

CENTRAL BANK OF THE REPUBLIC OF TURKEY



# **Balance of Payments Report 2013- II**

## **CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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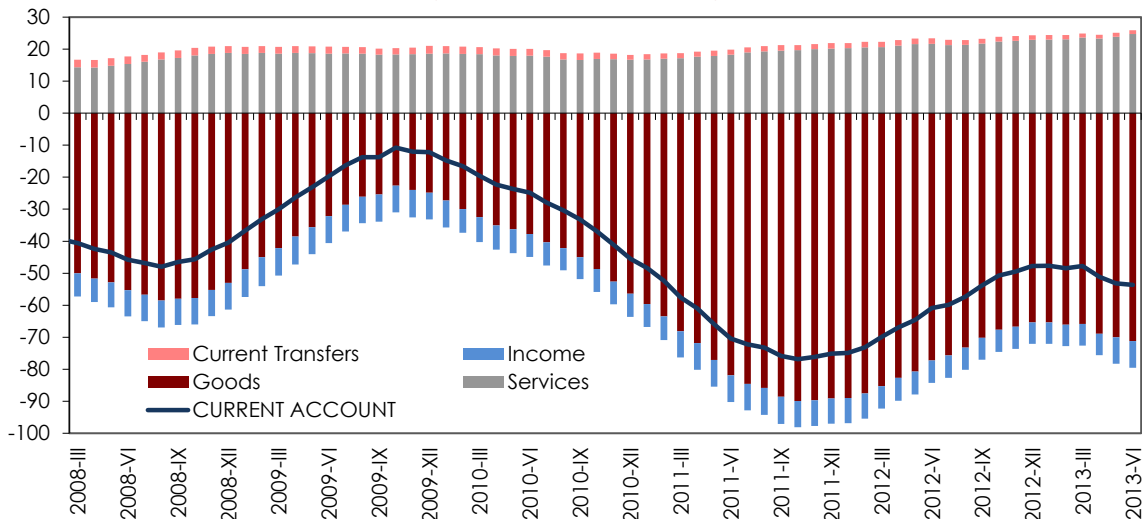
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## Overview

The current account deficit widened in the second quarter of 2013. In quarterly terms, exports of gold have materialized at the lowest level of recent years and imports of gold have recorded historic highs, which have become the main drivers of the widening of the current account deficit. An analysis excluding gold, on the other hand, points to a moderate surge in the current account deficit. The low level of imports growth due to a slower-than-expected recovery in domestic demand factors, as opposed to the ongoing surge in exports, albeit at a diminishing pace, became instrumental in the limited rise in foreign trade deficit excluding gold. On the other hand, tourism-based services revenues continued to soar and contributed positively to the current account balance (Chart 1).

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



Source: CBRT.

The moderate and steady upward trend in exports that started in the wake of the crisis continued in the second quarter of 2013, albeit at a reduced pace. Exports to the European Union (EU) countries continued to recover on the back of the waning effects of the financial crisis in these countries. However, exports to the Middle East and North African (MENA) countries lost pace to some extent. Gold exports, which stood at remarkably high levels in 2012, fell even below their historical averages in the second quarter of 2013 and their positive contribution to the exports performance weakened. Shuttle trade revenues listed in the balance of payments defined exports category continued to soar.

The modest upward trend in import expenditures that started in the last quarter of 2012 continued in the second quarter of 2013. A moderate recovery in domestic demand factors and the decline in energy imports due to the receding energy prices were the main factors that restrained the growth rate of imports in this period. Gold imports climbed to historic highs on a quarterly basis and pushed the total imports up. The increase in gold imports in parallel with the plunge of the price of gold per ounce is noteworthy.

The Services item, which is the second most important determinant of the current account balance after foreign trade, contributed further to the improvement in the current account balance in the

second quarter of the year. In the second quarter of 2013, tourism revenues continued to perform well due to the improvement of the average expenditure amount in this category and similarly, other transportation revenues related to the tourism sector continued to grow rapidly, all of which have influenced the positive outlook of the current account deficit.

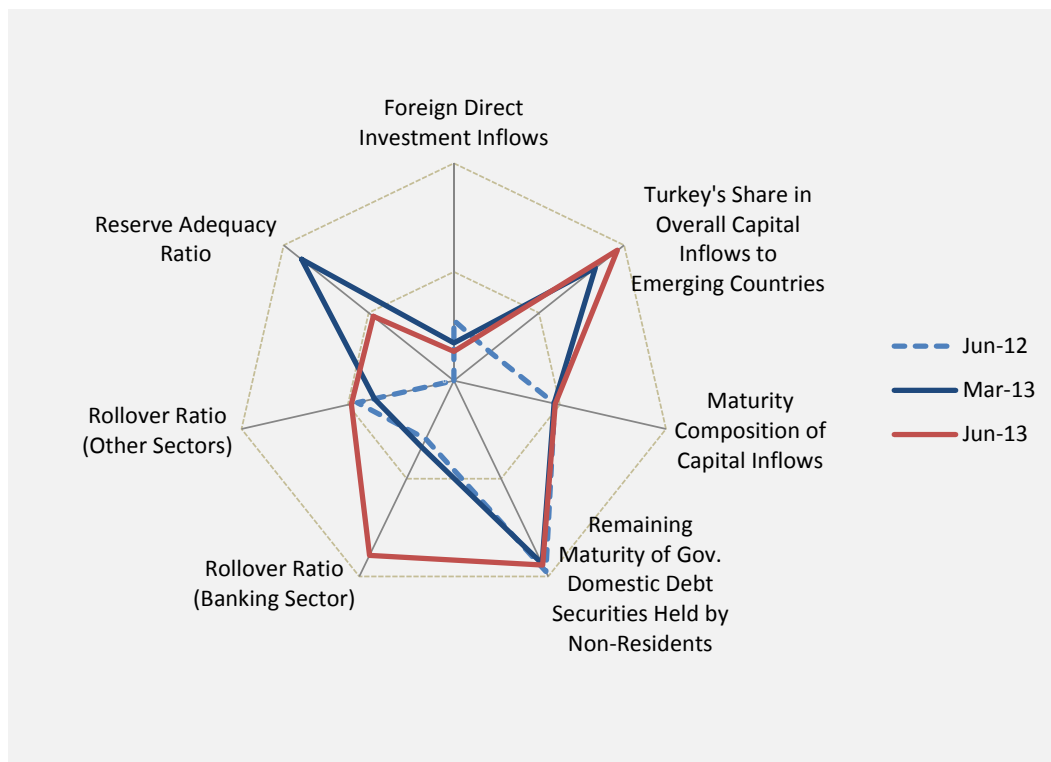
### Financing of the Current Account Deficit

The second quarter was marked with rapid changes in main trends related to global capital flows in the post-crisis period. In May, with the emergence of the expectations that the Federal Reserve Bank (Fed) would soon change its expansionary monetary policy that it had introduced in the post-crisis period, emerging economies started to post outflows in capital. That period also had reverberations on Turkey's risk exposure in FX borrowing. In fact, capital inflows that posted record highs on the back of the upgrade of Turkey's sovereign credit rating to "investment level" by a second credit rating agency in April slumped in May and while this trend continued in June, capital inflows through portfolio investments reversed.

A breakdown of financial accounts in balance of payments by main headings reveals that while the share of direct investments continued to decline in the second quarter of 2013, the ongoing strong portfolio inflows reversed at the end of the period due to the "Fed" effect. Other investment inflows decreased compared to the previous quarter as a result of weakened short-term loan utilization of banks despite the high level of inflows from deposits on the liabilities side. Capital inflows that decelerated because of a growing current account deficit led to a fall in official reserves in the second quarter.

An analysis by the quality of financing sources indicates that in the second quarter of 2013, while the banking sector's debt roll-over ratios remained high amid the contribution of bond issues, the reserve adequacy ratio declined compared to the previous quarter. The other aspects of the quality of financing did not display a notable change compared to the previous quarter (Chart 2).

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



Source: CBRT.

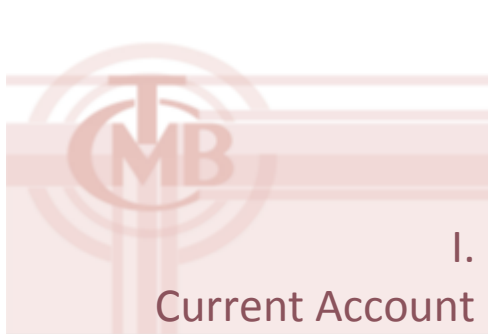
The lingering problems in the euro area, the area having the largest share in direct investment flows to Turkey, resulted in a decline in direct investments from this region. This decline became the main reason for the ongoing slowdown in direct investments in the second quarter of 2013 as well.

The ample liquidity that emerged globally in the post-crisis period was oriented towards emerging market economies due to the increased risk appetite; however, this trend started to lose ground in the first quarter of 2013 amidst a more apparent recovery in the financial markets of advanced economies. Portfolio inflows that climbed to record highs upon the second sovereign rating upgrade in April fell rapidly in May, and posted a month-on-month outflow, for the first time after a long while, in June. In the second quarter, Turkey continued to diverge from emerging market economies in a positive direction in terms of portfolio inflows and outflows. Turkey's share in the global portfolio flows towards emerging market economies continued to grow in the second quarter of 2013. While portfolio inflows declined, the maturity structure of the instruments that were invested in did not deteriorate compared to the previous quarter. In the first quarter of 2013, banks continued to issue bonds abroad. In this quarter, other sectors issued high amounts of bonds abroad.

In the second quarter of 2013, neither the banking sector nor other sectors had any supply-side constraints in external borrowing through loans. Including banks' borrowings through bonds, the banking sector's debt roll-over ratio materializes well above 100 percent. On the other hand, banking sector-driven long-term credit inflows increased in this period.

Long-term external loans used by other sectors to finance mainly investments posted outflows in net terms in the second quarter of 2013. However, as mentioned above, other sectors issued high amounts of bonds in this quarter. When the bond issues are included, other sectors' debt roll-over ratio also materializes well above 100 percent.

Official reserves, which posted a significant increase in April due to large capital inflows, recorded a limited decline throughout the reporting quarter due to reduced capital flows in other months as well as the CBRT's selling interventions in the foreign exchange markets.



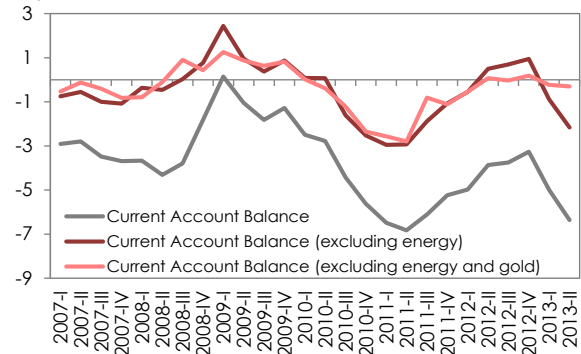
**The widening in the current account deficit, which started in the first quarter of 2013 continued in the second quarter too.** In the second quarter, the seasonally adjusted quarterly current account deficit became USD 19 billion while the 12-month cumulative current account deficit was USD 53.9 billion. Energy imports became the largest item of the current account deficit again (Box 1). In the second quarter of the year, the current account deficit excluding energy imports became USD 6.4 billion in quarterly terms and USD 3.4 billion in 12-month cumulative terms. While the quarterly current account deficit excluding energy imports and gold was USD 0.9 billion, the same term 12-month cumulatively became USD 1.1 billion in the same period.

**The partial deterioration in the foreign trade deficit, which started in the first quarter of 2013, continued with the aggravating impact of international developments.** The gradual increase in imports, which started in the third quarter of 2012 owing to vigorous domestic demand, continued with further acceleration due to the rise in gold imports; overall exports slowed due to the significant drop in gold exports. Thus, in the second quarter of 2013, the balance of payments-defined foreign trade deficit increased to USD 71.3 billion.

