CENTRAL BANK OF THE REPUBLIC OF TURKEY

Balance of Payments Report 2016-I

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Head Office

İstiklal Cad. 10 Ulus, 06100 Ankara, Türkiye

Editors

Ahmet Adnan EKEN, Adnan.Eken@tcmb.gov.tr

Gülbin ŞAHİNBEYOĞLU, Gulbin.Sahinbeyoglu@tcmb.gov.tr

Prepared by

Barış BABAOĞLU, Baris.Babaoglu@tcmb.gov.tr

Olcay Yücel ÇULHA, Olcay.Emir@tcmb.gov.tr

Başak ERDOĞAN, Basak.Erdogan@tcmb.gov.tr

Okan EREN, Okan.Eren@tcmb.gov.tr

Evrim GÜRLER, Evrim.Gurler@tcmb.gov.tr

Osman Çağatay MUTLU, Cagatay.Mutlu@tcmb.gov.tr

Ferya ÖĞÜNÇ, Ferya.Kadioglu@tcmb.gov.tr

Mehmet Kasım TIRPAN, Kasim.Tirpan@tcmb.gov.tr

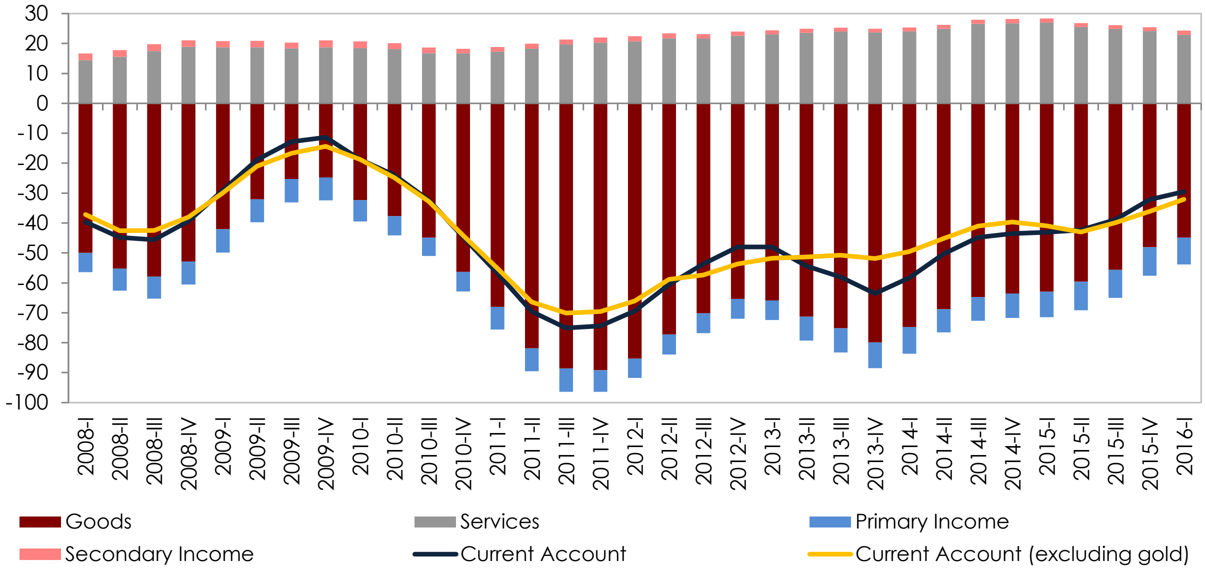
Elif ÖZCAN TOK, Elif.Tok@tcmb.gov.tr

CONTENTS

Overview

In the first quarter of 2016, the current account deficit continued to contract. The main driver of the contraction was the improvement in the foreign trade balance. The positive contractionary effect of the services balance on the current account deficit weakened due to the decline in net travel revenues (Chart 1).

Chart 1. Current Account and Sub-Items
(annualized, billion USD)



Source: Central Bank of the Republic of Turkey (CBRT).

Exports excluding gold displayed a downtrend in the first quarter. Despite the increase in exports to the European Union (EU), the significant drop in those to Iraq and Russia due to the geopolitical and economic developments led to a decline in exports in this quarter. Meanwhile, shuttle trade revenues that had been on the decline for a long time increased year-on-year owing to the low base effect. Gold exports recorded a year-on-year decrease due to gold prices.

Gold excluded, the decline in imports that started in the third quarter of 2014 continued in the first quarter of 2016. The decline in imports was mainly driven by the decrease in Turkey's imported energy bill owing to lower energy prices. In 2016Q1, imports of gold increased slightly year-on-year.

The services item, which is the second most important determinant of the current account after foreign trade, followed a downtrend in the first quarter, due to the decline in net travel revenues.

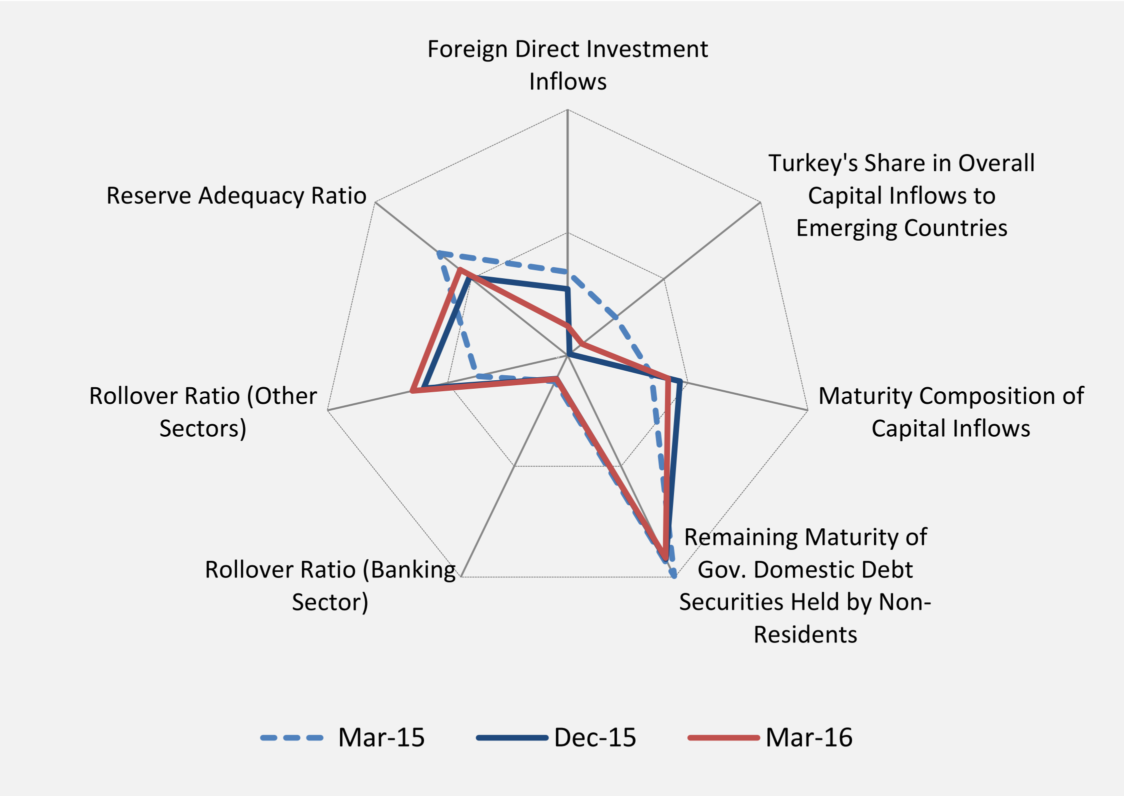
Financing of the Current Account Deficit

Due to the persistence of the weak trend and the divergence in global economic activity as well as the financial volatility triggered by uncertainties in monetary policies, the global risk appetite presented a negative outlook in the first month of 2016. In the meantime, the global risk appetite posted a relative recovery in view of the expectation that the Fed rate hike will not come soon. Meanwhile, persistence of the adverse geopolitical developments in Syria stood out as a distinctive factor affecting financial movements, peculiar to Turkey.

A breakdown of financial account in the balance of payments by main headings reveals that the direct investment inflows dropped compared to the first quarter of 2015 as this quarter did not record large transactions as opposed to the first quarter last year. Portfolio investments posted inflows in line with the recovery in the global risk appetite in the second month of the year. Regarding other investment inflows, those received by the banking sector receded slightly while external borrowings of other sectors continued at an increased pace.

As for the quality of financing sources, while the reserve adequacy ratios and the share of Turkey in capital flows to emerging market economies (EMEs) declined, all other items remained unchanged or improved slightly compared to the previous year (Chart 2).

Chart 2: Macro Display of the Quality of Current Account Deficit Financing *



Source: CBRT.
* Expansion outwards denotes improvement.

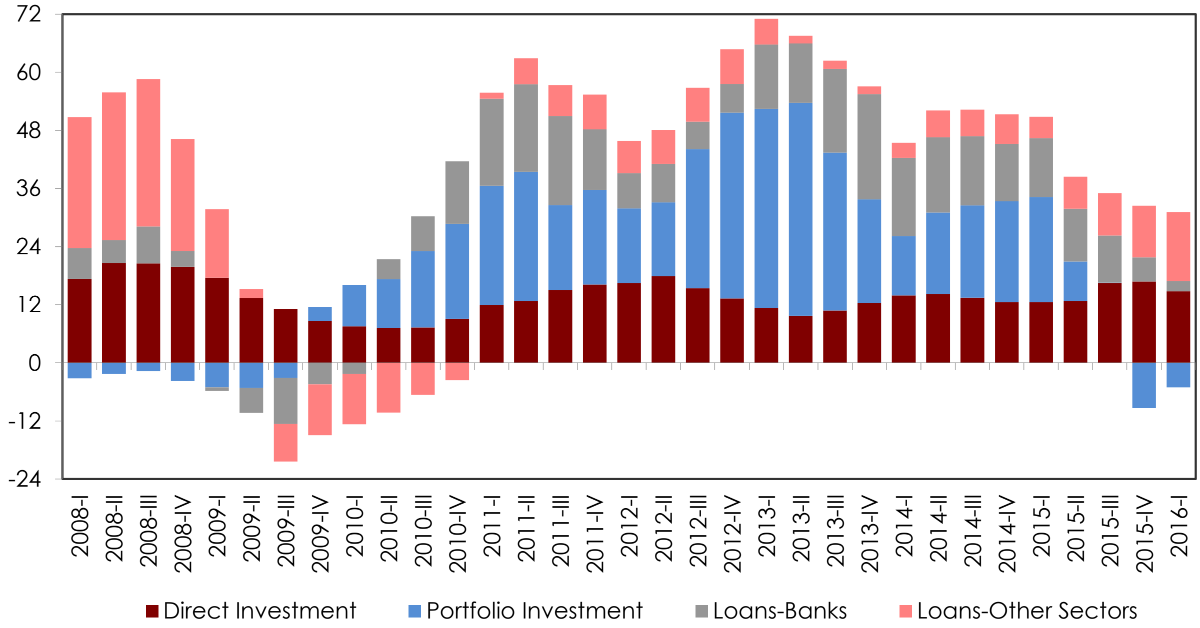
Direct investment inflows declined in this quarter compared to the previous year. This situation is an outcome of the base effect arising from a limited number of transactions in large amounts, rather than a result of an overall change in the direct investments trend (Chart 3). Meanwhile, real estate investments, a sub-item of direct investment inflows maintained its upward trend in the first quarter of 2016.

