TÜRKİYE CUMHURİYET MERKEZ BANKASI

Balance of Payments and International Investment Position Report

2016-III

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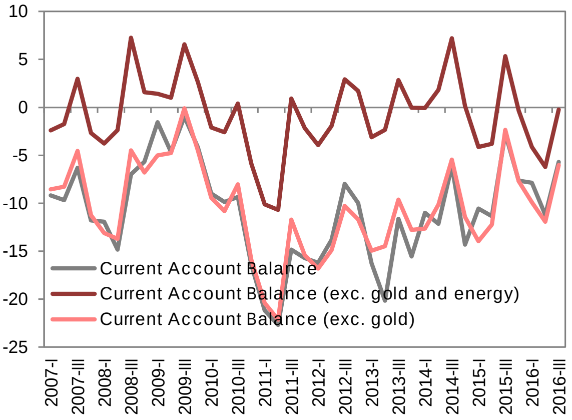
CONTENTS

1. Current Account

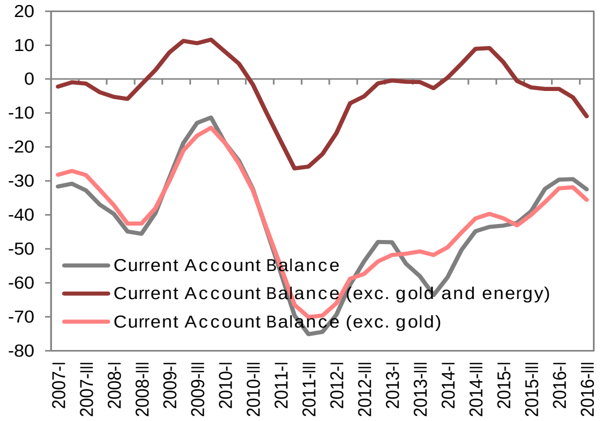
In the third quarter of 2016, the current account deficit narrowed quarter-on-quarter. The impact of gold and energy items on the quarterly improvement in the current account balance remained low. The foreign trade balance in energy and gold items deteriorated by USD 0.1 billion and USD 0.4 billion, quarter-on-quarter.

Chart 1. Current Account Balance
(quarterly, billion USD)



Source: CBRT.

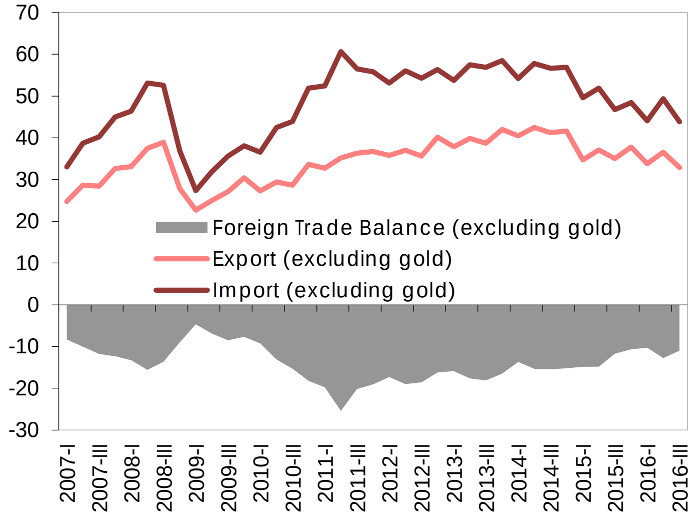
Chart 2. Current Account Balance
(annualized, billion USD)



Source: CBRT.

An analysis by years indicates that the contraction in the current account deficit that has been observed since early 2014 was replaced by an upward trend in the third quarter of 2016. In the third quarter, the annualized current account deficit increased by USD 3 billion quarter-on-quarter and reached USD 32.4 billion. Meanwhile, the current account deficit excluding gold increased by USD 3.7 billion to USD 35.6 billion. The annualized current account balance excluding gold and energy deteriorated by USD 5.6 billion quarter-on-quarter and was recorded at USD -10.9 billion.

Chart 3. Foreign Trade Balance (excluding gold)
(quarterly, billion USD)



Source: CBRT.

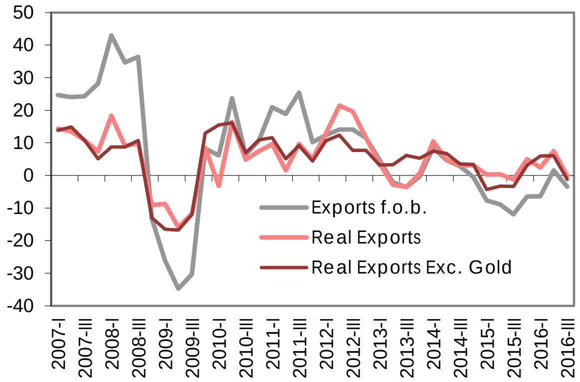
The foreign trade deficit, which is the most influential determinant of the current account deficit, contracted by USD 0.7 billion year-on-year, excluding gold. Compared to the third quarter of 2015, exports excluding gold decreased by USD 2.2 billion year-on-year to USD 32.9 billion, while imports excluding gold declined by USD 2.9 billion to USD 43.9 billion. In the third quarter, the annual foreign trade balance excluding gold improved by USD 7.4 billion year-on-year.

1.1 Exports of Goods

In the third quarter of 2016, exports decreased annually by 3.4 percent to USD 32.6 billion and the export quantity index recorded a 0.2 percent decline. When gold is excluded, the decline in the export quantity index drops to 1.2 percent. Consequently, the decline in nominal exports hovering above the decline in exports in real terms is believed to have stemmed from the drop in export prices (Box 1).

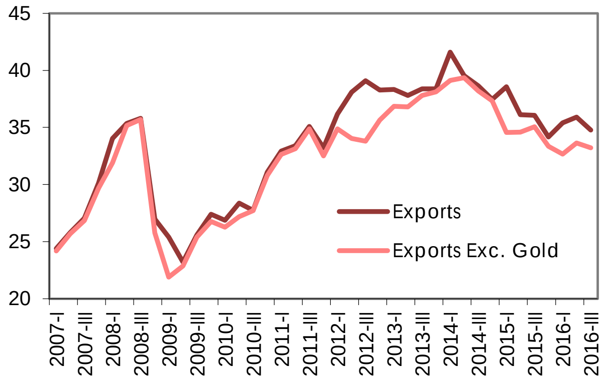
In seasonally adjusted terms, all exports, total and gold-excluded, posted a quarterly decline in the third quarter. Seasonally adjusted exports and exports excluding gold each posted quarter-on-quarter declines by 3.2 percent and 1.3 percent, respectively.

Chart 4. Exports-Nominal and Real (annual percentage change)



Source: TURKSTAT.

Chart 5. Exports-Total and Gold-Excluded (seasonally adjusted, quarterly, billion USD)

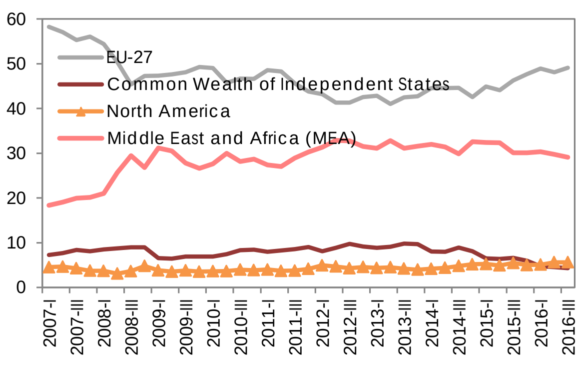


Source: TURKSTAT.

In the third quarter, the share of the European Union (EU) in Turkey's exports excluding gold increased, yet that of the Middle East and African (MEA) countries decreased compared to the second quarter. The upward trend in the share of EU countries, which has been observed since the second quarter of 2015, continued in this quarter. The share of the Commonwealth of Independent States (CIS) including Russia continued to decline, albeit more slowly.

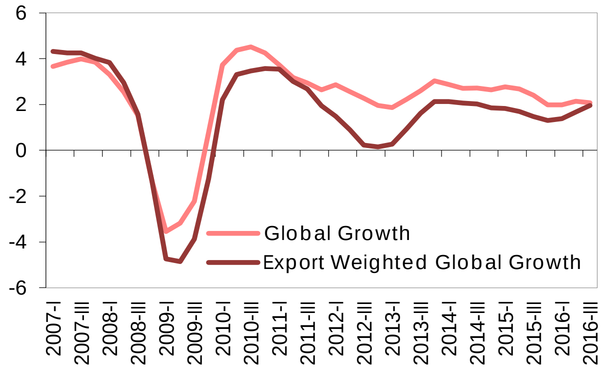
The difference between the global growth rate weighted with exports to Turkey's export destinations and the global growth rate further narrowed in the third quarter. While export-weighted global annual growth rate was 2.0 percent in the third quarter, global growth rate was 2.1 percent in the same quarter.

Chart 6. Selected Regions' Shares in Exports Excluding Gold (percent)



Source: TURKSTAT.

Chart 7. Foreign Demand Index for Turkey (annual percentage change)



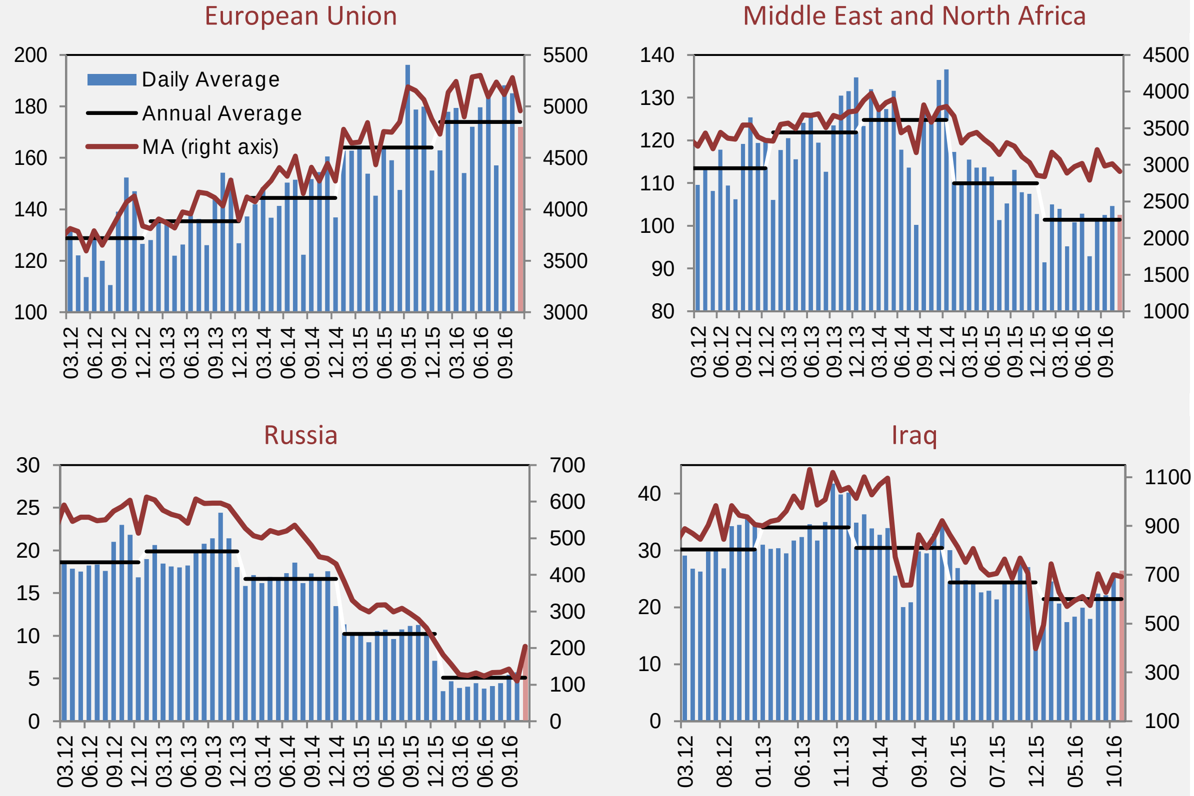
Source: CBRT.

Box 1 | **Latest Developments in Exports**

The recent geopolitical developments in the region have been influencing Turkey's export performance. Chart 1 shows Turkey's exports to primary export partners based on the Turkish Statistical Institute's foreign trade statistics and transitional export statistics issued by the Turkish Exporters Assembly for November. The columns show the average value of monthly exports per working day, the black linear lines show annual average exports and red lines show seasonally adjusted monthly exports.

