TÜRKİYE CUMHURİYET MERKEZ BANKASI

Financial Accounts Report

2018-II

Summary

Financial balance sheets of sectors indicate that, in the second quarter of 2018, total financial assets of the Turkish economy were TRY 11,645 billion while its liabilities were TRY 13,475 billion, creating a net liability of TRY 1,830 billion for the rest of the world. The rest of the world and households continued to be net creditors.

According to the transactions conducted, the total economy was a net creditor at 3.6% in the second quarter of 2018.

A cross-country comparison in terms of indebtedness ratios of households and non-financial corporations suggests that Turkey also maintained its place in countries with low indebtedness levels in the second quarter.

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Contents

1. Evaluations

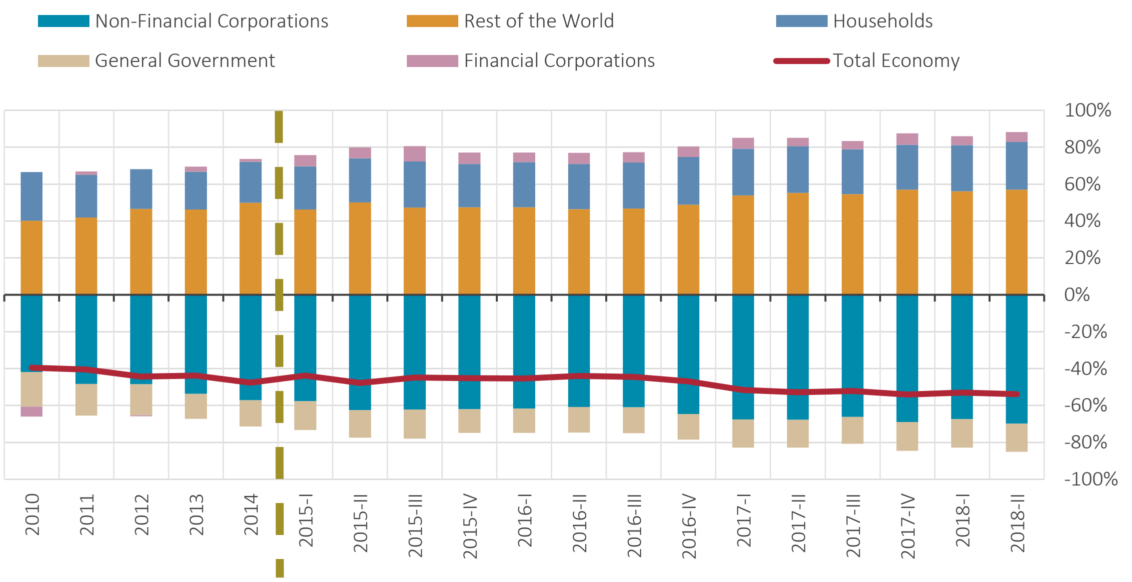
Table 1: Financial Net Worth by Sectors (2018Q2, TRY Billion)[1,2]

	Total Economy	Non-Financial Corporations	Financial Corporations	General Government	Households	Rest of the World
Financial Assets	11,645	4,738	4,737	680	1,491	998
Liabilities	13,475	7,105	4,557	1,199	614	2,933
Financial Net Worth	-1,830	-2,368	180	-520	877	1,935

Source: CBRT

An analysis of the domestic economy's financial balance sheets by sectors from 2010 to 2018Q2 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 (Table 1, Chart 1).

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

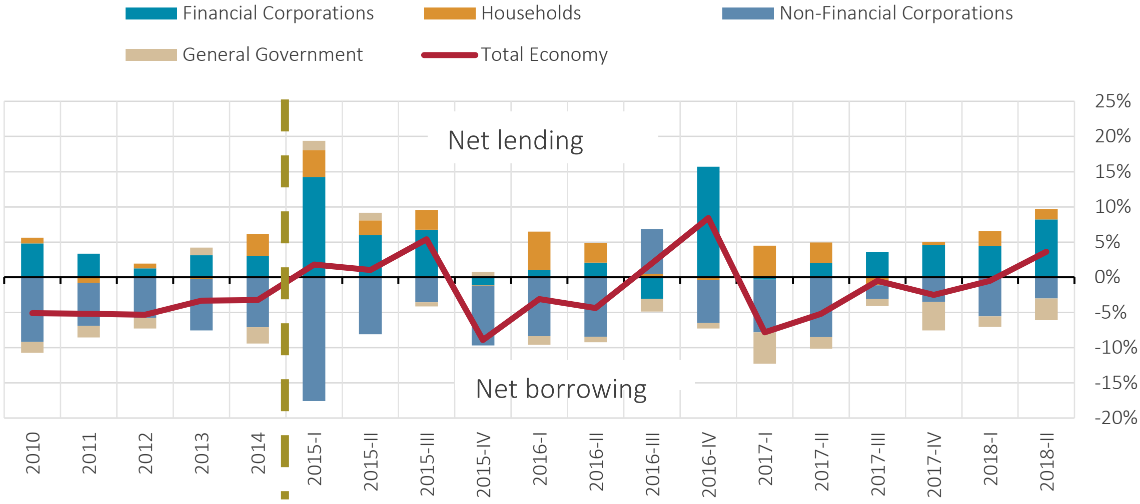


Source: CBRT, TURKSTAT

[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.