In this quarter, portfolio flows towards emerging economies shifted to inward flows in February due to fading concerns over growth in China and energy-exporting countries as well as the markets' favorable assessments on expectations over the Fed's funds rate hikes. In terms of investment instruments, debt instruments of all sectors excluding the banking sector and equity securities posted inflows.

In 2016Q1, neither the banking sector nor other sectors had any supply-side constraints in external borrowing through loans. While the banking sector repaid a net debt of a small amount in overall terms in this quarter, the shift from short-term borrowing through loans to long-term borrowing that had started in the first quarter of last year continued in this quarter. Meanwhile, other sectors were net borrowers due to the surge in long-term loans provided for financing major domestic projects.

Central Bank reserves increased in response to the favorable impact of portfolio and other investment inflows in the first quarter.

Chart 3. Financial Account and Sub-Items (Liabilities)
(annualized, billion USD)

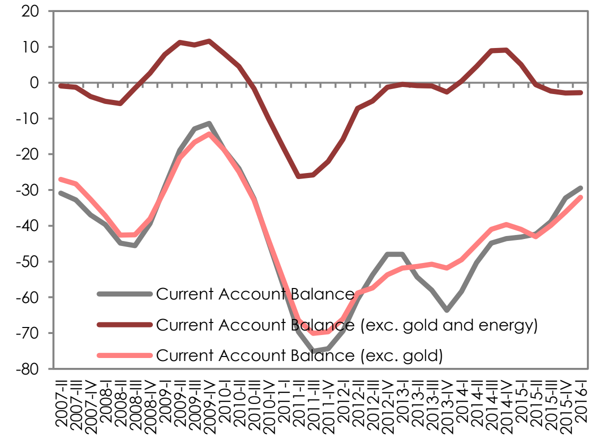


Source: CBRT.

I. Current Account

In the first quarter of 2016, the current account deficit contracted by USD 2.7 billion year-on-year and stood at USD 7.8 billion. This contraction is attributable to the year-on-year decline by USD 4.1 billion in the net energy bill due to the fall of oil prices. Net gold trade and net travel revenues receded by USD 1.4 billion and USD 0.9 billion, respectively, constraining the contraction of the current account deficit. In this period, the impact of parity developments on the current account balance remained limited (Box 1).

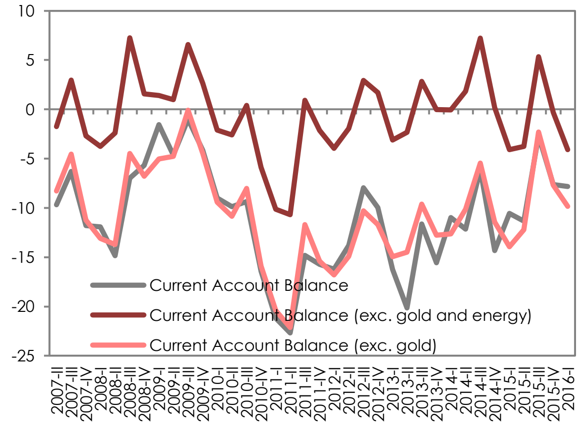
Chart 1. Current Account Balance
(annualized, billion USD)



Source: CBRT.

A year-on-year analysis indicates that the current account deficit that had narrowed since early 2014 maintained its trend. In the first quarter of 2016, the annual current account deficit receded to USD 29.5 billion, and its share in the GDP dropped to 4.2 percent. However, the annual current account balance excluding gold and energy remained flat around USD -2.8 billion.

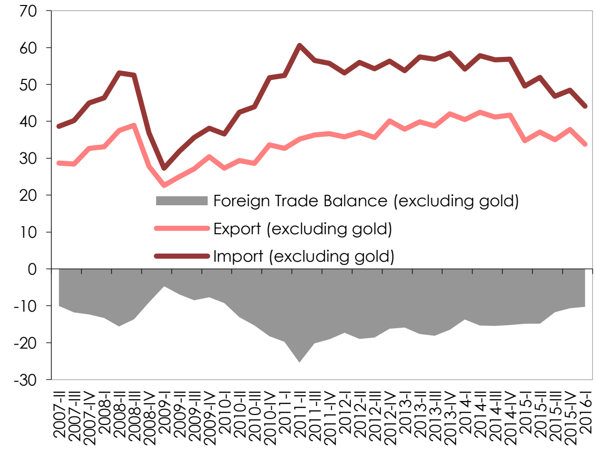
Chart 2. Current Account Balance
(quarterly, billion USD)



Source: CBRT.

The foreign trade deficit excluding gold, which is the most influential determinant of the current account deficit, contracted by USD 4.6 billion year-on-year in the first quarter. In this period, both imports and exports declined on account of falling prices. Nevertheless, imports declined more compared to exports and became an instrumental factor in the contraction of the foreign trade deficit. In the first quarter, the annual foreign trade balance excluding gold recovered by USD 13.4 billion year-on-year.

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



Source: CBRT.

Box 1 **Effects of Parity Developments on the Current Account**

The foreign trade and travel items, the most important components of the current account balance in Turkey, are mainly denominated in USD or euro. As balance of payments statistics are published in terms of USD, sharp movements in parity can have a significant effect on these sub-items. The objective of this study is to calculate the effect of the recent sharp depreciation of currencies against USD on the current account balance.

During the 2003-2015 period, exports and travel revenues accounted for 83 percent of the current account revenues, whereas imports and travel expenditures accounted for 91 percent of the current account expenditures. Accordingly, this study addresses the calculation of the parity effect of only the foreign trade and net travel balance, as these two items alone can largely reflect the effects of parity changes on the current account balance. The parity developments suggest that the euro depreciated by 21.5 percent against the USD during the March 2014 - April 2015 period. This depreciation is noteworthy given that it exceeded the 19.3 percent depreciation that happened during the global turmoil and extended over a longer time span (Chart 1).

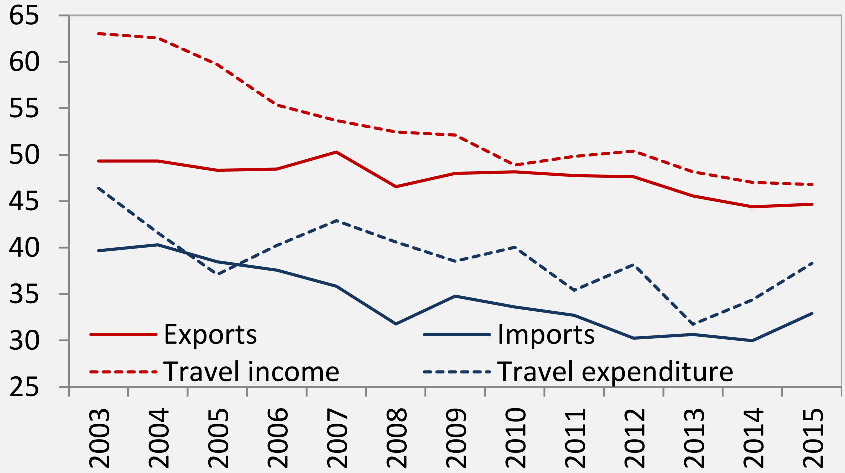
Chart 1: Euro/USD Parity (1 € = …$)

Source: CBRT

The calculation of the parity effect is mainly based on the currency composition of export, import and travel revenues-expenditures. The currency composition of foreign trade flows is announced monthly by the Turkish Statistical Institute (TURKSTAT). The currency composition of travel revenues is calculated using the "Tourists by Nationalities" table, which the CBRT prepares based on the Ministry of Culture and Tourism data and publishes within the balance of payments statistics. The currency composition of travel expenditures is calculated based on the "Citizens Visiting Abroad by Destination Countries" statistics published by the TURKSTAT.

The currency composition reveals that although the share of euro in foreign trade and travel flows gradually decreased by years, the euro maintained its dominance in these categories (Chart 2). The share of euro-denominated exports in total exports, which had been around 50 percent in early 2000, dropped to 45 percent in recent years. Thus, the share of USD-denominated exports has exceeded the share of euro since 2013. As of 2015, the share of euro in exports was 44.6 percent, yet that of USD was 47.2 percent. Likewise, the share of euro-denominated imports has declined from around 40 percent to 30 percent. As of 2015, the share of euro in imports was 32.3 percent, yet that of USD was 59 percent. The decline in the share of euro in travel revenues, which account for approximately 13 percent of the current account income, was more apparent than that in foreign trade. While the share of euro in travel revenues was 63.1 percent in 2003, it was down to 46.8 percent in 2015. Regarding travel expenditures, the share of euro posted a relatively less significant change (the ratio of travel expenditures to current account expenditures is low at 2.0 to 2.5 percent).

Chart 2: Share of Euro in Foreign Trade and Travel Items (percent)



Source: CBRT, TURKSTAT, authors' calculations

Accordingly, while calculating the effect of the recent depreciation of euro against other currencies (the decline in parity), the second quarter of 2014 (2014 Q2) has been selected as the base period. In addition to US dollar (USD) and euro, flows in Turkish lira (TL) and British pound (GBP) have also been taken into consideration in calculations. Currency units other than those have been disregarded due to their insignificant weight. The actual values for foreign trade and travel revenues-expenditures in terms of euro, GBP and TL pertaining to January-March periods of 2015 and 2016 have been re-calculated by using the average parity levels of 2014 Q2. Then, the results have been compared with the current-period realizations.

The exports that materialized at USD 143.8 billion in 2015 climb to USD 161.3 billion when calculated with 2014 Q2 parities (Table). Thus, due to the decline in parity, exports seem USD 17.5 billion less than the actual realization. Meanwhile, the parity effect in imports stands at USD 20.3 billion. The calculations suggest that including the travel flows, the parity effect put a downward pressure on the current account income and current account expenditures, by USD 20.6 billion and USD 20.8 billion, respectively. Hence, the net effect of the parity change on the current account deficit of 2015 remained pretty limited. Similar calculations for the January-March period of 2016 also reveal that this effect still remains limited.