Turkey's biggest export partner is the European Union, accounting for half of Turkey's total exports. Turkey's exports to the EU have been rising steadily since the post crisis period. The daily average amount of exports from Turkey to the EU, which was USD 163 million between January-October 2015, increased to USD 174 million in the same period in 2016. The share of the EU among Turkey's export partners increased as well. The EU's share in Turkey's exports increased to 48.8 percent in January-October 2016 from 45.5 percent in January-October 2015. The strong export performance to the EU can be mainly attributed to moderate demand conditions in the EU as well as the fact that the region's economic growth was mostly driven by final domestic demand. Turkey's export to this region is overwhelmingly composed of consumption goods and intermediate goods.

Chart 1. Exports to Selected Countries
(million USD)

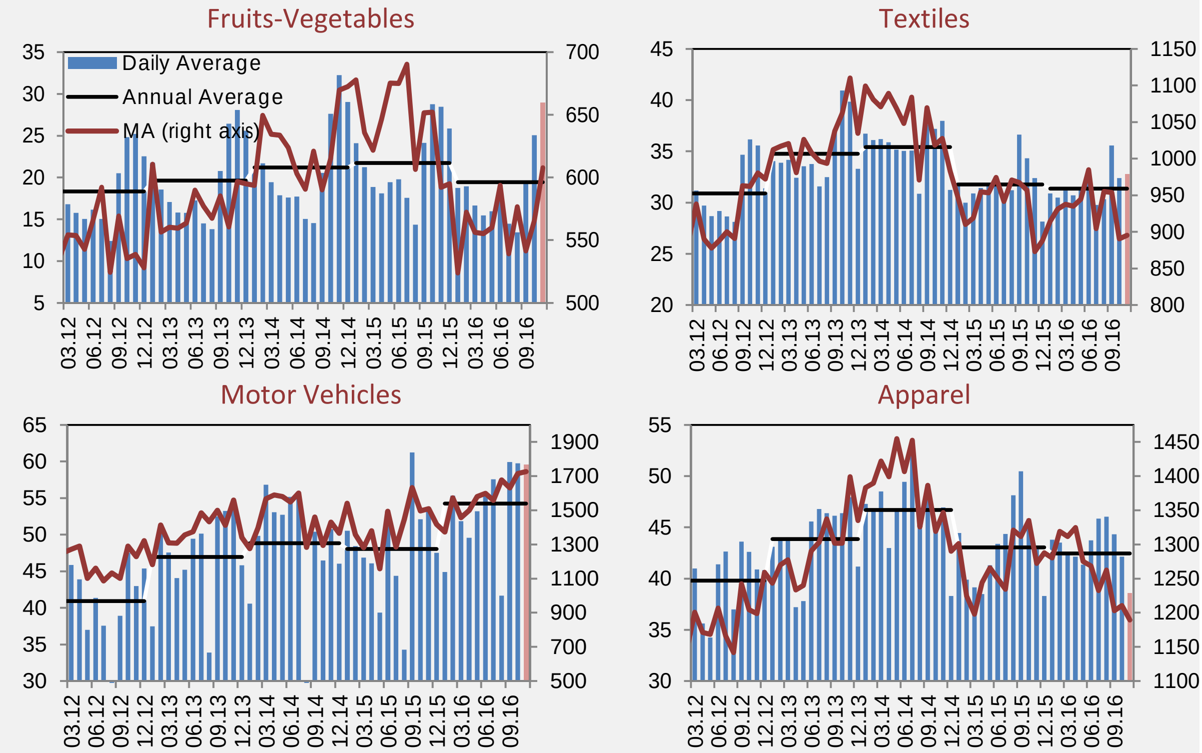


Source: CBRT

Despite the favorable developments in trade with the EU, the regional tensions adversely affected Turkey's export performance in 2016. Exports to the Middle East and North African (MENA) countries, Russia and Iraq dropped due to geopolitical problems and the decline in the income of oil exporting countries stemming from low oil prices. In this framework, any rise in oil prices in the upcoming period might induce an increase in Turkey's export performance. Actually, in the latest ordinary OPEC (Organization of Petroleum Exporting Countries) meeting, petroleum exporting countries decided to cut oil production by 1 million barrels a day as of January 2017. Therefore, in 2017, oil prices are expected to exceed the average prices in 2016. Moreover, the impact of the normalization process with Russia can already be observed in the transitory export data of November. Once the limitations on exports are lifted, Turkey's exports to Russia are expected to become close to the pre-crisis period.

Chart 2 shows recent developments in exports by export sectors. The four leading sectors in Turkey's exports are presented in the Chart. The stable uptrend in exports of fruits and vegetables observed until 2015 was replaced by a decline in 2016. The decline in exports of fruits and vegetables stemmed from the crisis between Turkey and Russia that erupted on 24 November 2015 and the limitations imposed by Russia on imports of various goods from Turkey. Even if the drop in exports of fresh fruits and vegetables to Russia were partly compensated by exports to other markets, the impact of the contraction was felt throughout the year. However, the initial signs of normalization between the two countries were first observed in statistics on exports of fruits and vegetables. The steep increase in the sector in October and November clearly manifests this impact.

Chart 2. Exports by Selected Sectors (million USD)



Source: CBRT

Data for exports of motor land vehicles is quite favorable. The sector's performance has displayed a significant increase compared to previous years. The daily average amount of exported motor land vehicles, which was USD 48 million in January-October 2015 period, was USD 54 million in the same period in 2016.

No significant change was observed in Turkey's conventional export products, apparel and textiles, in January-November 2016 compared to the same period of 2015. Nevertheless, export amounts in both sectors have remarkably decreased in 2015 due to the downtrend in euro-dollar parity in the related period.

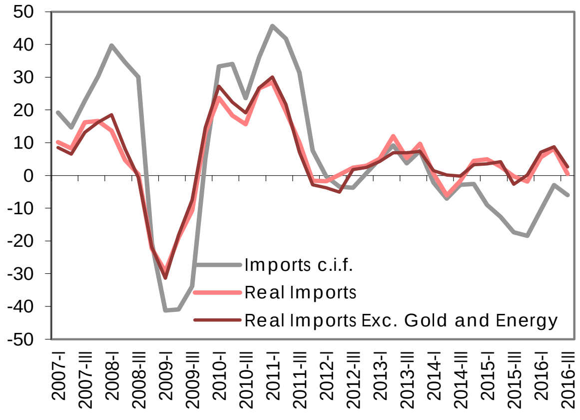
To sum up, Turkey's regional export performance has the potential to expand once the geopolitical problems are abated. These geopolitical problems also affect export performance by individual sectors. Taking into account previous years' data, there is room to expand for Turkey's conventional exports sectors - textiles and apparel.

1.2 Imports of Goods

In the third quarter of 2016, imports decreased by 6.0 percent year-on-year to USD 46.6 billion. In the respective period, while the import quantity index inched up 0.5 percent, import quantity index excluding gold and energy increased by 2.6 percent. The significant decline in import prices, chiefly the energy prices, drove imports down.

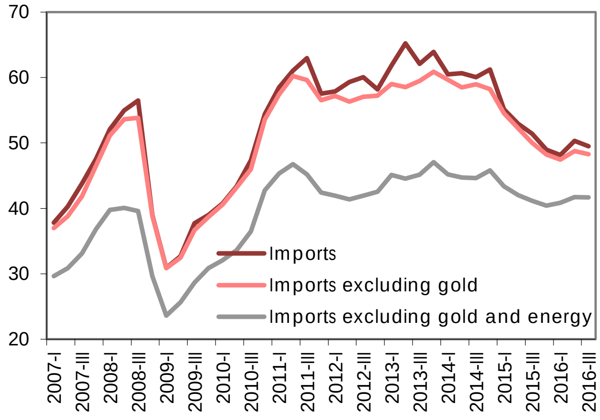
According to seasonally adjusted data, imports declined on a quarterly basis. In the third quarter of 2016, imports and imports excluding gold and energy posted quarter-on-quarter decreases by 1.6 percent and 0.1 percent, respectively.

Chart 8. Imports - Nominal and Real
(annual percentage change)



Source: TURKSTAT.

Chart 9. Imports vs. Gold Excluded Imports
(seasonally adjusted, quarterly, billion USD)

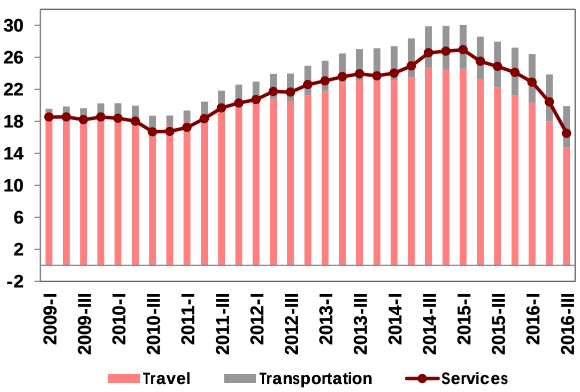


Source: CBRT.

1.3 Services Account

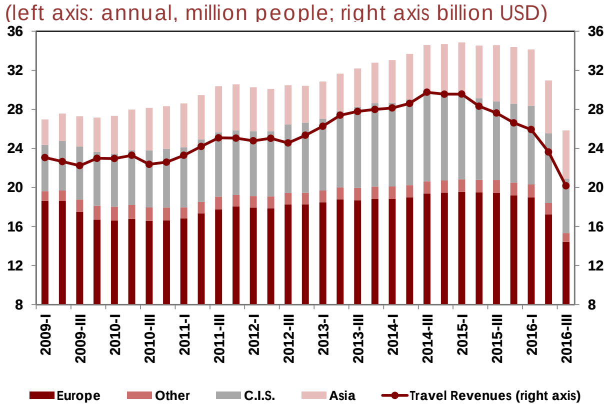
The downtrend in the services account surplus continued in the third quarter of 2016. In the related period, the annualized services account surplus decreased by 33.6 percent year-on-year to USD 16.5 billion. While net travel revenues decreased by 33.7 percent to USD 14.8 billion, net transportation revenues dropped by 9.5 percent to USD 5.1 billion.

Chart 10. Services Account, Travel and Transportation
(annualized, billion USD)



Source: CBRT.

Chart 11. Breakdown of Tourists Visiting Turkey by Country and Travel Revenues
(left axis: annual, million people; right axis billion USD)



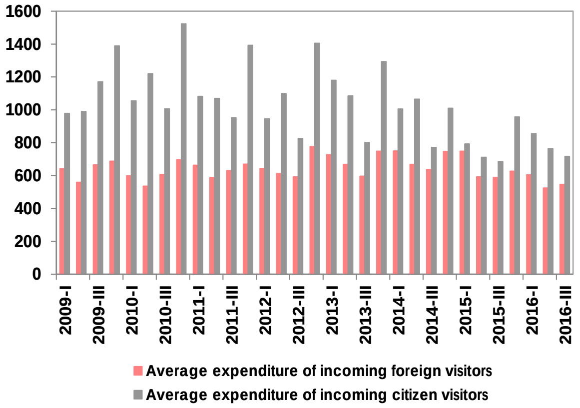
Source: TURKSTAT.

In the third quarter of 2016, net travel revenues decreased by 35.2 percent year-on-year to USD 6.0 billion. In this period, travel revenues decreased by 33.0 percent and travel expenditures by 17.3 percent. Meanwhile, the number of tourists dropped 35.9 percent. An analysis by country groups reveals that there has been a significant decline in all country groups, with the highest declines in the USA and the CIS countries.

While the average spending of foreign visitors in Turkey decreased on an annual basis, that of non-resident Turkish citizens increased in this quarter. The average spending per foreign visitor in Turkey was down 7.2 percent year-on-year to USD 547, while the average spending per non-resident Turkish citizen visiting Turkey was up 4.7 percent year-on-year to USD 718.

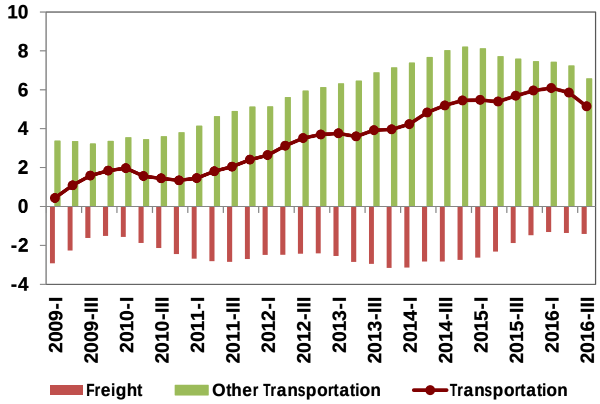
The uptrend in net transportation revenues observed since 2014Q1 terminated and net transportation revenues decreased by 9.5 percent. Net freight and other transportation revenues decreased by 25.1 and 13.4 percent, respectively.