**Excluding gold, exports displayed a significant uptrend in the second quarter.** The steady uptrend in exports excluding gold, which started in the final quarter of 2011, was maintained despite the political unrest in MENA markets that have a significant share in Turkey's exports and recorded a record high in the second quarter of 2013.

**Chart 1. Current Account Balance**

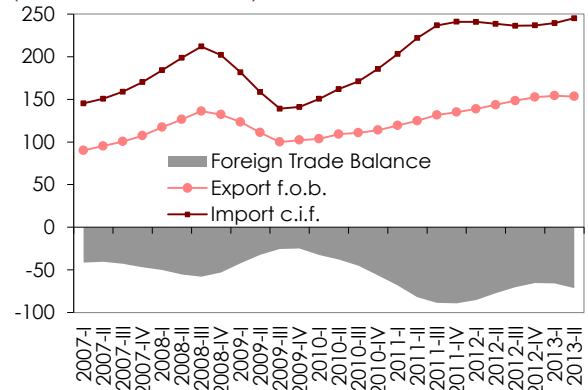
(annualized, seasonally adjusted, 3-month average, billion USD)



Source: CBRT.

**Chart 2. Foreign Trade Deficit**

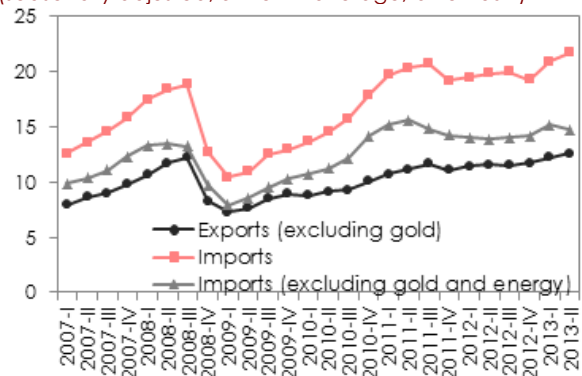
(annualized, billion USD)



Source: CBRT.

**Chart 3. Imports and Exports**

(seasonally adjusted, 3-month average, billion USD)



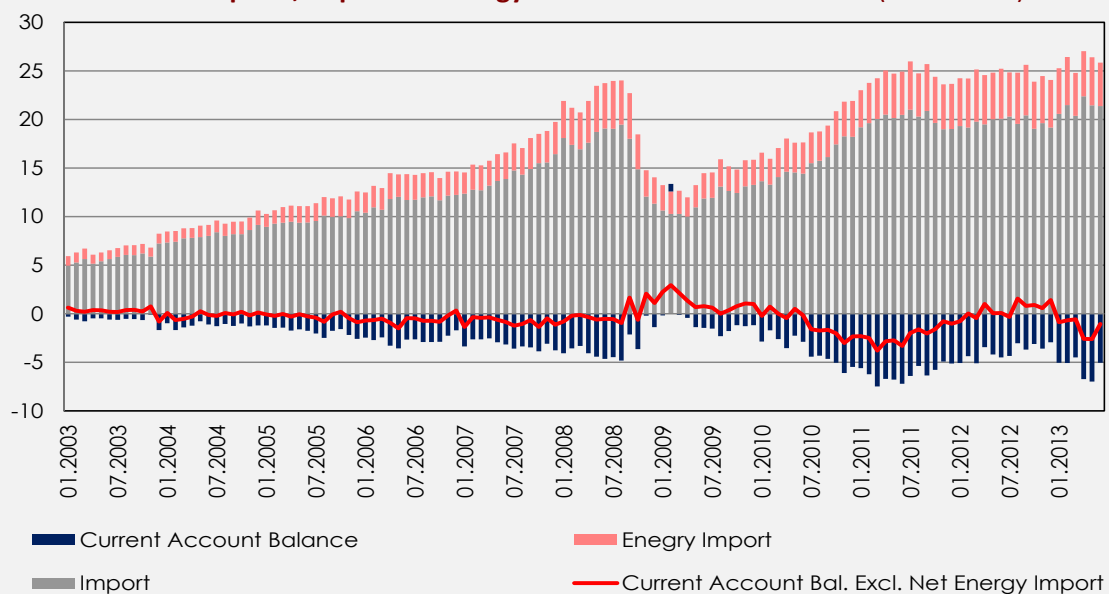
Source: CBRT.

## Box 1

## Turkey's Energy Imports for Electricity Generation

As Turkey heavily relies on external energy resources, it is a net energy-importing country and energy import is the most important item that which makes a negative contribution to the current account deficit. Data suggest that between 2003 and the second quarter of 2013 the share of imports of energy import in Turkey's overall imports was 26.0 percent and the current account balance excluding energy has always been almost always either close to balanced zero or was in surplus (Chart 1). An analysis of the energy imports by sectors shows that more than half of the energy imported is used for transportation purposes and the rest is used to generate electricity (Table 1). Actually, today electricity generation relies heavily on imports of natural gas.

**Chart 1: Imports, Imports of Energy and Current Account Deficit (billion USD)**



Source: CBRT, TURKSTAT.

The importance of energy investments is clear in the size of energy imports and the pivotal role that it plays in electricity generation. In this framework, the data presented in the Electricity Generation Company's report on "Turkish Electrical Energy 10-Year Generation Capacity Projection (2010-2021)" suggests that once the new power plants, the license applications for which have been completed and those that are currently under construction have been completed and start generating electricity, Turkey's electricity generation composition will change and utilization of several resources alongside natural gas will increase. According to the projections presented in the report, assuming that energy prices remain unchanged, energy imports for generating electricity will stabilize around USD 25 billion as of 2018 (Chart 2).

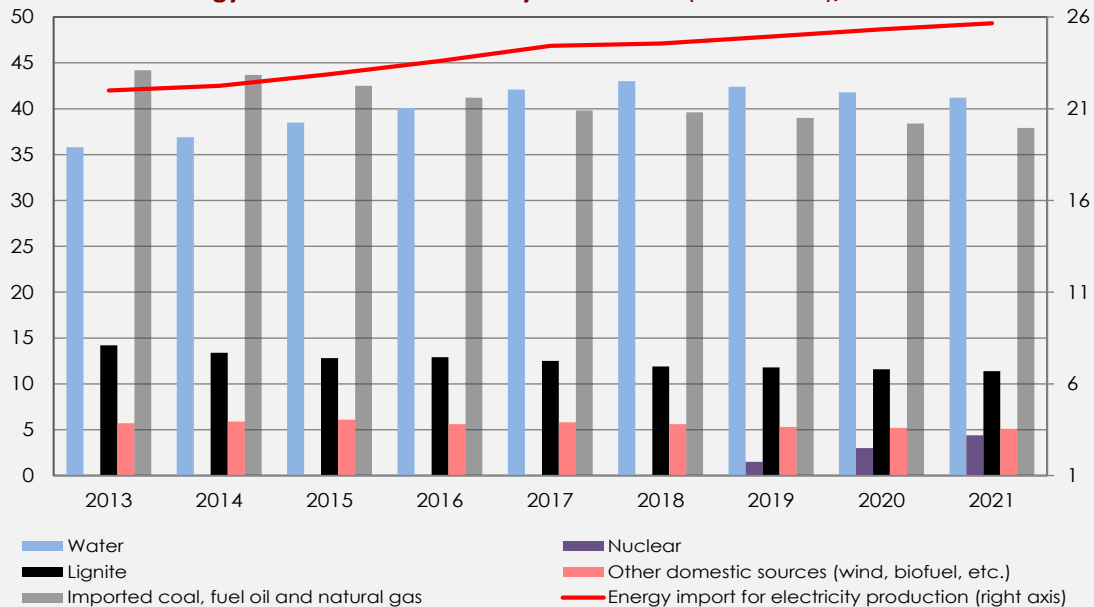


**Table 1: Turkey's Energy Imports and Breakdown by Sectors (2002-2012)**

Year	Total Import (billion \$)	Energy Import (billion \$)	Transportation Sector (billion \$)	Transportation Sector Share (%)	Electricity Production (billion \$)	Electricity Production Share (%)
2002	51,5	9.20	5.41	58.80%	3.79	41.20%
2003	69,3	11.58	5.58	48.19%	6.00	51.81%
2004	97,5	14.41	8.64	59.96%	5.77	40.04%
2005	116,7	21.26	12.41	58.37%	8.85	41.63%
2006	139,5	28.86	16.61	57.55%	12.25	42.45%
2007	170,1	33.88	19.34	57.08%	14.54	42.92%
2008	201,9	48.28	27.03	55.99%	21.25	44.01%
2009	140,9	29.91	15.17	50.72%	14.74	49.28%
2010	185,5	38.49	21.03	54.64%	17.46	45.36%
2011	240,8	54.1	33.60	62.11%	20.50	37.89%
2012	235	60.01	37.26	62.09%	22.75	39.00%

Source: Ministry of Energy and Natural Resources.

Consequently, growing investments in renewable energy are expected to decrease the reliance on imported coal and natural gas in electricity generation. Accordingly, when analyzed with respect to its share in GDP, it is projected that energy imports of energy for electrical energy generation will decline in the upcoming period.

**Chart 2: Breakdown of Sources Used in Electricity Generation (percent) and Projection for Imports of Energy to be Used in Electricity Generation (billion USD), 2013-2021**

Source: Electricity Generation Company.

### References:

Ministry of Energy and Natural Resources (2012), *Report on Energy Outlook in Turkey and the World*.

Electricity Generation Company (2012), *"Turkish Electrical Energy 10-Year Generation Capacity Projection (2010-2021)"*, Electricity Generation Company, Research, Planning and Coordination Department.

### 1.1 Exports of Goods

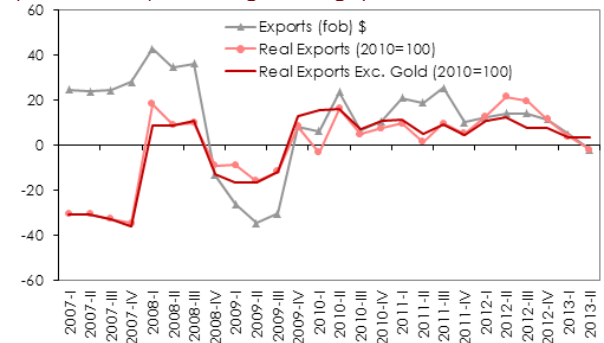
The moderate uptrend in exports was replaced by a limited decline in the second quarter of 2013. While exports in this period decreased by 2 percent in annual terms, the 3.5 percent-rise in exports excluding gold suggests that the decline in exports mainly stemmed from the drop in gold exports.

In the second quarter, the largest contribution to exports came from exports of motor vehicles and textile products. While the decline in gold exports continued, exports of iron, steel and mineral fuels also displayed a decrease year-on-year.

The share of MENA countries in Turkey's exports increased in the second quarter of 2013. While exports to EU countries excluding gold decreased by 0.91 percent year-on-year, exports to Commonwealth of Independent States countries and MENA countries increased by 5.37 percent and 6.41 percent, respectively.

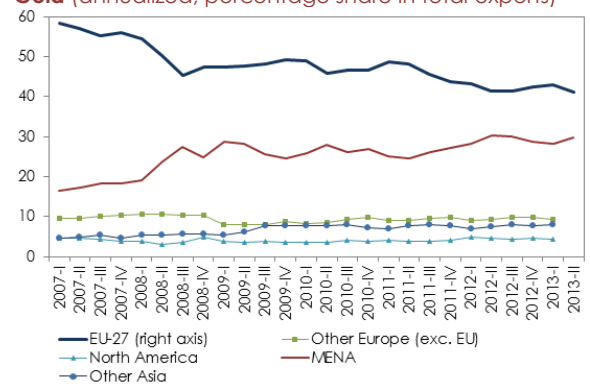
In tandem with the moderate recovery trend in the global economy that has been observed since the beginning of 2013, Turkey's export markets have been recovering too. The GDP-weighted and export share-weighted demand components prepared for global data and for Turkey's export partners support this suggestion as well.