Table: Parity Effect (billion USD)

	2015		**Parity effect for 2015**	**2016 January-March**		**Parity effect for 2016 Q1**
	Nominal value	*Parity effect free value*		*Nominal value*	*Parity effect free value*	
Exports	**143,8**	**161,3**	**-17,5**	**34,7**	**39,5**	**-4,8**
TL	6,1	7,9		1,5	2,1	
euro	64,6	79,8		16,4	20,4	
sterling	4,9	5,4		1,1	1,3	
US dollar	68,3	68,3		15,7	15,7	
Travel Income	**26,6**	**29,8**	**-3,2**	**3,4**	**3,8**	**-0,4**
TL	0,2	0,2		0,0	0,1	
euro	12,4	15,4		1,4	1,8	
sterling	1,8	2,0		0,1	0,1	
US dollar	12,2	12,2		1,8	1,8	
Imports	**207,2**	**227,5**	**-20,3**	**46,8**	**52,2**	**-5,4**
TL	13,7	17,6		3,2	4,5	
euro	68,9	85,2		16,7	20,8	
sterling	1,0	1,1		0,2	0,2	
US dollar	123,6	123,6		26,7	26,7	
Travel Expenditure	**5,4**	**5,8**	**-0,5**	**1,5**	**1,5**	**-0,1**
euro	2,0	2,5		0,4	0,4	
sterling	0,0	0,0		0,0	0,0	
US dollar	3,4	3,4		1,1	1,1	
Total income			**-20,6**			**-5,2**
Total expenditure			**-20,8**			**-5,5**

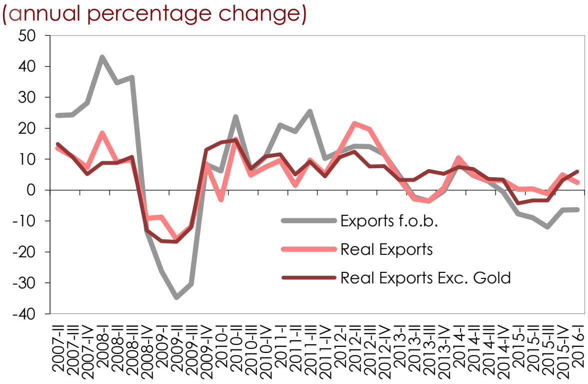
Source: CBRT, authors' calculations.

In sum, parity developments have a significant effect on the current account income and expenditures due to the dominance of euro-denominated flows. However, the negative effect on the income is largely offset by the positive effect on the expenditures; hence the parity effect on the current account balance is contained.

1.1 Exports of Goods

In the first quarter of 2016, exports decreased annually by 6.4 percent to USD 34.7 billion. In the reported period, the export quantity index recorded a 2.5 percent increase. With the exclusion of gold, the quantity of which recorded a significant decline, the increase in the export quantity index climbed to 6 percent. Consequently, the decline in current exports was mainly driven by the fall in export prices.

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



Source: TURKSTAT.

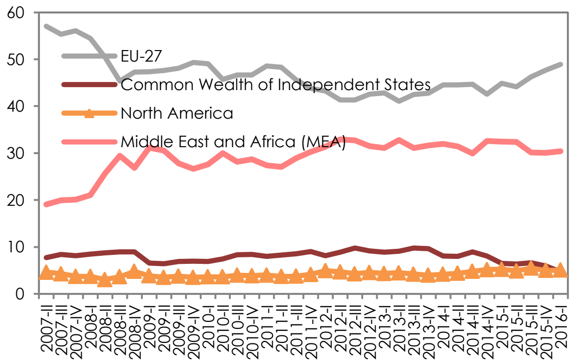
According to the seasonally adjusted data, while total exports increased, those excluding gold decreased on a quarterly basis. The data suggest that in the first quarter, while exports surged by 4.3 percent quarter-on-quarter, exports excluding gold diminished by 1.3 percent.

Chart 5. Exports vs Gold Excluded Exports
(seasonally adjusted, quarterly, billion USD)

Source: TURKSTAT.

While the share of European Union (EU) countries in Turkey's exports excluding gold increased in the first quarter, that of the Commonwealth of Independent States (CIS) decreased. In this quarter, the share of EU countries in Turkey's total exports excluding gold has recorded its highest value since the first quarter of 2010 and has stood at 48.9 percent. On the other hand, the share of CIS countries including Russia receded by 4.7 percent quarter-on-quarter in 2016Q1, while that of Middle East and African (MEA) countries recorded a limited increase to 30.4 percent. Throughout 2015, the average shares of EU, CIS and MEA countries in Turkey's exports were 45.7 percent, 6.4 percent and 31.2 percent, respectively.

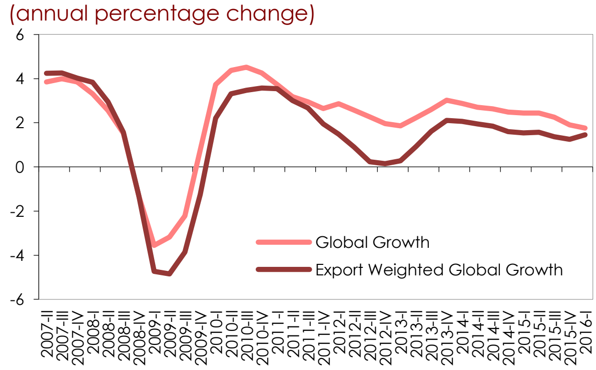
Chart 6. Selected Regions' Shares in Exports Excluding Gold
(percent)



Source: TURKSTAT.

Although growth in Turkey's export markets remained lower than the global growth, the gap between the two shrank in the first quarter. While the average economic growth in Turkey's export markets was up 1.5 percent annually, the global growth rate stood at 1.8 percent in the first quarter of 2016.

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



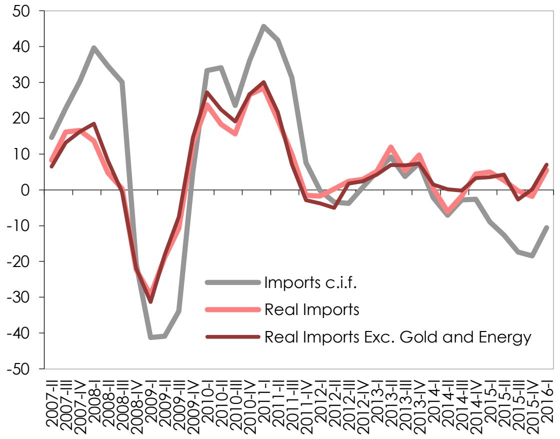
Source: CBRT.

1.2 Imports of Goods

In the first quarter of 2016, imports decreased by 10.6 percent year-on-year to USD 46.8 billion. In the respective period, while the import quantity index inched up 5.5 percent, the increase of quantity excluding gold and energy materialized at 7.1 percent. The surge in quantity was mainly driven by the items excluding gold and energy, which had a limited contribution to the index. The significant decline in import prices, chiefly the energy prices, pushed the imports down. The parity effect in price changes remained limited in this quarter.

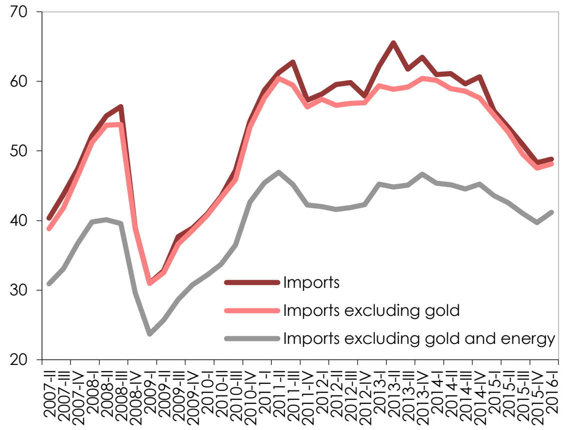
According to seasonally adjusted data, imports rose on a quarterly basis. In the first quarter of 2016, imports and imports excluding gold and energy posted quarter-on-quarter increases by 1.1 percent and 3.7 percent, respectively.

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



Source: TURKSTAT.

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



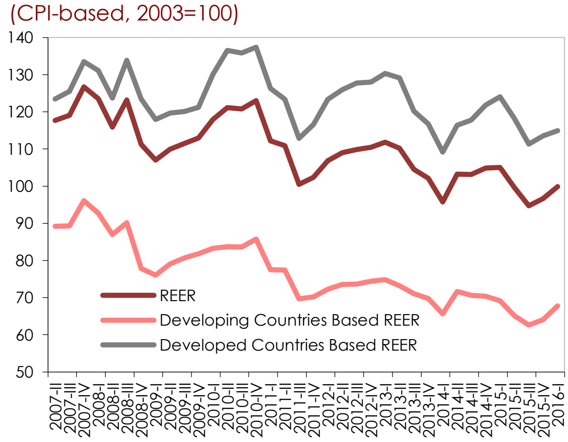
Source: CBRT.

1.3. Real Exchange Rate Developments

In the first quarter, the real exchange rate indices surged slightly compared to the previous quarter and the Turkish lira appreciated. In this period, domestic inflation developments were influential in the trend of real exchange rate indices, pushing the index up by 3.2 points to 99.9.

The Turkish lira appreciated in real terms against currencies of both advanced and emerging economies. The emerging markets sub-index continued to hover above 100 points, preserving the value of the Turkish lira against this country group. Real exchange rate indices of emerging and advanced economies registered quarter-on-quarter increases by 3.7 points and 1.5 points and stood at 67.8 points and 115.0 points, respectively

Chart 10. Real Effective Exchange Rates (REER)
(CPI-based, 2003=100)



Source: CBRT.

1.4 Global Outlook

Provisional data from the World Trade Organization (WTO) reveal that world trade continued to decline in the first quarter of 2016. In this quarter, world trade contracted by 14 percent year-on-year. The decline in the current trade is mainly attributed to the reduction in prices.

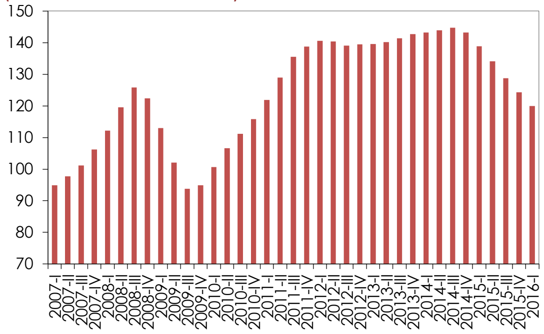
WTO data suggest that in the first quarter of 2016, Turkey's share in both global imports and global exports rose. Thus, in the first quarter of 2016, Turkey's share in global imports and global exports stood at 1.26 percent and 0.90 percent, respectively.

1.5 Terms of Trade

The recent downtrend in both export and import prices continued at a reduced pace in the first quarter of 2016. In this quarter, export prices and import prices decreased by 8.4 percent and 15.4 percent, respectively, year-on-year. The decline in energy prices was influential on the downtrend of export and import prices, whereas the effect of parity changes remained relatively subdued.

