TÜRKİYE CUMHURİYET MERKEZ BANKASI

Balance of Payments and International Investment Position Report

2016-II

CENTRAL BANK OF THE REPUBLIC OF TURKEY

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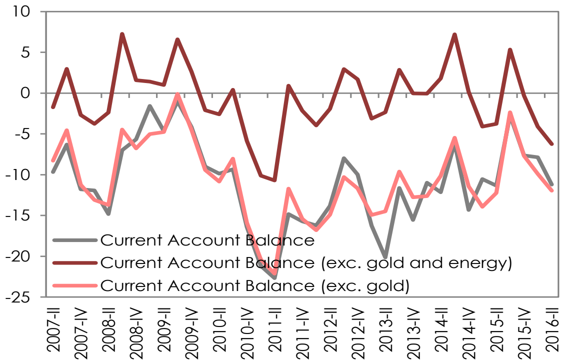
1. Current Account

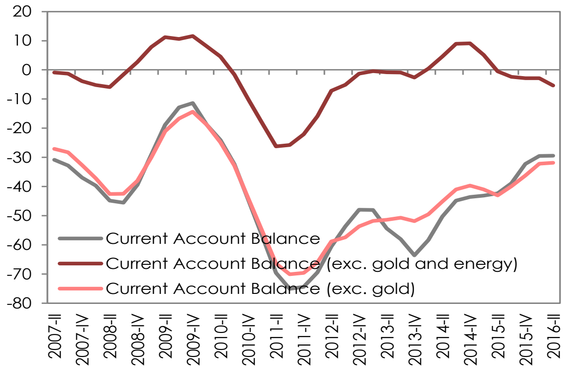
In the second quarter of 2016, the current account deficit continued to narrow on an annual basis. The current account recorded a limited change due to the offsetting of the decline in balance of services by the improvement in the foreign trade balance which rose from the fall in oil prices. In the second quarter, the significant decline in net travel revenues, compared to the same quarter of the previous year, became the main driver of the deterioration in the balance of services.

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



Source: CBRT.

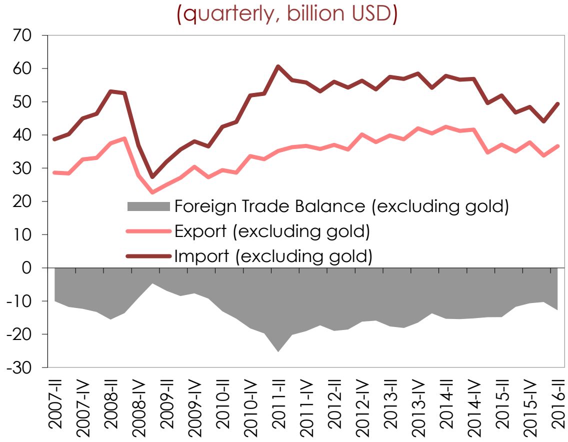
Chart 2. Current Account Balance
(annualized, billion USD)



Source: CBRT.

An analysis by years indicates that the contraction seen in the current account deficit since early 2014 lost pace. In the second quarter of 2016, the annual current account deficit receded to USD 29.4 billion; its share in the GDP remained unchanged at 4.2 percent compared to the previous quarter. Meanwhile, the annual current account deficit excluding gold and energy moved far from its horizontal trend that had prevailed since the third quarter of 2015, and increased by USD 2.5 billion quarter-on-quarter to USD 5.4 billion.

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



Source: CBRT.

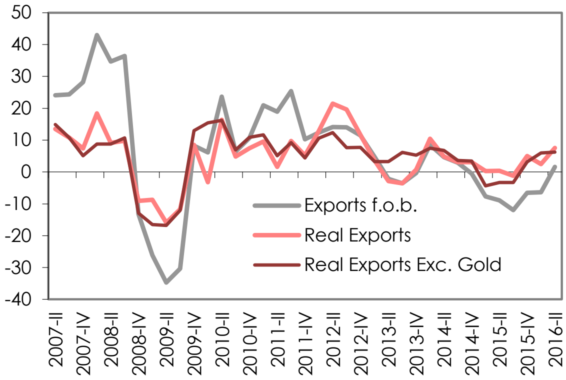
An analysis of the foreign trade deficit -the most influential determinant of the current account deficit- excluding gold shows that it contracted by USD 2.1 billion year-on-year in the second quarter. Exports excluding gold decreased by USD 0.5 billion year-on-year to USD 36.6 billion, while imports excluding gold declined by USD 2.5 billion to USD 49.4 billion. In the second quarter, the annual foreign trade deficit excluding gold narrowed by USD 14.8 billion year-on-year.

1.1 Exports of Goods

In the second quarter of 2016, exports increased annually by 1.6 percent to USD 37.0 billion. In the reported period, the export quantity index recorded a 7.5 percent increase. With the exclusion of gold, the increase in the export quantity index declined to 6.2 percent. Consequently, due to the decline in export prices, the increase of nominal exports remained below the increase of real exports.

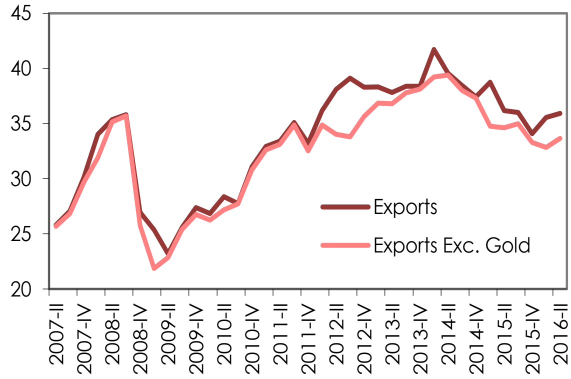
According to the seasonally adjusted data, all exports, total and gold-excluded, posted a quarterly increase in the second quarter. Seasonally adjusted exports and exports excluding gold, each posted quarter-on-quarter upturns by 1.0 percent and 2.5 percent, respectively.

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



Source: TURKSTAT.

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

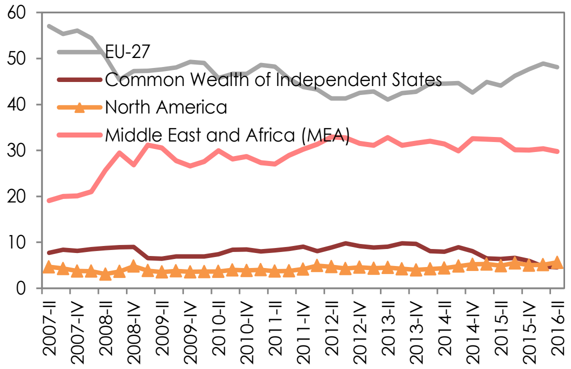


Source: TURKSTAT.

