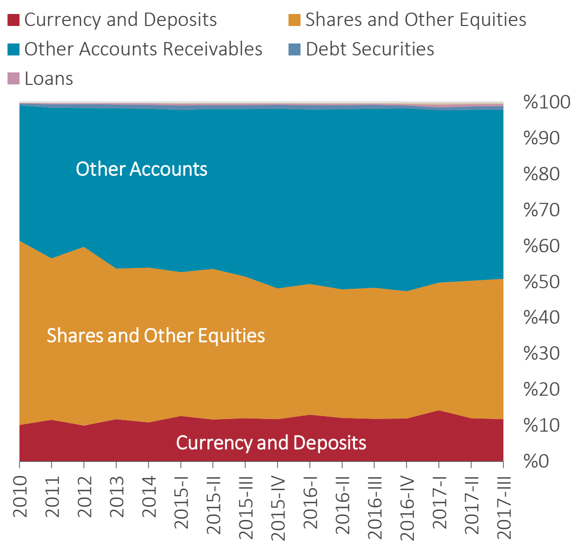
Chart 13: Liabilities (Transaction, Moving Average of 4 quarters, TRY billion)



Source: CBRT.

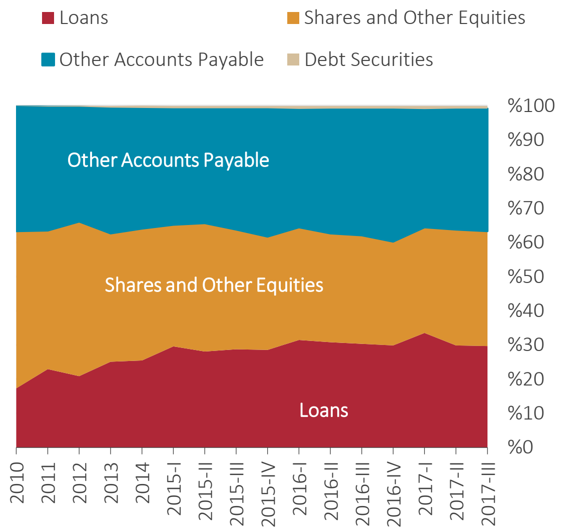
In the third quarter of 2017, the most significant item on the assets side of non-financial corporations was the other accounts receivable item (47 percent) composed of the sum of trade credits and advances, and other items. The share of the shares and other equity item was 39 percent, and that of currency and deposits was 12 percent (Chart 14). On the liabilities side, the share of financing through issues of shares and other equity in total liabilities was 34 percent, while the shares of other accounts payable and loans used were 36 percent and 30 percent, respectively (Chart 15).

Chart 14: Breakdown of Financial Assets by Instruments (%)



Source: CBRT.

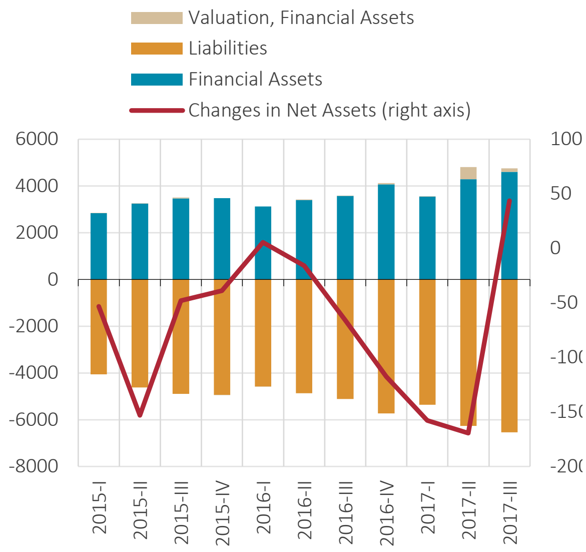
Chart 15: Breakdown of Financial Liabilities by Instruments (%)



Source: CBRT.