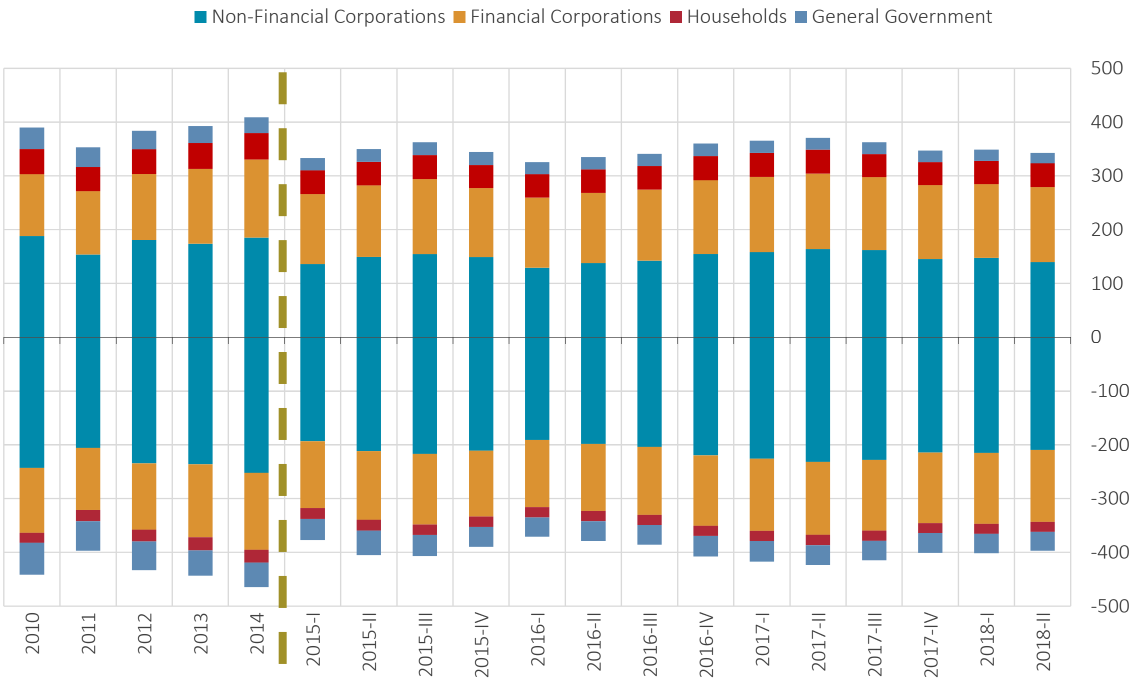
Chart 2: Net Lending/Borrowing (Transaction), Ratio to GDP, by Sectors (%)[2]



Source: CBRT, TURKSTAT

Net financial transactions conducted by sectors suggest that the total economy, which had net borrowing of 5.2% of GDP in the same period of last year, shifted to a position of net creditor at 3.6% in this period. This is mainly attributed to the increase in loans extended by banks. Compared with the same period of last year, the net lending rate of financial corporations increased to 8% of GDP from 2% of GDP, whereas that of households decreased to 1.5% of GDP from 2.9% of GDP in the second quarter of 2018. The non-financial corporations and general government sectors maintained their positions as net debtors and had net borrowings at approximately 3% of GDP (Chart 2).

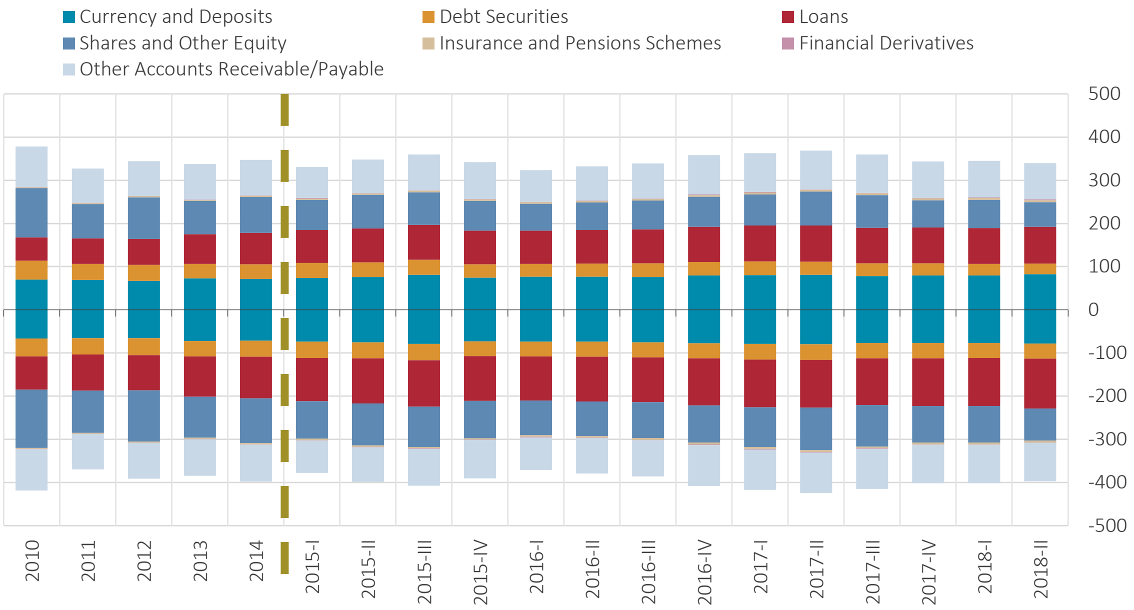
Chart 3: Financial Assets and Liabilities to GDP by Sectors (%)[2]



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 largest sector in terms of liabilities and assets, 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.

