TÜRKİYE CUMHURİYET
MERKEZ BANKASI

2015-III

Financial Accounts Report

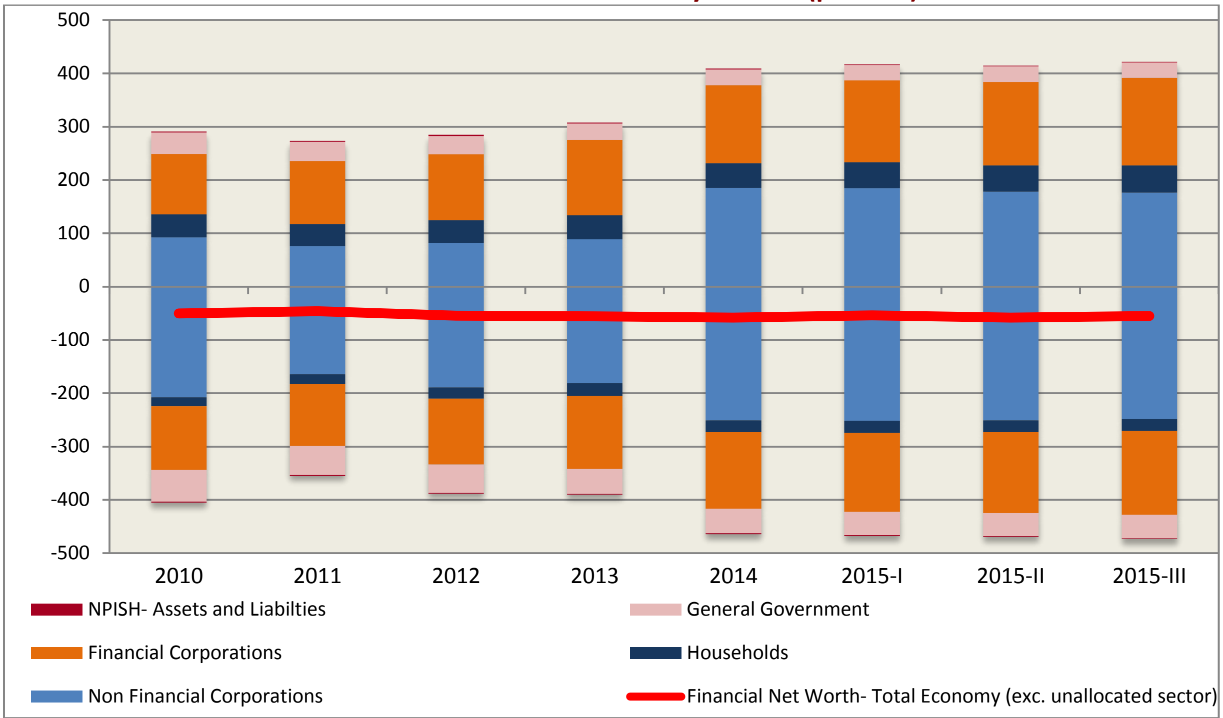
Statistics Department
Monetary and Financial Data Division

I. Introduction[1]

In 2015Q3, the net financial assets of the Turkish economy were TRY 7,976 billion, while net financial liabilities were TRY 8,966 billion. The ratio of the net financial worth produced by domestic sectors, in other words, Turkey's net financial liabilities to the rest of the world, to GDP decreased by 3 percentage points to 55 percent in this period. There has been no significant change in the financial assets and liabilities and/or in the distribution of financial instruments; the non-financial corporations has been the most indebted sector while the biggest creditors of the domestic sectors continued to be foreign sectors and households. The most significant instruments in financial assets and liabilities were loans, and shares and other equity (Chart 1 and Chart 2).

In 2015Q3, the highest net flow was[2] observed in non-financial corporations as a rise in liabilities, most of which originating from transactions. In households, financial flows increased assets while transactions and valuations were close to each other (Chart 3).

Chart 1: Ratio of Financial Assets and Liabilities to GDP by Sectors (percent)