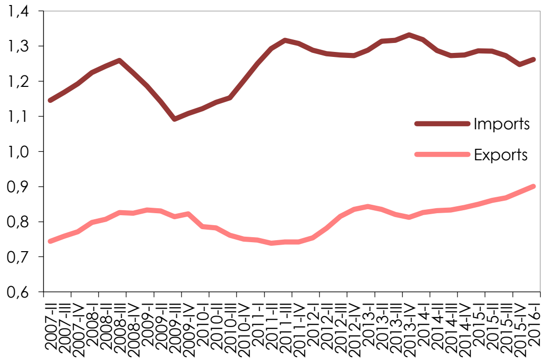
Terms of trade, which had been on the rise since mid-2012 due to import prices that posted a more significant decline than export prices, continued to increase in the first quarter of 2016. When energy and gold are excluded, the rise in terms of trade was slower and more gradual. Terms of trade were 113.8 with an 8.7-point-annual increase in the final quarter. However, with the exclusion of gold and energy, the annual increase of the index materialized at 1.6 points and became 104.2.

Chart 11. World Exports
(annualized, 2007=100)



Source: WTO.

Chart 12. Turkey's Share in World Trade (percent)

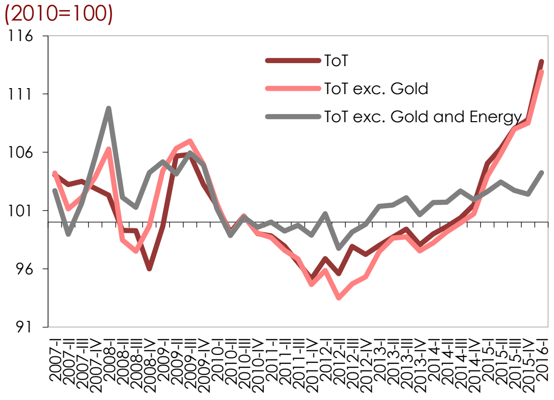


Source: WTO.

Chart 13. Export and Import Prices
(annual percentage change)

Source: TURKSTAT.

Chart 14. Terms of Trade
(2010=100)

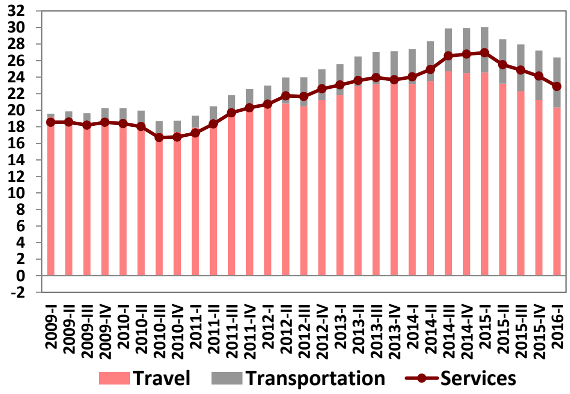


Source: TURKSTAT.

1.6 Services Account

The services item trended down on account of the decline in net travel revenues in the first quarter. Compared to the same quarter of the previous year, while the contribution of transport to the services account increased, that of travel, other business services and other services decreased.

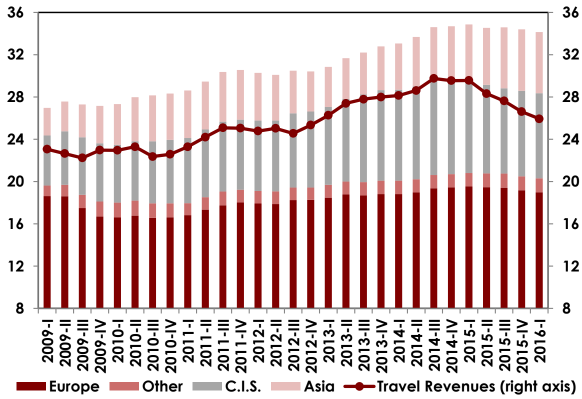
Chart 15. Services Account, Travel and Transportation
(annualized, billion USD)



Source: CBRT.

In the first quarter of 2016, net travel revenues decreased by 32.8 percent year-on-year to USD 1.9 billion. In this period, travel revenues decreased by 16.8 percent, yet travel expenses increased by 20.9 percent. Meanwhile, the number of tourists trended down by 6.9 percent. An analysis by country groups indicates that while no increase was recorded in any group, the highest proportional decline was registered in the number of tourists coming from African and European countries.

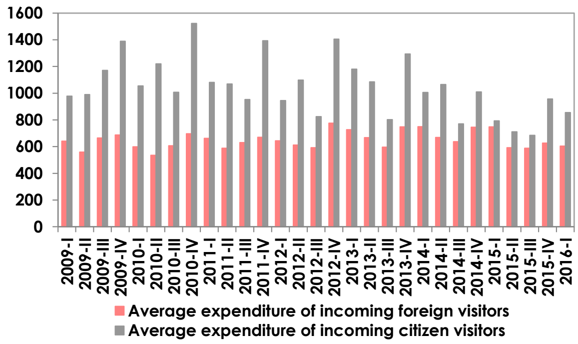
Chart 16. Breakdown of Tourists Visiting Turkey by Country and Travel Revenues
(left axis: annualized, million people; right axis: billion USD)



Source: TURKSTAT.

While the average spending of foreign visitors in Turkey diminished, those of non-resident Turkish citizens surged in this quarter. The related data show that the average spending per foreign visitor in Turkey decreased by 19.2 percent year-on-year to USD 605, while the average expenditure per non-resident Turkish citizen visiting Turkey dropped 7.9 percent year-on-year to USD 856.

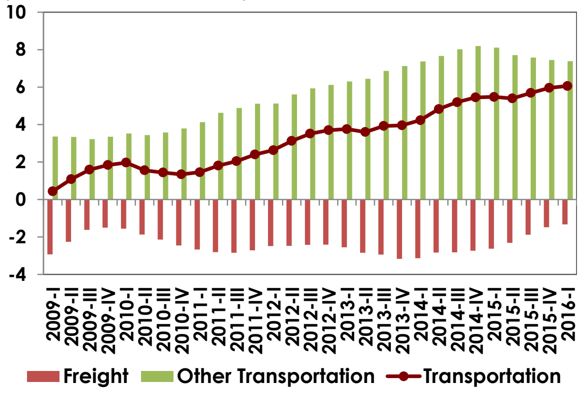
Chart 17. Average Expenditure
(USD/person)



Source: TURKSTAT.

The uptrend in net transportation revenues observed since 2014Q1 continued in this quarter as well. Meanwhile, the share of foreign carriers in imports rose by 1.2 points quarter-on-quarter to 50.9 percent.

Chart 18. Transportation and Sub-items
(annualized, billion USD)

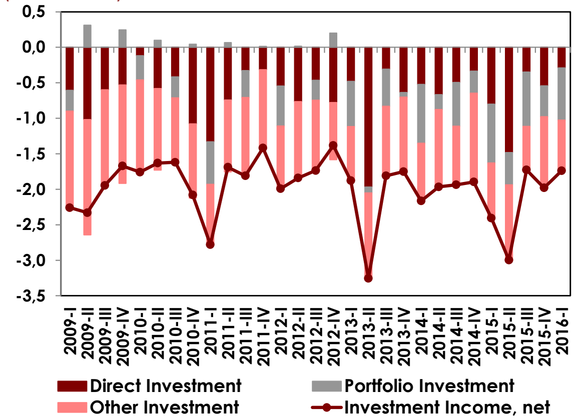


Source: TURKSTAT, CBRT.

1.7 Primary Income

The deficit in the primary income item, another component of the current account balance and the sum of compensation of employees and investment income items, narrowed in the first quarter. The direct investment expenditure, under which profit transfers abroad are recorded, posted a year-on-year decline and became the main driver of the contraction in the primary income deficit in this quarter. Net outflows from the primary income decreased by 23.6 percent year-on-year to USD 1.9 billion in the first quarter of 2016. While outflows from direct investment, portfolio investment and other investment sub-items under the investment income item decreased, outflows from the compensation of employees sub-item increased.

Chart 19. Composition of Investment Income (net)
(billion USD)

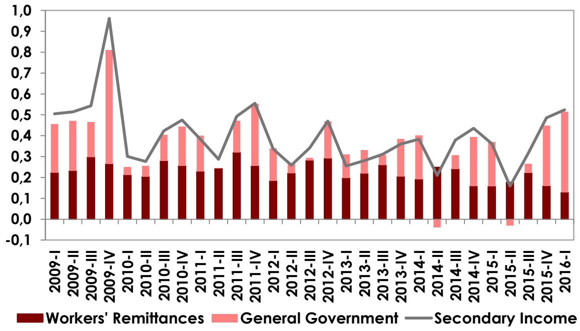


Source: CBRT.

1.8 Secondary Income

Net inflows in the secondary income, which consists of current transfers of the general government and other sectors, increased by 44.8 percent compared to the previous quarter. The main driver of this development was the 81.7 percent-increase in net inflows of the general government item that comprises international grants.

Chart 20. Secondary Income and Workers' Remittances
(billion USD)



Source: CBRT.

II. Financial Account

The relative improvement in the risk appetite as of February, driven by expectations that the Fed rate hike would not be fast, supported global financial inflows while the intense adverse geopolitical developments in Syria stood out as a Turkey-specific factor affecting financial movements. A breakdown of the financial account in the balance of payments by main headings reveals that direct investment inflows decreased in this quarter while there were inflows in portfolio investments posted inflows as of February. As for other investment inflows, those received by the banking sector slightly receded; other sectors' external borrowings continued with further acceleration.

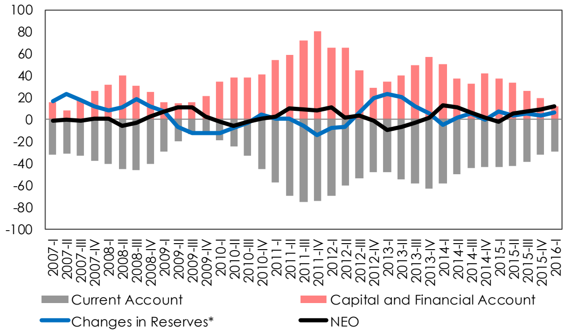
2.1 Direct Investment

The decline in direct investment inflows can be attributed to the base effect observed in the first quarter of 2015 stemming from the few transactions with large amounts. Meanwhile, real estate investments, which is an element of direct investment inflows, continued to increase in 2016Q1 (Box 2).

In the first quarter of 2016, the amount of direct investments in Turkey was USD 2.1 billion. The majority of these investments were composed of investments in the mining and quarrying sector and financial and insurance services sector. In this quarter, the share of Asian countries in the equity capital item in inward foreign direct investments increased to 25.2 percent while that of European countries decreased to 70.9 percent.