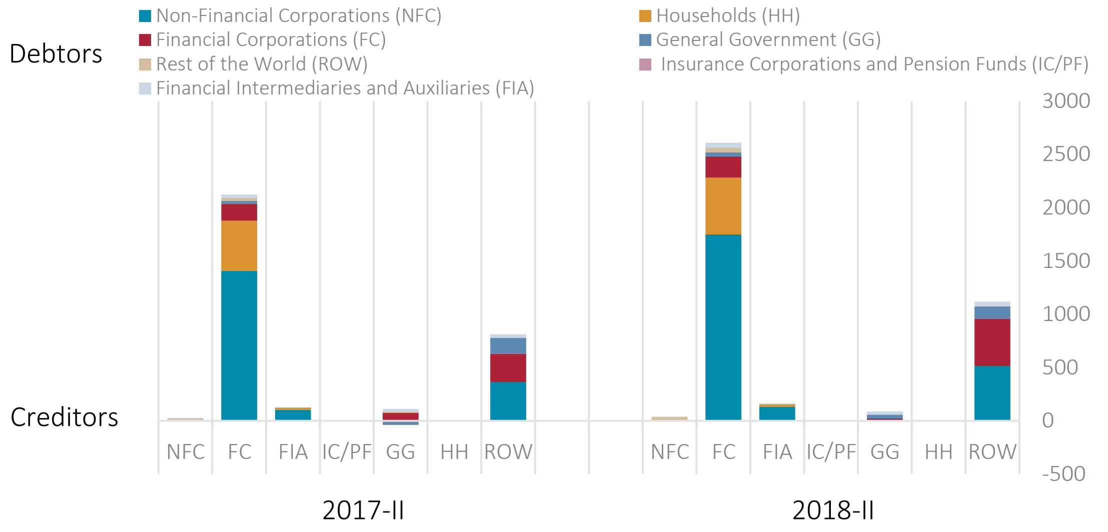
As for the financial instrument distribution in 2018Q2, loans and other accounts receivable had the largest weight in assets while the loans and other accounts payable items had the largest weight in liabilities (Chart 4).

2. From-Whom-to-Whom (Deposits and Loans)

Below is the breakdown of relations among economic sectors compiled as deposits and loans according to from-whom-to-whom matrices.

From-whom-to-whom matrices of loans indicate that the strongest connection in 2018Q2 occurred between non-financial corporations and monetary and financial institutions. Monetary and financial institutions extended a total of TRY 2,608 billion worth of loans, granting TRY 1,746 billion of it to non-financial corporations and TRY 535 billion to households. The rest of the world offered TRY 1,117 billion worth of loans, out of which non-financial corporations received TRY 514 billion and monetary and financial institutions received TRY 443 billion (Chart 5).

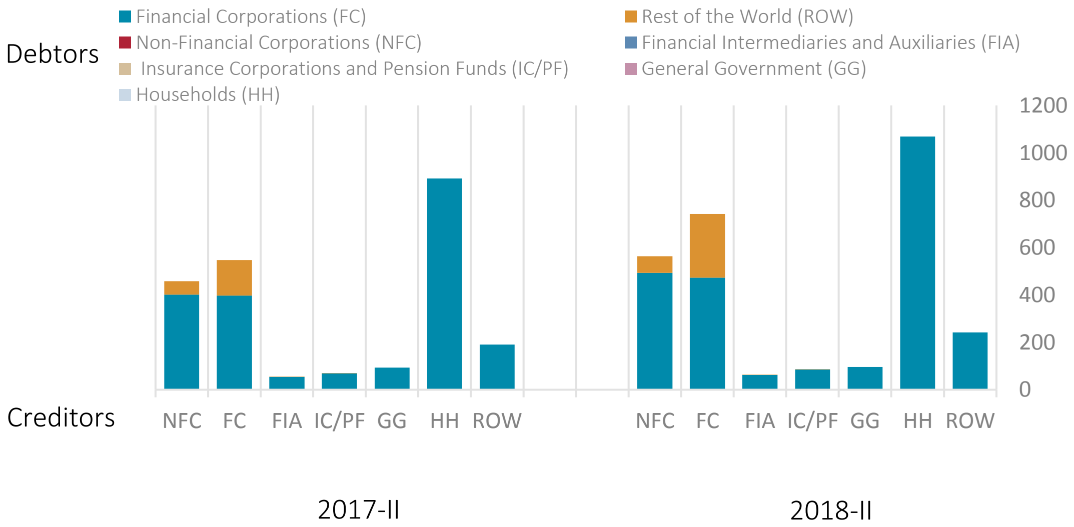
Chart 5: Loans, From-Whom-to-Whom (2018Q2, TRY Billion)[2]



Source: CBRT

In 2018Q2, of the total TRY 2,882 billion worth of deposits opened by domestic and foreign sectors, TRY 2,543 billion were taken by monetary and financial institutions and TRY 338 billion by the rest of the world. A large portion of deposits taken by monetary and financial institutions belongs to households (TRY 1,068 billion) and non-financial corporations (TRY 493 billion). On the other hand, the majority of deposits taken by the rest of the world (TRY 241 billion) was opened by monetary and financial institutions (Chart 6).