**Chart 4. Exports-Nominal and Real**  
(annualized, percentage change)



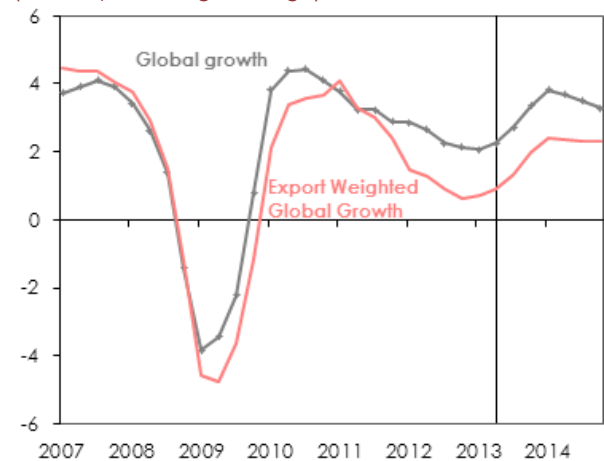
Source: TURKSTAT.

**Chart 5. Selected Regions' Shares in Exports Excluding Gold**  
(annualized, percentage share in total exports)



Source: TURKSTAT.

**Chart 6. Foreign Demand Index for Turkey**  
(annual percentage change)



Source: Bloomberg, Consensus Forecasts, IMF, CBRT.

## 1.2 Imports of Goods

**The uptrend in imports continued with further acceleration in the second quarter of 2013.** In the second quarter, imports grew by 9 percent year-on-year and the growth trend in imports that started at the end of 2012 continued with further acceleration. A similar but more remarkable trend was observed in imports excluding gold which grew by 14 percent in the second quarter.

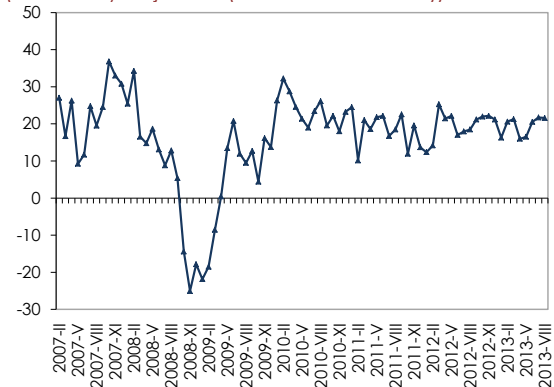
**The shares of imports of gold and energy in overall imports continued to increase in this period.** While net gold exports was positive USD 1.1 billion in the second quarter of 2012, net gold exports in the second quarter of 2013 was negative USD 5.6 billion (Box 2). While imports of gold and energy in overall imports accounted for 30 percent of overall imports in the second quarter of 2012 that became 32 percent in the same period in 2013.

**Turkey's real exchange rates based on developing countries continued to hover below the period average.** In this period, real exchange rates moved downwards compared to the average real exchange rates based on developing countries due to the relative decline in nominal exchange rates in Turkey and verged on the lowest recorded level in the first quarter of 2012.

**Exports expectations in the Business Tendency Survey (BTS) displayed a significant uptrend in this period.**

**Chart 7. Export Expectations**

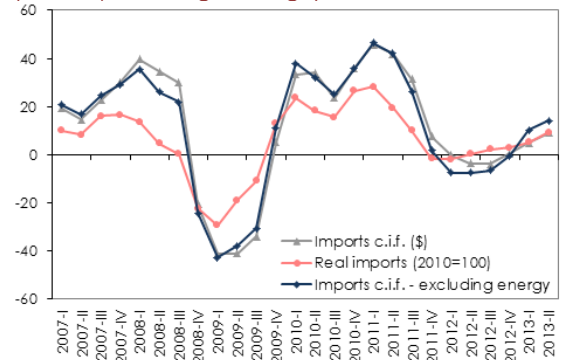
(export orders-expectations of next 3 months)  
(seasonally adjusted, (increase-decrease))



Source: CBRT.

**Chart 8. Imports - Nominal and Real**

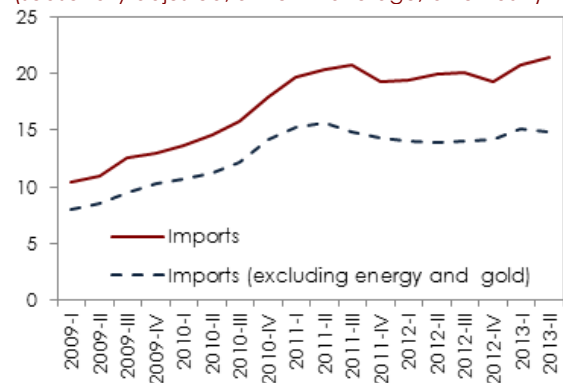
(annual percentage change)



Source: TURKSTAT.

**Chart 9. Imports Excluding Gold and Energy**

(seasonally adjusted, 3-month average, billion USD)



Source: CBRT.

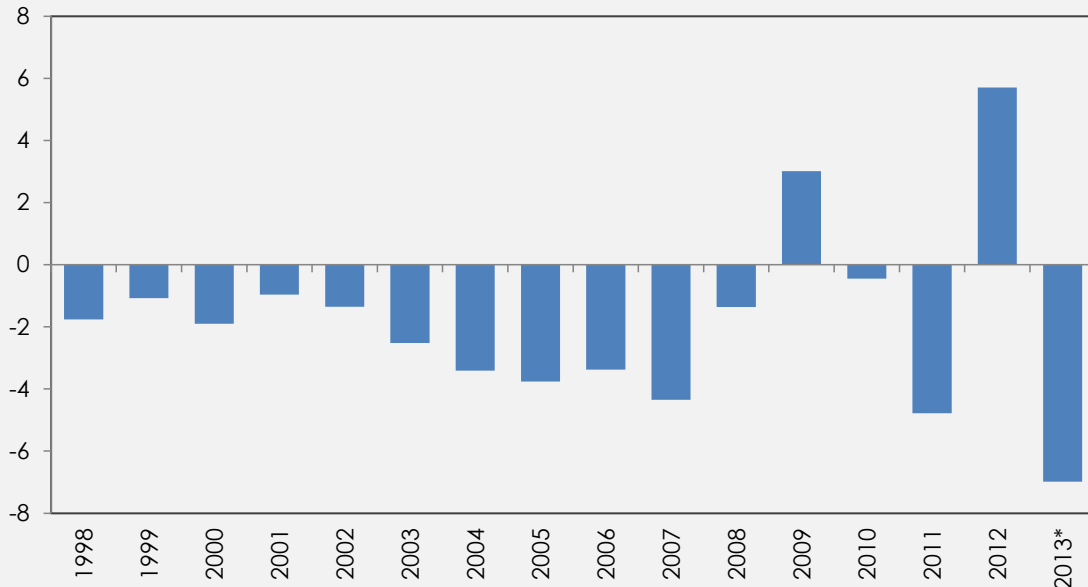
## Box 2

## The Impact of Turkey's Gold Trade on the Current Account Deficit and Recent Developments

Gold exports that are driven mainly by the demand from Middle East countries soared in 2012 whereas gold imports recorded a marked increase in 2013. These developments have brought gold trade to the forefront of the discussions on the current account balance.

As gold is a traditionally important store of value, domestic demand for gold in Turkey has been high in almost all periods. Accordingly, Turkey is generally a net importer of gold: the average share of gold exports in total exports was below 1 percent in the 1998-2011 period whereas the share of gold imports in total imports was approximately 3 percent. Although gold exports remarkably increased after 2008, only in 2009 and 2012 was there a trade surplus. However, gold imports registered a notable growth in the first half of 2013 after the historically highest trade surplus in 2012 (Chart 1). In fact, the 133.0 tons of gold imports recorded in the second quarter of 2013 correspond to the highest quarterly amount of imports in the analysis period.

Chart 1: Net Gold Exports of Turkey (billion USD)



\* First six months

Source: CBRT.

In this respect, gold trade in the 1998-2011 period had an average of 0.5-percentage-point negative effect on the ratio of current account deficit to national income (Table 1). However, developments in the last two-year period have differed from the average trends. Gold trade improved the ratio of the current account deficit to national income by 0.7 percentage point in 2012 while it led to a deterioration of 1.7 percentage points in the first half of 2013.

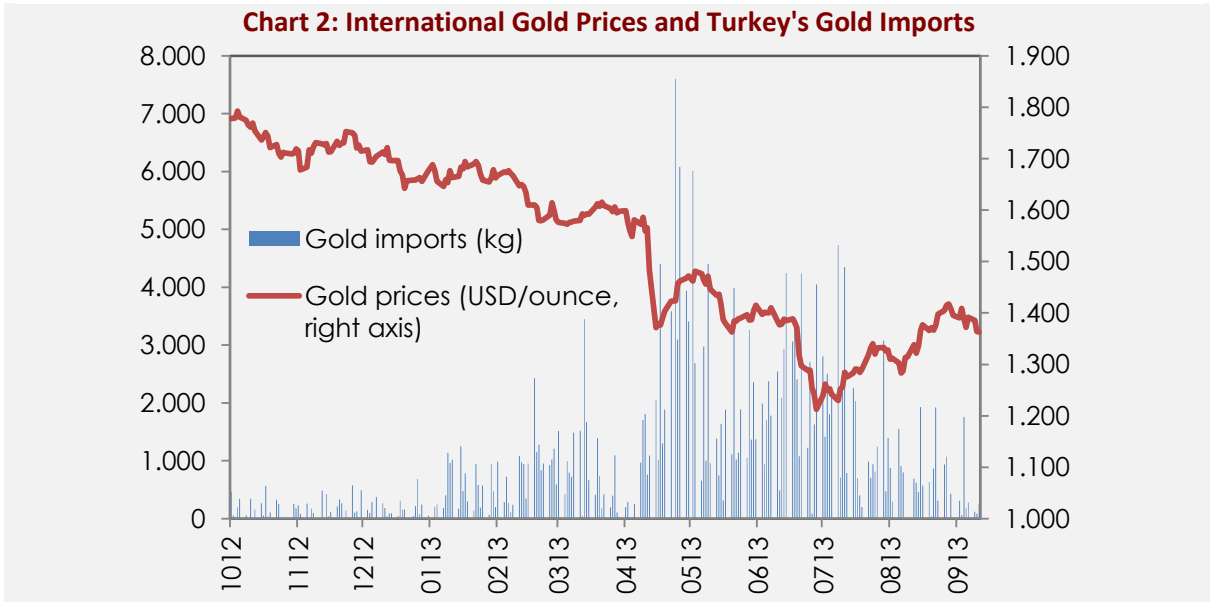
**Table 1: The Impact of Gold Trade on the Current Account Balance in Turkey**

	Gold exports (net) (billion USD)	CAD (billion USD)	CAD (excl. gold) (billion USD)
<b>1998</b>	-1,8	2,0	3,8
<b>1999</b>	-1,1	-0,9	0,2
<b>2000</b>	-1,9	-9,9	-8,0
<b>2001</b>	-1,0	3,8	4,7
<b>2002</b>	-1,4	-0,6	0,7
<b>2003</b>	-2,5	-7,6	-5,0
<b>2004</b>	-3,4	-14,2	-10,8
<b>2005</b>	-3,8	-21,4	-17,7
<b>2006</b>	-3,4	-31,8	-28,5
<b>2007</b>	-4,3	-37,8	-33,4
<b>2008</b>	-1,4	-40,4	-39,1
<b>2009</b>	3,0	-12,2	-15,2
<b>2010</b>	-0,5	-45,4	-45,0
<b>2011</b>	-4,8	-75,1	-70,3
<b>2012</b>	5,7	-47,7	-53,5
<b>2013*</b>	<b>-7,0</b>	<b>-36,3</b>	<b>-29,3</b>

\* First six months

Source: CBRT.