Chart 12. Average Expenditure
(USD/person)



Source: TURKSTAT.

Chart 13. Transportation and Sub-items
(annualized, billion USD)



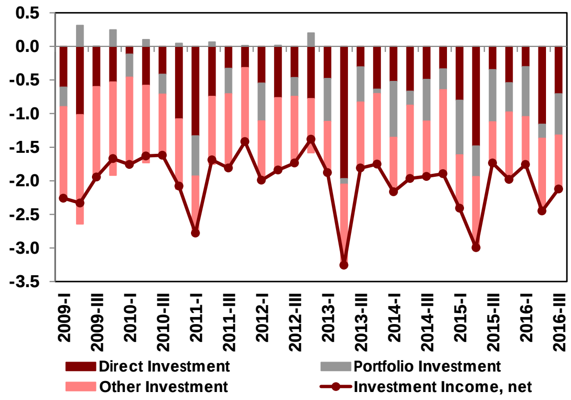
Source: TURKSTAT, CBRT.

1.4 Primary and Secondary Income

In 2016Q3, the primary income deficit, which is the sum of the net compensation of employees and investment income, increased by 24.3 percent quarter-on-quarter. The deterioration in the primary income balance can be mainly attributed to net investment income that decreased by 22.3 percent to USD -2.1 billion annually. In the related period, net transfers to abroad stemming from direct investment and other investment increased in annual terms while outflows based on portfolio investments decreased. Net outflows from the compensation of employees item increased by 54.8 percent and stood at USD -0.2 billion.

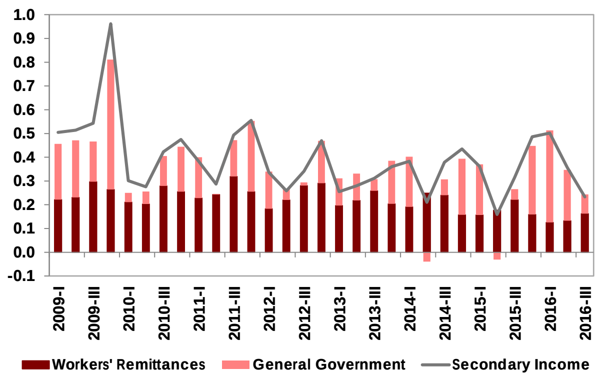
Net inflows in the secondary income, which consists of current transfers of the general government and other sectors, decreased by 26.0 percent year-on-year and stood at USD 0.2 billion. This decline stemmed from the significant drop in the personal transfers item under workers' remittances.

Chart 14. Composition of Investment Income (Net)
(billion USD)



Source: CBRT.

Chart 15. Secondary Income and Workers' Remittances
(billion USD)



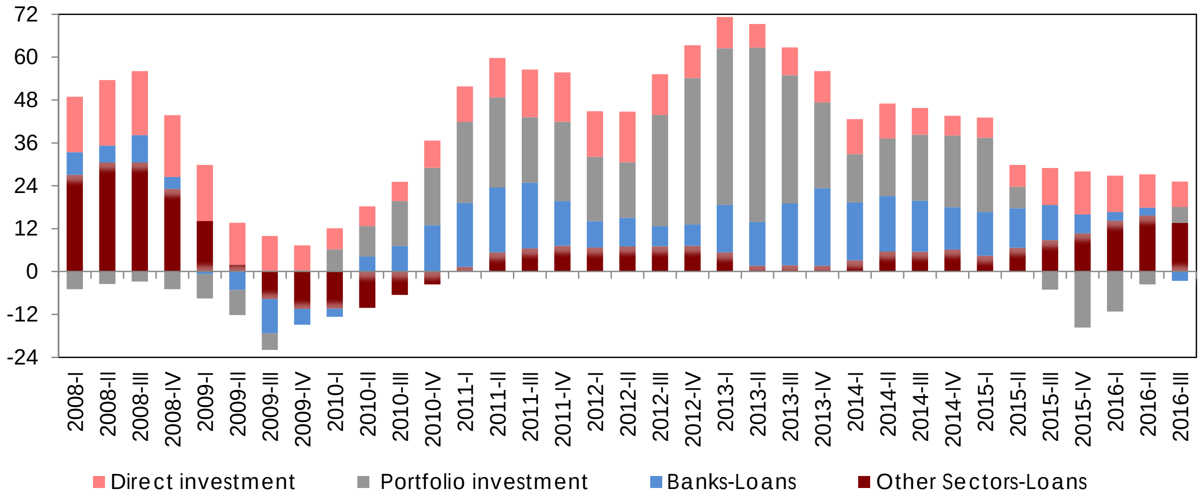
Source: CBRT.

2. Financial Account

The relative recovery in the global risk appetite, which started in February 2016 upon expectations that the Fed rate hike would not come soon, continued in third quarter, albeit with some deceleration. While the European Central Bank and Bank of Japan's decisions to continue expansionary monetary policies supported global liquidity, the volatility driven by United Kingdom's Brexit poll was short-lived. Aggravating geopolitical tensions in the region, which was a negative factor specifically idiosyncratic to Turkey, affected portfolio investments and other investment flows to Turkey.

A breakdown of the balance of payments financial account by main headings reveals that the direct investment inflows that had been on a downtrend for some time continued in this quarter as well. The inflows to portfolio investments via the liabilities item was reversed and became outflows from the same item. Due to decelerated economic growth, other investment inflows decreased, net inflows to the banking sector assumed negative values and external credit utilization of other sectors decelerated (Box 2).

Chart 16. Financial Account and Sub-Items (Liabilities)
(annualized, billion USD)



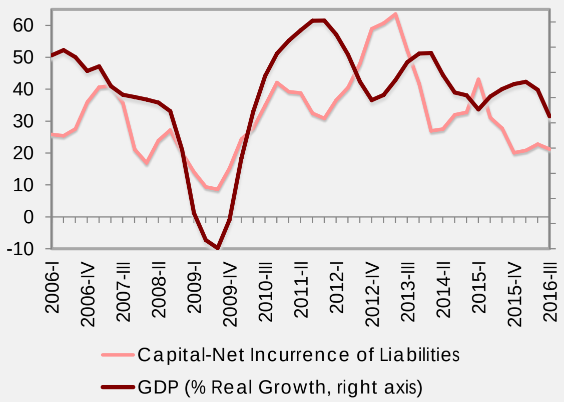
Source: CBRT.

Box 2 Foreign Capital Inflows and Growth: A Graphical Analysis

As foreign capital is one of the primary funding sources of growth particularly in emerging economies, the correlation between capital inflows and growth has been discussed in many studies in economic literature. This box illustrates the relation between foreign capital flows to Turkey and growth using a graphical method.

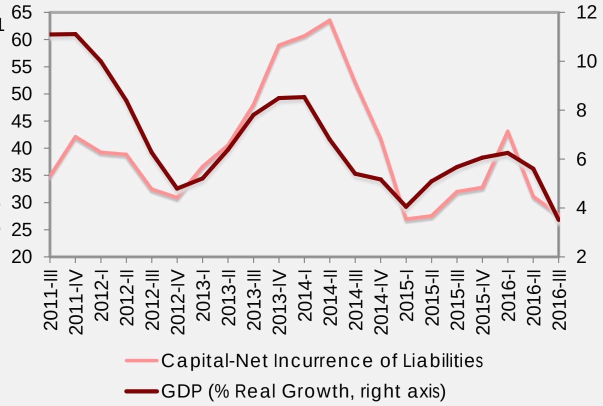
Charts 1 and 2 show total net capital inflows under financial account and real GDP growth. Despite short-term diversions, the two variables move in tandem with respect to their trends; and a rise in foreign capital inflows has a close relation with real GDP growth. Particularly, there is a significant relation between the 1-year lagged values of net capital inflows and real GDP growth after the third quarter of 2011.

Chart 1. Equity capital- Net incurrence of Liabilities (annualized, billion USD) **and Real GDP Growth** (annualized, percent)



Source: CBRT and TURKSTAT.

Chart 2. Equity Capital- Net Incurrence of Liabilities (4-quarter lagged, annualized, billion USD) **and Real GDP Growth** (annualized, percent)

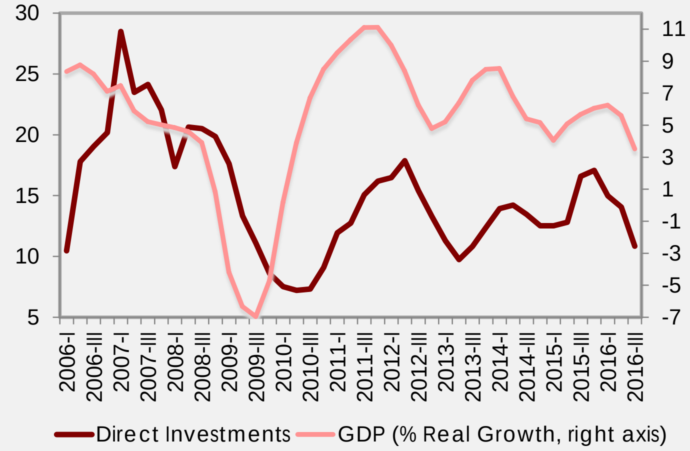


Source: CBRT and TURKSTAT.

Note: Equity Capital- Net Incurrence of Liabilities is the sum of direct investment, portfolio investment, other investment items under the financial account of the balance of payments and the net incurrence of liabilities item under other assets and liabilities.

Capital inflows are the sum of the three main items under the financial account in the balance of payments. These items are direct investment, portfolio investment and other investment items. Chart 3 shows annual movements of the net incurrence of liabilities in direct investments vis-a-vis the annual real GDP growth. The parallel course of the net inflows in nonresidents' direct investments in Turkey and the real growth in domestic income is remarkable. The growth in Turkey's real income is deemed a favorable development regarding the country's macroeconomic indicators by non-residents and positively affects the perception of the country as "investable".

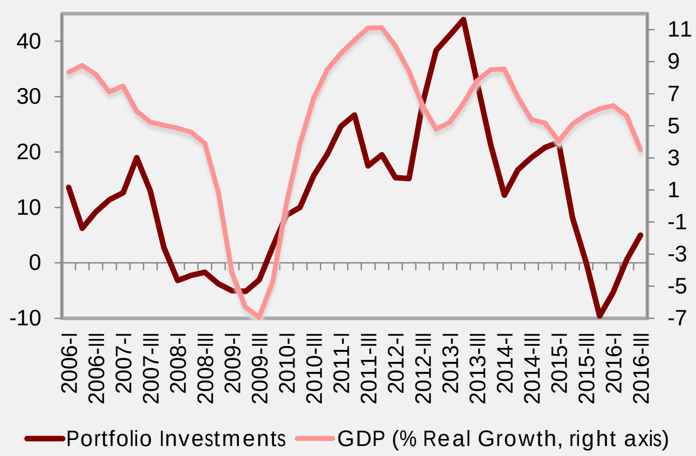
Chart 3. Direct Investment (annualized, billion USD) **and Real GDP Growth** (annualized, percent)



Source: CBRT and TURKSTAT

As for portfolio investments, a comparison between the net incurrence of the liabilities item and the real domestic income growth reveals that they move in the same direction in certain periods where there is not a strong relation between the two variables, whereas they move in opposite directions in some other periods (Chart 4).

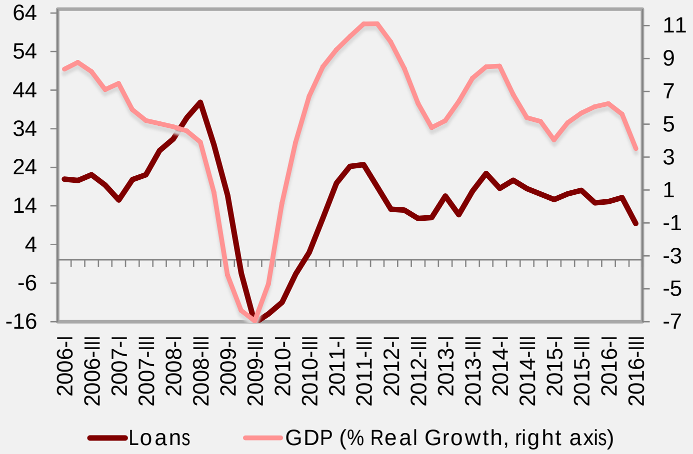
Chart 4. Portfolio Investment (annualized, billion USD) **and Real GDP Growth** (annualized, percent)



Source: CBRT and TURKSTAT

The following Chart presents an analysis of the net incurrence of liabilities in the loans sub-item of the other investment item; i.e., residents' net external borrowings through loans, in comparison with the real GDP growth (Chart 5). The contribution of residents' net external financing to the real domestic income growth after the third quarter of 2010 as well as the fact that the changes in both variables have taken place in the same period and in the same direction particularly after the first quarter of 2013 stand as significant developments.