In the second quarter, the share of European Union (EU) and Middle East and African (MEA) countries in Turkey's exports excluding gold receded, yet that of North American countries increased compared to the first quarter. The upward trend seen in the share of EU countries since the second quarter of 2015 posted a modest decline. The share of Commonwealth of Independent States (CIS) including Russia continued to decline, albeit limited.

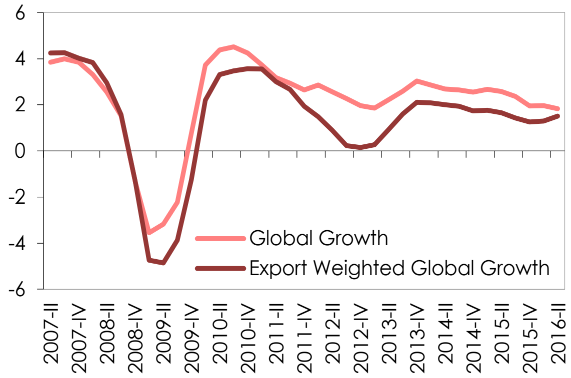
Export-weighted growth rates of Turkey's export destinations continue to remain below the global growth rate. However, the gap between both growth rates narrowed considerably in the second quarter of 2016. In the second quarter of 2016, while the average economic growth in Turkey's export markets materialized annually at 1.5 percent, the global growth rate stood at 1.8 percent.

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



Source: TURKSTAT.

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



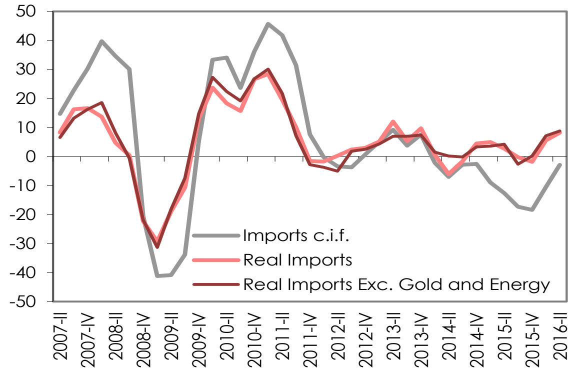
Source: CBRT.

1.2 Imports of Goods

In the second quarter of 2016, imports decreased by 2.9 percent year-on-year to USD 52.9 billion. In the respective period, while the import quantity index inched up 8.2 percent, the increase, excluding gold and energy, materialized at 8.8 percent. The significant decline in import prices, chiefly the energy prices, pushed the imports down.

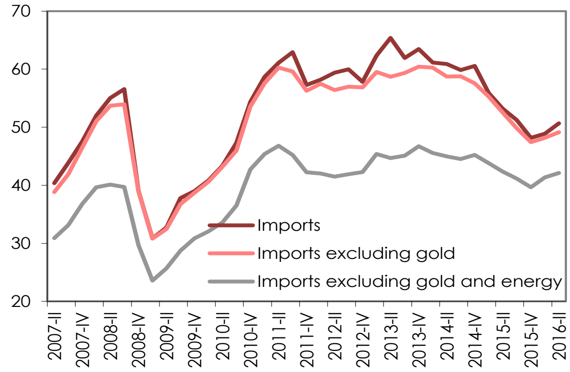
According to seasonally adjusted data, imports rose on a quarterly basis. In the second quarter of 2016, imports and imports excluding gold and energy posted quarter-on-quarter increases by 3.6 percent and 1.8 percent, respectively.

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



Source: TURKSTAT.

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



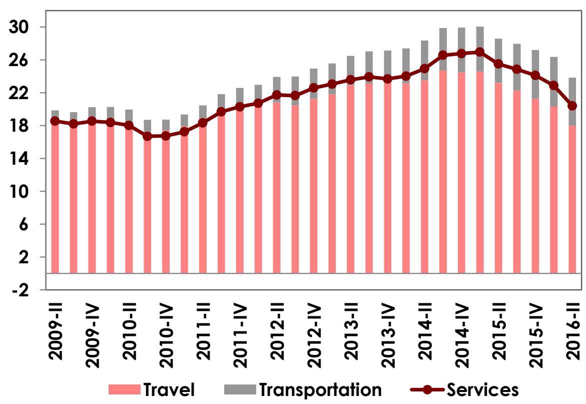
Source: CBRT.

1.3 Services Account

The services balance surplus, which had been on the decline since 2015 Q1 due to the decrease in net travel revenues and transportation items, maintained its downward trend. Compared to the same quarter of the previous year, the positive contribution of transport and travel items to the services account decreased.

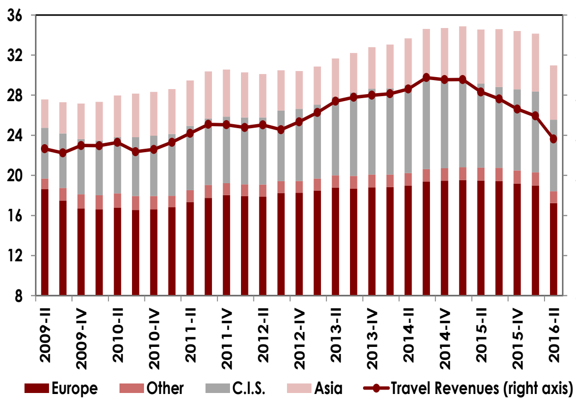
In the second quarter of 2016, net travel revenues decreased by 45.3 percent year-on-year to USD 2.8 billion. In this period, travel revenues decreased by 35.3 percent, yet travel expenses increased by 0.1 percent. Meanwhile, the number of tourists recorded a 34.3 percent decline. An analysis by country groups points to a downtrend for all country groups, with the most apparent declines in the CIS, the European and American countries.

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



Source: CBRT.

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

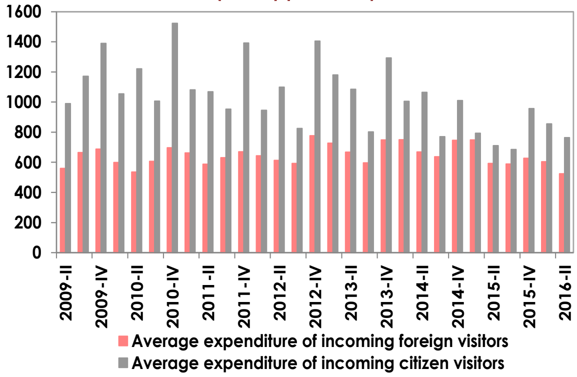


Source: TURKSTAT.

While the average spending of foreign visitors in Turkey diminished, that of non-resident Turkish citizens surged in this quarter. The average spending per foreign visitor in Turkey was down 11.6 percent year-on-year to USD 524, while the average spending per non-resident Turkish citizen visiting Turkey was up 7.5 percent year-on-year to USD 765.