It is widely accepted that this rapid rise in gold imports in the first half of 2013 was due to the purchases intended to offset the decline in the gold stock resulting from the exports in 2012. The rapidly falling international prices were seen as an opportunity to make these purchases. A simple calculation was made to support this view with figures. Based on the calculations used in a study by Aktaş et al. (2012), a 136-ton decline was observed in gold stock in 2012. Yet, under the assumption that gold production maintains its level of the previous year, the growth in the gold stock is estimated to be around 120 tons in the first half of 2013 (Chart 2). On the other hand, an analysis of the correlation between gold imports and gold prices suggests that the fall in gold prices triggered a marked growth in imports whereas gold imports decelerated when the downtrend in gold prices was interrupted (Chart 2).



Source: Borsa İstanbul Precious Metals and Diamond Market (İAB).

In conclusion, the record-high level of gold imports in the second quarter of 2013 has been one of the discussion topics on the agenda. This rapid increase is believed to be related to the exports in the previous period. Actually, falling international prices have been instrumental in offsetting the recent decline in the gold stock and facilitated gold purchases made for this purpose. In this framework, gold imports are expected to decelerate in the upcoming period as gold prices recover.

#### References:

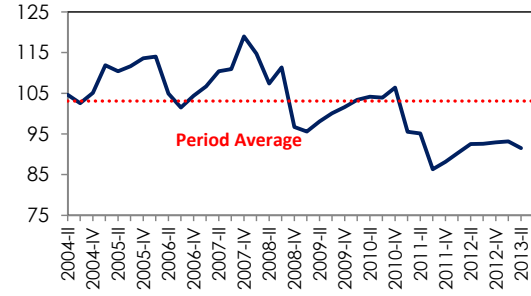
Aktaş, Z., A. Aldan, F. Aydın, İ. Bozok, B. Kanlı. (2012). *Gold in Turkey: Its Impact on Foreign Trade, Current Account Balance and Economic Growth* (in Turkish), CBRT Research Notes in Economics, 2012-29.

1.3 Global Outlook

The World Trade Organization data suggest that global trade remained weak in the second quarter of 2013. Annualized data for the second quarter of 2013 show that world exports increased by 0.4 percent year-on-year but decreased by 3.0 percent quarter-on-quarter.

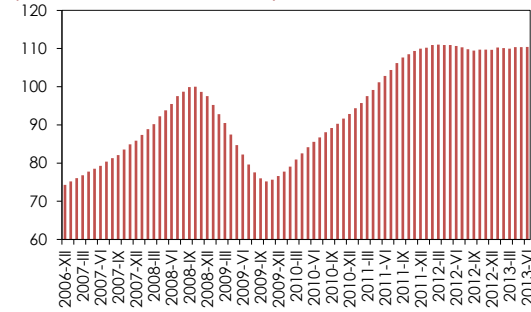
In this period, Turkey's share in global imports was 1.43 percent and in global exports was 0.93 percent. Thus, the difference between Turkey's share in global imports and exports became 0.50 percent. This difference, which climbed as high as 0.59 percent at the end of 2011, decreased to 0.44 percent at the beginning of 2013, but has climbed steadily in 2013.

Chart 10. Real Effective Exchange Rate (CPI-developing countries based (2003=100))



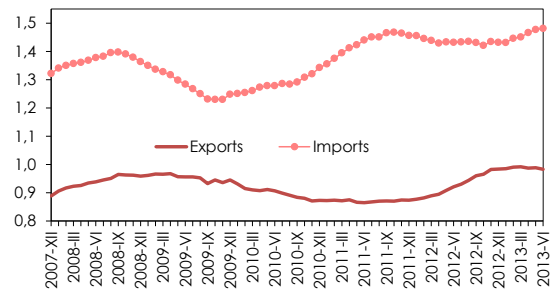
Source: CBRT.

Chart 11. World Trade (annualized, 2008:10=100)



Source: WTO.

Chart 12. Share of Turkey in World Trade (percent)



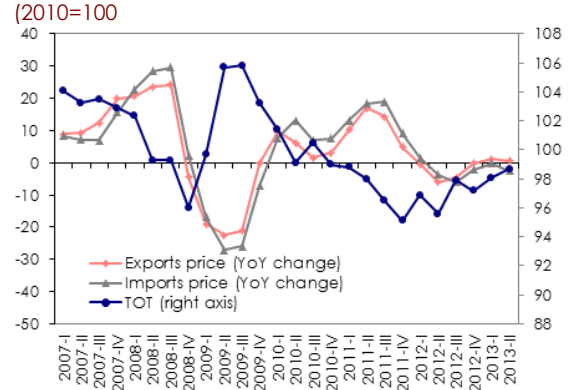
Source: WTO.

### 1.4 Terms of Trade

In the second quarter of 2013, export prices increased against falling import prices. In this period, export prices increased by 0.7 percent year-on-year, while import prices fell by 2.9 percent, thereby terms of trade increased by 0.6 points.

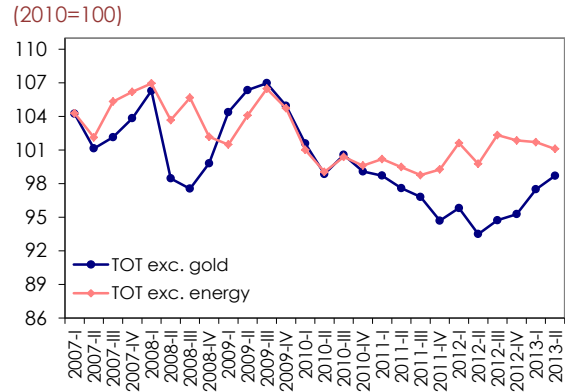
When gold is excluded, the improvement in terms of trade becomes more apparent. In the second quarter of 2013, terms of trade excluding gold improved by 1.8 percent in annual terms while terms of trade excluding energy remained flat.

Chart 13. Terms of Trade (TOT)



Source: TURKSTAT.

Chart 14. TOT and TOT Excluding Energy

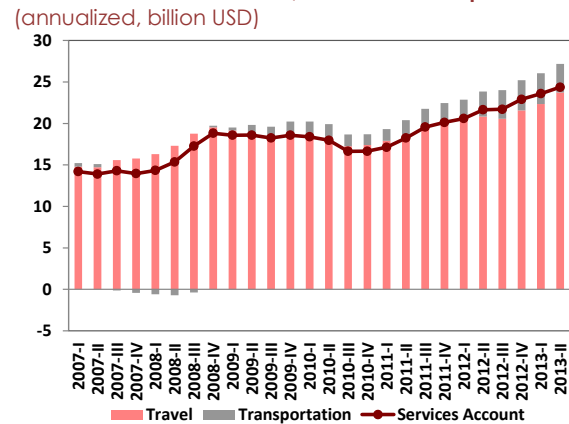


Source: TURKSTAT.

### 1.5 Services Account

The Services item, which is the second most important determinant of the current account balance after foreign trade, further contributed to the improvement in the current account balance in the second quarter of the year. In the second quarter of 2013, tourism revenues continued to perform well owing to the improvement in the average expenditure amount in this category and similarly, the rapid growth in other transportation revenues related to the tourism sector continued, all of which have been influential on the positive outlook of the current account deficit.

Chart 15. Services Account, Travel and Transportation



Source: CBRT.



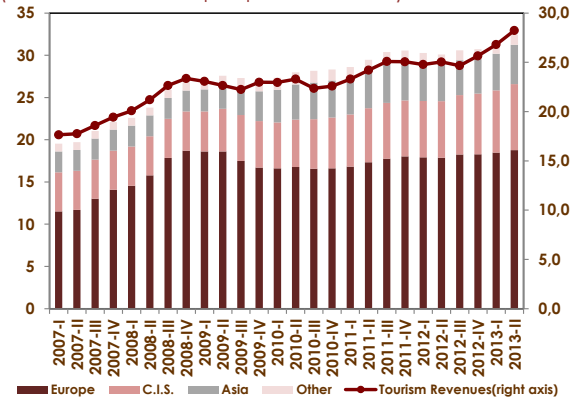
The upward trend in tourism revenues, which started in the final quarter of 2012, continued in the second quarter of 2013. In this period, tourism revenues and tourism expenditures increased by 23.2 percent and 4.7 percent, respectively, year-on-year. Thus, in the second quarter of 2013, net tourism revenues increased by 27.4 percent compared to the same period last year to USD 6.4 billion. Meanwhile, the number of tourists displayed a year-on-year rise of 13.2 percent. An analysis by country groups suggests that in the second quarter, the highest proportional rise with respect to the number of tourists was recorded for Asian countries and the Commonwealth of Independent States.

In the second quarter of 2013, the average expenditure per foreign visitor in Turkey increased. Relevant data suggests that the average expenditure per foreign visitor increased by 11.5 percent year-on-year to reach USD 683, and the average expenditure per non-resident Turkish citizen visiting Turkey decreased by 1.3 percent year-on-year to USD 1,085.

Transportation revenues, which had declined in the first quarter, picked up in the second quarter. Both transportation revenues and transportation expenditures increased by 1.8 percent and 13.9 percent, respectively, year-on-year, thereby leading to a 26 percent-fall in net transportation revenues in the second quarter. The main driver of this fall was the 41.5 percent decline in net freight revenues. The net other transportation revenues item composed of tickets and food-beverage increased by 2.1 percent in the same quarter. In this period, the share of foreign carriers in imports declined by 4.6 points quarter-on-quarter to 55.3 percent.

**Chart 16. Breakdown of Foreign Visitors and Turkish Citizens Visiting Turkey by Country and Tourism Revenues**

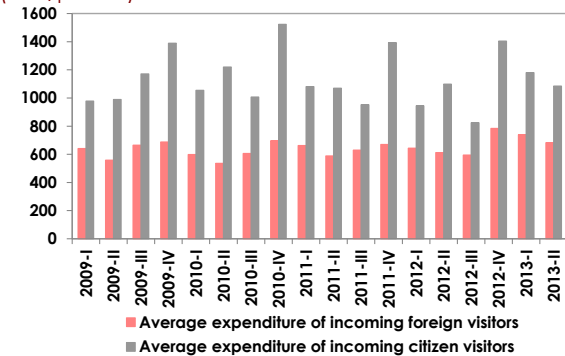
(annualized, million people, billion USD)



Source: TURKSTAT.

**Chart 17. Average Expenditure**

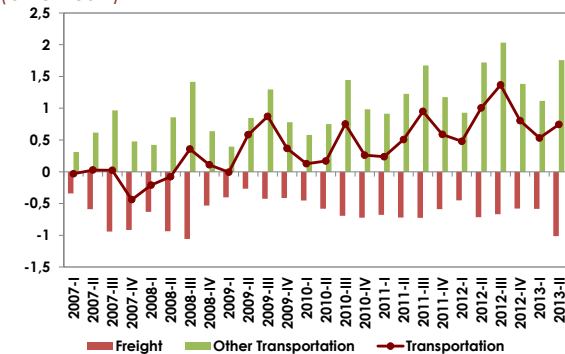
(USD/person)



Source: TURKSTAT.