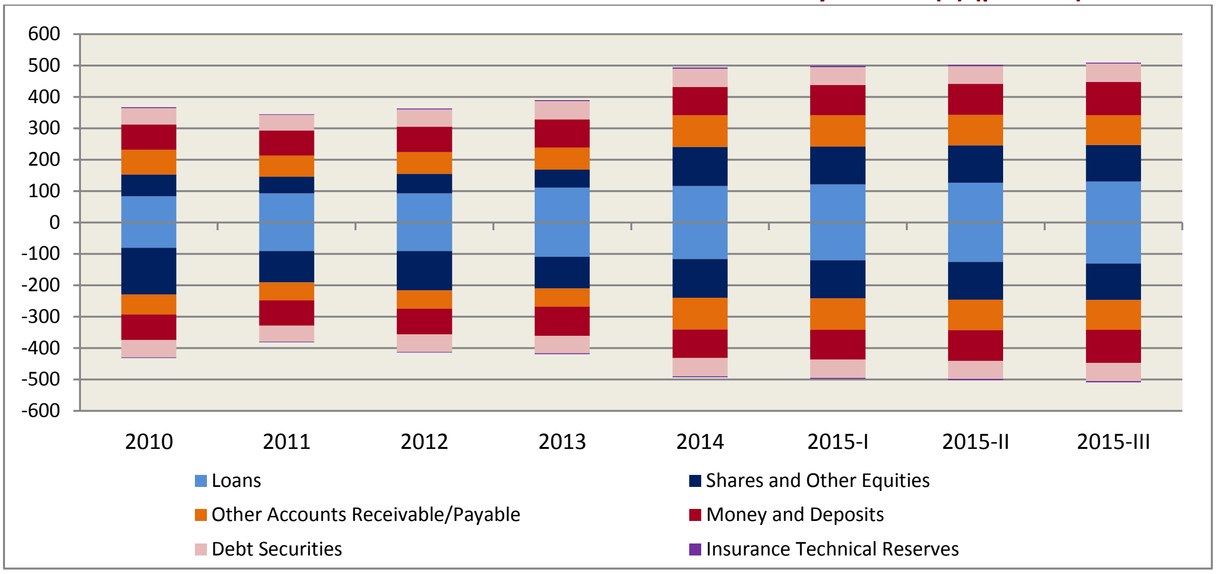


Source: CBRT

1 The time series of the Financial Accounts are available here.

[2] Net flow denotes the difference between assets and labilities between two periods with respect to transactions, valuation and other changes.

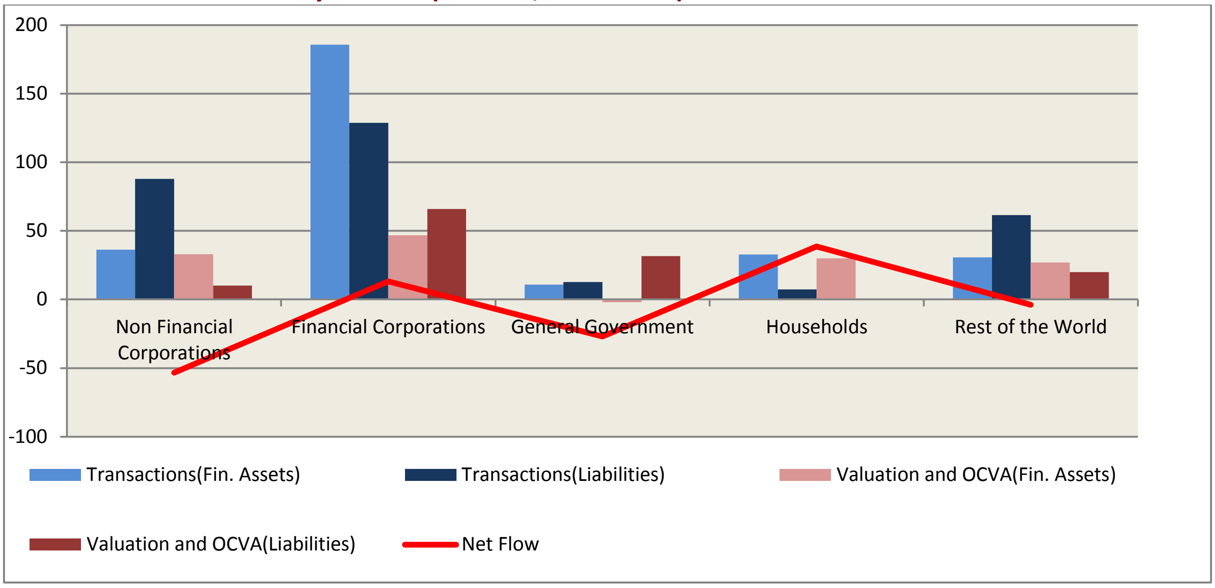
Chart 2: Ratio of the Distribution of Financial Instruments to GDP by Sectors (*) (percent)



Source: CBRT

(*) Monetary gold and SDR have been excluded.

Chart 3: Financial Flows by Sectors (2015Q3, TRY billion)



Source: CBRT

In more detailed explanation, non-financial corporations sector was the biggest sector both on the assets and the liabilities side, followed by financial corporations and general government. The breakdown of financial instruments reveals that in the third quarter of 2015, 27 percent of financial liabilities were composed of loans, 24 percent of shares and other equity and 21 percent of other accounts receivable. As for financial liabilities, the instrument with the highest weight was loans with a share of 26 percent. Loans were followed by shares and other equity (23 percent), and currency and deposits (percent 21) items. Meanwhile, debt securities constituted 12 percent of total financial assets and 11 percent of financial liabilities. A comparison of the distribution of financial instruments between 2010 and the third quarter of 2015 shows that the biggest difference was recorded in the shares and other equity item which increased by 4 percent on the assets side and decreased by 12 percent on the liabilities side.