Chart 5. Loans (annualized, billion USD) **and Real GDP Growth** (annualized, percent)



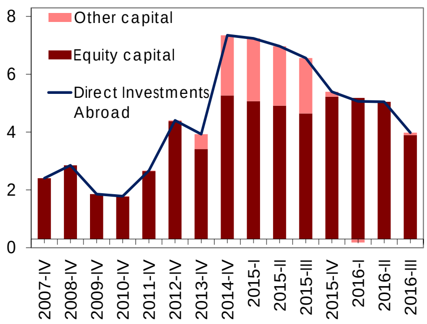
Source: CBRT and TURKSTAT

To sum up, there is a close relationship between non-residents' net capital inflows and the annual real GDP growth, which is also graphically observable. In terms of sub-items, the interaction of growth with direct investment inflows and external loan inflows is stronger than its interaction with portfolio inflows.

2.1 Direct Investment

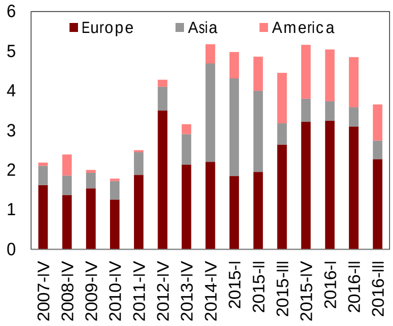
In 2016Q3, Turkey's direct investments abroad decreased year-on-year on the back of the high base effects stemming from a high-volume transaction carried out in 2015Q3. Nevertheless, direct investments slightly improved compared to the previous quarter. In 2015, direct investments abroad started to trend downward due to both the relative recovery in security prices across Europe - main investment region for Turkey-, and the effect of geopolitical developments with neighboring countries such as Iraq and Russia. This trend continued in the third quarter of 2016 with direct investments abroad receding slightly year-on-year to USD 658 million. In this period, while European countries continued to be the main destination for investment, the services sector received the bulk of the investments.

Chart 17: Direct Investment Abroad
(annualized, billion USD)



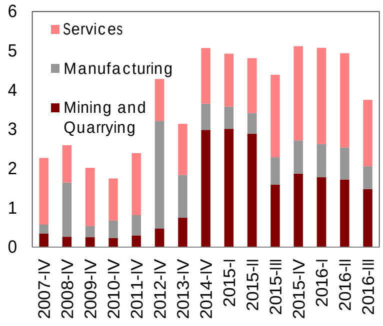
Source: CBRT.

Chart 18: Geographical Distribution
(annualized, billion USD)



Source: CBRT.

Chart 19: Sectoral Distribution
(annualized, billion USD)

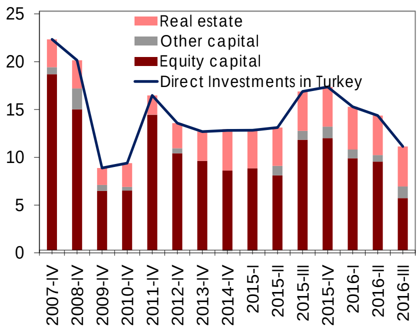


Source: CBRT.

In the third quarter of the year, no major transaction was recorded in inward direct investments. Nonresidents' direct investments in Turkey are mainly composed of capital and real estate investments. Inward direct capital investments that had been declining for a while maintained this trend in the third quarter of 2016, too. The persisting sluggish outlook observed across Europe was the main reason for the decline in direct investment inflows in this period.

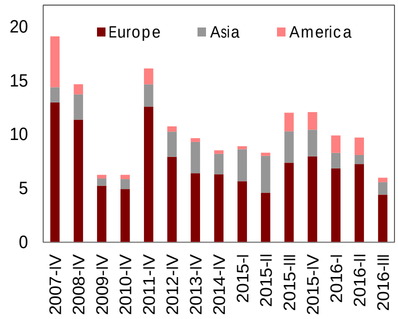
In the third quarter of 2016, Europe continued to be the primary region making capital investments in Turkey, with the services sector attracting the majority of investments. Meanwhile, real estate investments, which constitute another key component of inward direct investments, have posted a rapid increase since 2013 on the back of the amendment made to the law facilitating acquisition of real estate by foreigners in Turkey in 2012, followed soon by the issue of the communiqué drawing up the application guidelines of this law. In the third quarter of 2016, real estate investments posted a year-on-year increase and stood at USD 1,141 million.

Chart 20: Inward Direct Investments
(annualized, billion USD



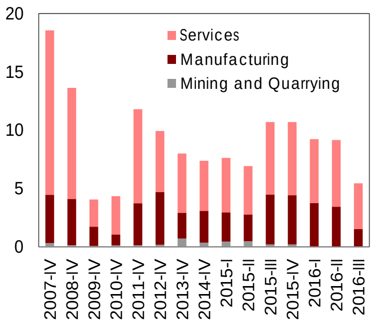
Source: CBRT.

Chart 21: Geographical Distribution
(annualized, billion USD)



Source: CBRT.

Chart 22: Sectoral Distribution
(annualized, billion USD)

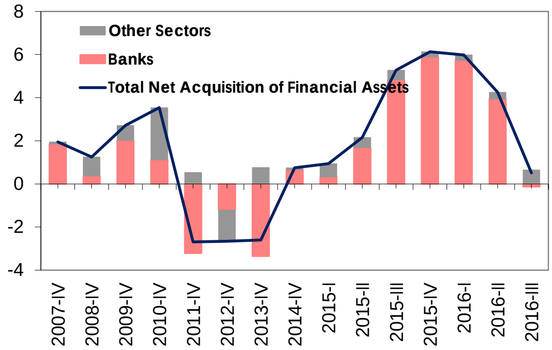


Source: CBRT.

2.2 Portfolio Investment

The trend of portfolio investments is determined by nonresidents' investments in Turkey. Portfolio investments are composed of the sum of residents' investments abroad (portfolio investment net acquisition of financial assets) and non-residents' investments in Turkey (portfolio investment net incurrence of liabilities). Residents' portfolio investments abroad, composed of the sum of banks and other sectors, displayed a rapid decline in the third quarter as banks reduced their portfolios abroad as a result of their liquidity decisions.

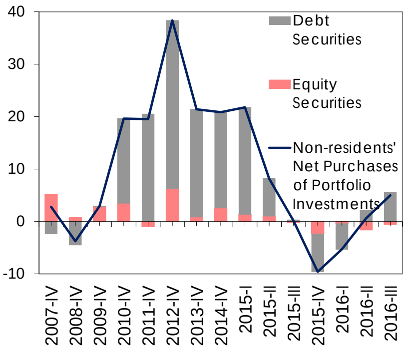
Chart 23: Portfolio Investment – Net Acquisition of Financial Assets
(annualized, billion USD)



Source: CBRT.

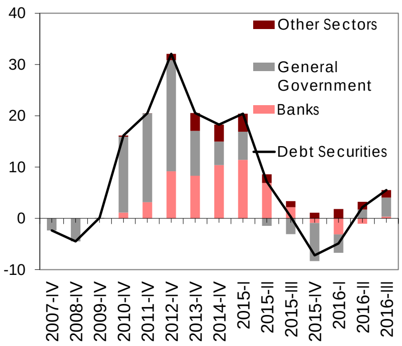
As the convictions grew stronger in the first quarter of 2016 that the Fed would not rush into any rate hikes, portfolio inflows were directed towards emerging economies including Turkey. These inflows also persisted in the second quarter. In the third quarter, emerging economies continued to receive portfolio inflows, yet Turkey showed a negative differentiation. An analysis by instruments suggests that domestic debt securities posted inflows while debt securities and equity securities issued abroad posted outflows in the third quarter. Meanwhile, the banking sector's bond issues abroad that had resumed in the second quarter of 2016 halted in the third quarter.

Chart 24. Non-Residents' Net Acquisition of Portfolio in Turkey
(annualized, billion USD



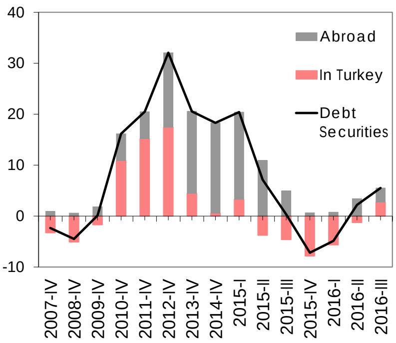
Source: CBRT.

Chart 25. Sectoral Distribution of Debt Security Net Issues
(annualized, billion USD)



Source: CBRT.

Chart 26: Domestic and International Distribution of Debt Security Net Issues
(annualized, billion USD)



Source: CBRT.

2.3 Other Investment - Currency and Deposits

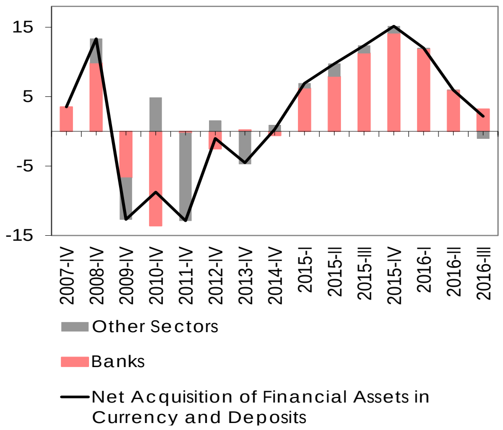
The currency and deposits item, a major component of the other investment item in the balance of payments, is composed of domestic sectors' deposits abroad and foreigners' deposits in Turkey.

In the third quarter, banks' deposits abroad declined. Banks' deposits consisting of their correspondent accounts abroad are mainly affected by the change in residents' and non-residents' foreign exchange deposit accounts and banks' investment preferences over foreign exchange liquidity and portfolio. In this framework, banks reduced their portfolio investments abroad in the third quarter, thereby reinforcing their correspondent accounts.

Likewise, non-bank sectors' deposits abroad also receded. The other sectors item, representing the relevant transactions, uses data compiled by the Bank for International Settlements (BIS). This item is compiled from data reported to the BIS by member banks on the accounts they hold in the name of Turkish citizens. In times of growth it generally rises, while it tends to decline in times of crisis as residents make use of their accounts. As the relevant data on deposits are obtained from the BIS with approximately a four-month lag, the figure for 2016 Q3 denotes a provisional and estimate value and displays a slight decline for this period.

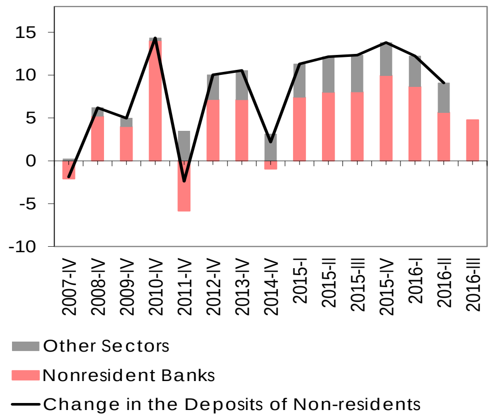
Net liabilities of the currency and deposits item posted a decline on account of the decrease in deposits of non-resident banks. This item is composed of non-resident Turkish citizens' deposits at the CBRT under the name of Foreign Currency Deposit Accounts with Credit Letter, along with deposits of non-resident banks and non-resident persons. The relevant items in the third quarter of 2016 decreased as foreign investors reduced their position in Turkish assets.

Chart 27. Currency and Deposits - Assets
(annualized, billion USD)



Source: CBRT.

Chart 28.Currency and Deposits - Liabilities
(annualized, billion USD)

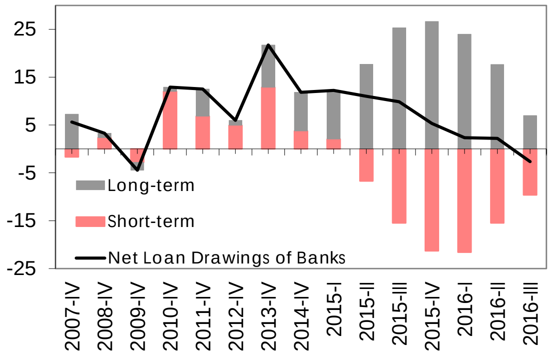


Source: CBRT.