**Chart 18. Transportation and Sub-items**

(billion USD)



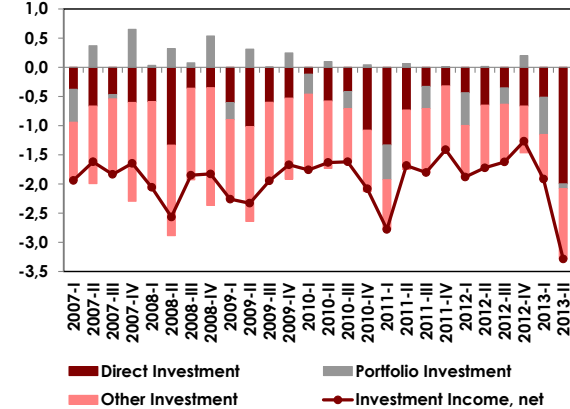
Source: TURKSTAT, CBRT.

### 1.6 Income Account

**In the second quarter of 2013, income account posted net outflows across all its sub-items.** Net outflows from the income account increased by 89.0 percent year-on-year to reach USD 3.4 billion in this period. Constituting the largest part of these outflows, the outflows from direct and other investments under the investment income item increased compared to the same period last year to USD 2.0 billion and USD 1.2 billion, respectively. In this period, portfolio investments registered a net outflow of USD 82 million as opposed to the modest net inflow in the same period of the previous year.

Occasionally, fluctuations in the income account may significantly affect the current account balance. In this regard, the relation between other investments - the most important component of the income item - and international money market rates is critical (Box 3).

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

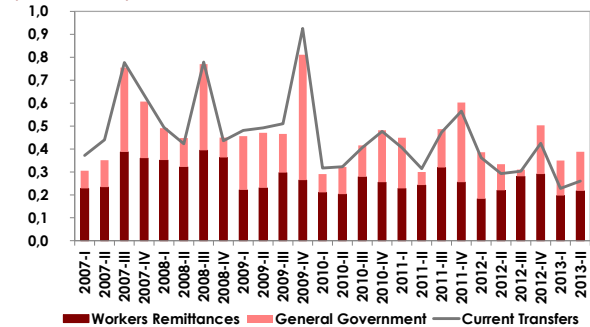


Source: CBRT.

### 1.7 Current Transfers

**In the previous quarter, net inflows driven by current transfers had recorded a historic low after 2005 figures but recovered in the second quarter of 2013.** In this quarter, current transfers posted a net inflow of USD 260 million after a year-on-year decline by 11.3 percent. This decline was mainly attributed to the 212.2-percent fall in the other transfers item under the other sectors item in the face of the 49.1-percent increase in the general government item which includes grants between countries.

**Chart 20. Current Transfers and Workers' Remittances**  
(billion USD)



Source: CBRT.

## Box 3

## Investment Income and International Money Market Rates

In Turkey, the main determinant of the current account balance is the goods and services trade balance, whereas the current transfers and income balance items build up a relatively small part of the current account. However, occasionally, fluctuations in the income balance item may significantly affect the current account balance.

The income item in the balance of payments statistics of Turkey is composed of the compensation of employees, which is negligible, and the investment income. The investment income refers to the net income/expense arising from direct investments, portfolio investments and other investments. An analysis of Turkey's annual detailed balance of payments table including data from 1984 onwards reveals that the investment income balance has had a deficit every year and that the most important component of the net investment income balance has been the other investments item which is composed of income and expense (interest) related to financial assets and liabilities (loans and deposits) other than direct investments and portfolio investments. This Box offers an analysis of the relationship between the other investments component of the income balance and the international money market rates.

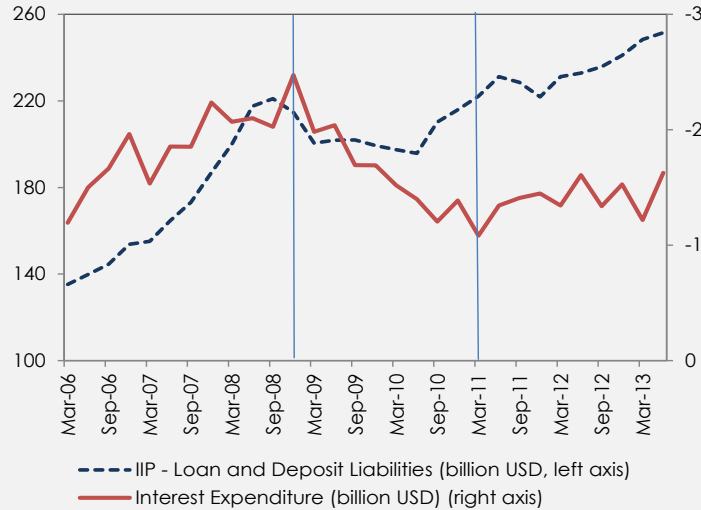
The size of the interest expenditures item, which is a determinant of the deficit in the other investments balance, is expected to be consonant with the loan and deposit developments under the International Investment Position / Liabilities / Other Investments item. However, there are some difficulties in monitoring the relationship between the interest expenditures item and the international money market rates. First, some part of the change in interest expenditures results from the change in the stock values of the loans and deposits items. Second, the monthly Private Sector External Debt statistics published on the Bank's website reveal that almost half of the private sector's long-term external debt is composed of fixed-rate loans. In more detail, the most recent data from July 2013 show that 50.7 percent of the debt stock in US dollars and 42.1 percent of the debt stock in Euro are made up of fixed-rate loans.<sup>1</sup> Lastly, the frequency of interest payments on the debt stock in the related periods and whether this frequency changes over time are also important for the analysis.

Chart 1 and Chart 2 show interest expenses in relation to the international money market rates and the credit stock at a quarterly frequency. The interest rate criterion applied in this analysis has been formed by adding the EMBI+TR index to the 12-month USD LIBOR rate. Charts indicate that the post-2006 developments can be analyzed in three sub-periods. The first sub-period corresponds to the period from 2006 to end-2008. In this period, the interest rate registered a limited decline while interest expenses increased parallel to the rise in debt (stock?) The second

<sup>1</sup> Private Sector External Debt Statistics, Private Sector Long-Term External Debt (July 2013), Table 10 and Table 11, [www.tcmb.gov.tr](http://www.tcmb.gov.tr).

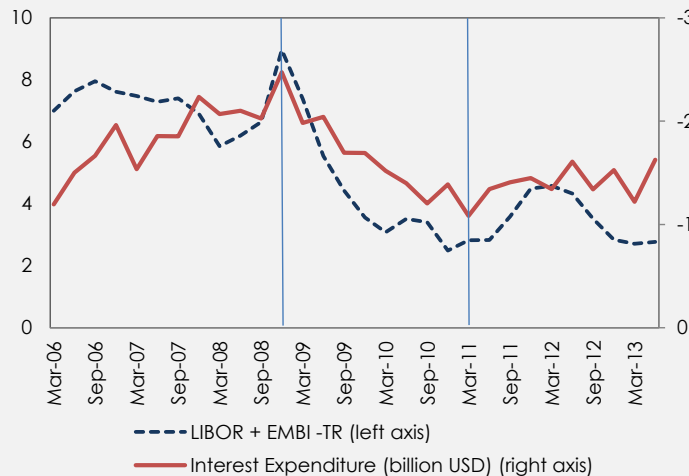
sub-period starts in early 2009 and lasts until the first quarter of 2011. During this sub-period, debt-creating components slightly weakened at first but then picked up again to reach the levels of the pre-crisis period. However, interest expenditures considerably declined in this period due to the rapid fall in the international money market rates. The third sub-period extends from the second quarter of 2011 to the second quarter of 2013. In this sub-period, the international money market rates recorded a temporary rise and then dropped to previous rates. Debt-creating components also increased moderately in the same period. As a result, interest expenditures escalated slightly.

**Chart 1. Credit Stock and Investment Expenditures \***



Source: CBRT.

**Chart 2. International Money Market Rates and Investment Expenditures \***



\*Values in the interest expenses axis are in reverse order.

Source: CBRT, JP Morgan.

To sum up, interest expenditures and international money market rates usually move together however increase in interest expenditures remains limited when the international money market rates go up. The fact that a significant portion of the private sector's external debt is composed of fixed-rate loans stands as the primary factor restraining the sensitivity of interest expenditures to interest rate movements.



## II. Capital and Financial Accounts

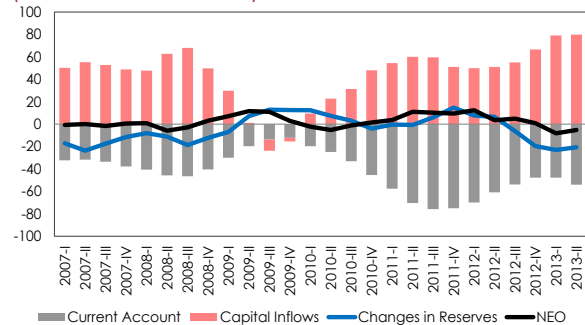
Capital inflows that decelerated on the back of a growing current account deficit in the second quarter of 2013 also led to a fall in official reserves. A breakdown of financial accounts in balance of payments by main headings reveals that while the share of direct investments continued to decline in the second quarter of 2013, the ongoing strong portfolio inflows reversed at the end of this period due to the "Fed" effect. Other investment inflows decreased compared to the previous quarter as a result of the weakened short-term loan utilization of banks despite the high level of inflows from deposits on the liabilities side.

In the second quarter of 2013, the financing need rose by USD 8.7 billion year-on-year to USD 33.1 billion. In this period, the current account deficit excluding current transfers soared by USD 6.2 billion, while the financing need arising from other sectors' repayment of long-term loans increased by USD 4.7 billion.<sup>2</sup>

Parallel to the rise in debt securities and deposit liabilities, debt creating flows jumped year-on-year, while the share of non-debt creating flows in total liabilities declined. In the second quarter of 2013, debt creating flows increased by USD 19.2 billion and non-debt creating flows increased by USD 2.2 billion.<sup>3</sup>

**Chart 21. Current Account Balance and Net Capital Inflows**

(annualized, billion USD)

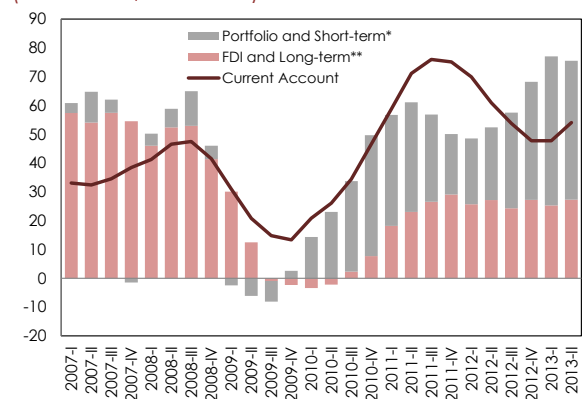


Source: CBRT.

\* Changes in reserves are composed of banks' and other sectors' total currency and deposits besides official reserves in the balance of payments table. A negative value denotes increase, while a positive value denotes decrease in reserves.

**Chart 22. Current Account and Its Financing**

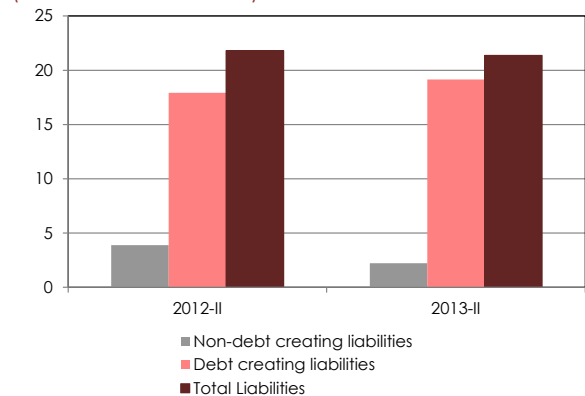
(annualized, billion USD)



Source: CBRT.

**Chart 23. Debt Creating and Non-debt Creating Liabilities under Financial Account**

(annualized, billion USD)



Source: CBRT.