Table 1. Net Financial Worth by Sectors

(2014-IV, TRY billion)

	Total Economy (*)	Non Financial Corporations	CBRT	Other Monetary Financial Institutions (**)	Insurance Corporations and Pension Funds	Financial Intermediaries and Auxiliaries	Central Government	Local Government	Social Security Institutions	Households	NPISH	**Rest of the World(*)**
Financial Assets	**7,147**	3,232	374	1,940	92	153	316	61	138	813	28	**1,519**
Liabilities	**8,116**	4,383	371	1,926	84	133	738	55	12	389	24	**500**
Financial Net Worth	**-968**	-1,151	3	14	8	20	-422	6	126	424	4	**1,019**

(2015-III, TRY billion)

	Total Economy (*)	Non Financial Corporations	CBRT	Other Monetary Financial Institutions (**)	Insurance Corporations and Pension Funds	Financial Intermediaries and Auxiliaries	Central Government	Local Government	Social Security Institutions	Households	NPISH	**Rest of the World(*)**
Financial Assets	**7,976**	3,334	488	2,326	103	188	328	72	149	967	22	**1,718**
Liabilities	**8,966**	4,704	473	2,245	95	162	768	58	17	420	24	**669**
Financial Net Worth	**-990**	-1,370	16	81	8	25	-440	14	132	547	-2	**1,049**

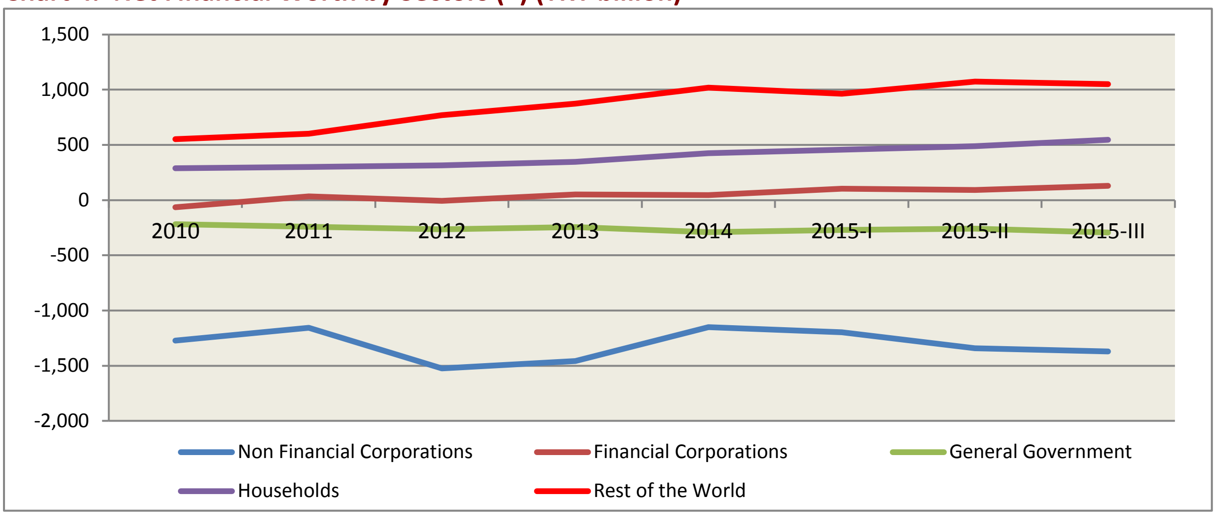
Source: CBRT

(*) According to ESA 95, there is a difference between net financial worth of total domestic economy and rest of the world since there are no counterpart sectors of monetary gold and SDR.

(**) Other Monetary Financial Institutions item consists of Banks and Money Market Funds.

An analysis of the net financial worth by sectors reveals that the most indebted sector is the non-financial corporations sector followed by the central government. In the third quarter of 2015, non-financial corporations borrowed net TRY 219 billion compared to end-2014 and reached a negative net financial worth of TRY 1,370 billion while the net indebtedness level of the central government increased by TRY 18 billion to TRY 440 billion. The biggest creditor of the domestic sectors is the rest of the world; in other words, foreign sectors. The foreign sector was a net creditor against domestic sectors in the amount of TRY 1,019 billion at the end of 2014; this amount did not change significantly in 2015 and was TRY 1,049 billion in 2015Q3.The second biggest creditor of the domestic sector after foreign sectors was the households item with an amount of TRY 547 billion (Table 1).