Chart 6: Deposits, From-Whom-to-Whom (2018Q2, TRY Billion)[2]

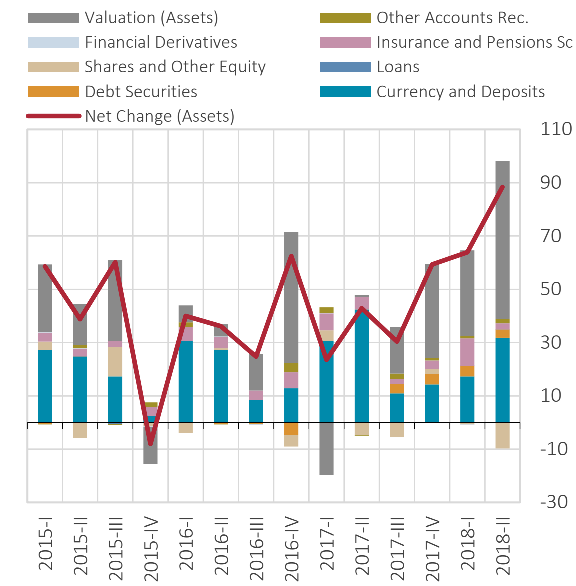


Source: CBRT

3. Households

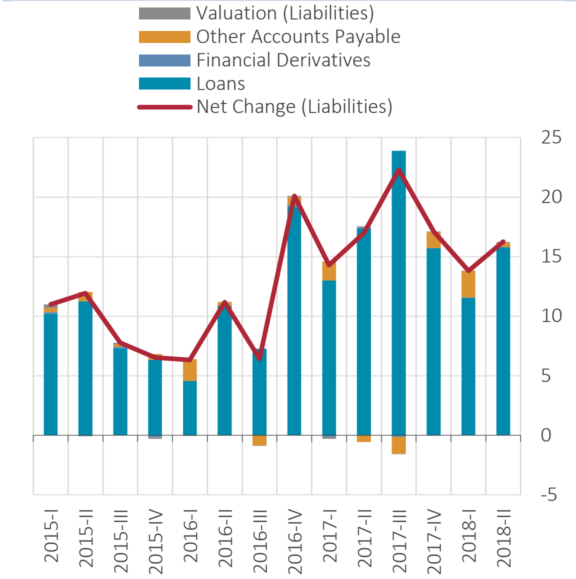
In 2018Q2, household financial assets increased by TRY 88 billion. This increase was mainly driven by the positive valuation of TRY 59 billion in the current financial assets. Meanwhile, currency and deposits increased by TRY 32 billion, and insurance and pensions schemes by TRY 2 billion. The shares and other equity item, dropping by TRY 10 billion, was the only item of household assets that posted a decrease in the respective period (Chart 7). In 2018Q2, household liabilities increased by TRY 16 billion. Loans amounting to TRY 15 billion were the main driver of this increase (Chart 8).

Chart 7: Financial Assets, Flow (TRY Billion)



Source: CBRT

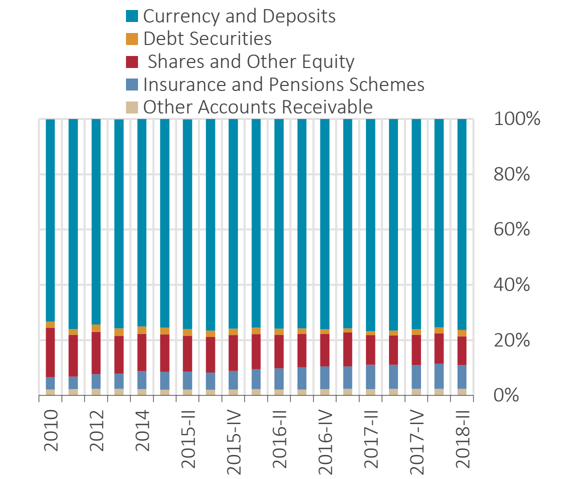
Chart 8. Liabilities, Flow (TRY Billion)



Source: CBRT

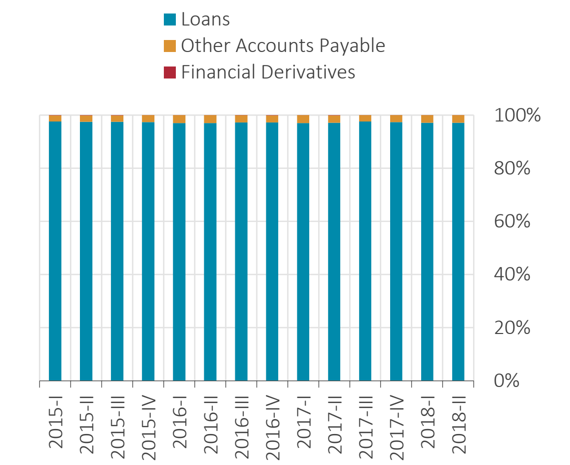
The leading instrument in household financial assets was deposits with a share of 76% followed by shares and other equity. During the data period, the share of debt securities in total financial investments increased while that of shares and other equity was flat. Whereas, the share of insurance and pensions schemes decreased (Chart 9). As for liabilities, almost all of them were composed of loans (Chart 10).

Chart 9: Breakdown of Financial Assets by Instruments (%)



Source: CBRT

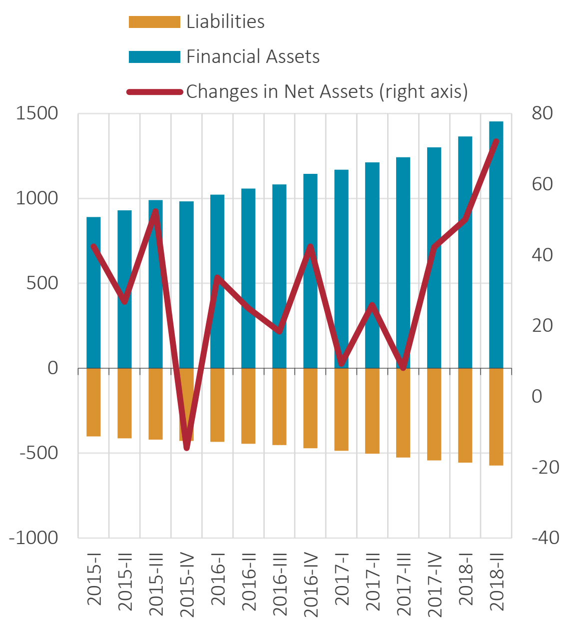
Chart 10: Breakdown of Liabilities by Instruments (%)