<sup>2</sup> See Annex Tables, "Financing Requirements and Sources".

<sup>3</sup> See Annex Tables, "Balance of Payments Debt Creating and Non-Debt Creating Flows".

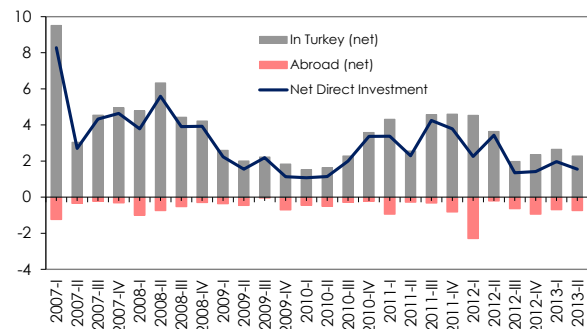
## 2.1 Direct Investment

The lingering problems in the Euro area, the area having the largest share in direct investment flows to Turkey, resulted in a decline in direct investments from this region. This decline became the main reason for the ongoing slowdown in direct investments in the second quarter of 2013 as well. Net direct investments declined by 54.9 percent compared to the same quarter in 2012 to USD 1.5 billion.

In the second quarter of 2013, direct investments in Turkey materialized as USD 2.3 billion, the majority of which was driven by those in the finance and insurance sectors as well as investments in the fields of electricity, gas, steam and air-conditioning generation and distribution. The sluggish trend in direct investments from the euro area, the area having the largest share in direct investment flows to Turkey, also continued in the second quarter of the year due to the ongoing economic problems in this region. In this quarter, while Europe's share in total investments fell to 66.3 percent, that of Asian countries climbed to 30.9 percent.

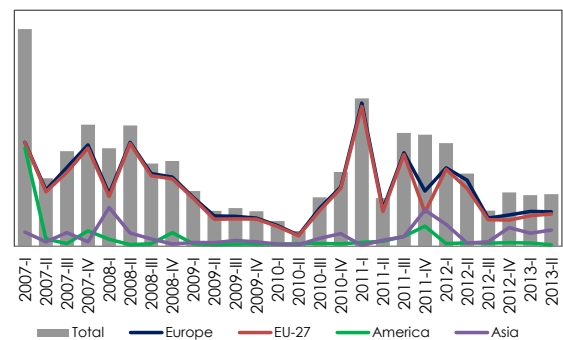
After recording historic high levels in 2012, direct investments abroad maintained their flat course of the last two quarters in the second quarter of 2013 as well. In this quarter, while direct investments abroad stood at USD 0.7 billion, the share of European countries dropped to 46.3 percent and the share of Asian countries rose to 32.6 percent.

**Chart 24. Direct Investment**  
(billion USD)



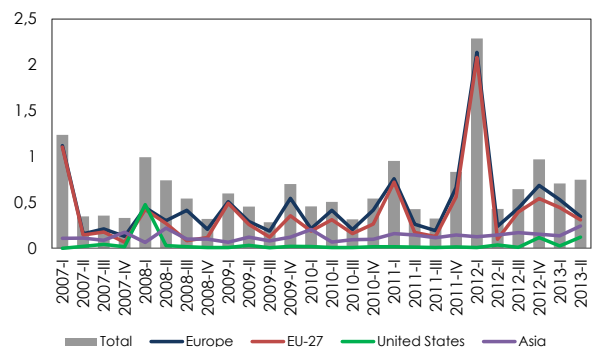
Source: CBRT.

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



Source: CBRT.

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



Source: CBRT.

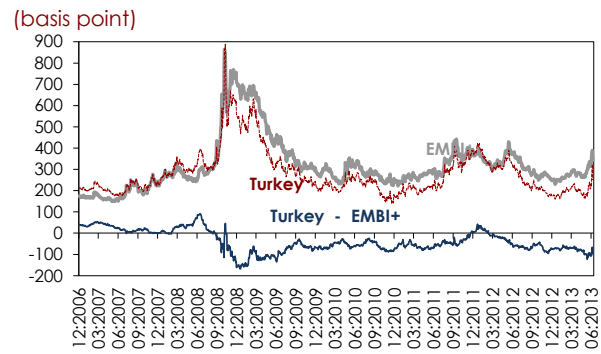
## 2.2 Portfolio Investment

The ample liquidity that emerged globally in the post-crisis period was oriented towards emerging market economies due to the increased risk appetite; however, this trend started to lose ground in the first quarter of 2013 amidst a more apparent recovery in the financial markets of advanced economies. The portfolio inflows, which reached historic high levels with the impact of the second upgrade of Turkey's sovereign rating in April, slumped in May and for the first time in a long time they displayed a reversal on a monthly basis in June. In the second quarter, Turkey continued to diverge from emerging market economies in a positive direction in terms of portfolio inflows and outflows. Turkey's share in the global portfolio flows towards emerging market economies continued to grow, too. In this period, Turkey's risk premium remained below the average risk premium of Emerging Markets Bond Index (EMBI+) and both risk premiums increased towards the end of June.

While portfolio inflows declined, the maturity structure of the instruments that were invested in did not deteriorate compared to the previous quarter. In the second quarter of 2013, banks' bond issues abroad decreased slightly to USD 2.3 billion. On the other hand, the other sectors' bond issues abroad amounted to USD 2.5 billion.

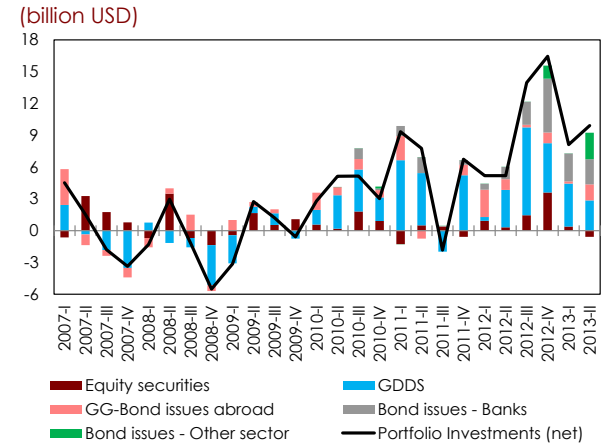
The value of bonds issued abroad by the General Government became USD 1.5 billion. As a result, GDDS-driven net inflows became USD 2.9 billion while an outflow of USD 0.6 billion was registered in the equity security market. Moreover, in the second quarter of 2013, non-residents purchased net USD 90 million and USD 11 million worth of debt securities issued in the domestic market from the banks and other sectors, respectively.

**Chart 27. Secondary Market Spreads and Turkey's Relative Position**



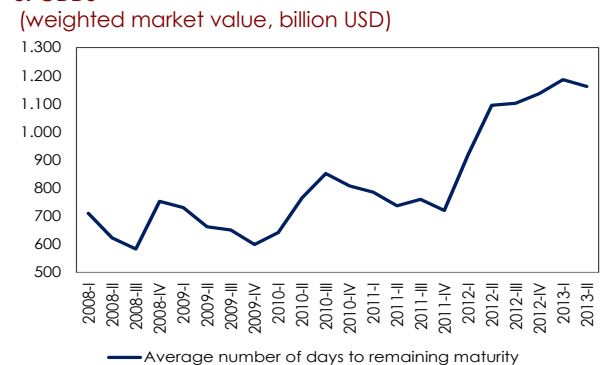
Source: JP Morgan.

**Chart 28. Portfolio Investment - Liabilities**



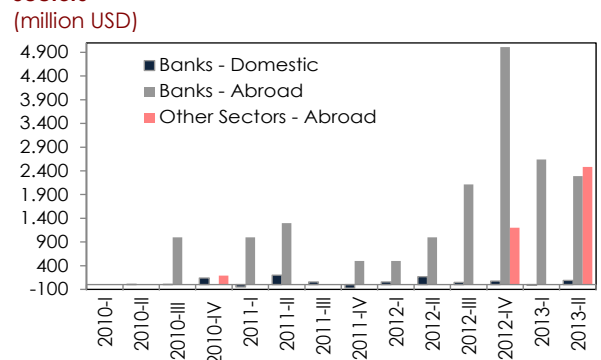
Source: CBRT.

**Chart 29. The Maturity Structure of Non-residents' Holdings of GDDS**



Source: CBRT.

**Chart 30. Debt Securities Issued by Banks and Other Sectors**



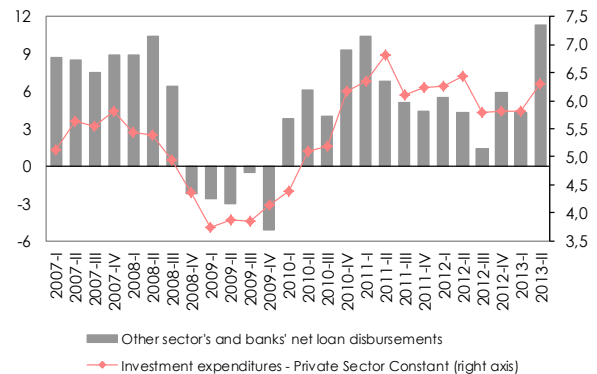
Source: CBRT.

## 2.3 Loans and Deposits

In the second quarter of 2013, neither the banking sector nor other sectors had any supply-side constraints in external borrowing through loans. In this period, banks predominantly opted for long-term borrowing through loans. They retained their role as net borrowers for short-term loans whereas their role as net payers of long-term loans in the previous quarter changed into net borrowers in the second quarter. Banks used net USD 2.7 billion worth of long-term loans in this period. Banks' total external debt roll-over ratio decreased to 107 percent. However, when banks' borrowing through bonds are included, the banking sector's total debt roll-over ratio becomes 111 percent.

Long-term external loans used by other sectors to finance mainly investments posted outflows in net terms in the second quarter of 2013. However, as mentioned previously, other sectors issued high amounts of bonds in this quarter. The related sectors made a net repayment of USD 1.9 billion for long-term loans in this quarter. An analysis of debt roll-over ratios indicates that the long-term external debt roll-over ratio of the other sectors fell from 104.1 percent to 81.7 percent in the second quarter of 2013. Including bond issues, the debt rollover ratio of the other sectors rose to 104 percent in the second quarter of 2013.

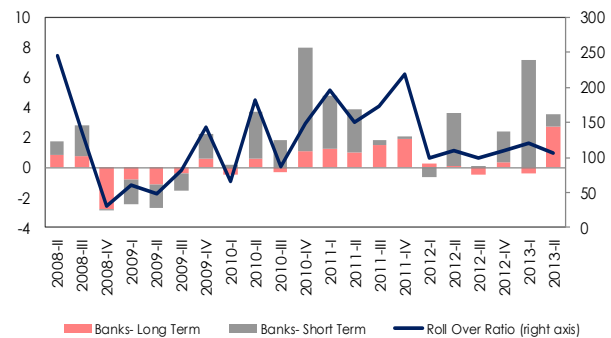
**Chart 31. Net Long-term Loan Utilization\* and Investment Expenditures of Other Sectors**  
(billion TL, 1998=100, covering the effect of Decree No:32)



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

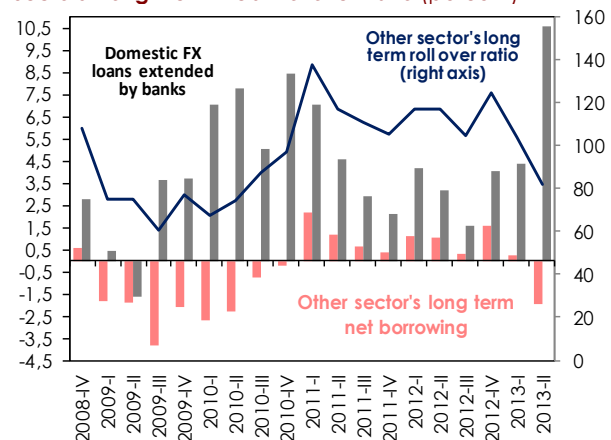
Source: CBRT.