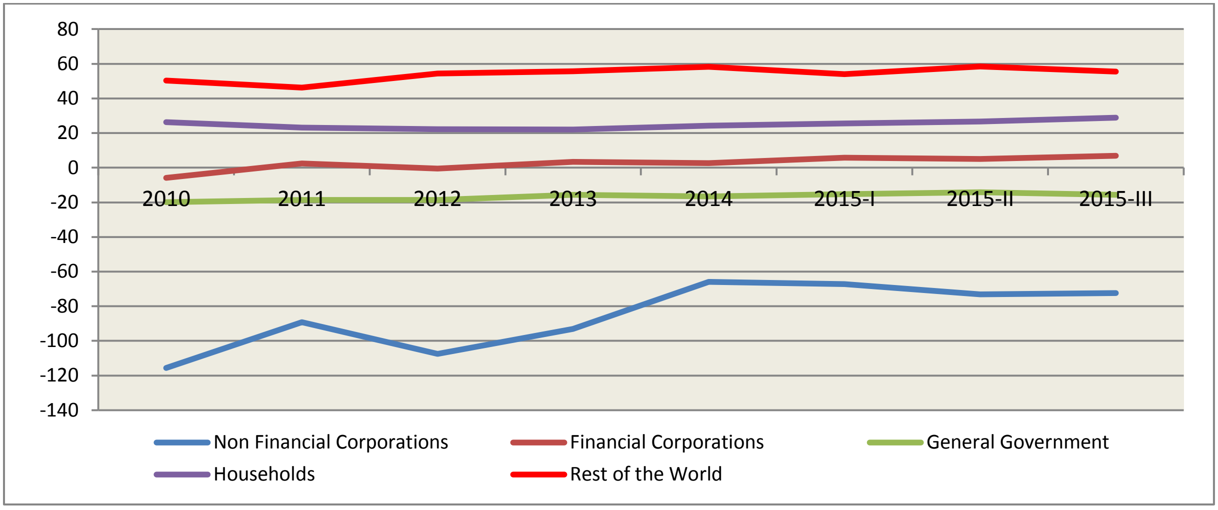
Chart 4. Net Financial Worth by Sectors (*) (TRY billion)



Source: CBRT

(*) Non-Profit Institutions Serving Households are not included because their net financial worth is close to zero.

Chart 5. Ratio of Net Financial Worth to GDP, by Sectors (*) (percent)



Source: CBRT

(*) (*) Non-Profit Institutions Serving Households are not included because their net financial worth is close to zero.

Between 2010 and the third quarter of 2015, while households and the rest of the world generated a financial surplus, non-financial corporations and the central government had a financial deficit. Meanwhile, the financial corporations remained flat with a financial worth of almost zero due to the financial intermediation role they assumed (Chart 4).

The financial deficit of non-financial corporations reached the highest level in 2012 with TRY 1,524 billion, then assumed a downtrend and stood at TRY 1,370 billion in 2015Q3. The improvement is more easily observed when the ratio of the non-financial corporations' net financial worth to the GDP is analyzed. This ratio, which was 116 percent in 2010, decreased to 72 percent in 2015Q3 (Chart 5).

The net financial worth of the general government is also negative and remained flat in 2015Q3. The net financial debt of the general government, which was TRY 218 billion in 2010, was TRY 294 billion in 2015Q3. The biggest component of this debt was composed of government debt securities issued by the Treasury that made up 76 percent of total liabilities. In this period, households' net financial worth increased from TRY 289 billion to TRY 547 billion. The biggest asset item of households running a financial surplus was currency and deposits (80 percent).

While the net financial worth of the rest of the world (foreign creditors) was TRY 553 billion in 2010, it surged to TRY 1,049 billion in the third quarter of 2015. The majority of assets was composed of loans (38 percent), along with shares and other equity (28 percent).

While financial corporations were net debtors in 2010, they have been a net financial creditor as of 2013. This sector, which was a net financial debtor of TRY 63 billion in 2010, became a net financial creditor of TRY 130 billion in the third quarter of 2015.