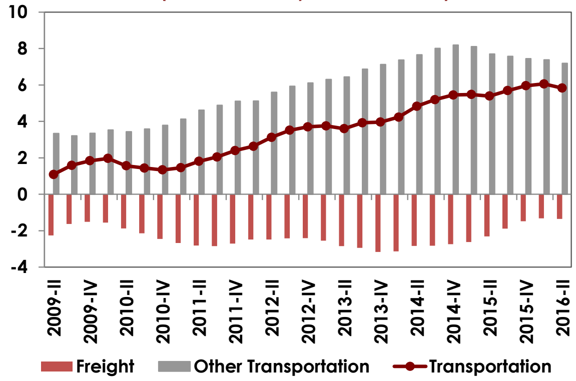
The uptrend in net transportation revenues prevailing since 2014Q1 decelerated.

Chart 12. Average Expenditure
(USD/person)



Source: TURKSTAT.

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



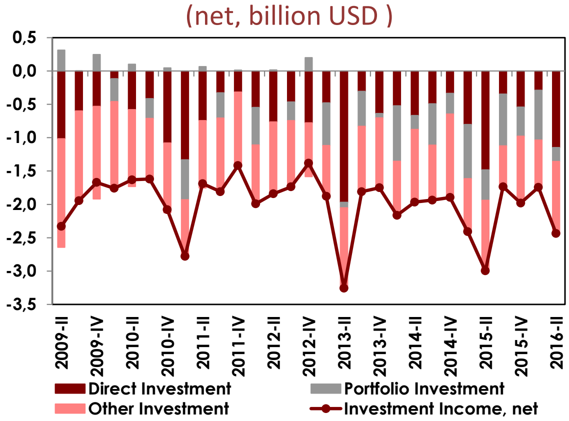
Source: TURKSTAT, CBRT.

1.4 Primary and Secondary Income

The primary income deficit consisting of the sum of net compensation of employees and investment income increased in the second quarter. The significant increase in the direct investment expenditures, under which profit transfers abroad are recorded, was instrumental in the widening of the primary income deficit. Net outflows from the primary income decreased by 15.8 percent year-on-year to USD 2.6 billion in the second quarter of 2016. Net revenues driven by direct investment and portfolio investment items increased, while net revenues driven by compensation of employees decreased.

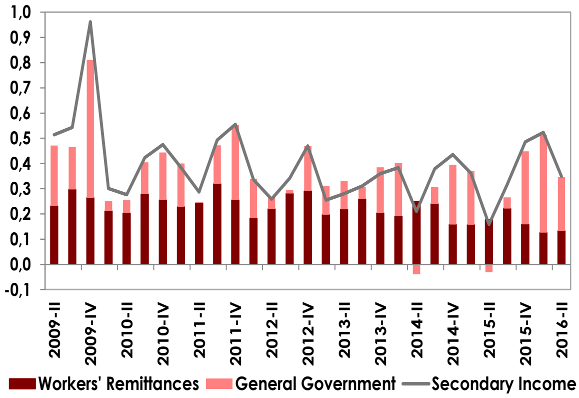
Net inflows in the secondary income, which consists of current transfers of the general government and other sectors, surged by 119.5 percent year-on-year. This was attributed to the significant increase driven by the base effect in net inflows of the general government item that comprises international grants.

Chart 14. Composition of Investment Income
(net, billion USD)



Source: CBRT.

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



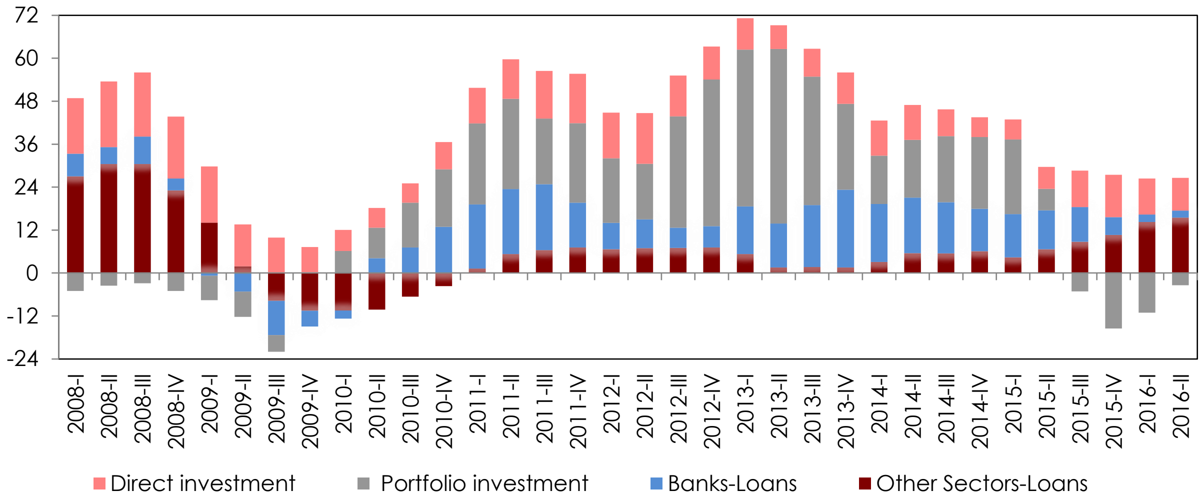
Source: CBRT.

2. Financial Account

The relative recovery in the global risk appetite that started in February 2016 in view of the expectation that the Fed rate hike would not come soon also continued in the second quarter. The Brexit referendum that resulted in the UK's decision to leave the EU and the weak trend in the growth performance of emerging economies became the main drivers of volatility in global markets during this period. Although the adverse geopolitical developments in Syria persisted in this period, the expectation of a normalization in relationships with Israel and Russia along with the relatively favorable course of the growth performance have stood out as positive distinguishing factors peculiar to Turkey that had an impact on portfolio and other investment inflows.

A breakdown of the balance of payments financial account by main headings reveals that the direct investment inflows that had been on a downtrend for some time also continued in this period. Inflows to portfolio investments that had started in the first quarter increasingly continued in this period. As for other investment inflows, those received by the banking sector slightly increased, while other sectors' external borrowings continued to remain high.

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

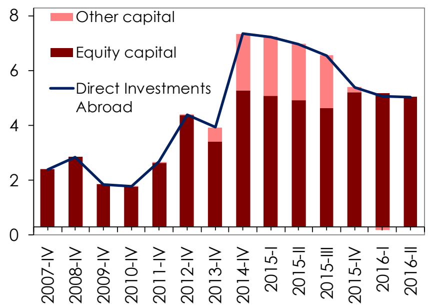


Source: CBRT.