2.4 Other Investment-Loans

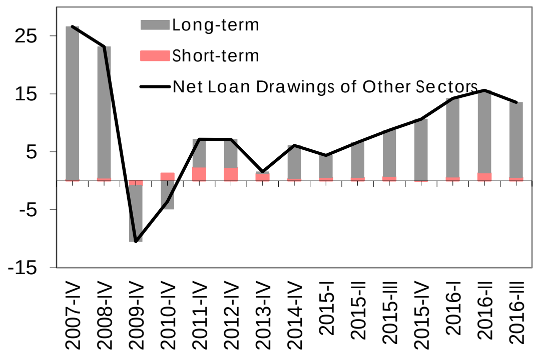
Other investment credit inflows decreased with the contraction of the economy, turning the net inflows towards the banking sector to negative while decelerating the external borrowings of the other sectors (Box 3). Regarding external borrowing through loans in the third quarter of 2016, banks were the repayer of net loans in the amount of USD 2.9 billion, while the other sectors were borrowers of net loans in the amount of USD 1.0 billion.

Chart 29. Banks' Net Borrowings
(annualized, billion USD)



Source: CBRT.

Chart 30. Oher Sectors' Net Borrowings
(annualized, billion USD

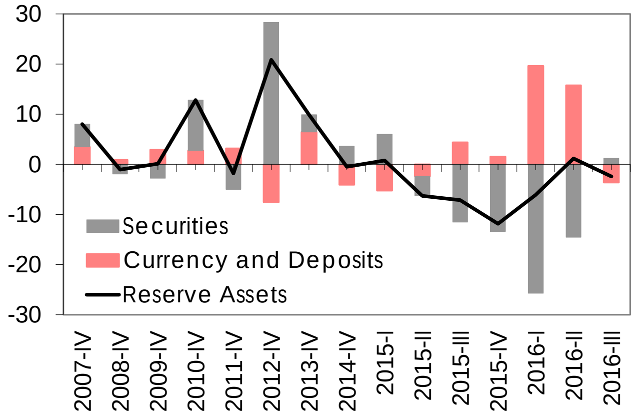


Source: CBRT

2.5 Reserves

Central Bank reserves receded by USD 2.8 billion also in the third quarter. This was mainly driven by the outflows from other investments.

Chart 31: Reserve Assets
(annualized, billion USD)



Source: CBRT.

As for the quality of financing sources, Turkey's share in capital flows towards emerging market economies (EMEs), the debt rollover ratio of the banking sector, the maturity structure of the portfolio and the reserve adequacy ratio remained intact while other components remained on a relatively negative track.

Box 3 Long-Term Loan Developments of Other Sectors

Long-term net credit drawings of "Other Sectors" traced under the "Other Investment / Loans / Net Incurrence of Liabilities" item of the "Financial Account" heading in the Balance of Payments Table has upsurged since the second quarter of 2015. An indication of this change is the increase in debt rollover ratios. This box explores the reasons for and the details of the increase in long-term net credit drawings of other sectors.

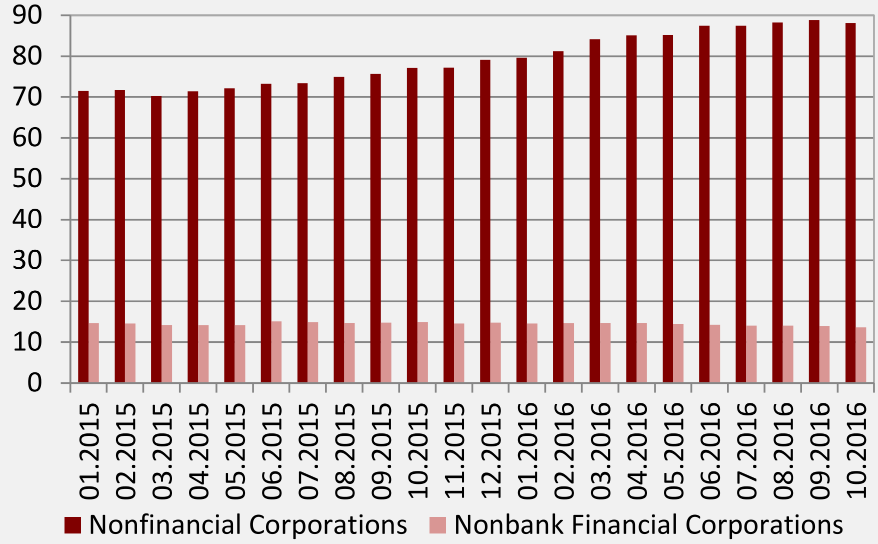
An analysis of debt rollover ratios compiled from the Balance of Payments data indicates that the long-term credit debt rollover ratio of other sectors was 114 percent on average during the period from January 2013 to May 2015, yet it started to increase from the second quarter of 2015 and reached an average ratio of 158 percent (Chart 1).

Chart 1. Other Sectors' Debt Rollover Ratios
(long-term loans excluding bonds, annualized, percent)

Source: CBRT, Balance of Payments Statistics.

On the other hand, according to an analysis of outstanding loans received from abroad by nonbank financial and non-financial corporations that constitute the other sectors in the balance of payments context, the debt stock of non-financial corporations increased to USD 88.1 billion from USD 71.5 billion during the period of January 2015 – October 2016, and that of nonbank financial corporations decreased to USD 13.6 billion from USD 16.0 billion in the same period. Therefore, the increase in debt rollover ratios of other sectors is originated from the non-financial corporations (corporate sector) (Chart 2).

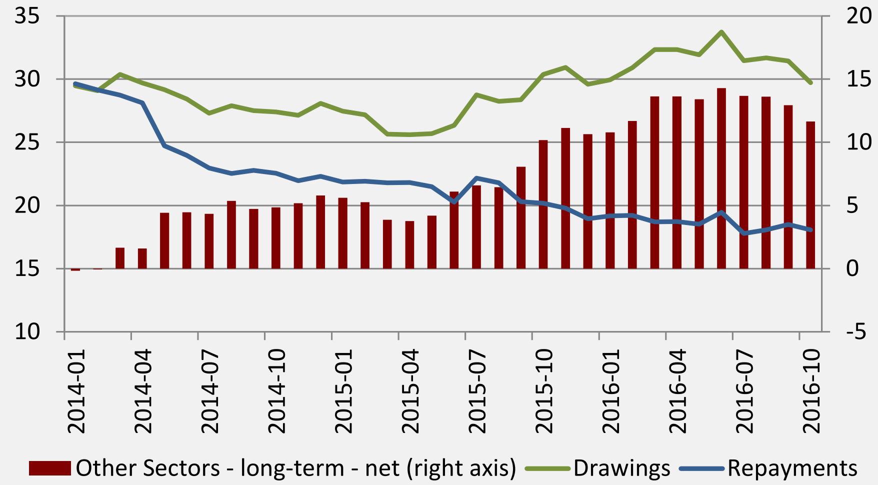
Chart 2: Other Sectors' (Non-Financial Corporations and Non-Bank Financial Institutions) Long-Term External Credit Stock (billion USD)



Source: CBRT, Statistics on Outstanding Loans Received From Abroad by Private Sector.

In the post 2015 Q2, the increase in other sectors' long-term debt rollover ratios was mainly driven by the decrease in the amount of repayments due and the increase in credit drawings (Chart 3).

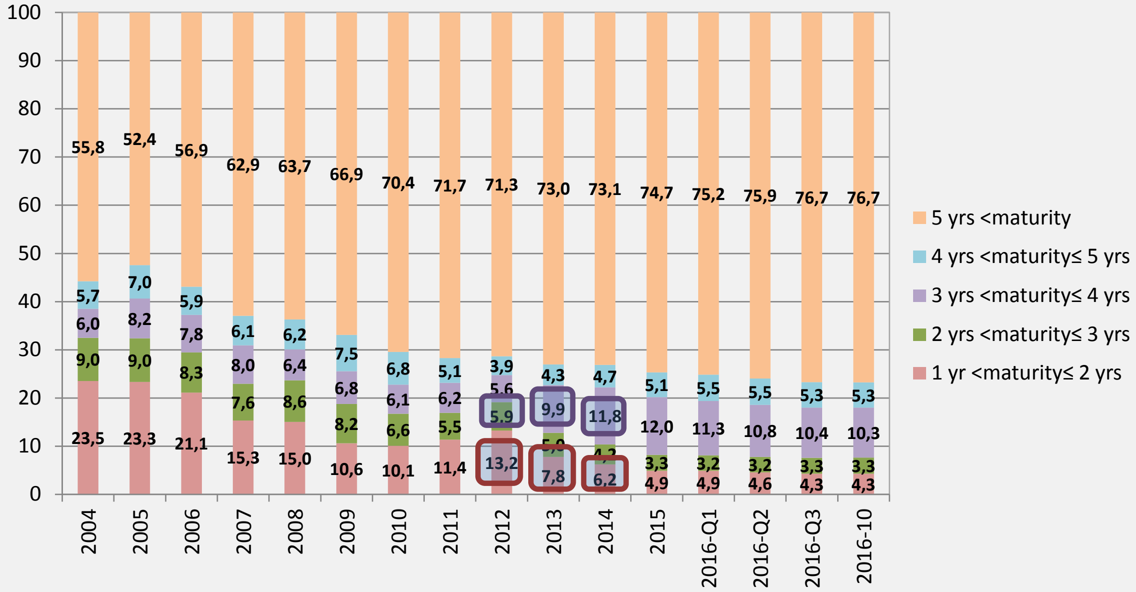
Chart 3. Loans Received From Abroad by Other Sectors
(annualized, billion USD)



Source: CBRT, Balance of Payments Statistics.

Chart 3 shows that other sectors' long-term credit repayments have been on the decline since the beginning of 2014. This decline might have been triggered by the decreased use of long-term credits and / or the lengthening of maturities in the past period. A review of the relevant period suggests that the maturity of other sectors' long-term borrowings has been lengthened as a result of the legal arrangements made in 2013 in particular. As a matter of fact, upon the Council of Ministers Decision No:2012/4116 published in the Official Gazette of 01.01.2013 and No: 28515, the Resource Utilization Support Fund (RUSF) deduction rates applied to foreign exchange and gold loans received from abroad were rearranged allowing lower deduction rates for longer average maturities. Consequently, as can be seen in Chart 4, while the share of loans with maturities of 1 to 2 years decreased, that of loans with maturities of 3 to 4 years increased in 2013 and 2014. The decrease in the share of 1 to 2-year maturity loans used during that period caused the amounts of repayment for due loans to decline from 2014 onwards.

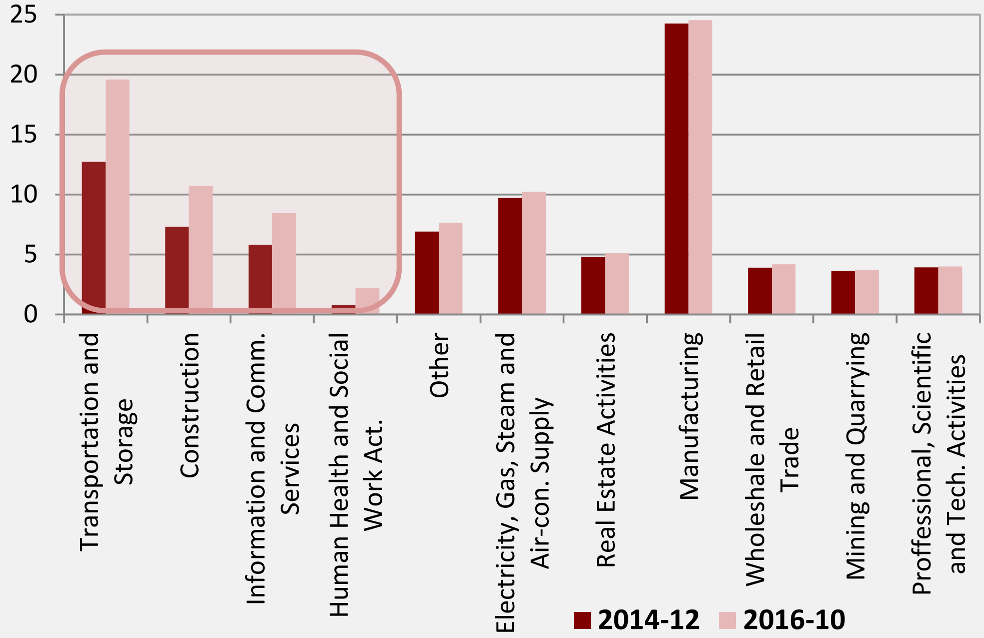
Chart 4. Maturity Breakdown of Long-Term Credits Obtained from Abroad by Non-Financial Private Corporations (percent share)



Source: CBRT, Statistics on Outstanding Loans Received From Abroad by Private Sector.