II. Non-Financial Corporations

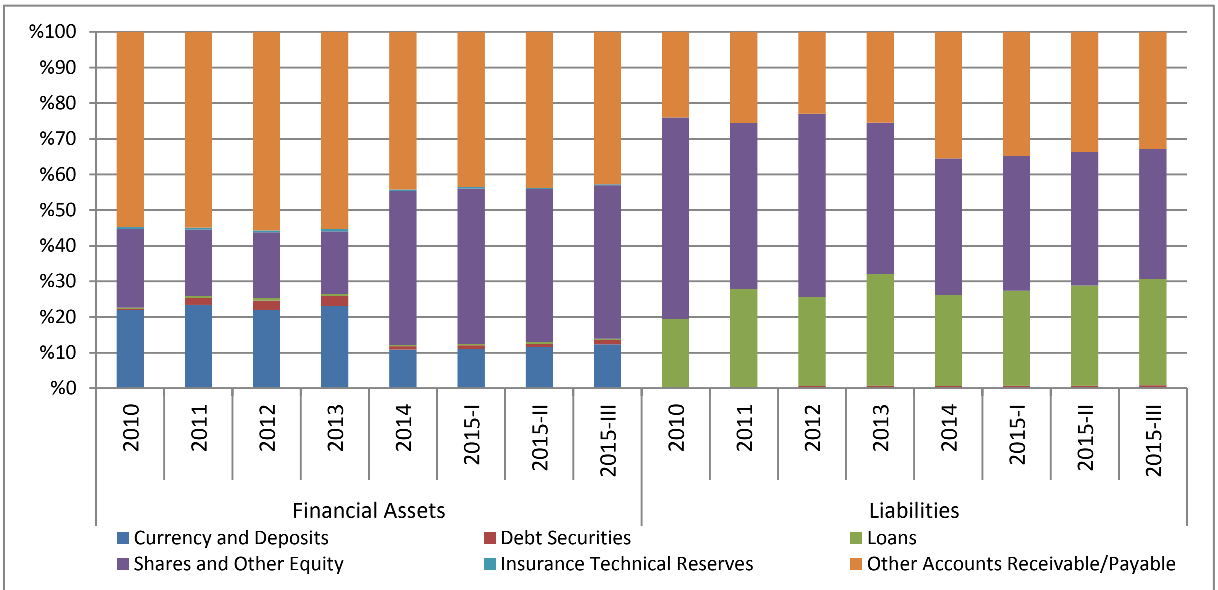
More than half of the increase in the financial assets of non-financial corporations originates from valuation, while the surge in liabilities stems from transactions. The ratio of sector debts to the GDP is rising. Compared to end-2014, the financial assets of non-financial corporations increased by TRY 101 billion in the third quarter of 2015. TRY 34 billion of this rise stemmed from the transactions and TRY 67 billion from valuation. In the same period, out of TRY 321 billion increase in liabilities, TRY 227 billion stemmed from transactions and TRY 94 billion from valuation, while the biggest determinant was the transactions in the loans item (Table 2).

Table 2. Stock and Flows of Non-Financial Corporations (TRY billion)

	2014-IV	Transaction	Valuation	2015-III
Financial Assets	3,232	34	67	3,334
Currency and Deposits	352	20	39	411
Debt Securities	28	1	8	38
Loans	12	1	3	15
Shares and Other Equities	1,400	26	8	1,433
Insurance Technical Reserves	10	2	0	12
Other Accounts Receivable	1,431	-15	9	1,425
Liabilities	4,383	227	94	4,704
Currency and Deposits	0	0	0	0
Debt Securities	31	3	6	40
Loans	1,119	201	87	1,407
Shares and Other Equities	1,679	23	6	1,708
Insurance Technical Reserves	0	0	0	0
Other Accounts Payable	1,554	0	-5	1,549

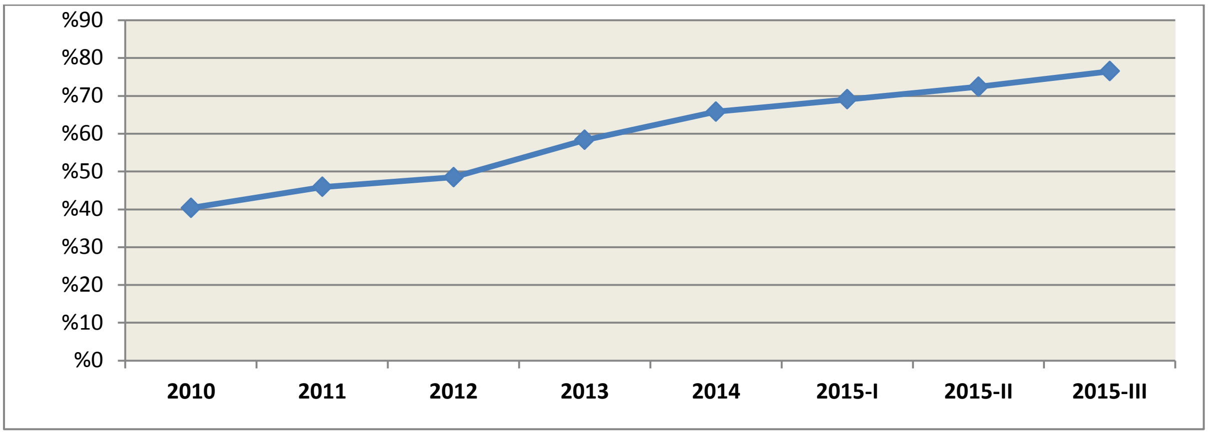
Source: CBRT

Chart 6. Breakdown of Non-Financial Corporations' Assets and Liabilities by Instruments (percent)