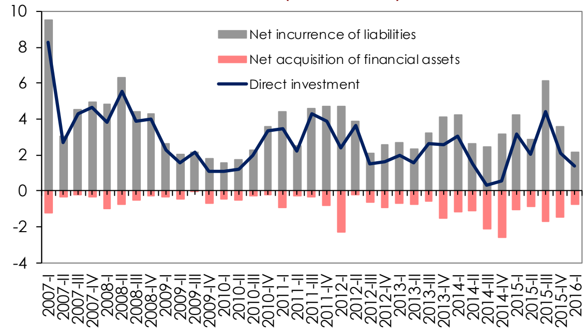
In 2016Q1, Turkey's direct investments abroad slightly decreased compared to the same period of previous year. In this quarter, Turkey's direct investments abroad was USD 0.7 billion. The share of American countries in the equity capital item in Turkey's direct investments abroad increased to 26.4 percent, while that of European countries dropped to 52.8 percent.

Chart 21. Current Account Balance and Net Financial flows (annualized, billion USD)



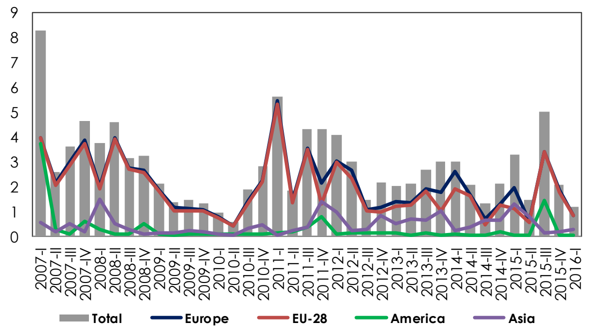
Source: CBRT.
* Changes in reserves are composed of banks' and other sectors' total foreign currency and deposits besides official reserves in the balance of payments table

Chart 24. Direct Investment (billion USD)



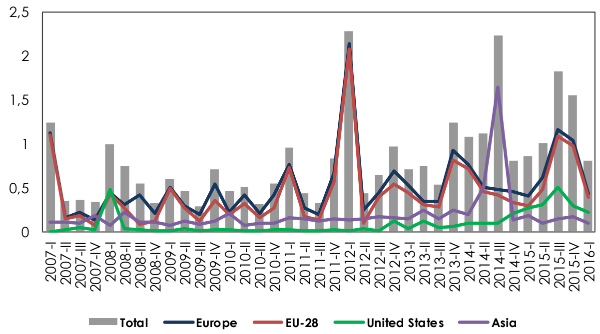
Source: CBRT.

Chart 25. Direct Investment in Turkey - Geographical Distribution (billion USD)



Source: CBRT.

Chart 26. Direct Investment Abroad - Geographical Distribution (billion USD)



Source: CBRT.

Box 2 Real Estate Statistics on the Balance of Payments Table

Pursuant to Article 35 of the Land Registry Law No. 2644, amended by Law No. 6302, which entered into force on 18 May 2012, the condition of reciprocity for foreigners who wish to buy property in Turkey, has been abolished. Accordingly, citizens of countries identified by the Council of Ministers are allowed to buy real estate in Turkey under certain conditions. Foreign nationals can buy any kind of property (house, business place, land, field) within the legal restrictions. Following this regulation, a significant increase has been observed in the net real estate purchases recorded under the “Financial Account/Direct Investment/Net Incurrence of Liabilities/Real Estate” item on the balance of payments statistics. This box explains the method used to compile the data on real estate sales to non-residents and presents a brief analysis on the effect of the amendment made in the Land Registry Law.

According to the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6), direct investment is classified by the type of investment (equity, reinvested earnings and debt instruments). Although real estate investments by non-residents are recorded as "Equity Capital", they can be presented as a separate item in the cases where such investments bear a particular significance (BPM6, para.6.31, page 105). In this context, real estate traded in Turkey by non-resident real (foreigners and citizens) and legal persons have been recorded in the “Financial Account/Direct Investment/Net Incurrence of Liabilities/Real Estate” item of the balance of payments statistics since January 2003.[1] The General Directorate of Land Registry and Cadastre (GDLRC) monitors the real estate sales and purchases only by the foreign real and legal persons, excluding non-resident Turkish citizens, by country breakdown. Additionally, within the scope of the "Departing Visitors Survey" conducted by the Turkish Statistical Institute (TURKSTAT) since 2003, the surveyed non-residents are asked whether they have purchased any real estate during their stay in Turkey; thereby average expenditures are calculated by a breakdown of "foreigner/citizen". In brief, while calculating the non-residents' net acquisition of real estate, the number of foreigners involved in real estate trading, obtained from the General Directorate of Land Registry and Cadastre, is multiplied by the average expenditure figure provided by the TURKSTAT; whereas, TURKSTAT estimations are used for citizens.

An analysis of direct investment to Turkey suggests that until 2012, net real estate investment moved in tandem with the sum of "equity capital" and "other capital" items; however, after the new Land Registry Law took effect, net real estate investment rapidly increased especially in 2013 and 2014. In March 2016, net real estate investments in annualized terms reached the highest level with USD 4.5 billion (Chart 1a). In the other direct investment items, there have been low-volume fluctuations as of 2012 (Chart 1b).

[1] Non-residents’ investments in the real estate sector in Turkey by means of establishing a new enterprise, opening a new branch or sharing the ownership in existing ones directly or indirectly are recorded under the "Financial Account/Direct Investment/Net Incurrence of Liabilities/Equity Capital” item.

Chart 1: Non-Resident Real Persons' Direct Investments in Turkey
(annualized, billion USD)

Chart 1a. Real Estate (Net)

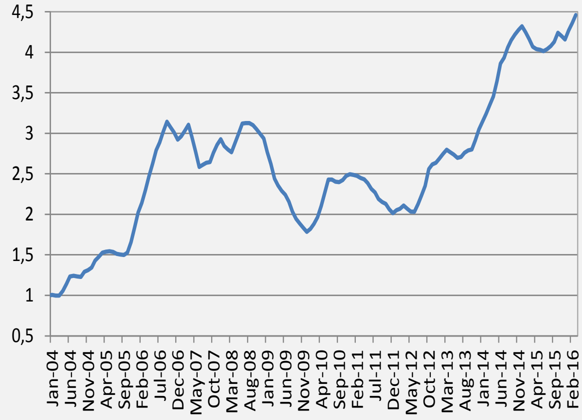
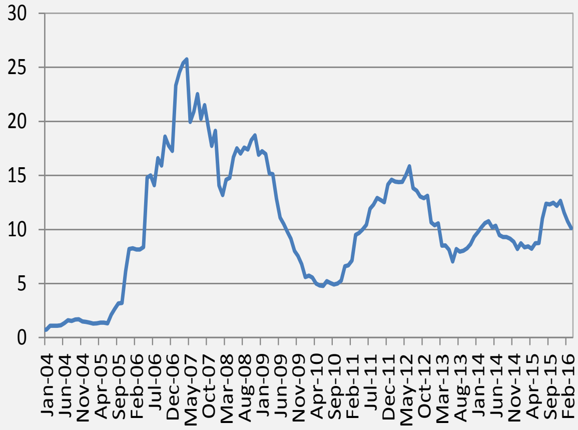


Chart 1b. Equity Capital + Other Capital (Net)



Source: CBRT, Balance of Payments Statistics.

Chart 2 shows non-residents that have purchased real estate in Turkey based on a "foreigner" and "citizen" basis. Until 2011, most real estate buyers were Turkish citizens residing abroad, however after 2011, the weight of foreigners increased. While the share of foreigners buying real estate in Turkey was around 20 percent until 2011, this share increased rapidly as of 2012 and reached 61.4 percent by March 2016 (Chart 2).

Chart 2: Non-Residents That Have Purchased Real Estate in Turkey

Chart 2a. Index (2004=100)

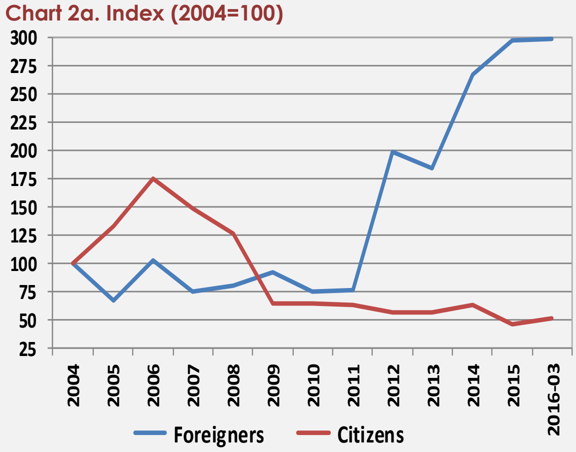
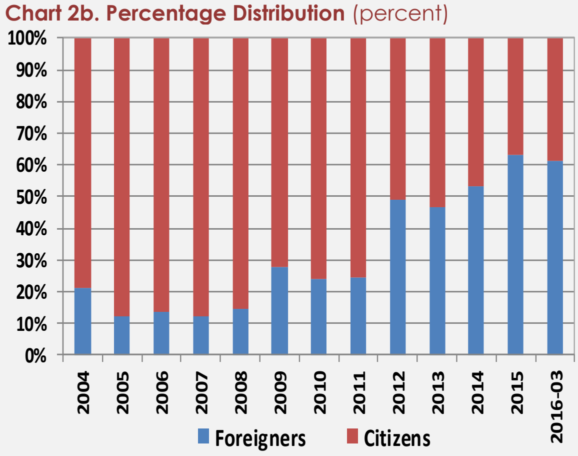


Chart 2b. Percentage Distribution (percent)



Not: Data that was annualized in March 2016 has been used.
Source: GDLRC, TURKSTAT.

To conclude, non-residents' real estate purchases in Turkey, which is calculated based on data from the GDLRC and the data from TURKSTAT's survey, show that net purchases reached the highest level in March 2016. This rise was driven by the Land Registry Law that took effect on 18 May 2012, which resulted in an increase in the number of "foreigners" buying real estate in Turkey. The share of foreigners that purchased real estate in Turkey exceeded 60 percent in 2015 and 2016.

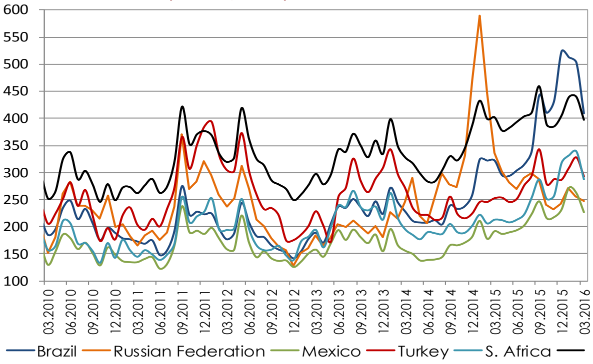
2.2. Portfolio Investment

In 2016Q1, emerging economies started receiving portfolio inflows as of February in tandem with the relative improvement in the global risk appetite. In this quarter, while Turkey's risk premium remained below the average risk premium of the Emerging Markets Bond Index (EMBI+), it remained above the risk premiums of Mexico, Russia and South Africa.