Source: CBRT

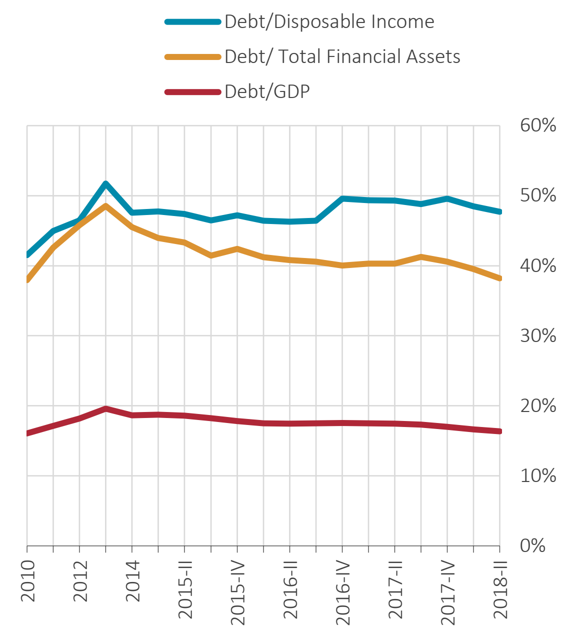
In the second quarter of 2018, the household financial net worth increased by TRY 72 billion quarter-on-quarter (Chart 11). Household indebtedness indicators suggest that the ratio of household debt to GDP posted a slight decline to 16.4%, accompanied by decreases also in the ratios of debt to disposable income and debt to total financial assets in the second quarter (Chart 12).

Chart 11: Change in Net Assets of Households (TRY Billion)



Source: CBRT

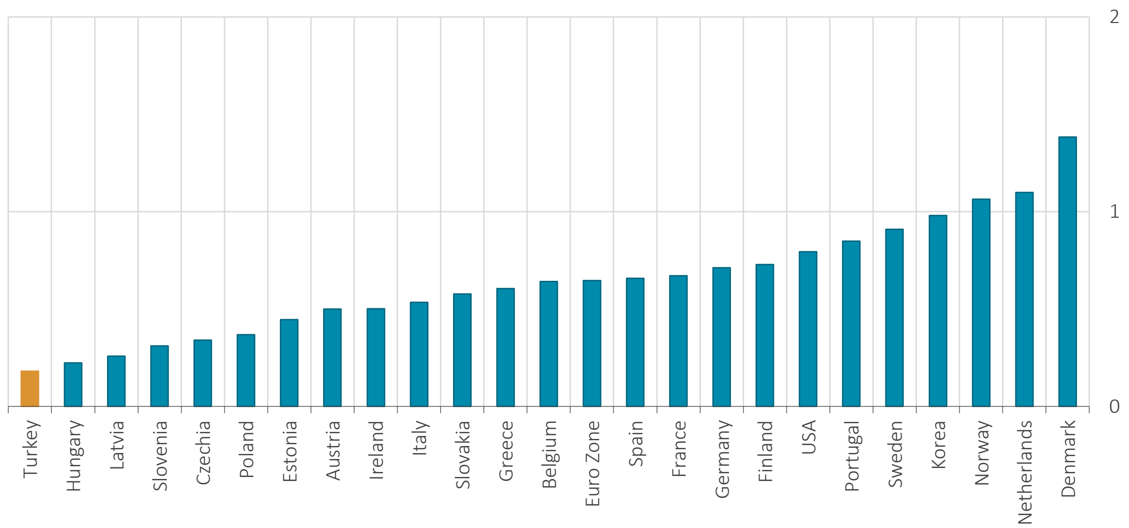
Chart 12: Household Debt* (%)



Source: CBRT, TURKSTAT
*Household debt is composed of loans.

The ratio of household liabilities to GDP indicates that Turkey stood out as the country with the lowest level of indebtedness among countries compared in 2018Q2 (Chart 13).

Chart 13: Household Liabilities/GDP, Comparison*[2]

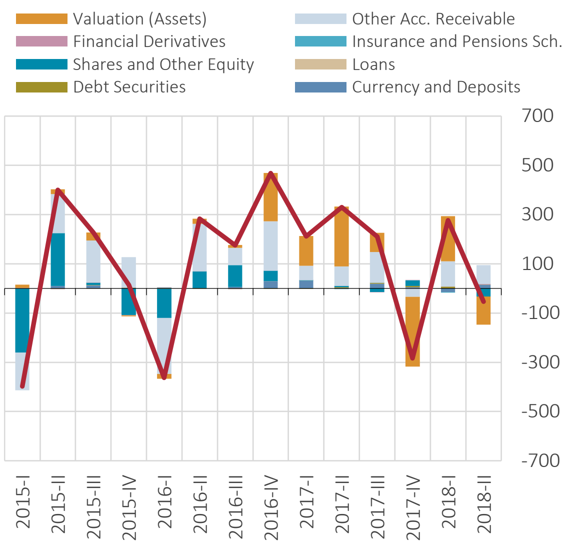


Source: CBRT, TURKSTAT, OECD
(*) Other country data is as of 2018Q1.