Source: CBRT

Chart 7. Ratio of Non-Financial Corporations' Debts (*) to GDP (percent)



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

A comparison of the financial asset and liability structure of non-financial corporations between 2010 and the third quarter of 2015 reveals that the share of other accounts receivable item accounting for 55 percent of assets decreased to 43 percent, while the share of currency and deposits, another major asset item, decreased from 22 percent to 12 percent and the share of shares and other equity increased from 22 percent to 43 percent[3]. On the liabilities side, the share of financing through shares and other equity decreased from 57 percent to 36 percent, while the share of loans used in total liabilities increased from 19 percent to 30 percent. In the same period, the ratio of other accounts receivable increased to 33 percent from 24 percent (Chart 6).

The ratios of non-financial corporations' debts to GDP are on the rise. In this period, the debt ratio of non-financial corporations elevated from 40 percent to 76 percent (Chart 7).

III. Households

While household financial wealth continued to grow, shares and other equity accounted for the largest investment instruments. Compared to end-2014, household financial assets posted an increase in the third quarter of 2015, most of which was attributable to transactions in the currency and deposits category. The increase recorded in the insurance technical reserves in the same period was also due to transactions. Although shares and other equity recorded a negative balance due to transactions in the same period, valuation in this category increased (Table 3).

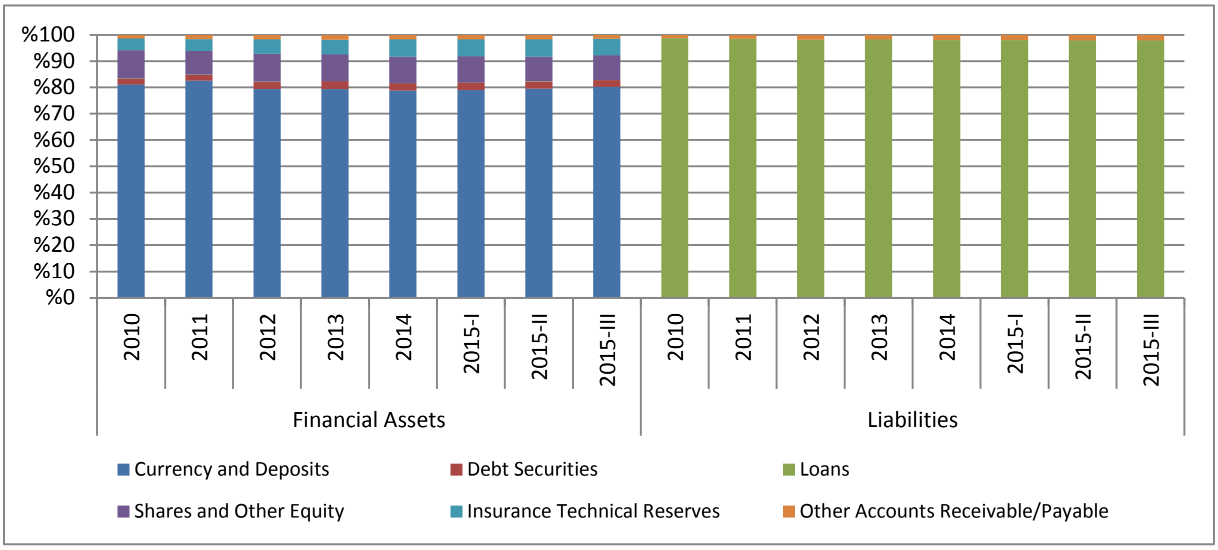
[3] While compiling financial accounts of non-financial corporations, the CBRT sectoral balance sheets were used until 2014 for currency, other accounts receivable, other accounts payable, shares and other equity items, and since 2014 the TURKSTAT's consolidated non-financial company accounts data have been used.

Table 3. Stocks and Flows of Households (TRY billion)

	2014-IV	Transaction	Valuation	2015-III
Financial Assets	813	89	65	967
Currency and Deposits	640	87	48	776
Securities other than Shares	23	0	2	25
Loans	0	0	0	0
Shares and Other Equity	82	-7	15	90
Insurance Technical Reserves	53	8	0	61
Other Accounts Receivable	14	0	0	15
Financial Liabilities	389	30	0	420
Currency and Deposits	0	0	0	0
Securities other than Shares	0	0	0	0
Loans	381	29	0	410
Shares and Other Equity	0	0	0	0
Insurance Technical Reserves	0	0	0	0
Other Accounts Payable	8	1	0	9