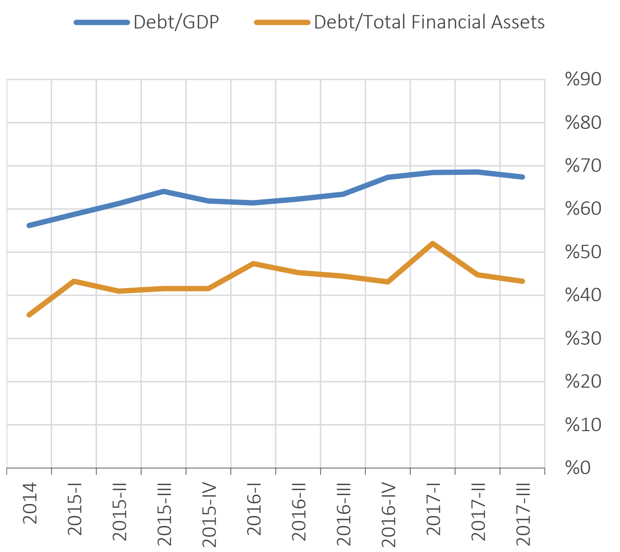
In this quarter, net assets of non-financial corporations increased by TRY 44 billion quarter-on-quarter (Chart 16). While the ratio of non-financial corporations' debts to GDP was 67 percent in 2017Q3, the ratio of debts to total financial assets decreased (Chart 17).

Chart 16. Change in Net Assets of Non-Financial Corporations (TRY billion)



Source: CBRT.

Chart 17: Non-Financial Corporations' Debt * (%)

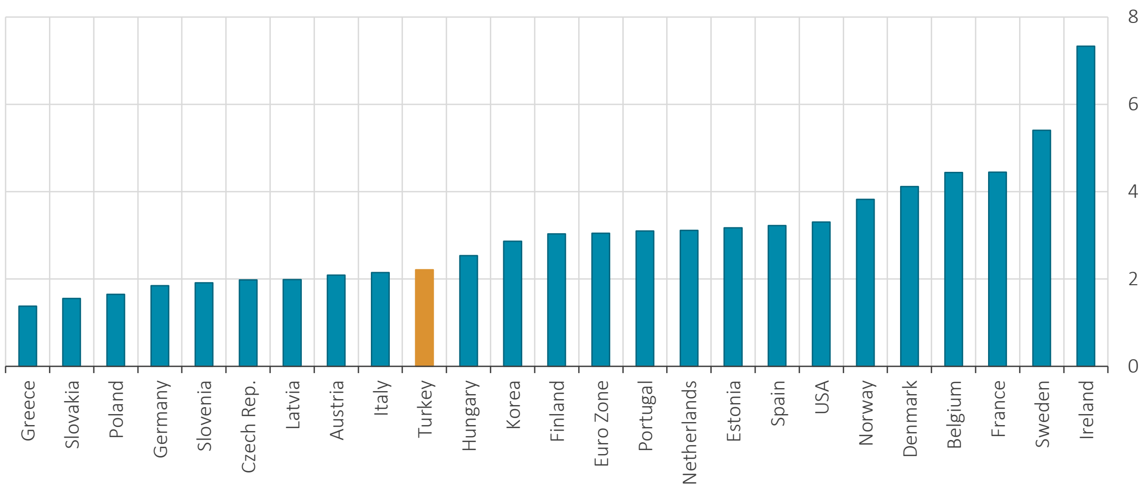


Source: CBRT, TURKSTAT.

(*) Debts are composed of loans and government debt securities

A comparison of the ratios of non-financial corporations' debts to GDP with those of several countries shows that Turkey was among the countries with the lowest indebtedness levels in 2017Q3 (Chart 18).