4. Non-Financial Corporations

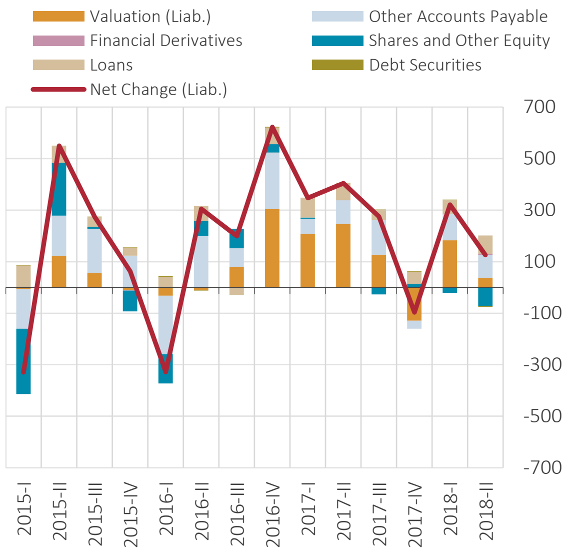
In 2018Q2, financial assets of non-financial corporations decreased by TRY 53 billion. This decrease was mainly driven by the negative valuation of TRY 114 billion in financial assets, while the other accounts receivable was up by TRY 76 billion. The currency and deposits of non-financial corporations increased by TRY 13 billion in the respective period (Chart 14). In the second quarter of 2018, liabilities of non-financial corporations increased by TRY 126 billion. Other accounts payable item at TRY 87 billion was the main driver of this increase, while loans increased by TRY 72 billion. Alternatively, liabilities related to shares and other equity decreased by TRY 73 billion (Chart 15).

Chart 14: Financial Assets, Flow (TRY Billion)



Source: CBRT

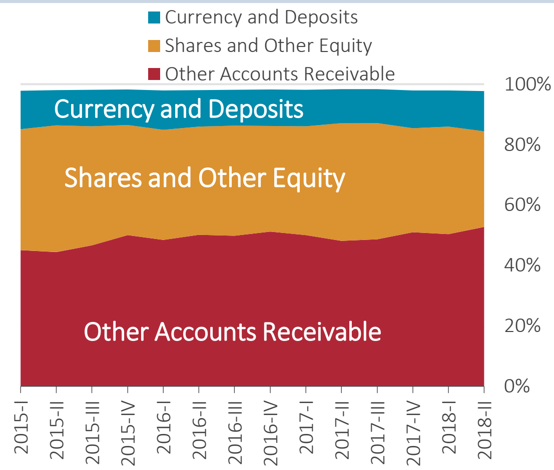
Chart 15. Liabilities, Flow (TRY Billion)



Source: CBRT

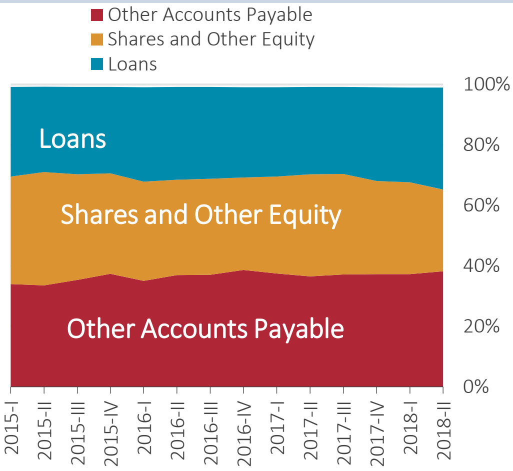
In the second quarter of 2018, the most significant item on the assets side of non-financial corporations was the other accounts receivable item (53%) composed of the sum of trade credits and advances, and other items. The share of the shares and other equity item was 32%, and that of currency and deposits was 13% (Chart 16). On the liabilities side, the share of financing through issues of shares and other equity in total liabilities was 27%, while the shares of other accounts payable and loans used were 38% and 34%, respectively (Chart 17).

Chart 16: Breakdown of Financial Assets by Instruments (%)



Source: CBRT

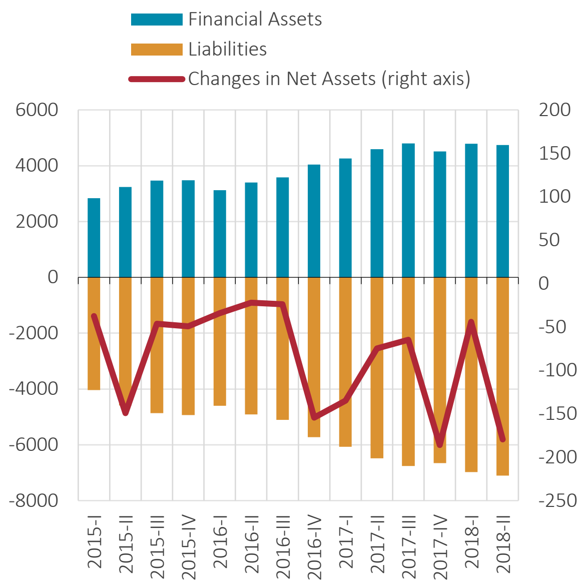
Chart 17: Breakdown of Liabilities by Instruments (%)



Source: CBRT

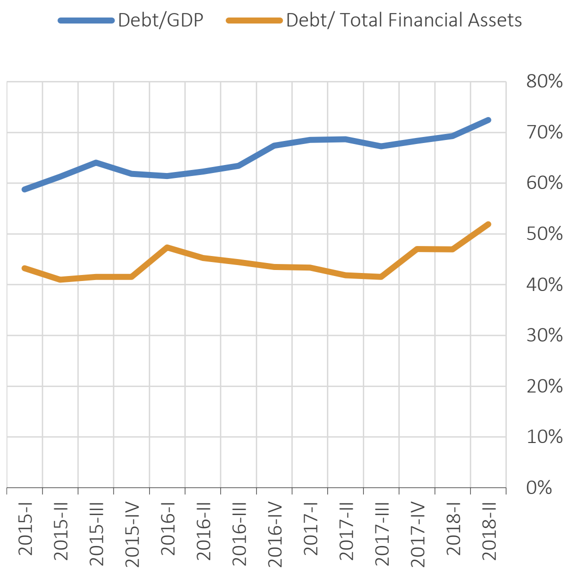
In the second quarter of 2018, net assets of non-financial corporations decreased by TRY 180 billion compared to the previous quarter (Chart 18). While the ratio of non-financial corporations' debts to GDP was 72% in 2018Q2, the ratio of debts to total financial assets increased modestly (Chart 19).