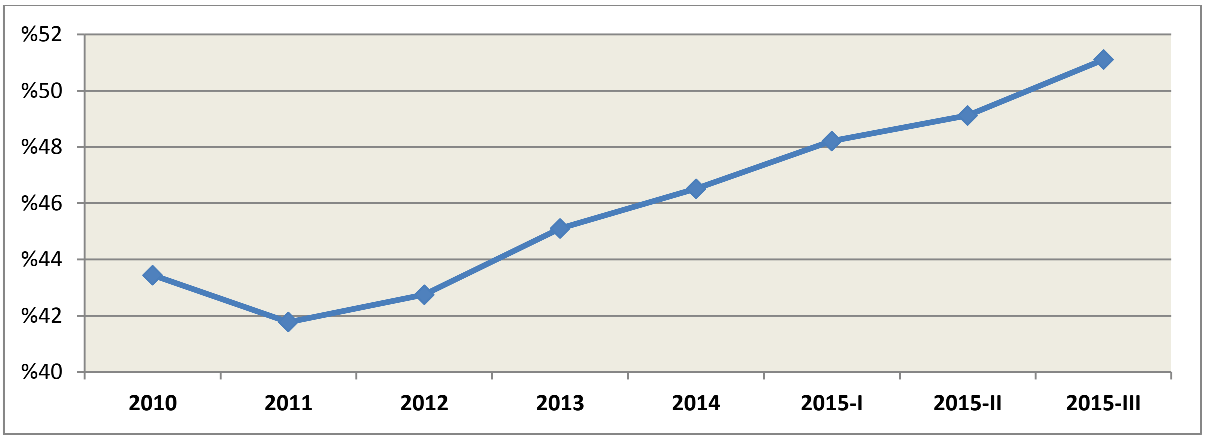
Source: CBRT

Chart 8. Breakdown of Household Financial Assets and Liabilities by Instruments (percent)



Source: CBRT

Chart 9. Ratio of Household Financial Assets to GDP (percent)

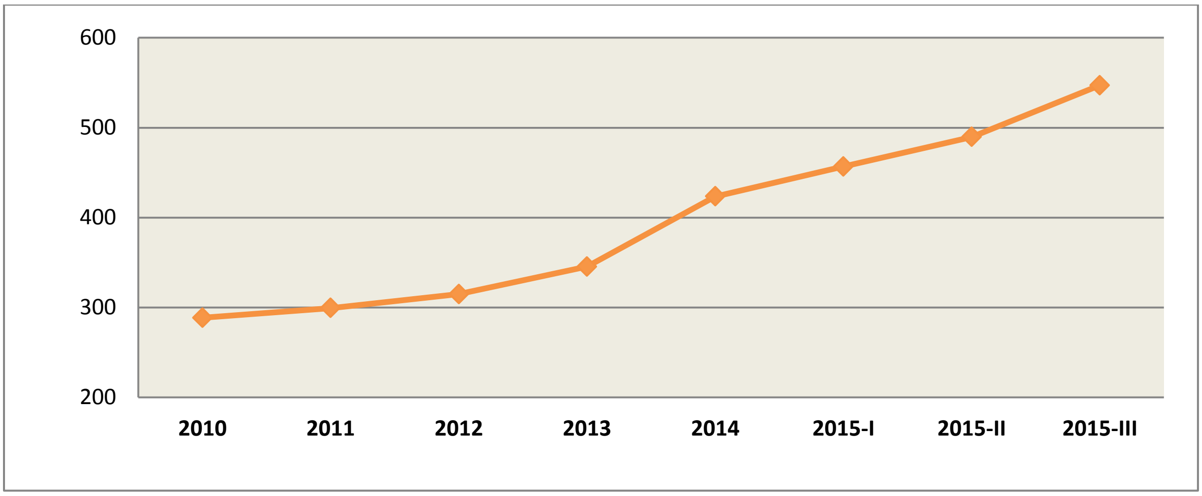


Source: CBRT, TURKSTAT

In the third quarter of 2015, the asset and liability structure of households did not change. While approximately 80 percent of the assets was composed of currency and deposits, 9 percent was composed of shares and the other equity. Almost all household liabilities (98 percent) were comprised of loan utilization (Chart 8).