**Chart 32. Banks' Long and Short Term Net Borrowing**  
(billion USD) and Long Term Roll-over Ratio (percent)



Source: CBRT.

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



Source: CBRT.

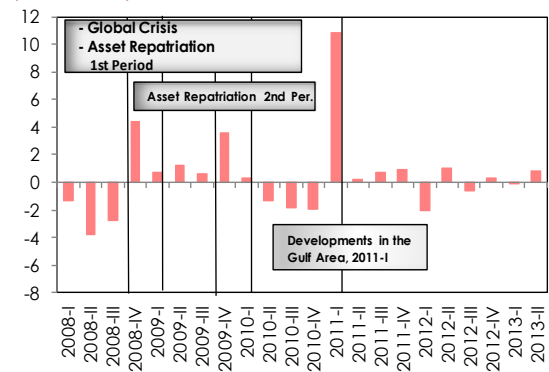


Residents' deposits in banks abroad are recorded in the balance of payments table under "Financial Account / Other Investment / Currency and Deposits / Other Sectors". While activities in these accounts -particularly in times of crisis- are considered to be an important determinant of capital movements in the balance of payments statistics, deposits tend to accumulate in these accounts at other times. The indicative data for the second quarter of 2013 points to a USD 795 million increase.

The significant decline in FX accounts at the Central Bank of Turkey of non-resident Turkish citizens persists due to the cuts in interest rates applied to these accounts. The last cut in the interest rates applied to long-term FX deposit accounts with letters of credit and to super FX accounts was affected in October 2012. While the highest out flow from these accounts was observed in 2012, deposits in these accounts decreased by USD 0.3 billion in the second quarter of 2013.

The cost advantage provided by the facility, which allows banks to keep a certain fraction of their Turkish Lira reserve requirements as FX and gold, has led to a surge in non-resident citizens' and banks' deposits in domestic banks in the first quarter of 2013. While deposits in domestic banks continued to increase and became USD 5.2 billion in the second quarter of 2013, USD 3.9 billion of this total amount was composed of FX deposits.

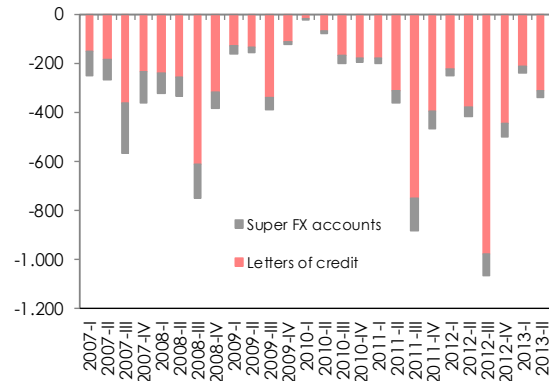
**Chart 34. Other Sectors' Deposit Assets Abroad**  
(billion USD)



Source: CBRT.

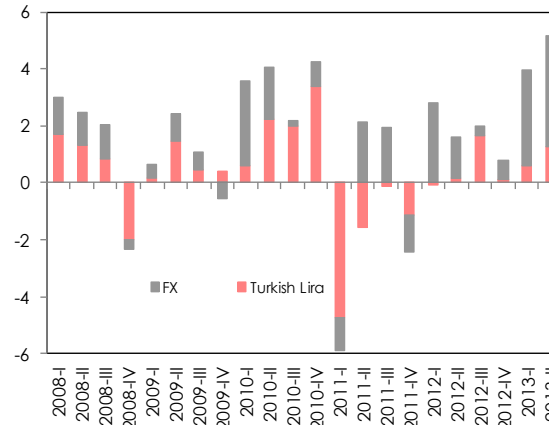
(+): Decrease in deposits abroad, (-): Increase in deposits abroad

**Chart 35. Deposits within the Central Bank**  
(billion USD)



Source: CBRT.

**Chart 36. Deposits of Non-resident Banks within the Domestic Banks - Composition of FX and TL**  
(billion USD)



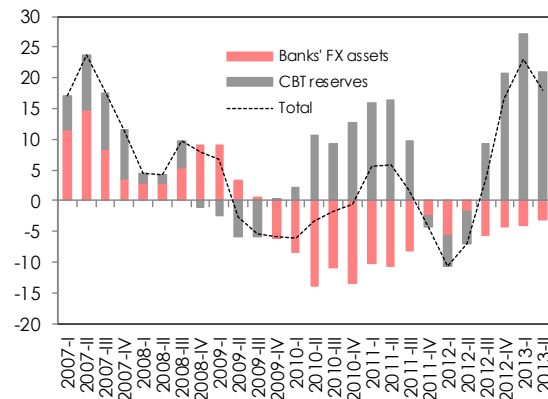
Source: CBRT.

Official reserves, which posted a significant increase in April on the back of large capital inflows, recorded a limited decline throughout the reporting quarter due to reduced capital flows offset by the CBRT's selling interventions in the foreign exchange markets during other months. In this quarter, the official reserves in the balance of payments table decreased by USD 0.6 billion. In the second quarter of 2013, while the repayment of rediscount loans that the Central Bank extends to exporters and the Treasury's bond issues abroad in April were instrumental in reserve inflows, the decline in banks' deposits at the CBRT, the CBRT's FX sales to banks in June and payment of IMF debt in May became the main drivers of outflows from reserves.

In the second quarter of 2013, due to the downward trend in reserves, CBRT reserves declined by 3.3 percent quarter-on-quarter to USD 122.6 billion. By June, the ratio of required reserves in FX and gold maintained by banks at the Central Bank to gross international reserves was 55 percent (Box 4). Additionally, “the short-term external debt stock on a remaining maturity basis (STED)”, which is calculated regardless of the original maturity but based on the external debt maturing within 1 year or less, increased by 6.0 percent compared to the previous quarter-end to USD 165.2 billion. As a result, the ratio of international reserves to STED, which is considered to be one of the reserve adequacy indicators, became 83 percent. However, this ratio becomes 102 percent when branches and affiliates abroad are excluded.

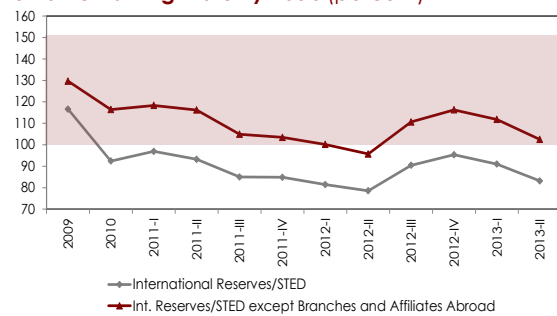
The Net Errors and Omissions (NEO) item, which posted a significant deficit in the second quarter of 2012, posted outflows of approximately USD 1.0 billion in the second quarter of 2013. In annual terms, the cumulative NEO was USD –5.2 billion and the ratio of NEO to total FX inflows decreased to -2.4 percent in the second quarter.

**Chart 37. International Reserves**  
(billion USD, annualized)



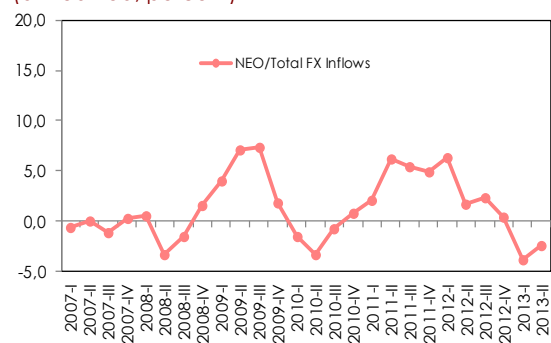
Source: CBRT.  
Note: + increase; - decrease

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



Source: CBRT.

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



Source: CBRT.

## Box 4

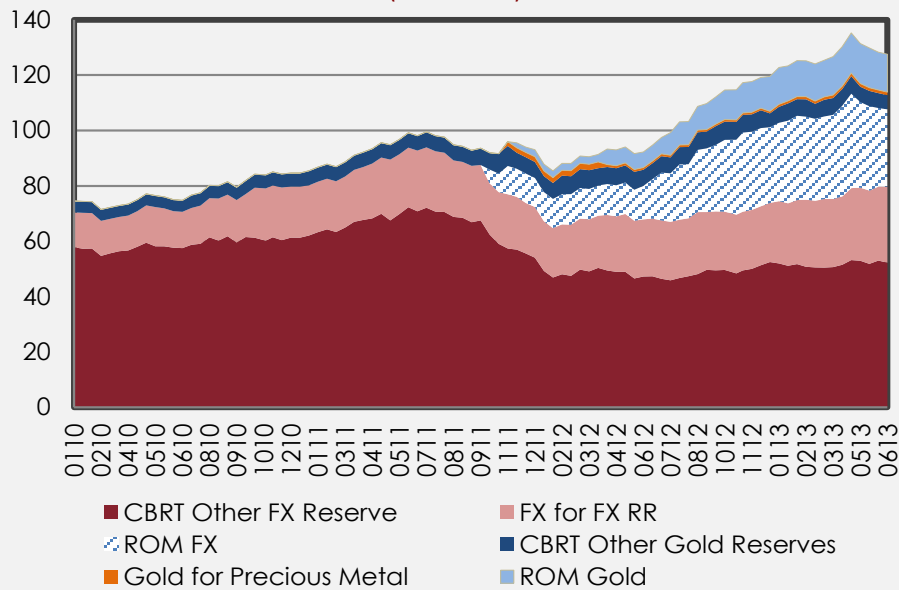
## The ROM Facility and Structural Change in International Reserves

International reserve assets are not only an international payment and liquidity tool, but also a fundamental component of balance of payments statistics as well as a major source of finance for external debt. According to the definition given in the Balance of Payments Manual Fifth Edition, international reserve assets are composed of monetary gold, special drawing rights (SDRs), reserve position in the IMF, foreign exchange assets (consisting of currency, and deposits and securities) and other claims.

As of September 2011, the Central Bank of the Republic of Turkey (CBRT) introduced a new instrument named the Reserve Options Mechanism (ROM), allowing banks to hold a certain fraction of their Turkish Lira reserve requirements in foreign exchange to dampen the adverse effects of excessively volatile capital flows on financial stability, to strengthen foreign exchange reserves and to provide banks with further flexibility in their liquidity management. In October of the same year, gold deposits accounts were also included in the reserve requirements coverage and banks were allowed to hold a certain ratio of their reserve requirements that should be maintained for FX and Turkish Lira liabilities excluding precious metal deposit accounts as "standard gold" at the Central Bank. The ROM practice became fundamental to bolstering the build-up of the international FX reserves of the CBRT in the aftermath of the global financial crisis.

Changes in gold and FX reserves during the January 2010 - June 2013 period are illustrated in Chart 1. Accordingly, total international reserves, which amounted to USD 74.5 billion in January 2010, rose to USD 98.1 billion in July 2011 on the back of the increases in banks' foreign exchange reserve requirements (FX for FX RR) and in other FX inflows during 2010 and the first half of 2011. FX purchased from banks through FX buying auctions became instrumental in the rise of other FX inflows. On the other hand, gold reserves did not post a significant change.

**Chart 1. Structural Change in International Reserves**  
(billion USD)



Source: CBRT

The change in gold and FX reserves after September 2011, when the ROM instrument was introduced, is noteworthy. With the utilization of the ROM facility by resident banks starting from October 2011 on, gold reserves soared. Consequently, while the total gold reserves were USD 6.1 billion in September 2011, they climbed to USD 19.9 billion in June 2013. Of these reserves, USD 13.7 billion was standard gold held as reserve requirements; those that were not under the reserve requirements coverage materialized as USD 5.1 billion. In other words, while the ratio of gold reserves to total reserves was 6.5 percent in September 2011, this ratio became 16.3 percent in June 2013 due to the ROM facility.