2.1 Direct Investment

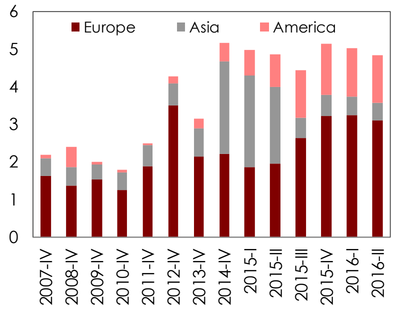
The downtrend in direct investments abroad continues. In 2015, direct investments abroad started to trend down due to both the relative recovery in security prices across the Europe, a main investment region for Turkey, and the effect of geopolitical developments with neighboring countries such as Iraq and Russia. This trend continued in the second quarter of 2016 with direct investments abroad receding slightly year-on-year to USD 836 million. In this period, while European countries continued to be the main destination for investment, the mining sector received the bulk of the investments.

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



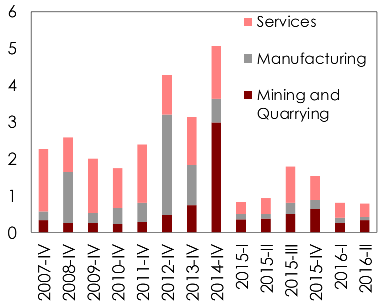
Source: CBRT.

Chart 18: Geographical Distribution
(annualized, billion USD)



Source: CBRT.

Chart 19: Sectoral Distribution
(annualized, billion USD)

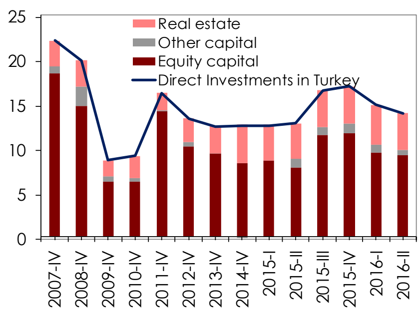


Source: CBRT.

In the second quarter of the year, no major transaction was recorded with regard to inward direct investments. Nonresidents' direct investments in Turkey are mainly composed of capital and real estate investments. Inward direct capital investments having been in decline for a while maintained this trend in the second quarter of 2016, too. The persisting sluggish outlook observed across the US and Europe and the change in the perception of safety regarding Turkey became the main drivers of the decline in direct investment inflows in this period.

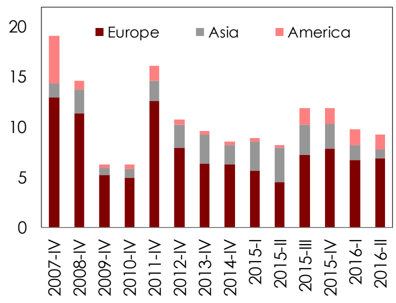
As of the second quarter of 2016, Europe continued to be the major shareholder in capital investments to Turkey, with the services sector attracting most investments. Real estate investments that constitute another key component of inward direct investments have posted a rapid increase since 2013, on the back of the 2012 amendment to the law that facilitates acquisition of real estate by foreigners in Turkey, followed soon after by the issue of the communique drawing up the application guidelines of this law. In the second quarter of 2016, real estate investments posted a quarter-on-quarter decrease and stood at USD 737 billion. The stagnation of the tourism sector in this period might have had adverse effects also on real estate investments by foreigners.

Chart 20: Inward Direct Investments
(annualized, billion USD)



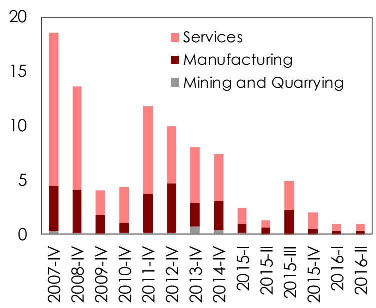
Source: CBRT.

Chart 21: Geographical Distribution
(annualized, billion USD)



Source: CBRT.

Chart 22: Sectoral Distribution
(annualized, billion USD)

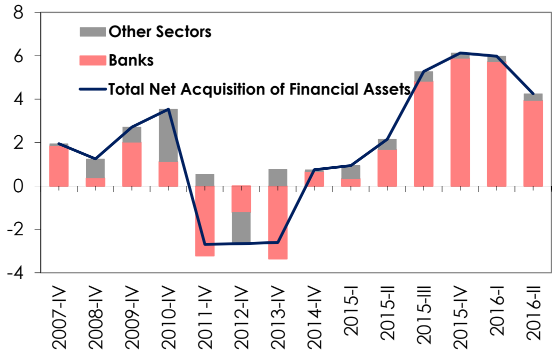


Source: CBRT.

2.2 Portfolio Investment

The main course of portfolio investments is determined by nonresidents' investments in Turkey. Portfolio investments are composed of the sum of residents' investments abroad (portfolio investment net acquisition of financial assets) and non-residents' investments in Turkey (portfolio investment net incurrence of liabilities). Residents' portfolio investments abroad, composed of the sum of banks and other sectors, have materialized at negligibly low levels over the years.

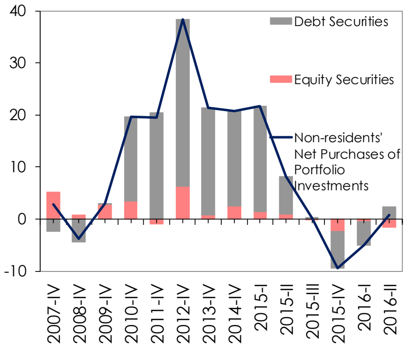
Chart 23: Portfolio Investment – Net Acquisition of Financial Assets
(annualized, billion USD)



Source: CBRT.

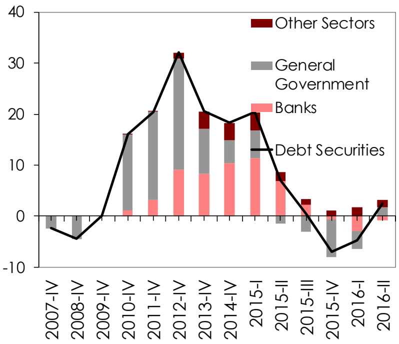
As it became clear in the first quarter of 2016 that the Fed would not rush into any rate hikes, portfolio inflows to emerging economies including Turkey resumed and persisted in the second quarter. An analysis by instruments suggests that in the second quarter of 2016, debt securities posted inflows while equity securities recorded modest outflows. Inflows in debt securities comprise all sectors, primarily the general government. It is noteworthy that bond issues abroad by the banking sector that had been on a sluggish course for some time due to adverse market conditions regained impetus in the second quarter of 2016.