Another reason for the increased use of long-term net credits is the rise in long-term loans received from abroad by the corporate sector starting from the second quarter of 2015. An analysis by sectors indicates that a significant increase has been recorded in the debt stock of ‘transportation and storage’, ‘construction’, ‘information and communication’ and ‘human health and social work activities’ sectors, respectively, since the second quarter of 2015. External borrowings for large-scale projects conducted by public-private sector cooperation and for 4.5G auctions were the main drivers of the increase of debt stock in these sectors (Chart 5).

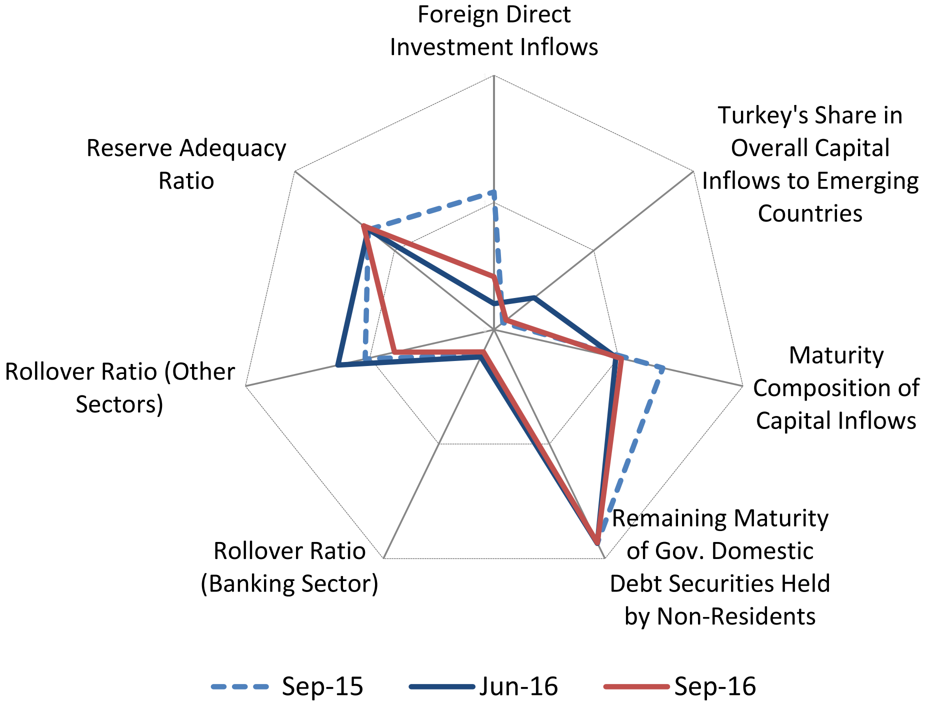
Chart 5. Sectoral Distribution of Long-Term Loans Received from Abroad by Non-Financial Private Corporations (billion USD)



Source: CBRT, Statistics on Outstanding Loans Received From Abroad by Private Sector.

In sum, the rise in debt rollover ratios of other sectors in the balance of payments statistics that started with the second quarter of 2015 in particular, stemmed from both the increase in loan utilization and the decrease in repayment of loans due in the relevant period. The increase in the loan utilization arose mainly from the use of loans for large-scale projects conducted by public-private sector cooperation and for 4.5G auctions, whereas the decline in repayment of loans due in the relevant period stemmed from the decrease in the share of loans with 1 to 2-year maturities as opposed to the increase in the share of loans with 3 to 4-year maturities according to original maturity between 2013 and 2014 due to the alterations made to RUSF deduction rates.

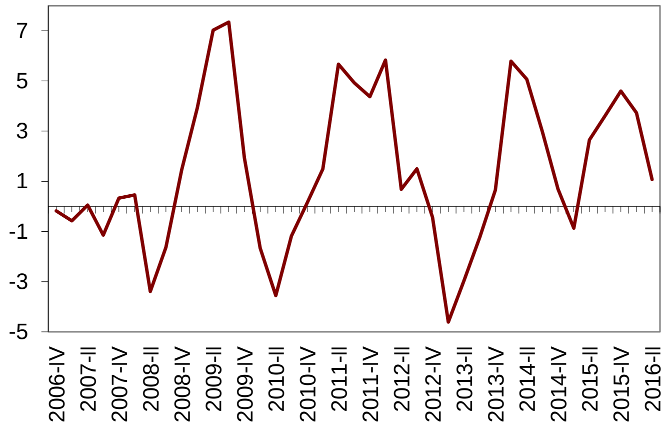
Chart 32: Macro Display of the Quality of Current Account Deficit Financing*



Source: CBRT.
* Expansion outwards denotes improvement.

The Net Errors and Omissions (NEO) item materialized at positive USD 3.1 billion in the third quarter of 2016. In annual terms, the 12-month cumulative NEO stood at USD 2.0 billion and its ratio to total FX inflows was 1.0 percent in the third quarter.

Chart 33. NEO and Total Foreign Exchange Inflows
(annualized, percent)



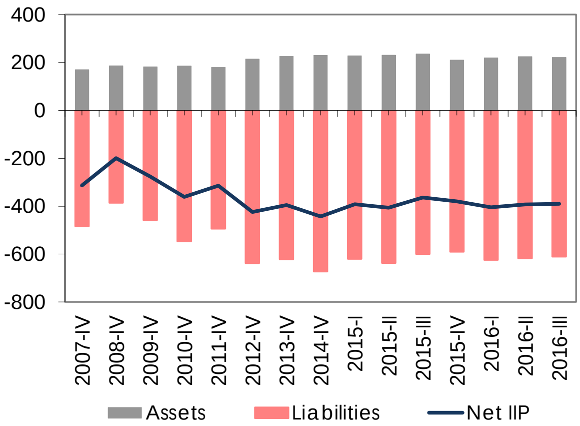
Source: CBRT.

3. International Investment Position

The net International Investment Position (IIP), defined as the difference between Turkey's assets abroad and the liabilities to non-residents, recorded a very modest improvement in the third quarter of 2016. Price and exchange rate movements were instrumental in this improvement. According to IIP data, Turkey's net liability position improved by USD 3.1 billion quarter-on-quarter and stood at USD 389.9 billion by the end of September 2016. In this period, while external assets decreased by 1.6 percent, external liabilities receded by 1.1 percent.

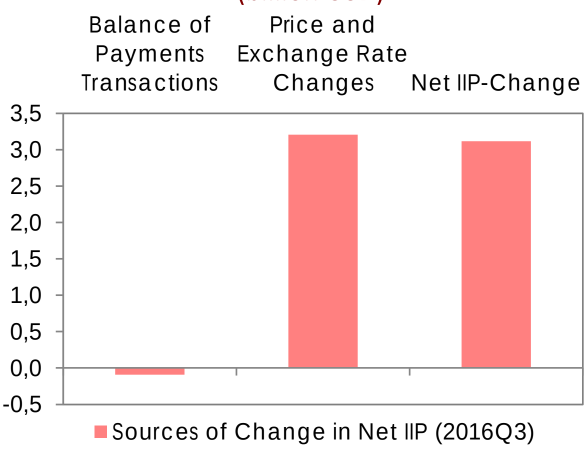
An analysis of the reconciliation calculations based on the comparison between flow transactions of the balance of payments and stock IIP data reveals that the improvement was mainly driven by changes in exchange rates and market value rather than movements driven by balance of payments. In the third quarter, global markets followed a relatively steadier course, with BIST National 100 Index remaining almost flat except for a 0.4 percent decrease compared to the second quarter, whereas a depreciation by 3.5 points in the Turkish lira versus the USD dollar became the main driver behind the changes in exchange rates and prices.

Chart 34. Net IIP, Assets and Liabilities
(billion USD)



Source: CBRT.

Chart 35. Current Account Balance and IIP
(billion USD)



Source: CBRT.

The other sectors item, which includes non-financial companies, bears the highest net liability position with USD 308 billion and is followed by the banking sector with USD 202 billion. The contribution of these sectors to the sum accounts for 83.4 percent and thus developments in these sectors determine the general IIP. In the meantime, while the Central Bank conventionally has a net asset position, the general government has a net liability position. In the third quarter of 2016, the relevant sectoral distribution and contributions remained unchanged.

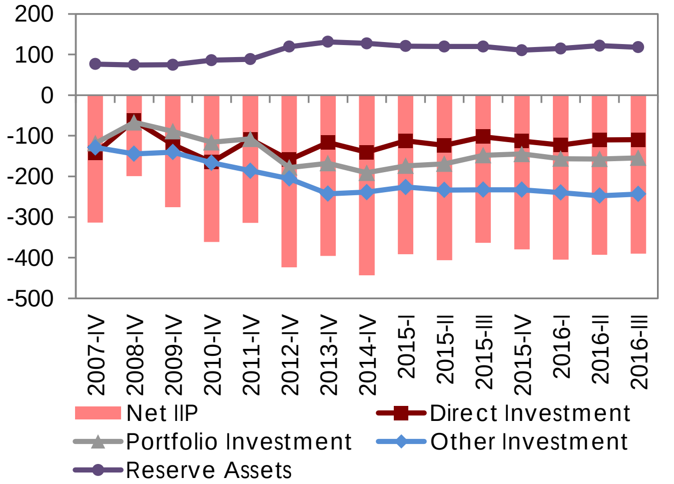
Table 1. IIP by Sectors (billion USD)

	2015			2016-I			2016-II			2016-III		
Sector	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net
General Government	2,1	-93,9	-91,8	2,2	-97,0	-94,8	2,0	-100,3	-98,3	2,0	-100,4	-98,4
Central Bank	112,3	-1,3	111,0	116,4	-1,3	115,1	123,6	-1,2	122,4	119,7	-1,0	118,7
Banks	35,9	-197,7	-161,8	41,0	-205,8	-164,9	38,2	-206,5	-168,3	39,7	-202,0	-162,3
Other Sectors	68,8	-293,8	-225,0	68,9	-316,7	-247,7	61,1	-309,7	-248,7	59,9	-307,8	-247,9
Total	**210,2**	**-589,9**	**-379,7**	**219,7**	**-624,4**	**-404,7**	**224,8**	**-617,8**	**-389,9**	**221,2**	**-611,1**	**-389,9**

Source: CBRT.

An analysis by investment instruments reveals that despite the decrease in reserve assets at the Central Bank -the largest asset item in net IIP- quarter-on-quarter, on the liabilities side, the decline in portfolio investments due to foreigners' equity securities outflows, and the drop in other investments mostly composed of loans were the main reasons behind the positive developments in the net IIP in the third quarter of 2016. The decrease in reserve assets was due to the decline in banks' deposits held at the CBRT, while portfolio investments on the liability side posted a decrease by USD 1.8 billion resulting from the changes in market value and exchange rates.

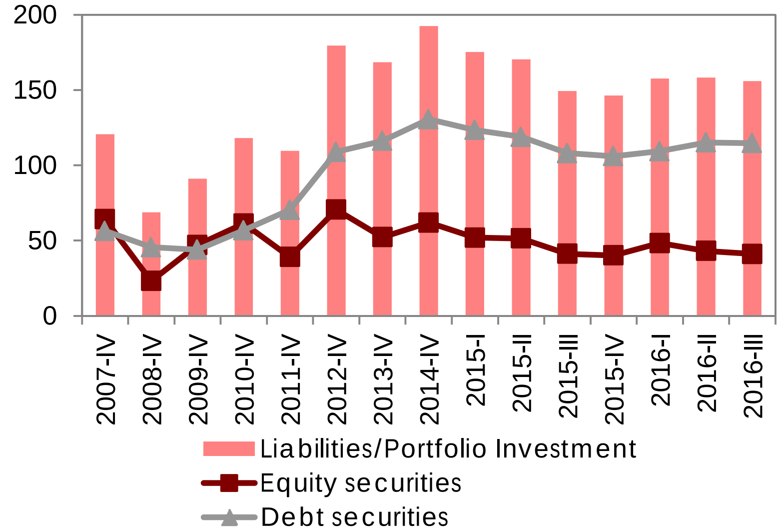
Chart 36. Contribution of Investment Instruments to IIP
(billion USD)



Source: CBRT.

An instrument and sector based analysis of portfolio inflows having a 25 percent weight on the liabilities side of the IIP reveals that while no major change was observed arising from equity securities, debt securities posted GDDS inflows and Eurobond outflows in the third quarter of 2016. In this period, the equity securities stock decreased by USD 2 billion, stemming entirely from other sectors. The drop was mainly driven by exchange rate movements. Meanwhile, the USD 0.5 billion decline in debt securities mainly arose from balance of payments transactions.