Chart 18. Non-Financial Corporations' Liabilities / GDP (*)



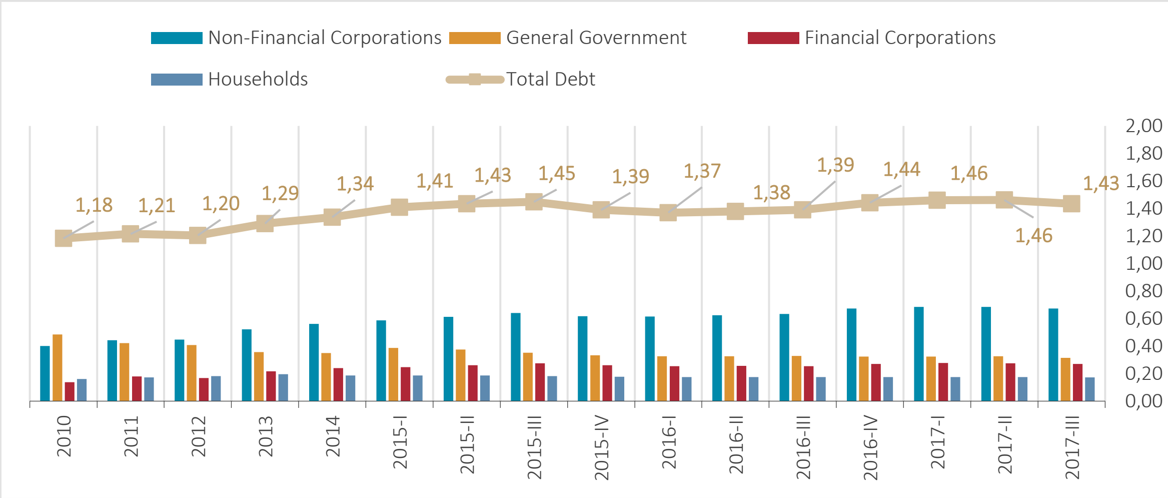
Source: CBRT, TURKSTAT, OECD.

(*)Other country data is as of 2017Q2.

4. Total Debt of Resident Sectors

The resident sectors' financial accounts-defined total debt -that is the sum of the loans that they use and the debt securities they issue- to GDP decreased compared to the previous quarter (Chart 19).

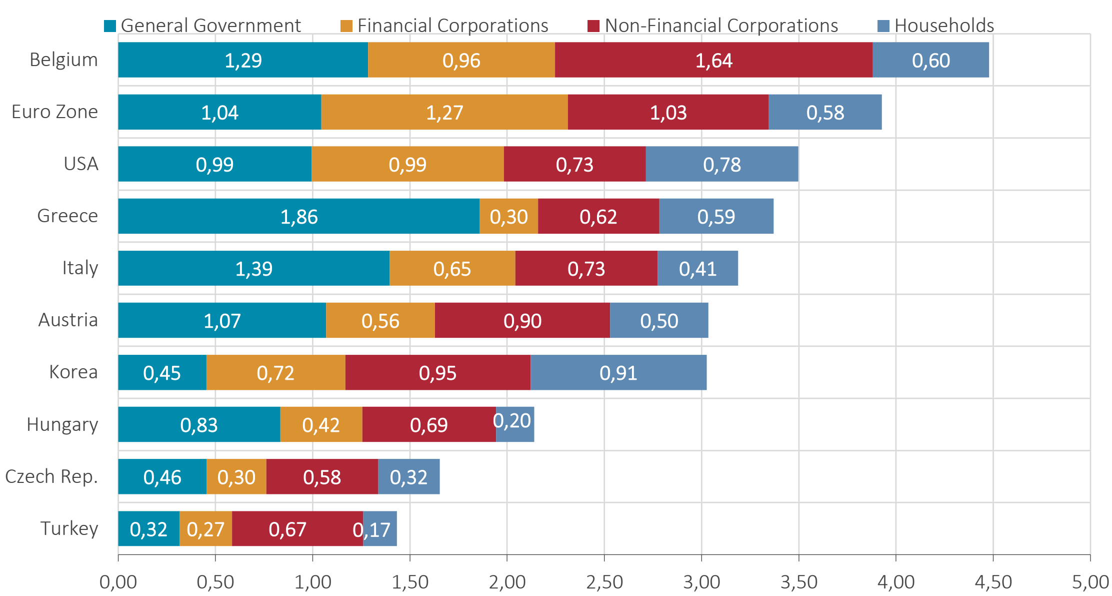
Chart 19: Total Debt of Sectors/GDP [2]



Source: CBRT, TURKSTAT.