Chart 18: Change in Net Assets of Non-Financial Corporations (TRY Billion)



Source: CBRT

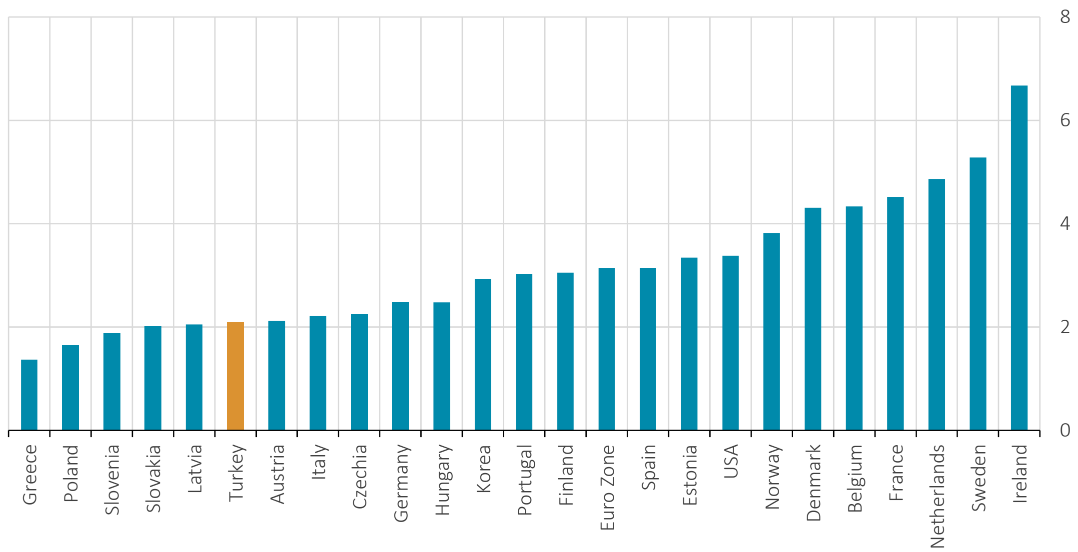
Chart 19: Non-Financial Corporations' Debt* (%)



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 ranked among the countries with low indebtedness levels in 2018Q2 (Chart 20).

Chart 20: Non-Financial Corporations' Liabilities / GDP, Comparison*

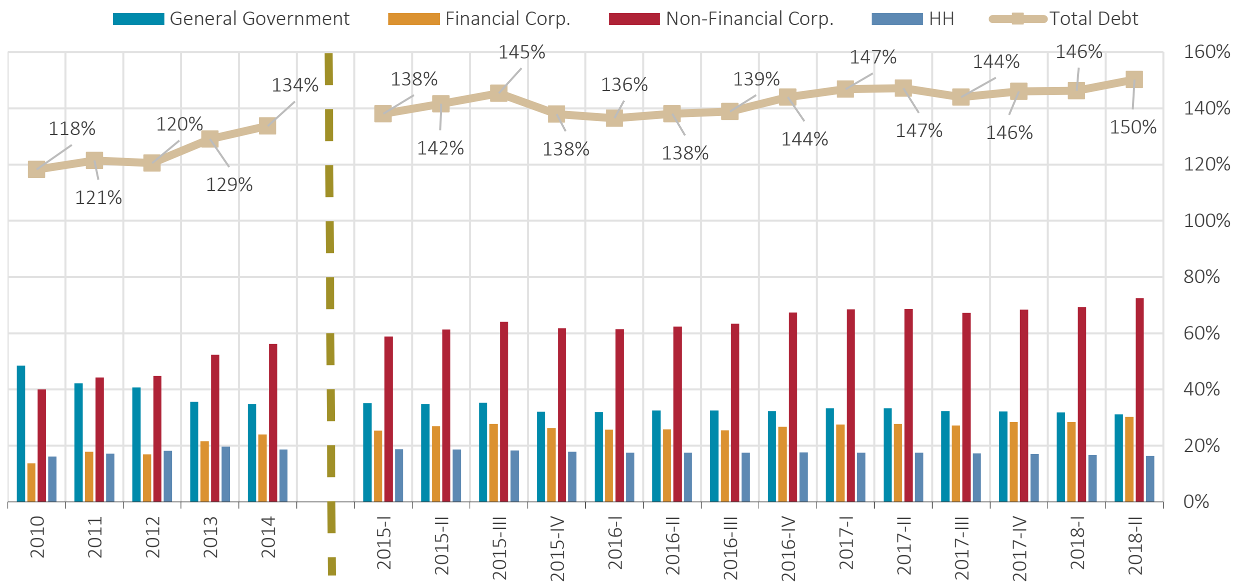


Source: CBRT, TURKSTAT, OECD.
(*) Other country data is as of 2018Q1.