Foreign exchange reserve assets increased from their September 2011 levels of USD 87.5 billion to USD 107.6 billion in June 2013. It is obvious that the ROM facility was utilized intensively by banks in the reporting period (Chart 1). Particularly after January 2012, while no significant change was observed in other FX reserves excluding reserve requirements, the rapid increase in FX reserves held at the CBRT within the framework of the ROM was noteworthy. By the end of June, while the reserves held at the CBRT within the ROM framework amounted to USD 41.6 billion, their share in total reserves became 32.6 percent.

In sum, it is considered that the ROM facility does not only provide banks with flexibility in their liquidity management, but also plays a pivotal role in bolstering the CBRT's international FX reserves during the exit from the global financial crisis.

### III. Annex Tables

#### Balance of Payments (billion USD)

	January-June			June (Annualized)		
	2012	2013	% change	2012	2013	% change
Current Account	-30,0	-36,3	20,9	-60,9	-54,0	-11,3
Goods	-34,6	-40,5	17,2	-77,2	-71,3	-7,7
Exports	78,9	81,0	2,7	153,4	165,4	7,8
Exports (fob)	74,3	75,2		143,6	153,3	
Shuttle Trade	2,6	3,9		4,9	7,6	
Imports	-113,5	-121,6	7,1	-230,6	-236,6	2,6
Imports (cif)	-117,4	-125,8		-238,5	-245,0	
Adjustment: Classification	5,7	6,4		11,6	12,6	
Services	7,6	9,1	19,1	21,6	24,4	12,5
Travel (net)	7,2	9,4		20,8	23,7	
Credit	9,1	11,7		25,0	28,2	
Debit	-1,9	-2,3		-4,2	-4,5	
Other Services (net)	0,4	-0,3		0,8	0,6	
Income	-3,7	-5,3	43,9	-7,0	-8,3	18,9
Compensation of Employees	-0,1	-0,1		-0,2	-0,2	
Direct Investment (net)	-1,1	-2,5		-1,7	-3,5	
Portfolio Investment (net)	-0,5	-0,7		-0,9	-0,8	
Other Investment (net)	-2,0	-2,0		-4,2	-3,8	
Interest Income	1,0	0,9		1,6	2,0	
Interest Expenditure	-3,0	-2,9		-5,8	-5,7	
Current Transfers	0,7	0,5	-25,5	1,7	1,2	-28,2
Workers Remittances	0,4	0,4		1,0	1,0	
Capital and Financial Account	28,7	41,0	42,8	57,5	71,6	24,5
Financial Account (excl. reserve assets)	35,0	47,5	35,6	52,2	92,5	77,3
Direct Investment (net)	5,7	3,5	-38,1	13,7	6,3	-54,2
Abroad	-2,5	-1,4		-3,6	-3,0	
In Turkey	8,2	4,9		17,4	9,3	
Portfolio Investment (net)	10,4	18,0	73,8	15,3	60,7	297,7
Assets	-0,1	2,1		0,3	4,8	
Liabilities	10,4	15,9		15,0	55,9	
Equity Securities	1,2	-0,2		1,0	4,8	
Debt Securities	9,2	16,1		13,9	51,1	
Non-residents' Purchases of GDI	3,9	6,9		7,1	19,9	
Eurobond Issues of Treasury	3,6	1,7		4,6	2,9	
Borrowing	4,6	3,2		5,6	5,7	
Repayment	-1,0	-1,5		-1,0	-2,8	
Banks (net)	1,7	5,0		2,2	12,3	
Other Sectors (net)	0,0	2,5		0,0	16,0	
Other Investment (net)	18,9	25,9	36,7	23,2	25,6	10,1
Assets	1,7	0,4		-0,3	-1,8	
Trade Credits	-0,3	-0,3		-0,8	-0,8	
Credits	-0,4	-0,7		-0,6	-1,1	
Currency and Deposits	2,4	1,6		1,2	-1,8	
Banks	3,5	1,2		0,6	0,2	
Foreign Exchange	4,2	3,0		1,7	3,0	
Turkish Lira	-0,7	-1,9		-1,1	-2,8	
Other Sectors	-1,0	0,4		0,6	0,1	
Liabilities	17,2	25,5		23,5	27,4	
Trade Credits	2,5	6,9		3,2	5,4	
Credits	6,8	7,9		11,9	11,0	
Central Bank	0,0	0,0		0,0	0,0	
General Government	-1,1	-1,2		-2,1	-2,2	
IMF	-1,2	-0,9		-2,9	-1,7	
Long-term	0,0	-0,4		0,8	-0,5	
Banks	3,3	10,4		7,1	12,3	
Long-term	0,3	2,4		3,8	2,2	
Short-term	2,9	8,0		3,4	10,1	
Other sectors	4,7	-1,2		6,8	0,9	
Long-term	2,1	-1,7		3,1	0,2	
Short-term	2,5	0,5		3,7	0,7	
Deposits of Non-residents	7,7	10,4		7,9	10,5	
Central Bank	-0,7	-0,6		-2,0	-2,2	
Banks	8,4	11,0		10,0	12,7	
Change in Official Reserves (- increase)	-6,3	-6,5		5,2	-21,0	
Net Errors and Omissions	1,4	-4,6		3,5	-5,2	

Source: CBRT.

## Financing Requirements and Sources (billion USD)

	2012				2012	2013	
	I	II	III	IV		I	II
Financing Requirements	-29,2	-24,4	-18,6	-19,6	-91,9	-28,7	-33,1
Current Account Balance (Excluding Current Transfers)	-16,6	-14,1	-8,2	-10,2	-49,1	-16,5	-20,4
Debt Security and Credit Repayments	-11,0	-10,1	-11,6	-9,6	-42,3	-12,6	-13,8
Debt Securities (Abroad)	-1,0	0,0	-1,3	0,0	-2,3	-1,5	0,0
Long Term Credits	-10,0	-10,1	-10,4	-9,6	-40,0	-11,1	-13,8
Trade Credits	0,0	0,0	0,0	0,0	-0,1	0,0	-0,1
Monetary Authority	0,0	0,0	0,0	0,0	0,0	0,0	0,0
(IMF)	0,0	0,0	0,0	0,0	0,0	0,0	0,0
General Government	-1,0	-1,6	-0,8	-1,5	-4,9	-0,9	-1,5
(IMF)	-0,6	-0,6	-0,4	-0,4	-2,0	-0,4	-0,4
Banks	-2,6	-2,3	-2,8	-1,7	-9,4	-3,8	-1,4
Other Sectors	-6,4	-6,1	-6,7	-6,3	-25,6	-6,3	-10,8
Other Assets (- indicates to an increase) 1/	-1,6	-0,2	1,2	0,2	-0,4	0,3	1,0
Financing Sources	29,2	24,4	18,6	19,6	91,9	28,7	33,1
Current Transfers	0,4	0,3	0,3	0,4	1,4	0,2	0,3
Capital Account	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Direct Investment (Net)	2,3	3,4	1,3	1,4	8,4	2,0	1,5
Equity Securities (Net)	0,9	0,3	1,4	3,6	6,3	0,4	-0,6
Debt Securities and Credits	15,9	23,7	21,7	23,7	85,0	29,7	27,5
Debt Securities	4,5	5,7	12,0	12,0	34,1	8,4	9,2
In Turkey (Net)	0,4	3,7	8,3	4,7	17,2	4,1	3,0
Abroad	4,1	2,0	3,6	7,2	16,9	4,3	6,3
Long Term Credits	11,0	10,5	9,9	10,8	42,2	10,6	13,6
Trade Credits	0,1	0,1	0,1	0,0	0,3	0,1	0,1
Monetary Authority	0,0	0,0	0,0	0,0	0,0	0,0	0,0
(IMF)	0,0	0,0	0,0	0,0	0,0	0,0	0,0
General Government	0,6	0,9	0,6	0,8	2,8	0,5	0,6
(IMF)	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Banks	2,8	2,4	2,3	2,0	9,5	3,4	4,1
Other Sectors	7,5	7,2	7,0	7,9	29,6	6,6	8,8
Short Term Credits (Net)	0,3	7,5	-0,2	1,0	8,7	10,7	4,7
Trade Credits	-0,2	2,6	-0,9	-0,7	0,9	3,5	3,4
Monetary Authority	0,0	0,0	0,0	0,0	0,0	0,0	0,0
General Government	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Banks	-0,6	3,5	0,0	2,1	5,0	7,2	0,8
Other Sectors	1,2	1,4	0,6	-0,4	2,8	0,0	0,5
Deposits (Net)	3,8	4,0	-0,5	0,6	7,8	4,8	5,7
Other Liabilities	0,0	0,2	0,3	0,0	0,5	0,0	0,2
Net Errors and Omissions	5,4	-4,0	2,9	-3,5	0,8	-3,6	-1,0
Banks' Currency and Deposits 2/	1,4	2,1	1,4	-2,4	2,5	2,3	-1,1
Reserve Assets 2/	-0,7	-5,6	-10,2	-4,3	-20,8	-7,0	0,5

Source: CBRT.

1/ Excluding Banks' Currency and Deposits

2/- denotes an increase.

**Balance of Payments Debt Creating and Non-Debt Creating Flows (billion USD)**

	2012				2012	2013	
	I	II	III	IV		I	II
A) Current Account Balance	-16,2	-13,8	-7,9	-9,8	-47,8	-16,2	-20,1
B) Capital and Financial Account	10,8	17,8	5,0	13,3	47,0	19,9	21,1
Capital Account	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial Account	10,8	17,8	5,0	13,3	47,0	19,9	21,1
Assets	-2,5	1,7	1,9	-3,1	-2,0	1,9	-0,8
Direct Investment	-2,3	-0,2	-0,6	-0,9	-4,1	-0,7	-0,7
Portfolio Investment	0,8	-0,8	1,8	0,9	2,7	0,8	1,3
Other Investment	-1,0	2,7	0,8	-3,0	-0,6	1,8	-1,3
Liabilities	14,1	21,8	13,2	20,7	69,8	25,0	21,4
Non-Debt Creating Flows	5,4	3,9	3,6	6,0	18,9	2,8	2,2
Direct Investment 1/	4,5	3,4	1,9	2,4	12,1	2,4	2,6
Portfolio Investment/Equity Securities	0,9	0,3	1,4	3,6	6,3	0,4	-0,6
Other Investment/Other Liabilities 2/	0,0	0,2	0,3	0,0	0,5	0,0	0,2
Debt Creating Flows	8,7	17,9	9,6	14,8	50,9	22,1	19,2
Portfolio Investment/Debt Securities	3,5	5,7	10,7	12,0	31,9	6,9	9,2
Trade Credits	-0,1	2,7	-0,8	-0,7	1,0	3,5	3,3
Loans	1,6	5,6	0,2	2,9	10,3	6,9	0,9
Deposits	3,8	4,0	-0,5	0,6	7,8	4,8	5,7
Other Investment/Other Liabilities 2/	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Reserve Assets	-0,7	-5,6	-10,2	-4,3	-20,8	-7,0	0,5
C) Net Errors and Omissions	5,4	-4,0	2,9	-3,5	0,8	-3,6	-1,0

Source: CBRT.

1/ "Other Capital" item, which is comprised in the Direct Investment, is presented under Debt Creating Flows/Loans.

2/ The International Monetary Fund (IMF) has made an SDR allocation to its members in proportion to their existing quotas in the Fund in August and September 2009. Accordingly, SDR equivalent of USD 1.497 million was allocated to Turkey, and recorded under the following "Financial Account" items in the balance of payments statistics: "Other Investment / Other Liabilities" and "Reserve Assets / Foreign Exchange / Currency and Deposits".

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