A cross-country comparison of this indebtedness ratio reveals that the total debt of resident sectors in Turkey was low in 2017Q3 (Chart 20).

Chart 20: Cross-Country Comparison of Debt/GDP Ratio by Sectors (2017Q3)*[2]

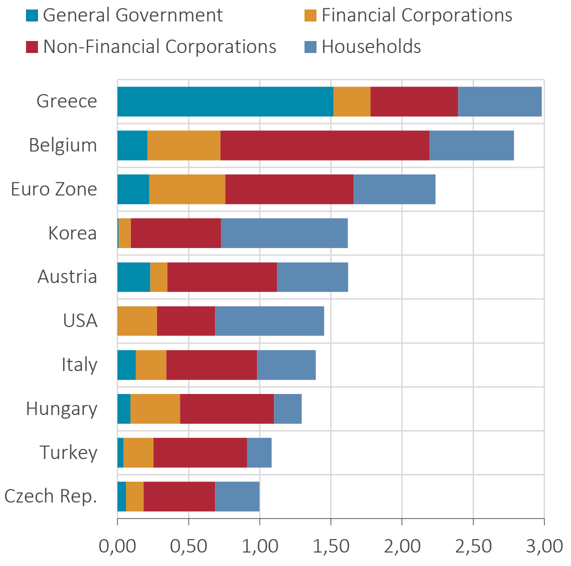


Source: CBRT, TURKSTAT, OECD.

(*) Other country data is as of 2016Q4.

A cross-country analysis of indebtedness ratios by financial instruments shows that Turkey had low levels of loan/ GDP and debt securities/GDP ratios. While the largest sector with respect to loan indebtedness ratio was the non-financial corporations with a ratio of 66 percent of GDP; the general government was the leading sector in debt securities with a ratio of 27 percent (Chart 21 and 22).

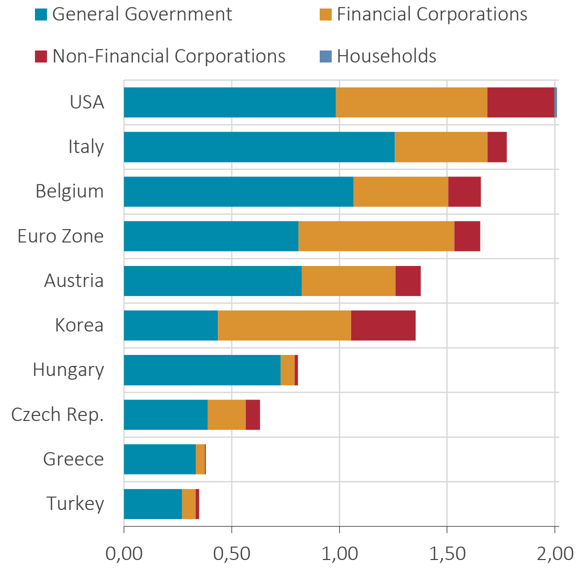
Chart 21: Cross-Country Comparison of Loan/GDP Ratio by Sectors (2017Q3)*[2]



Source: CBRT, TURKSTAT, OECD.

(*)Other country data is as of 2017Q2.

Chart 22: Cross-Country Comparison of Debt Securities/GDP Ratio by Sectors (2017Q3)*[2]



Source: CBRT, TURKSTAT, OECD.

(*)Other country data is as of 2017Q2.