Similar to other emerging markets, Turkey received inflows as portfolio investments in the first quarter of the year. In terms of investment instruments, equity securities and all other debt securities excluding banks' bond issues abroad posted net inflows throughout the quarter. In this quarter, the stock market and the GDDS market recorded net inflows of USD 1.2 billion and USD 1.1 billion, respectively. While the General Government issued bonds abroad in the amount of USD 1.5 billion, it paid back USD 0.8 billion. The maturity structure of the portfolio investment item improved quarter-on-quarter.

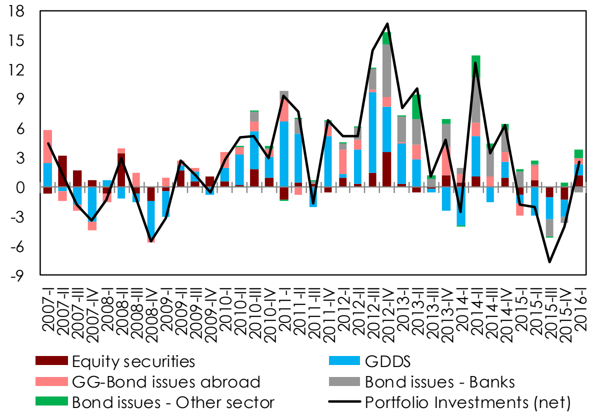
While banks' bond issues abroad declined, those of other sectors increased in this quarter. Banks effected a net repayment of USD 0.5 billion through bond issues abroad, while other sectors borrowed USD 0.8. Consequently, by March 2016, the stock of debt securities issued abroad by banks decreased to USD 29.8 billion while the stock of debt securities issued abroad by other sectors increased to USD 10.0 billion (Box 3).

Chart 27. Secondary Market Spreads and Turkey's Relative Position (basis point)



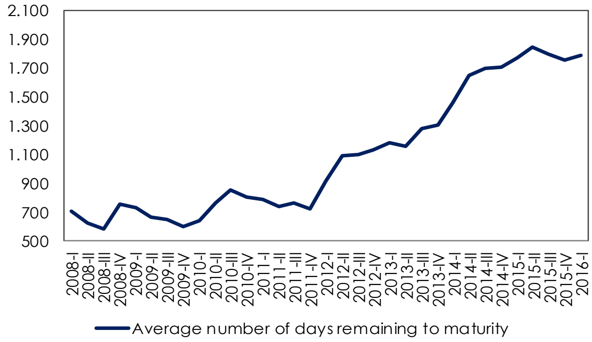
Source: JP Morgan.

Chart 28. Portfolio Investment – Liabilities (billion USD)



Source: CBRT.

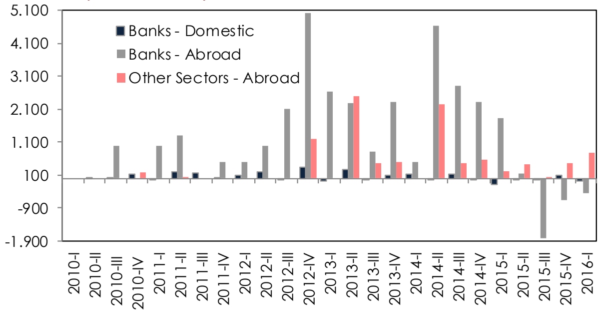
Chart 29. Maturity Structure of Non-Residents' Holdings of GDDS (average number of days remaining to maturity)*



Source: CBRT.

* It is calculated by weighing the number of days to maturity of securities according to their market values in terms of US dollars.

Chart 30. Debt Securities Issued by Banks and Other Sectors (million USD)



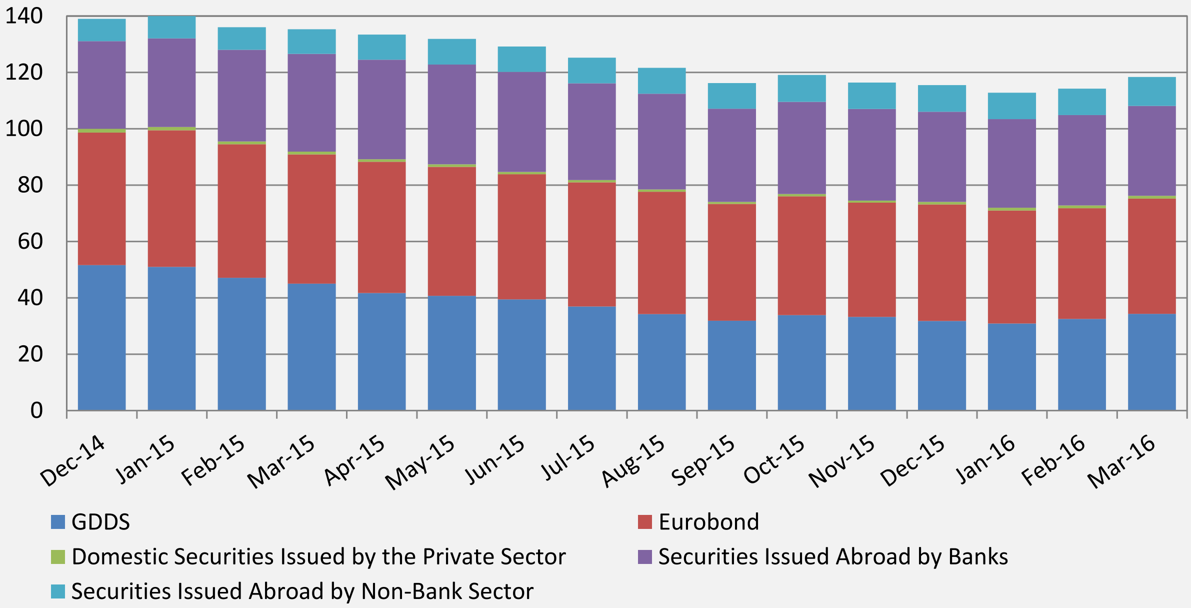
Source: CBRT.

Box 3 Recent Developments in Securities Held by Non-Residents

As the global risk appetite receded, emerging markets experienced capital outflows mostly from portfolio investments throughout 2015. In the related period, there was a decline (outflow) in the amount of USD 9.4 billion from the portfolio investment: net incurrence of liabilities item in the balance of payments. This Box summarizes the recent developments in liability items of portfolio investments excluding securities.

Securities held by non-residents cover the government domestic debt securities (GDDS) and eurobonds issued by the Treasury abroad as well as securities issued by the private sector in Turkey and abroad. An analysis of the developments in these securities between December 2014 - March 2016 reveals that the total value of these securities dropped to USD 118 billion from USD 140 billion (Chart 1). While the market value of securities issued abroad by banks and the non-bank sector increased, that of eurobonds and GDDS decreased. The decline in the total market value of the GDDS and eurobonds partly originated from transactions while it was mostly driven by the change in prices (the depreciation of the Turkish lira was an additional factor for GDDS). In 2016Q1, the total market value of the GDDS held by non-residents decreased by USD 17.3 billion compared to the end of the year; out of this total amount, USD 6.5 billion stemmed from transactions and USD 10.8 billion from price and exchange rate effect.

Chart 1: Securities Held by Non-residents (market value, billion USD)

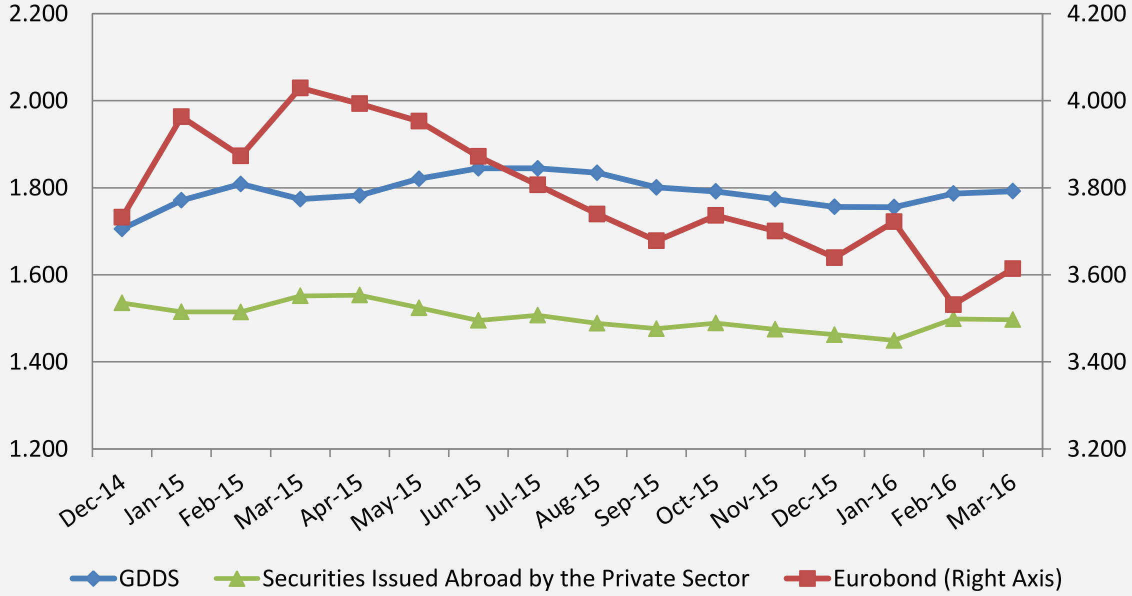


Source: CBRT

"Weighted average days to maturity" for securities is an important indicator that is monitored with respect to liquidity risk. The indicator shows that while the average maturity of GDDS held by non-residents was extended slightly, the maturity of eurobonds has been contracting.

Meanwhile, the average maturity of securities issued by the private sector abroad has remained flat. In 2016Q1, the average maturity was 1792 days for GDDS, 3614 days for eurobonds and 1497 days for securities of the private sector (Chart 2).