Chart 37. Liabilities: Portfolio Investments
(billion USD)



Source: CBRT.

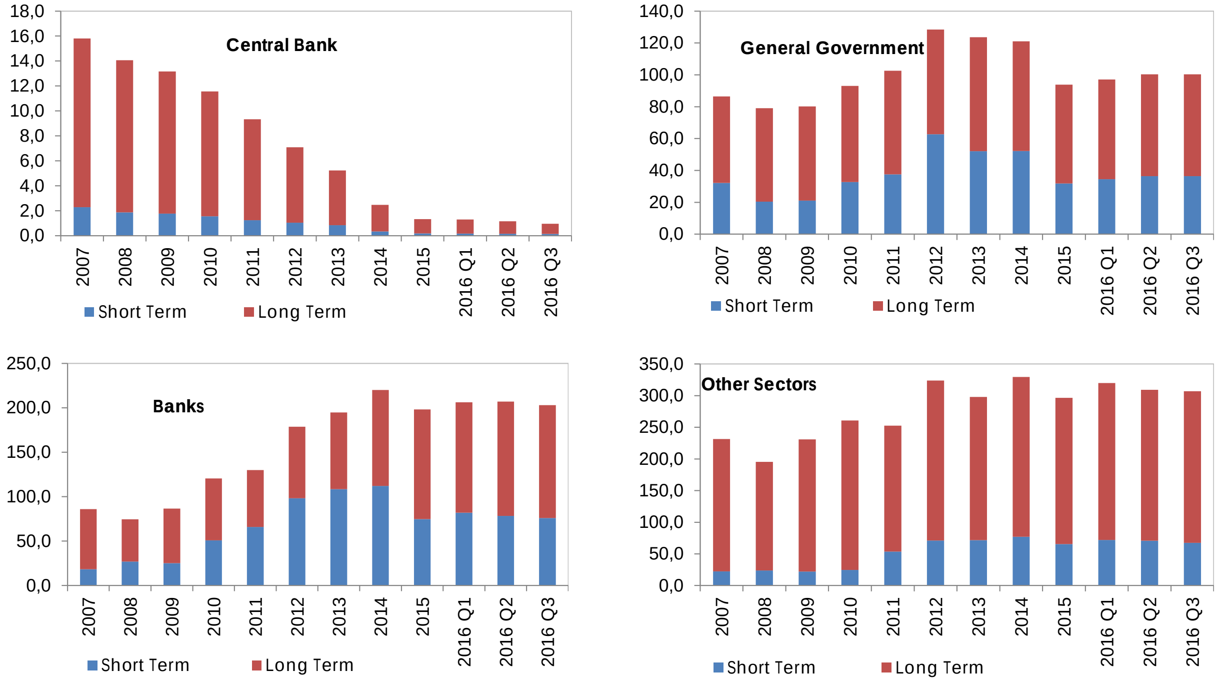
Table 2. Liabilities: Sources of Change in Portfolio Investments
(million USD)

Flow-Stock Relation	2016Q2	Balance of Payments Transactions	Price and Exchange Rate Changes	2016Q3	Changes in Amount	% Change
Liabilities/Portfolio Investment	**158.355,0**	**-659,0**	**-1.848,0**	**155.848,0**	**-2.507,0**	**-1,6**
(Equity Securities)	43.162,0	-9,0	-2.025,0	41.128,0	-2.034,0	-4,7
(General Government/Debt Securities/GDDS)	36.412,0	1.820,0	-1.805,0	36.427,0	15,0	0,0
(General Government/Debt Securities/Eurobond)	37.149,0	-2.000,0	2.047,0	37.196,0	47,0	0,1
(Banks/Debt Securities)	31.410,0	-430,0	-51,0	30.929,0	-481,0	-1,5
(Other Sectors/Debt Securities)	10.222,0	-40,0	-14,0	10.168,0	-54,0	-0,5

Source: CBRT.

Long-term items still have weight on the liabilities side of the IIP. In the third quarter of 2016, 86 percent of the Central Bank's liabilities by sectors were long-term, while the General Government's and other sectors' long-term liabilities were at 64 percent and 78 percent, respectively. The share of long-term maturities in the maturity structure of the banking sector liabilities had progressively increased since 2015 in tandem with the Central Bank's decisions, recording at around 63 percent in the same period. Approximately 71 percent of IIP liabilities across all sectors were long-term in the third quarter of 2016.

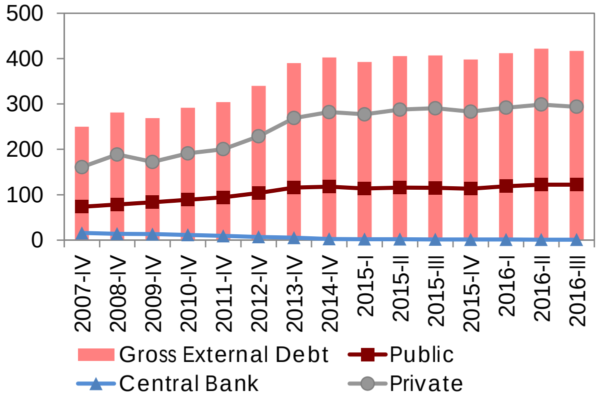
Chart 38. Liabilities: Maturity Distribution
(billion USD)



Source: CBRT.

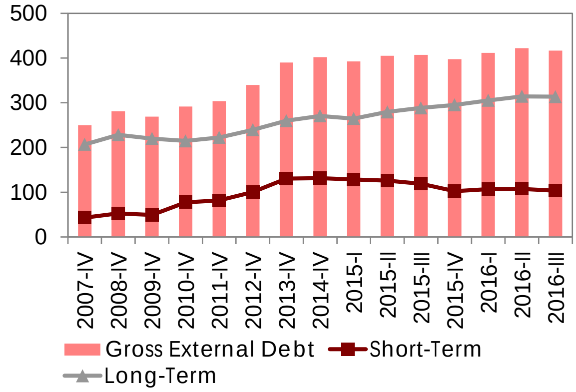
Basically, liability items of the IIP make up the main components of external debt stock. An analysis of the external debt stock data with respect to the related liability items indicates that the external debt stock displayed a limited decrease in 2016 Q3 and reached USD 400 billion. By type of borrower, the private sector has the largest weight in gross external debt stock with a share of 71 percent. By maturity distribution, the share of short-term debt has been decreasing over the last few years against a rise in long-term debt. By 2016 Q2, the share of long-term debt was 75 percent.

Chart 40. External Debt Stock: Distribution by Borrower (billion USD)



Source: CBRT.

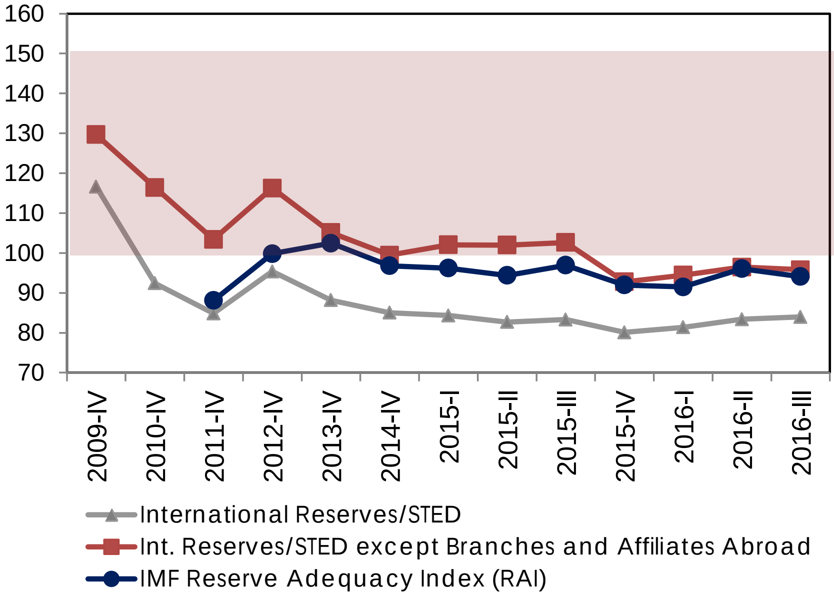
Chart 41. External Debt Stock: Distribution by Maturity (billion USD)



Source: CBRT.

In 2016 Q3, the CBRT's gross international reserves decreased by USD 3.9 billion quarter-on-quarter to USD 117.8 billion. Banks' reserves that constitute the other component of Turkey's international reserves increased by USD 1.4 billion to USD 20.4 billion. Meanwhile, the short-term external debt stock on a remaining maturity basis (STED), which is calculated based on the external debt maturing within 1 year or less, decreased by 2.5 percent quarter-on-quarter to USD 164.7 billion in this quarter. As a result, the ratio of total international reserves to STED, which is monitored as a reserve adequacy indicator, was recorded as 84.0 percent. Nevertheless, this ratio becomes 95.8 percent when branches and affiliates abroad are excluded. The IMF Reserve Adequacy Ratio[1] is calculated as 94.1 percent.

Chart 42. Reserve Adequacy Indicators (percent)



Source: CBRT.

[1] This is an indicator defined by the IMF for emerging markets implementing a floating exchange rate regime as the ratio to the total of official reserves (30%* short-term debt stock + 15%*portfolio liabilities + 5%*broad money supply + 5%*revenues from exports of goods and services) and the IMF deems such reserves kept at around 100-150 percent as "adequate".

4. Annex Tables

Balance of Payments (billion USD)

	January-September			September (Annualized)		
	2015	2016	% change	2015	2016	% change
Current Account	-24,6	-24,8	0,6	-38,9	-32,4	-16,7
Goods	-37,5	-31,0	-17,4	-55,6	-41,6	-25,2
Exports	113,4	109,8	-3,2	155,2	148,3	-4,4
Exports (fob)	107,2	104,2		146,4	140,9	
Shuttle Trade	4,5	3,8		6,3	4,9	
Imports	150,9	140,7	-6,7	210,8	189,9	-9,9
Imports (cif)	156,4	146,3		218,7	197,1	
Adjustment: Classification	-7,4	-6,6		-10,5	-9,0	
Services	19,5	11,9	-39,1	24,9	16,5	-33,6
Travel (net)	17,2	10,7		22,3	14,8	
Credit	21,1	14,7		27,6	20,2	
Debit	3,9	4,0		5,4	5,4	
Other Services (net)	2,4	1,2		2,6	1,8	
Primary Income	-7,5	-6,8	-9,1	-9,5	-9,0	-5,4
Compensation of Employees	-0,3	-0,5		-0,4	-0,6	
Direct Investment (net)	-2,7	-2,2		-3,0	-2,7	
Portfolio Investment (net)	-2,0	-1,6		-2,4	-2,0	
Other Investment (net)	-2,5	-2,6		-3,7	-3,6	
Interest Income	1,2	1,5		1,7	2,0	
Interest Expenditure	3,7	4,1		5,4	5,6	
Secondary Income	0,8	1,1	30,6	1,3	1,6	24,2
Workers Remittances	0,6	0,4		0,7	0,6	
Capital Account	0,0	0,0		0,0	0,0	
Financial Account	-12,2	-19,6	60,8	-31,6	-30,4	-3,8
Direct Investment (net)	-9,8	-4,9	-49,3	-10,3	-7,2	-30,7
Net Acquisition of Financial Assets	3,6	2,2		6,3	3,7	
Net Incurrence of Liabilities	13,4	7,2		16,6	10,8	
Portfolio Investment (net)	11,5	-8,7	-175,6	5,1	-4,5	-187,2
Net Acquisition of Financial Assets	5,2	-0,4		5,3	0,5	
Net Incurrence of Liabilities	-6,3	8,3		0,1	5,0	
Equity Securities	-1,1	0,7		-0,2	-0,5	
Debt Securities	-5,1	7,6		0,3	5,5	
GDDS	-5,9	4,3		-4,3	2,5	
Eurobond Issues of Treasury	0,3	1,2		1,3	1,2	
Borrowing	3,0	4,0		4,0	4,0	
Repayment	2,8	2,8		2,8	2,8	
Banks (net)	-0,1	1,1		2,2	0,3	
Other Sectors (net)	0,6	1,0		1,2	1,5	
Other Investment (net)	-10,2	-11,6	14,3	-19,3	-16,4	-15,0
Currency and Deposits	2,4	-3,2		1,1	-3,3	
Net Acquisition of Financial Assets	13,9	0,9		12,4	2,2	
Banks	12,9	2,0		11,3	3,2	
Foreign Exchange	7,7	1,6		6,4	1,2	
Turkish Lira	5,1	0,4		4,8	2,0	
Other Sectors	1,0	-1,0		1,1	-1,0	
Net Incurrence of Liabilities	11,5	4,1		11,2	5,5	
Central Bank	-0,7	-0,4		-1,1	-0,6	
Banks	12,2	4,5		12,3	6,1	
Loans	-11,2	-5,9		-17,7	-8,7	
Net Acquisition of Financial Assets	0,5	0,3		0,3	0,7	
Net Incurrence of Liabilities	11,6	6,3		18,0	9,4	
Banks	5,4	-2,5		9,9	-2,7	
Short-term	-16,5	-4,8		-15,5	-9,6	
Long-term	21,9	2,3		25,3	7,0	
General Government	-0,6	-0,8		-0,6	-1,4	
Long-term	-0,6	-0,8		-0,6	-1,4	
Other sectors	6,8	9,7		8,7	13,5	
Short-term	0,5	1,1		0,7	0,6	
Long-term	6,3	8,6		8,1	12,9	
Trade Credit and Advances	-1,2	-2,5		-2,4	-4,3	
Net Acquisition of Financial Assets	-0,9	-1,4		-1,4	-1,5	
Net Incurrence of Liabilities	0,3	1,1		1,0	2,8	
Other Assets and Liabilities	-0,3	0,0		-0,3	0,0	
Change in Official Reserves	-3,8	5,6		-7,1	-2,4	
Net Errors and Omissions	12,5	5,2		7,3	2,0	

Source: CBRT.