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



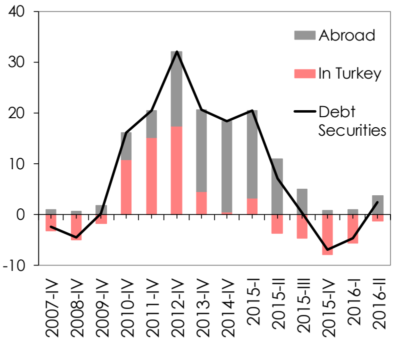
Source: CBRT.

Chart 25: Sectoral Distribution of Debt Security Issues
(net, annualized, billion USD)



Source: CBRT.

Chart 26: Debt Security Issues
(net, annualized, billion USD)



Source: CBRT.

2.3 Other Investment-Currency and Deposits

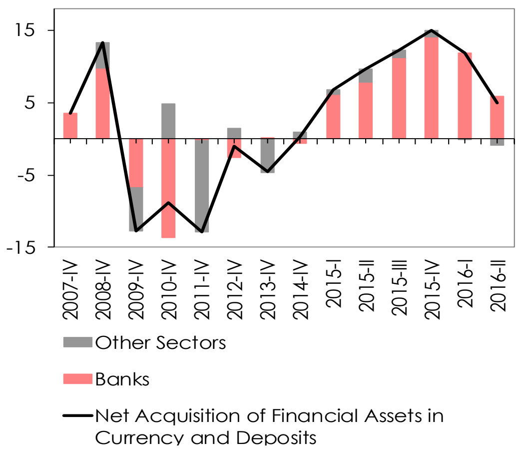
The currency and deposits item, a major component of the other investment item in the balance of payments, is composed of domestic sectors' deposits abroad and foreigners' deposits in Turkey.

In the second quarter, banks' deposits abroad declined. Banks' deposits consisting of their correspondent accounts abroad are mainly affected by the change in residents' and non-residents' FX deposit accounts and banks' investment preferences over foreign exchange liquidity and portfolio. In this context, the decline prevailing in non-residents' deposits in Turkey in this period became the main driver of the decrease in the correspondent accounts of the banking sector.

Likewise, non-bank sectors' deposits abroad receded. The other sectors, representing the relevant transactions, use data compiled by the Bank for International Settlements (BIS). This item is compiled from data reported to the BIS by member banks on the accounts they hold in the name of Turkish citizens. In times of growth it generally rises, while it tends to decline in times of crisis as residents make use of their accounts. As the relevant data on deposits are obtained from the BIS with approximately a four-month lag, the figure for 2016 Q2 denotes a provisional and estimate value and displays a slight decline for this period.

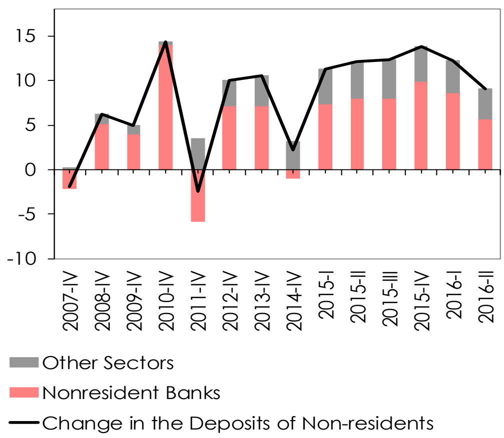
Net liabilities of currency and deposits item posted a decline stemming from the decrease in net deposits of non-resident banks. This item is composed of non-resident Turkish citizens' deposits with the CBRT under the name of Foreign Currency Deposit Accounts with Credit Letter, along with deposits of non-resident banks and non-resident persons. The withdrawals from deposits in the relevant item in the second quarter of 2016 were a result of foreigners' inclination towards portfolio investments in Turkey. As a matter of fact, foreigners' net purchases of debt securities increased by USD 6.1 billion in the respective quarter.

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



Source: CBRT.

Chart 28: Currency and Deposits – Liabilities
(annualized, billion USD)

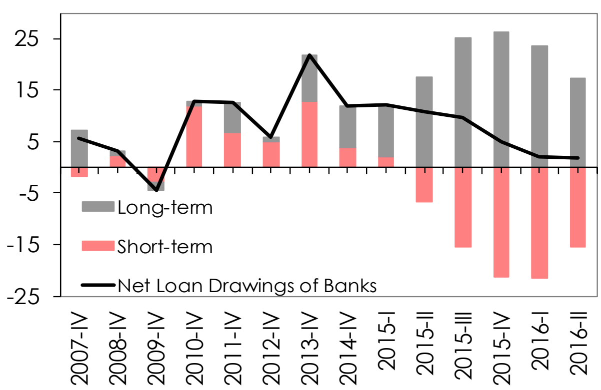


Source: CBRT.

2.4 Other Investment-Loans

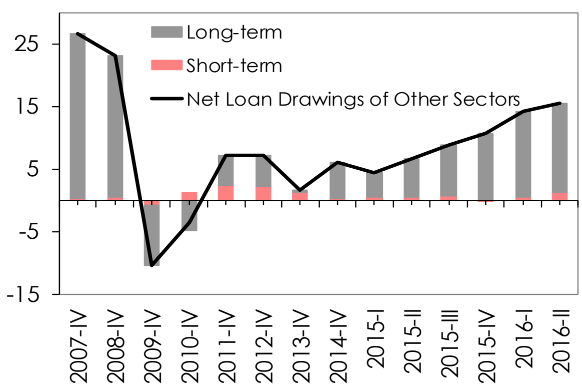
Banks and other sectors became more inclined to borrow on long-term maturities in the first quarter of 2015 which also prevailed in the second quarter of 2016. In January 2015, the Central Bank made some changes in the reserve requirement ratios for FX non-core short term liabilities of banks and financing companies to extend external borrowing maturities. The effect of the respective changes on banks' external borrowings through loans prevailed in the second quarter of 2016. In this period, banks were net borrowers of long-term loans, while they were net repayers of short-term loans. Other sectors' external borrowing maturities lengthened due to their borrowing needs to finance major projects that they conduct in Turkey. Regarding external borrowing through loans in the second quarter of 2016, the long-term net credit utilization of banks and other sectors was USD 2.3 billion and USD 4.0 billion, respectively.

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



Source: CBRT.

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

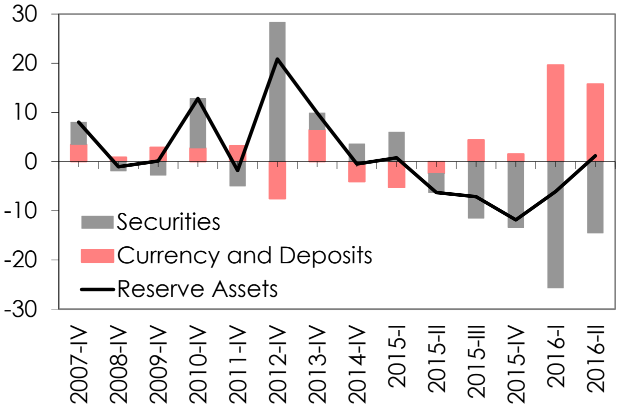


Source: CBRT.