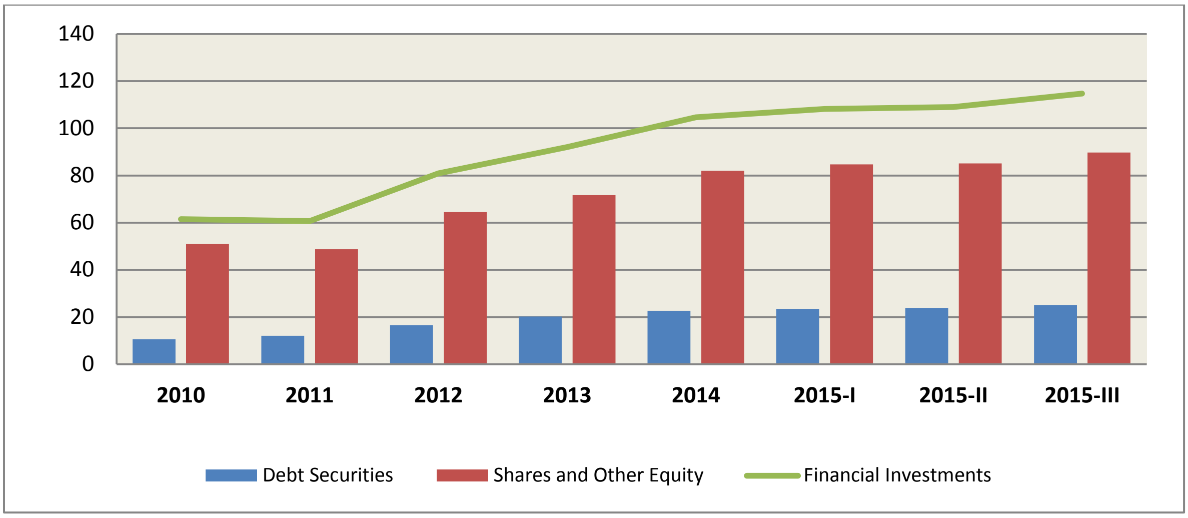
The ratio of household financial assets to the GDP assumed an upward trend after the decline in 2011. This ratio, which was 43 percent in 2010, reached 51 percent in the third quarter of 2015 (Chart 9).

Chart 10. Household Net Financial Worth (TRY billion)



Source: CBRT

Chart 11. Households' Financial Investments and Instrument Breakdown (TRY billion)

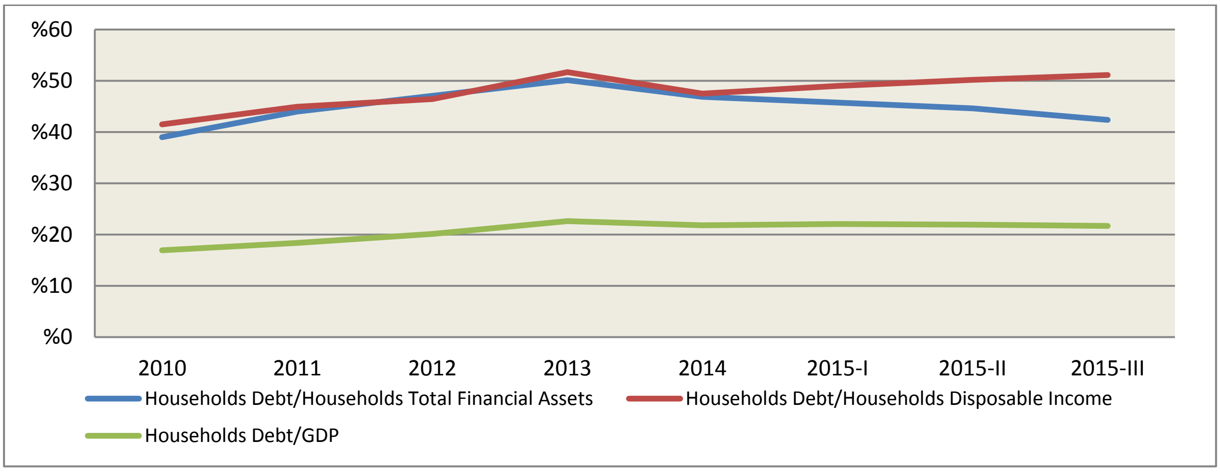


Source: CBRT

Household net financial worth, also called household financial wealth, recorded an uptrend in this period. The highest increase was recorded in 2014, with TRY 77 billion. Household financial wealth, which was some TRY 289 billion in 2010, recorded as TRY 547 billion in the third quarter of 2015 (Chart 10).

Household financial investments assumed an uptrend after having receded in 2011. The main driving items were shares and other equity, yet their share in total financial investments declined in time while the share of debt securities increased. This change can be read as households preferred less risky investment instruments. In numbers, while the share of debt securities in financial investments was 17 percent in 2010, this ratio rose to 22 percent in the third quarter of 2015. Shares and other equity declined from 83 percent to 78 percent in the same period (Chart 11).

Chart 12. Households Debt (*) (percent)



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

Household indebtedness indicators point to an improvement in the post-2013 period followed by a flat course. After this period, the ratio of household debt to the GDP maintained its level around 20 percent. In the third quarter of 2015, the ratio of debt to disposable income increased to 51 percent with a 1 point rise compared to the previous quarter, and its ratio to total financial assets dropped from 45 percent to 42 percent (Chart 12).