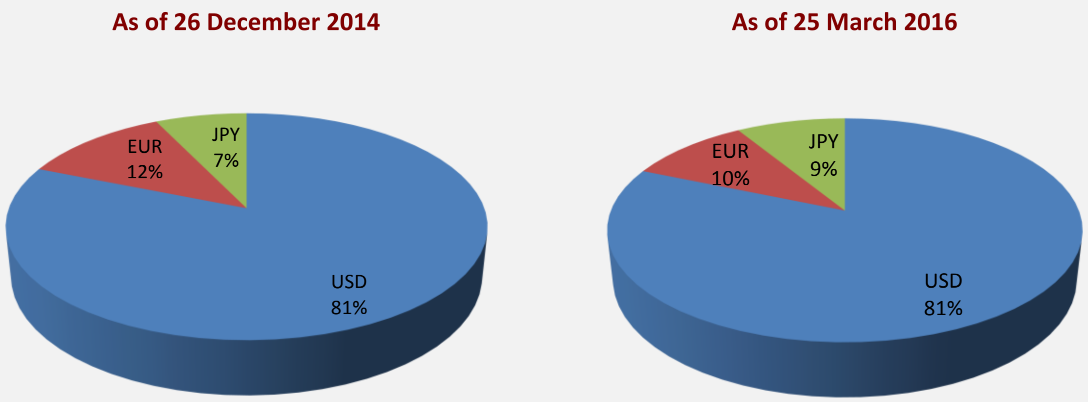
Chart 2: Securities Held by Non-Residents
(weighted average days to maturity)



Source: CBRT

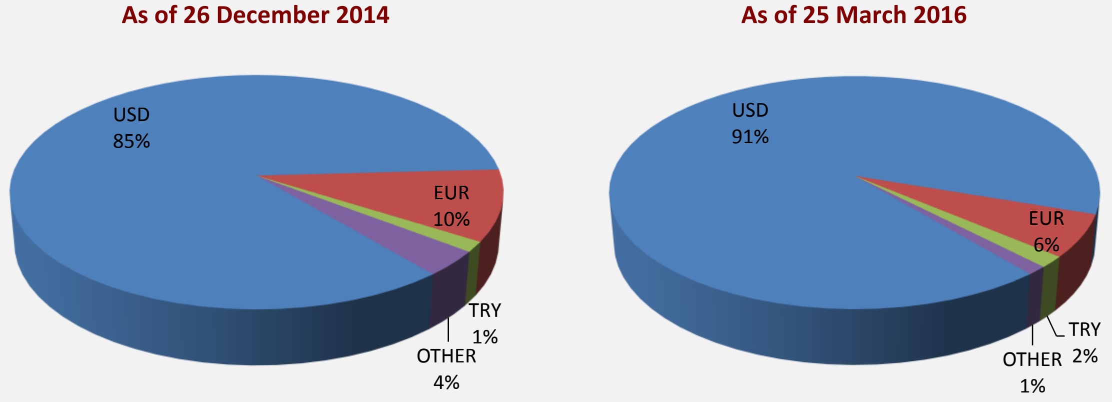
In this period, the significant depreciation of the euro against USD has been an influential factor on portfolio preferences. In this framework, the breakdown of securities issued abroad by currency suggests that the share of eurobonds has fallen to 10 percent from 12 percent while that of Japanese yen has increased to 9 percent from 7 percent. There has been no change in the share of USD-denominated eurobonds in this period (Chart 3). The share of the private sector's USD-denominated debt instruments rose to 91 percent from 85 percent while that of euro-denominated debt instruments decreased to 10 percent from 6 percent (Chart 4).

Chart 3 - Breakdown of Eurobonds Issued by the Treasury Abroad by Type of Currency



Source: CBRT

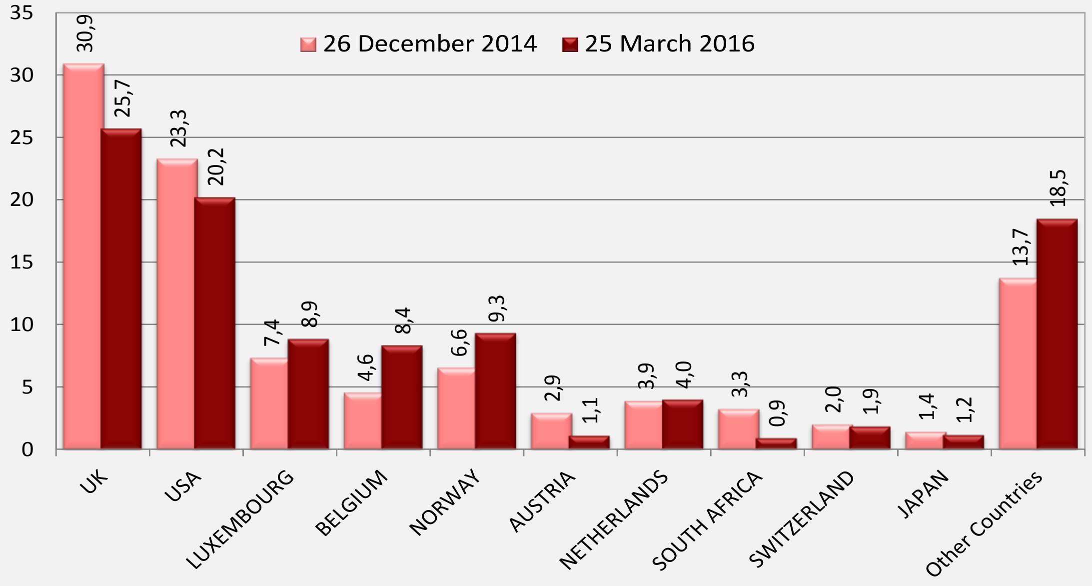
Chart 4 - Breakdown of Debt Instruments Issued by the Private Sector Abroad by Type of Currency (percent share)



Source: CBRT

The breakdown of GDDS by creditor countries was analyzed to assess the country profile of non-residents investing in Turkish securities (Chart 5). Accordingly, in the December- March 2016 period, the share of the United Kingdom having the largest share for GDDS dropped to 26 percent from 31 percent and the share of the United States having the second largest share for GDDS decreased to 20 percent from 23 percent. The shares of Belgium, Luxembourg, Norway, the Netherlands and the share of other countries calculated as a compilation increased in this period.

Chart 5 - Breakdown of Government Domestic Debt Securities by Creditor Country (percent share)



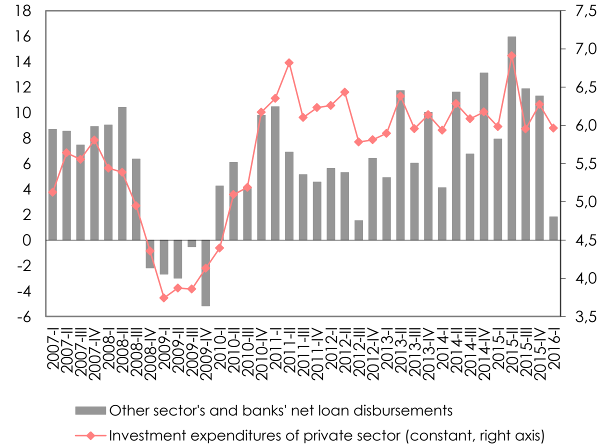
Source: CBRT

Consequently, during the period from end-2014 until 2016Q1, the market value of the securities held by non-residents decreased; this decline was mainly driven by the price and exchange rate movements. There has been no significant change in the average maturity of these securities while the relative weight of the euro-denominated securities declined as a result of the parity changes. An analysis of the breakdown of GDDS held by non-residents by countries suggests that the number of countries investing in Turkish securities has increased.

2.3 Loans and Deposits

In the first quarter of 2016, there was no supply-side constraint in external borrowing through loans. Banks' tendencies towards longer maturities continued. In this quarter, banks used net USD 1.0 billion of long-term loans and repaid USD 2.2 billion of short-term loans. Banks' total debt rollover ratio decreased quarter-on-quarter to 97 percent; the ratio does not change when borrowing through loans is included.

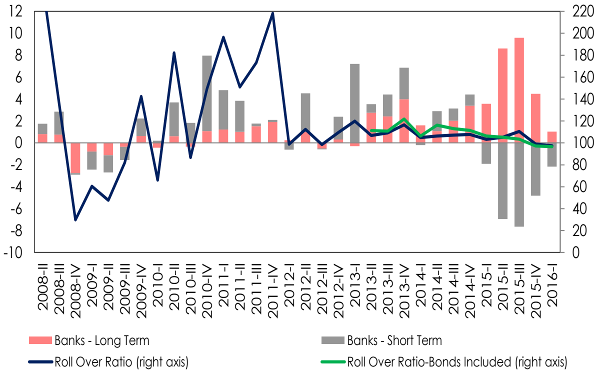
Chart 31. Net Long-Term Loan Utilization*(billion USD, covering the effect of Decree No: 32) **and Other Sectors' Investment Expenditures** (billion TL, 1998=100,)



* Including FX-denominated loans extended by banks in the domestic market.

Source: CBRT.

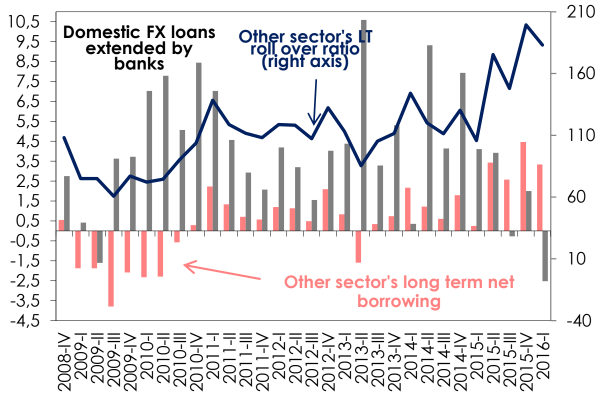
Chart 32. Banks' Net Borrowing (billion USD) **and Total Rollover Ratio** (percent)



Source: CBRT.

The increase in long-term loans obtained to finance large-scale domestic projects became a determining factor in other sectors' foreign borrowing strategies. In this period, net USD 3.3 billion worth of long-term loans and USD 0.6 billion worth of short-term loans were used. The average borrowing maturity was extended with the influence of the loans received for financing large-scale domestic projects with very long maturities. While the long-term rollover ratio reached 183 percent, the total rollover ratio of other sectors including short-term loans and borrowings through bonds increased quarter-on-quarter and reached 157 percent.

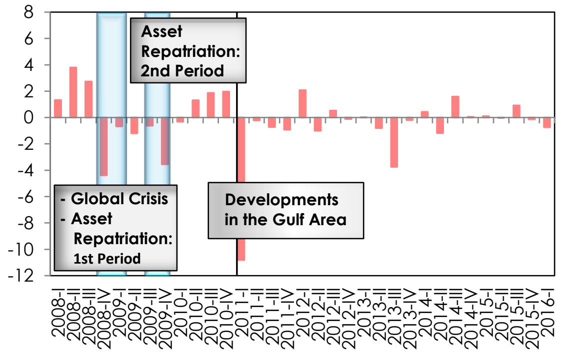
Chart 33. Domestic FX Loans Extended by Banks - Other Sectors' Long-Term Net Borrowing (billion USD) **and Long-Term Debt Rollover Ratio** (percent)



Source: CBRT.

The implementation allowing non-resident Turkish citizens to open long-term FX deposit accounts with letters of credit and super FX accounts at the Central Bank was terminated on 1 January 2014. As the maturing accounts were closed, a net outflow of USD 66 million was registered in these accounts in 2016Q1.