2.5 Reserves

Central Bank reserves that had receded since the first quarter of 2015 resumed an upward trend in 2016 and posted an increase by USD 1.2 billion in the second quarter. In the respective period, portfolio inflows driven by net purchases of foreigners boosted the increase in reserve assets.

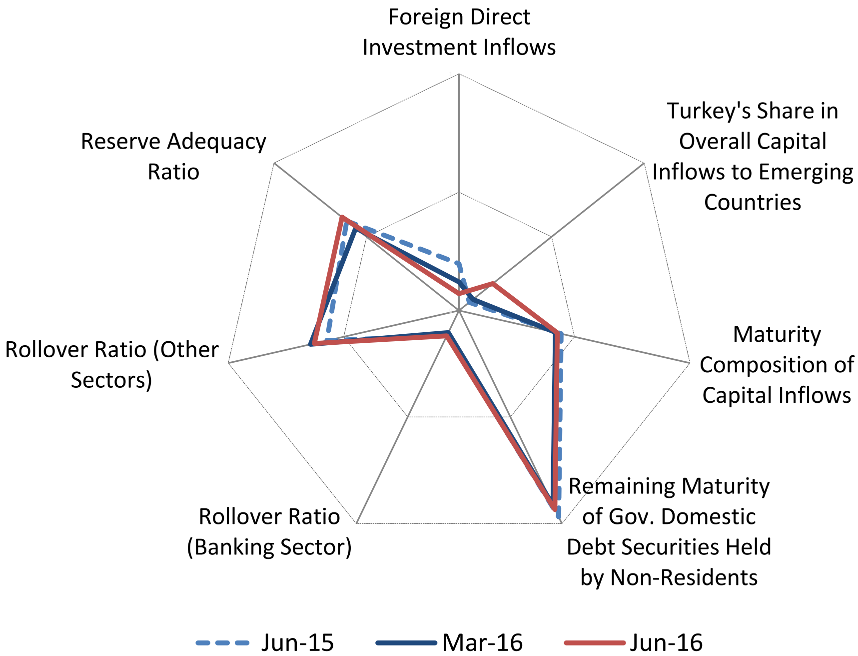
Chart 31: Reserve Assets
(annualized, billion USD)



Source: CBRT.

Quality of financing sources did not post a significant change. As for the quality of financing sources, Turkey's share in capital flows towards emerging market economies (EMEs) and other sectors' debt rollover ratios improved slightly compared to the previous year. On the other hand, while direct investment inflows remained on a relative decline, the maturity structure of capital inflows, the banking sector's debt rollover ratio and reserve adequacy indicators remained intact.

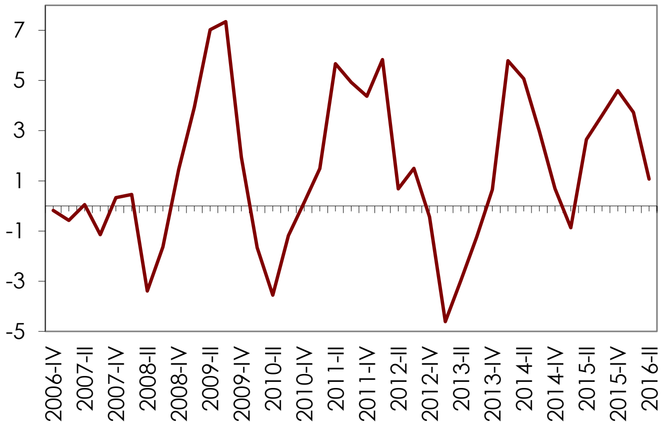
Chart 32: Macro Display of the Quality of Current Account Deficit Financing*



Source: CBRT.
* Expansion outwards denotes improvement.

The Net Errors and Omissions (NEO) item stood as negative USD 738 million in the second quarter of 2016. In annual terms, the 12-month cumulative NEO stood at USD 2.1 billion and its ratio to total FX inflows decreased to 1.1 percent in the second quarter.

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



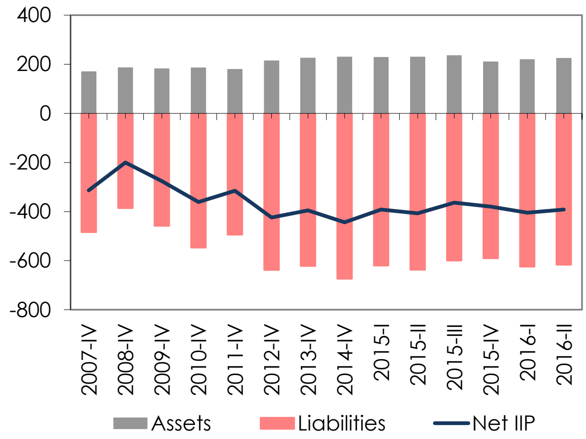
Source: CBRT.

3. International Investment Position

The net International Investment Position (IIP), defined as the difference between Turkey's assets abroad and the liabilities to non-residents, recorded a modest improvement in the second quarter of 2016. Price and exchange rate movements were instrumental in this improvement. According to IIP data, Turkey's net liability position improved by USD 7.8 billion quarter-on-quarter and stood at USD 379 billion by the end of June 2016. In this period, while external assets increased by 2.4 percent, external liabilities decreased by 1.3 percent.

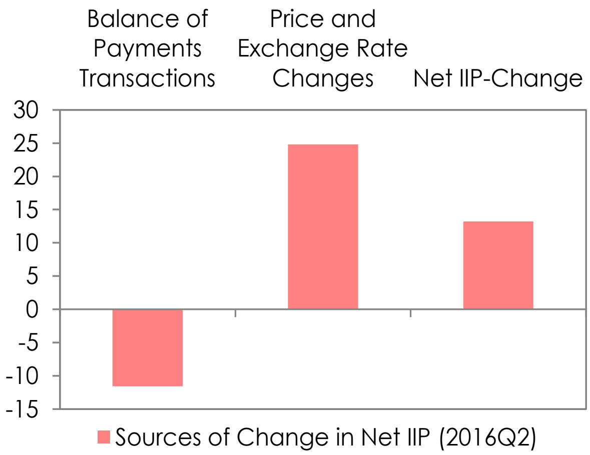
An analysis of the reconciliation calculations based on the comparison between flow transactions of the balance of payments and stock IIP data reveals that the improvement was mainly driven by changes in exchange rates and market value rather than movements driven by balance of payments. In the second quarter, changes in exchange rates and prices were mainly driven by the uncertainties in global markets, the 16-percent drop in the BIST National 100 index and the 25 percent depreciation of the Turkish lira against the USD (Please see: Box).