5. Total Debt of Resident Sectors

The ratio of resident sectors' financial accounts-defined total debt, which is the sum of the loans they use and the debt securities they issue, to GDP increased slightly in the second quarter of 2018 compared to the previous quarter (Chart 21).

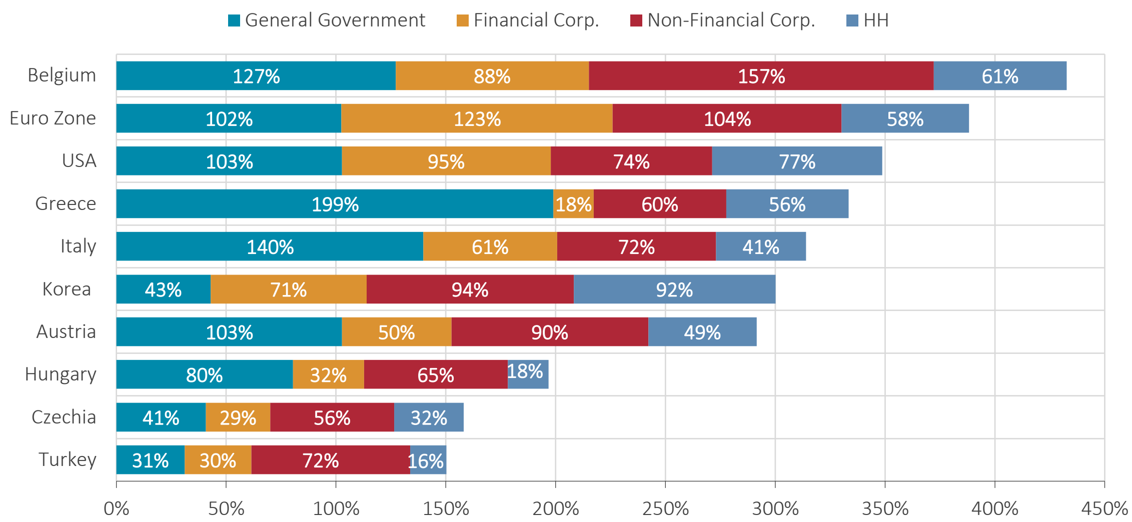
Chart 21: Total Debt of Sectors/GDP, (%) [2] *



(*) Debts are composed of loans and government debt securities.
Source: CBRT, TURKSTAT.

A cross-country comparison of this indebtedness ratio reveals that the total debt of resident sectors in Turkey was low in 2018Q2 (Chart 22).

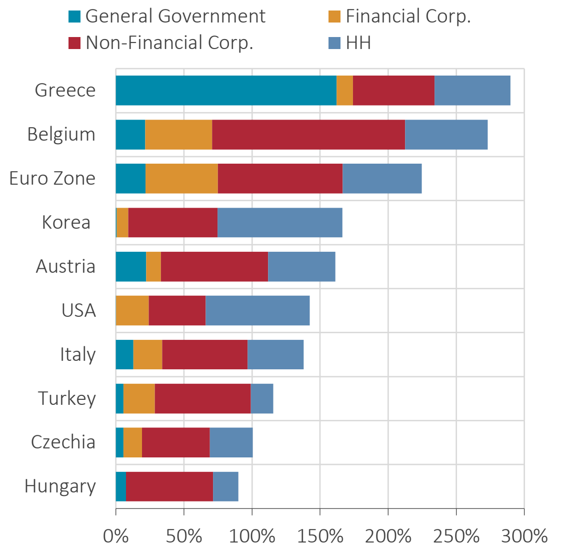
Chart 22: Cross-Country Comparison of Debt/GDP Ratio by Sectors, (%) (2018Q2)[2] **



Source: CBRT, TURKSTAT, OECD.
(*) Other country data is as of 2018Q1.
(**) Debts are composed of loans and government debt securities.

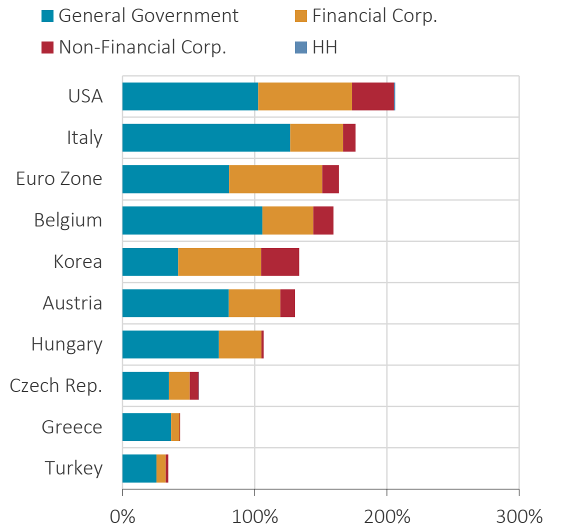
A cross-country comparison of indebtedness ratios by financial instruments shows that Turkey posted low levels of loan/GDP and debt securities/GDP ratios in the second quarter of 2018. While the largest sector with respect to loan indebtedness ratio was non-financial corporations with a ratio of 70% of GDP, the general government was the leading sector in debt securities with a ratio of 25% (Charts 23 and 24).

Chart 23: Cross-Country Comparison of Loan/GDP Ratio by Sectors (%) (2018Q2)[2]



Source: CBRT, TURKSTAT, OECD.
(*) Other country data is as of 2018Q1.

Chart 24: Cross-Country Comparison of Debt Sec./GDP Ratio by Sectors (%) (2018Q2)[2]



Source: CBRT, TURKSTAT, OECD.
(*) Other country data is as of 2018Q1.