International Investment Position (billion USD)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016Q1	2016Q2	2016Q3	16Q3/16Q2 % Change
Net IIP	**-313,7**	**-199,7**	**-276,0**	**-361,3**	**-314,7**	**-423,8**	**-395,5**	**-443,2**	**-379,7**	**-404,7**	**-393,0**	**-389,9**	**-0,8**
Assets	**170,1**	**186,4**	**182,1**	**185,9**	**179,7**	**214,4**	**226,1**	**230,0**	**210,2**	**219,7**	**224,8**	**221,2**	**-1,6**
Direct Investment	12,2	17,8	23,3	24,0	28,3	31,4	33,7	39,9	35,2	35,9	36,7	37,4	1,8
Equity capital	12,2	17,8	19,9	20,8	23,9	27,5	29,9	33,9	30,6	31,5	32,2	32,9	2,0
Other capital	0,0	0,0	3,4	3,2	4,4	3,9	3,7	6,0	4,5	4,4	4,5	4,5	0,6
Portfolio Investment	2,0	1,9	1,9	2,2	1,8	1,3	1,0	1,5	1,6	1,4	1,4	1,5	5,1
Equity securities	0,1	0,1	0,2	0,4	0,3	0,3	0,4	0,5	0,6	0,6	0,5	0,5	-4,5
Debt securities	1,9	1,9	1,7	1,9	1,5	1,0	0,6	1,0	1,0	0,8	0,9	1,0	10,9
Banks	1,4	1,5	1,0	1,2	1,0	0,5	0,5	0,8	0,8	0,7	0,8	0,8	11,1
Other Sectors	0,5	0,4	0,6	0,7	0,5	0,5	0,2	0,2	0,1	0,1	0,1	0,1	9,8
Other Investment	79,5	92,4	82,0	73,7	61,3	62,6	60,4	61,3	63,0	67,9	64,9	64,5	-0,6
Other Equity and Participation Shares	0,8	0,8	0,9	1,0	1,0	1,1	1,4	1,3	1,3	1,4	1,4	1,4	0,6
Currency and deposits	65,1	79,2	67,7	58,1	45,0	44,7	40,2	40,6	42,0	46,1	43,1	44,4	3,0
Banks	34,6	46,0	40,1	26,6	26,0	24,1	23,2	22,1	23,2	27,8	25,1	26,4	5,1
Foreign exchange	34,6	42,7	37,4	24,0	22,2	18,3	16,8	14,5	17,5	20,7	19,1	20,5	7,4
Turkish Lira	0,0	3,4	2,7	2,5	3,9	5,8	6,4	7,6	5,7	7,1	6,1	6,0	-1,8
Other Sectors	30,5	33,2	27,5	31,6	19,0	20,6	17,0	18,4	18,7	18,3	18,0	18,0	0,1
Loans	1,9	2,4	2,6	2,6	2,8	3,6	4,1	5,7	6,2	6,8	6,4	6,5	1,5
Central Bank	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Banks	1,8	2,3	2,6	2,5	2,6	3,1	3,0	4,4	5,1	5,7	5,6	5,7	1,7
Short-term	1,1	1,5	1,5	1,3	1,0	1,3	1,0	0,8	0,8	1,1	1,0	1,0	2,7
Long-term	0,7	0,8	1,1	1,2	1,5	1,7	2,0	3,5	4,3	4,6	4,7	4,7	1,5
General Government	0,0	0,0	0,0	0,0	0,2	0,5	1,1	1,3	1,0	1,0	0,8	0,8	0,0
Trade credit and advances	10,3	8,6	9,3	10,5	10,9	11,7	13,2	12,2	12,0	11,9	12,4	10,6	-14,5
Other Sectors	10,3	8,6	9,3	10,5	10,9	11,7	13,2	12,2	12,0	11,9	12,4	10,6	-14,5
Other assets	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	0,1
Central Bank	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	0,1
Reserve Assets	76,4	74,2	74,8	86,0	88,3	119,2	131,0	127,3	110,5	114,6	121,8	117,8	-3,2
Monetary gold	3,1	3,2	4,1	5,3	9,9	19,2	20,1	20,4	17,6	18,9	20,1	18,8	-6,4
Special drawing rights	0,1	0,0	1,5	1,5	1,5	1,5	1,5	1,4	1,3	1,4	1,3	1,4	0,2
Reserve position in the IMF	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,6
Other reserve assets	73,1	70,8	69,0	79,1	76,8	98,3	109,2	105,3	91,4	94,2	100,2	97,5	-2,6
Liabilities	**483,8**	**386,1**	**458,0**	**547,2**	**494,4**	**638,2**	**621,6**	**673,2**	**589,9**	**624,4**	**617,8**	**611,1**	**-1,1**
Direct Investment	155,2	80,5	144,9	188,6	137,2	190,6	150,1	180,6	147,9	158,9	147,0	147,2	0,1
Equity capital	151,9	75,4	138,0	181,2	130,9	183,8	143,5	174,8	141,5	152,4	140,3	139,8	-0,3
Other capital	3,2	5,1	6,9	7,4	6,3	6,8	6,6	5,8	6,4	6,5	6,7	7,4	9,3
Portfolio Investment	120,6	68,7	91,0	118,2	109,5	179,5	168,5	192,5	146,3	157,6	158,4	155,8	-1,6
Equity securities	64,2	23,1	47,1	61,3	39,1	70,5	52,2	61,9	40,2	48,3	43,2	41,1	-4,7
Banks	0,0	0,0	0,0	0,0	13,5	29,9	17,6	21,4	11,6	14,0	12,9	12,9	0,2
Other Sectors	0,0	0,0	0,0	0,0	25,5	40,6	34,6	40,5	28,6	34,3	30,3	28,2	-6,8
Debt securities	56,4	45,6	43,9	56,9	70,5	109,0	116,2	130,6	106,1	109,3	115,2	114,7	-0,4
Banks	0,0	0,0	0,0	1,1	4,2	13,3	21,4	31,3	29,9	29,3	31,4	30,9	-1,5
In Turkey	0,0	0,0	0,0	0,1	0,4	1,1	1,2	1,2	0,8	0,7	0,7	0,6	-10,0
Abroad	0,0	0,0	0,0	1,0	3,7	12,3	20,2	30,2	29,1	28,6	30,7	30,3	-1,3
General Government	56,4	45,6	43,9	55,5	66,1	94,1	89,9	91,0	66,9	69,8	73,6	73,6	0,1
In Turkey	32,2	20,4	21,1	32,7	37,5	62,7	52,1	52,2	31,8	34,5	36,4	36,4	0,0
Abroad	24,3	25,2	22,9	22,8	28,5	31,5	37,8	38,7	35,1	35,3	37,1	37,2	0,1
Other Sectors	0,0	0,0	0,0	0,2	0,2	1,5	4,9	8,3	9,3	10,2	10,2	10,2	-0,5
In Turkey	0,0	0,0	0,0	0,0	0,0	0,1	0,1	0,1	0,1	0,3	0,3	0,3	2,7
Abroad	0,0	0,0	0,0	0,2	0,2	1,4	4,8	8,1	9,2	9,9	9,9	9,8	-0,6
Other Investment	208,1	236,9	222,1	240,4	247,6	268,2	303,0	300,1	295,7	307,8	312,4	308,0	-1,4
Currency and deposits	26,6	31,4	32,0	44,3	37,6	46,1	53,2	49,1	43,6	50,2	48,8	47,8	-1,9
Central Bank	15,8	14,1	13,2	11,6	9,3	7,1	5,2	2,5	1,3	1,3	1,2	1,0	-17,5
Banks	10,8	17,3	18,9	32,8	28,3	39,0	48,0	46,6	42,2	48,9	47,6	46,9	-1,5
Foreign exchange	7,0	9,4	10,1	15,2	19,9	27,4	36,9	33,2	32,6	34,8	33,6	32,4	-3,6
Turkish Lira	3,8	7,9	8,8	17,6	8,4	11,6	11,1	13,4	9,6	14,1	14,0	14,5	3,6
Loans	160,0	182,9	166,9	171,2	182,8	193,9	215,7	217,5	217,3	222,8	226,5	224,0	-1,1
Central Bank	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
Banks	39,3	40,4	35,6	47,6	58,1	64,9	86,7	94,5	93,0	92,5	93,4	90,1	-3,5
Short-term	7,5	9,5	6,3	18,1	23,9	29,4	42,8	44,0	20,9	18,9	17,9	16,2	-9,5
Long-term	31,8	30,9	29,3	29,5	34,1	35,5	43,9	50,5	72,1	73,6	75,5	73,9	-2,1
General Government	30,1	33,5	34,8	36,1	35,0	32,8	32,2	28,7	25,7	25,9	25,4	25,4	-0,2
Short-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
Long-term	30,1	33,5	34,8	36,1	35,0	32,8	32,2	28,7	25,7	25,9	25,4	25,4	-0,2
Other Sectors	90,6	109,1	96,5	87,6	89,8	96,1	96,8	94,3	98,6	104,4	107,7	108,5	0,7
Short-term	1,4	1,8	0,9	2,0	2,7	4,2	4,9	4,6	3,9	4,7	5,2	4,9	-5,8
Long-term	89,1	107,3	95,6	85,6	87,1	91,9	91,9	89,7	94,8	99,7	102,6	103,6	1,0
Trade credit and advances	21,5	22,6	21,6	23,4	25,7	26,8	32,7	32,2	33,6	33,4	35,8	34,9	-2,5
Other Sectors	21,5	22,6	21,6	23,4	25,7	26,8	32,7	32,2	33,6	33,4	35,8	34,9	-2,5
Short-term	21,1	22,0	21,1	22,8	25,4	26,4	32,3	31,9	33,1	33,0	35,3	34,5	-2,5
Long-term	0,4	0,6	0,5	0,6	0,3	0,4	0,3	0,3	0,4	0,4	0,4	0,4	-2,1
SDRs (Net inc. of liabilities)	0,0	0,0	1,5	1,5	1,5	1,5	1,5	1,4	1,3	1,3	1,3	1,3	0,2

Source: CBRT.

Boxes in Balance of Payments Reports

2011-III

Box 1. Rise in Imports of Gold and Its Impact on Total Imports
Box 2. International Reserves and FX Liquidity
Box 3. Turkey's Financial Assets In Troubled Peripheral Euro Area Countries

2011-II

Box 1. The Impact of Terms of Trade on the Widening Current Account Deficit
Box 2. The Impact of Residents On Capital Flows
Box 3. Analysis of the Net Errors and Omissions Item in the Context of Residents' Deposit Accounts Against Net Foreign Currency

2011-I

Box 1. Impacts of the Political Unrest in North Africa on Turkey's Foreign Trade by Sectors
Box 2. Implications of the Unrest in the Gulf Region on the Balance of Payments Financial Accounts
Box 3. Recording of Swap Transactions in Balance of Payments Statistics in the Context of the Off Balance Sheet Foreign Exchange Net General Position
Box 4. International Reserves and Short-Term External Debt

2010-IV

Box 1. The Trend of Capital Flows to Emerging Markets During and After the Crisis and Turkey
Box 2. The Effect of Foreign Branches of Resident Banks (Foreign Branches) on Balance of Payments Statistics in 2010
Box 3. Short-Term External Debt - Developments in 2010