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



Source: CBRT.

Chart 35. Balance of Payments and IIP
(billion USD)



Source: CBRT.

Other sectors item, which includes non-financial companies, bears the highest net liability position with USD 306 billion, followed by the banking sector with USD 205 billion. The contribution of these sectors to the sum accounts for 83 percent and thus developments in these sectors determine the general IIP. Traditionally, the Central Bank bears the net asset position and the general government has the net liability position. In the second half of 2016, except for the 1-percent drop in the other sectors, there has been no significant change in the sectoral distribution and contributions.

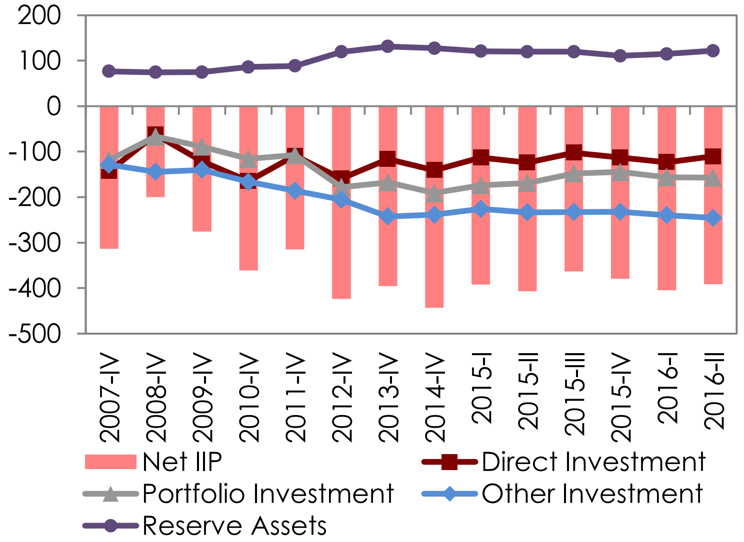
Table 1: IIP by Sectors (billion USD)

	2015			2016-I			2016-II		
Sector	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
General Government	2,1	-93,9	-91,8	2,2	-97,0	-94,8	2,0	-100,3	-98,3
Central Bank	112,3	-1,3	111,0	116,4	-1,3	115,1	123,6	-1,2	122,4
Banks	35,9	-197,7	-161,8	41,0	-205,8	-164,9	38,2	-205,1	-167,0
Other Sectors	68,8	-293,8	-225,0	68,9	-316,7	-247,7	70,2	-306,3	-236,1
Total	**210,1**	**-590,0**	**-379,9**	**219,4**	**-624,4**	**-404,9**	**224,9**	**-616,6**	**-391,7**

Source: CBRT.

An analysis by investment instruments reveals that the improvement in the IIP in the second quarter was mostly driven by the rise in Central Bank reserve assets -the largest asset item in net IIP- and the decline in non-residents' direct investment in Turkey compared to the first quarter. The increase in reserve assets came as a result of the CBRT's operations intended for accumulating reserves while liabilities in direct investment decreased by USD 13.9 billion mainly due to changes in the market value and exchange rates.

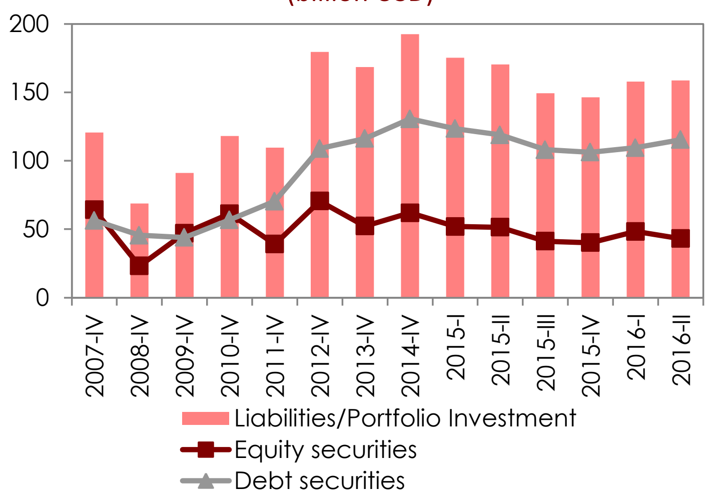
Chart 36. Contribution of Investment Instruments to Net IIP
(billion USD)



Source: CBRT.

An analysis of portfolio inflows having a 25 percent weight on the liabilities side of the IIP with respect to instruments and sectors reveals that inflows via equity securities decreased in the second quarter while inflows via debt securities increased. In this period, the equity securities stock decreased by USD 5.2 billion; out of this total amount, USD 1.2 billion stemmed from banks and the rest from other sectors. The drop was driven mainly by price movements. Meanwhile, the USD 6 billion-rise in debt securities stemmed mainly from balance of payments transactions.

Chart 37. Liabilities: Portfolio Investment
(billion USD)



Source: CBRT.

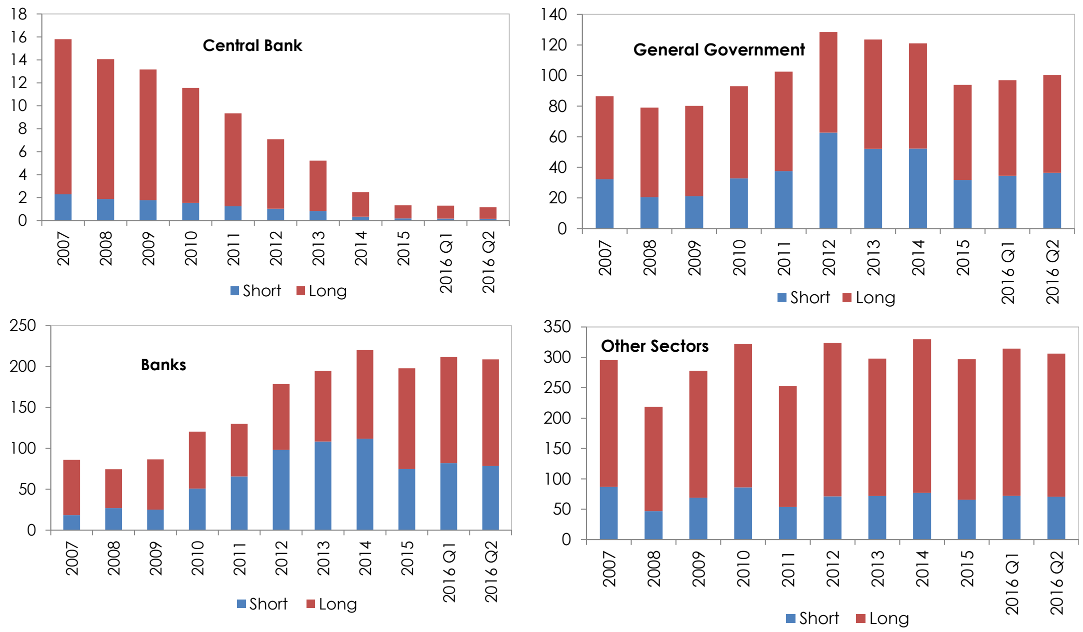
Table 2: Liabilities: Sources of Change in Portfolio Investment
(billion USD)