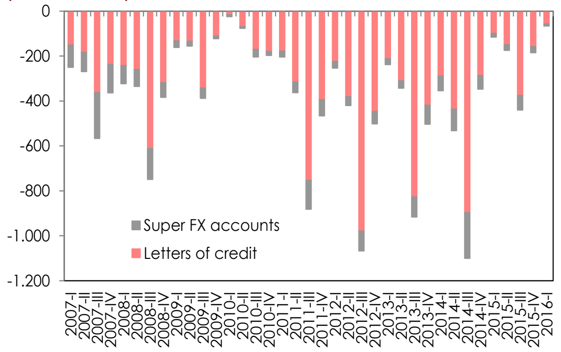
Chart 34. Other Sectors' Deposit Assets Abroad (billion USD)



Source: CBRT.

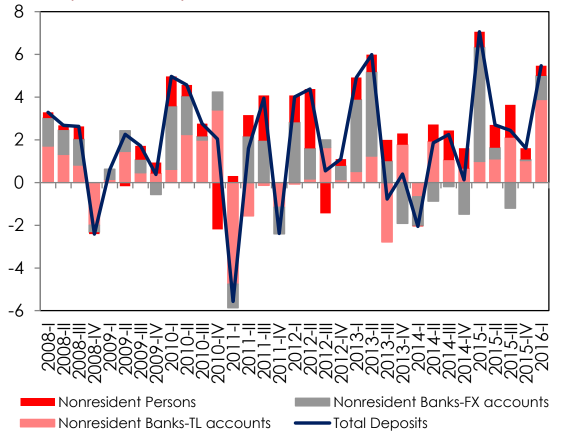
In this period, there were deposit flows to Turkey from both banks abroad and non-resident persons. In the first quarter of 2016, the amount of FX deposits kept by banks abroad in domestic banks increased by net USD 1.1 billion, while TL deposits increased by USD 3.9 billion. Meanwhile, non-residents' deposits increased by net USD 0.5 billion. Consequently, deposits kept in domestic banks by non-resident sources posted a net inflow of USD 5.5 billion.

Chart 35. Deposits within the CBRT (million USD)



Source: CBRT.

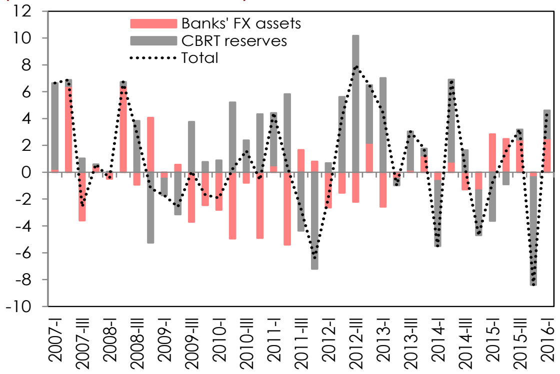
Chart 36. Deposits of Non-resident within the Domestic Banks (billion USD)



Source: CBRT.

In 2016Q1, the Central Bank reserves increased on the back of the favorable impact of the rise in portfolio inflows and other investment inflows. The increase was mainly driven by the repayment of rediscount loans that the CBRT extends to exporters, the rise in deposits kept by banks at the Central Bank and FX flows to the Treasury's deposits via bond issues and privatization proceeds. Meanwhile, the FX sales to energy-exporting SEEs and banks, and the capital and interest payments made for Treasury bonds issued abroad were the main outflow items from the reserves.

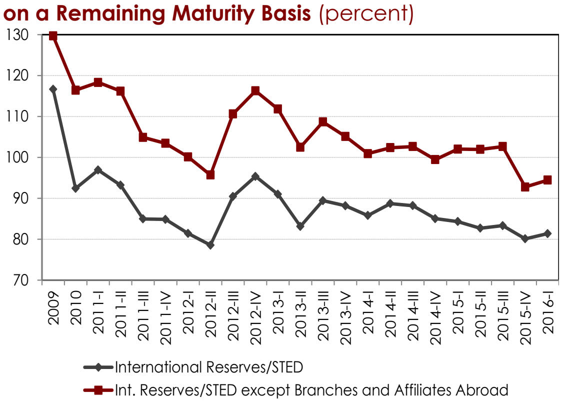
Chart 37. Reserve Assets Item on the Balance of Payments Table and Banks' FX Accounts in Correspondent Banks (flow data, billion USD) (annualized, billion USD)



Source: CBRT.
Note: (+) increase; (-) decrease

In 2016Q1, the CBRT's gross international reserves increased by USD 4.0 billion compared to end-2015 and recorded USD 114.6 billion. 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 than 1 year regardless of the original maturity, increased by 4.0 percent quarter-on-quarter and stood at USD 166.3 billion. As a result, the ratio of total international reserves to STED, which is monitored as a reserve adequacy indicator, was recorded as 81.4 percent. Nevertheless, this ratio becomes 94.5 percent when branches and affiliates abroad are excluded.

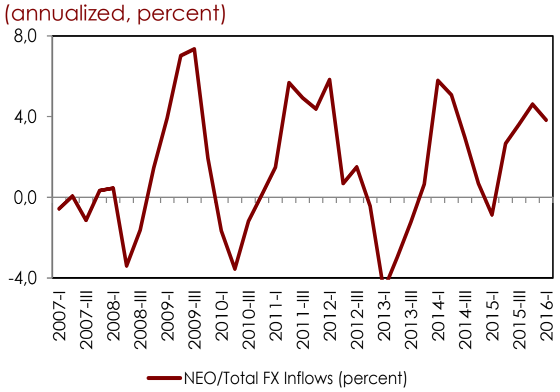
Chart 38. The Ratio of International Reserves to STED on a Remaining Maturity Basis (percent)



Source: CBRT.

The Net Errors and Omissions (NEO) item was USD 2.3 billion in 2016Q1. In annual terms, the 12-month cumulative NEO stood at USD 7.7 billion in this period and the ratio of 12-month cumulative NEO to total FX inflows decreased to 3.8 percent.

Chart 39. Net Errors and Omissions (NEO) and Total Foreign Exchange Inflows (annualized, percent)



Source: CBRT.

III. Annex Tables

Balance of Payments (billion USD)

	January-March			March (Annualized)		
	2015	2016	% change	2015	2016	% change
Current Account	-10,5	-7,8	-25,8	-43,1	-29,5	-31,6
Goods	-11,5	-8,2	-28,1	-63,0	-44,9	-28,7
Exports	38,7	36,5	-5,7	164,7	149,8	-9,1
Exports (fob)	37,1	34,7		154,5	141,5	
Shuttle Trade	1,1	1,2		7,5	5,6	
Imports	50,2	44,8	-10,8	227,7	194,7	-14,5
Imports (cif)	52,3	46,8		237,0	201,7	
Adjustment: Classification	-2,6	-2,1		-12,2	-9,2	
Services	3,0	1,8	-41,1	26,9	22,9	-15,1
Travel (net)	2,9	1,9		24,6	20,3	
Credit	4,1	3,4		29,6	25,9	
Debit	1,2	1,5		5,0	5,6	
Other Services (net)	0,2	-0,1		2,4	2,6	
Primary Income	-2,5	-1,9	-23,6	-8,4	-8,9	5,9
Compensation of Employees	-0,1	-0,2		-0,2	-0,5	
Direct Investment (net)	-0,8	-0,3		-2,3	-2,7	
Portfolio Investment (net)	-0,8	-0,7		-2,0	-2,4	
Other Investment (net)	-0,8	-0,7		-3,9	-3,4	
Interest Income	0,3	0,4		1,6	1,8	
Interest Expenditure	1,1	1,2		5,6	5,2	
Secondary Income	0,4	0,5	44,8	1,4	1,5	7,1
Workers Remittances	0,2	0,1		0,8	0,7	
Capital Account	0,0	0,0		-0,1	0,0	
Financial Account	-6,6	-5,5	-15,8	-45,1	-21,8	-51,7
Direct Investment (net)	-3,2	-1,4	-55,4	-5,6	-10,0	79,3
Net Acquisition of Financial Assets	1,1	0,7		6,9	4,8	
Net Incurrence of Liabilities	4,2	2,1		12,5	14,7	
Portfolio Investment (net)	1,7	-2,6	-246,7	-20,8	11,2	-153,7
Net Acquisition of Financial Assets	0,7	0,7		0,9	6,2	
Net Incurrence of Liabilities	-1,0	3,3		21,8	-5,0	
Equity Securities	-0,8	1,2		1,4	-0,4	
Debt Securities	-0,2	2,1		20,4	-4,6	
GDDS	-0,8	1,1		3,4	-5,8	
Eurobond Issues of Treasury	-1,3	0,7		2,1	2,2	
Borrowing	1,5	1,5		4,8	3,0	
Repayment	2,8	0,8		2,8	0,8	
Banks (net)	1,6	-0,6		11,4	-2,9	
Other Sectors (net)	0,2	0,9		3,5	1,8	
Other Investment (net)	-1,5	-3,7	140,9	-19,5	-16,9	-13,2
Currency and Deposits	-1,0	-2,5		-2,4	0,6	
Net Acquisition of Financial Assets	6,0	3,0		6,8	11,9	
Banks	5,9	3,7		6,2	11,9	
Foreign Exchange	2,8	2,5		1,0	7,1	
Turkish Lira	3,0	1,2		5,2	4,8	
Other Sectors	0,1	-0,7		0,6	0,0	
Net Incurrence of Liabilities	6,9	5,4		9,2	11,4	
Central Bank	-0,1	-0,1		-2,1	-0,9	
Banks	7,1	5,5		11,3	12,2	
Loans	-1,6	-1,6		-13,7	-13,6	
Net Acquisition of Financial Assets	0,1	0,6		1,8	1,3	
Net Incurrence of Liabilities	1,7	2,2		15,6	14,9	
Banks	1,7	-1,1		12,1	2,1	
Short-term	-1,9	-2,2		2,1	-21,6	
Long-term	3,6	1,0		10,1	23,7	
General Government	-0,3	-0,6		-0,9	-1,5	
Long-term	-0,3	-0,6		-0,9	-1,5	
Other sectors	0,4	3,9		4,4	14,3	
Short-term	0,1	0,6		0,5	0,5	
Long-term	0,2	3,3		3,9	13,8	
Trade Credit and Advances	1,1	0,3		-2,9	-3,7	
Net Acquisition of Financial Assets	-0,7	0,0		-2,1	-0,3	
Net Incurrence of Liabilities	-1,9	-0,4		0,8	3,5	
Other Assets and Liabilities	0,0	0,1		-0,4	-0,1	
Change in Official Reserves	-3,6	2,1		0,8	-6,1	
Net Errors and Omissions	4,0	2,3		-1,9	7,7	

Source: CBRT.

Boxes in Balance of Payments Reports

2011-II

Box 1. The Impact of Terms of Trade on Widening Current Account Deficit
Box 2. The Impact of Residents On Capital Flows
Box 3. Analysis of 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