Flow-Stock Relation	2016Q1	Balance of Payments Transactions	Price and Exchange Rate Changes	2016Q2
Liabilities/Portfolio Investment	**157,8**	**5,7**	**-5,0**	**158,6**
(Equity Securities)	48,3	-0,4	-4,7	43,2
(General Government/Debt Securities/GDDS)	34,5	1,4	0,6	36,4
(General Government/Debt Securities/Eurobond)	35,3	2,5	-0,6	37,1
(Banks/Debt Securities)	29,5	2,2	-0,1	31,6
(Other Sectors/Debt Securities)	10,2	0,1	0,0	10,3

Source: CBRT.

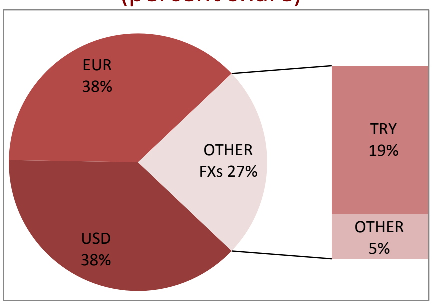
Long-term items still have weight on the liabilities side of the IIP. In the second quarter of 2016, the Central Bank's liabilities were entirely long-term, while long-term liabilities of the General Government and Other Sectors were 64 percent and 77 percent, respectively. The share of long-term liabilities in the maturity structure of the banking sector has been increasing since 2015 in tandem with the Central Bank's decisions and this ratio was 63 percent in the same quarter. Approximately 70 percent of all IIP liabilities were long-term.

Chart 38. Liabilities: Maturity Distribution
(billion USD)



Source: CBRT.

Chart 39. FX Composition of Net IIP
(percent share)

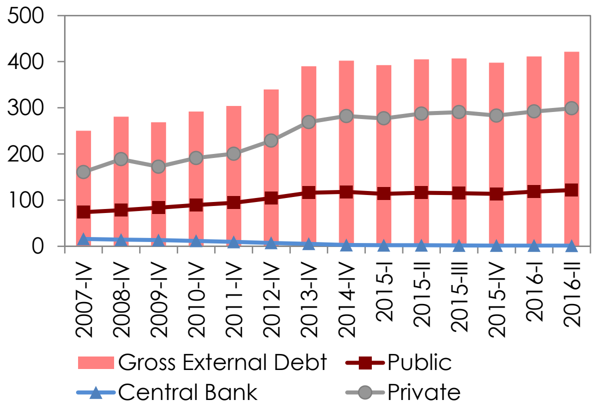


Source: CBRT.

The FX composition of net IIP is balanced. Excluding reserve assets, USD and euro have the same weight, around 1/3, while Turkish lira has a weight of 1/5.

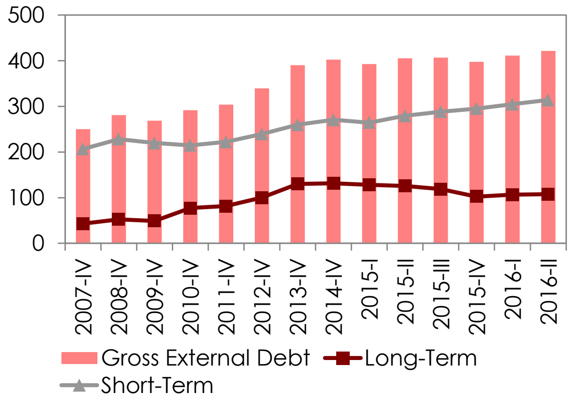
Basically, liability items of the IIP make up the main components of external debt stock. An analysis of external debt stock data with respect to the related liability items shows that the external debt stock displayed a limited rise in 2016Q2 and reached USD 421 billion. By type of borrower, the private sector has the largest weight in gross external debt stock with a share of 71 percent. By maturity distribution, the share of short-term debt has been decreasing over the last few years against a rise in long-term debt. By 2016Q2, the share of long-term debt was 75 percent.

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



Source: Undersecretariat of Treasury.

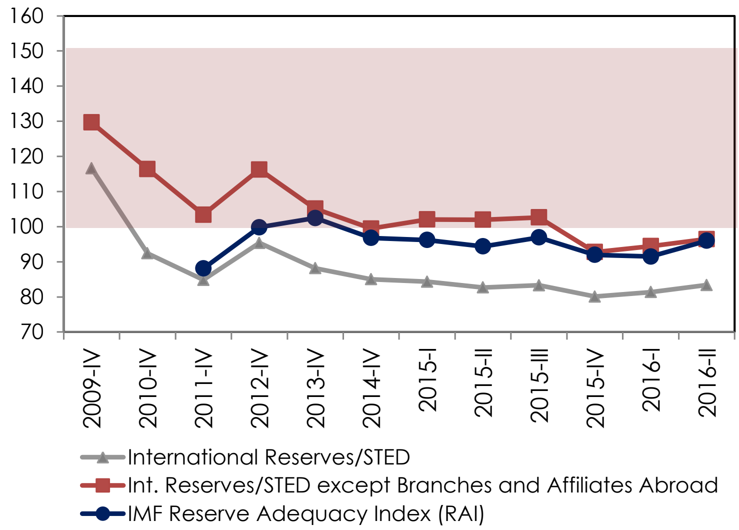
Chart 41. Gross External Debt Stock by Maturity (billion USD)



Source: Undersecretariat of Treasury.

In 2016Q2, the CBRT's gross international reserves increased by USD 7.2 billion compared to 2016Q1 and were recorded USD 121.8 billion. In this quarter, 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, increased by 1.6 percent quarter-on-quarter and stood at USD 168.9 billion. As a result, the ratio of total international reserves to STED, which is monitored as a reserve adequacy indicator, was recorded as 83.4 percent. Nevertheless, this ratio becomes 96.4 percent when branches and affiliates abroad are excluded. The IMF Reserve Adequacy Ratio[1] is calculated as 96.0 percent.

Chart 42. Reserve Adequacy Indicators (percent)



Source: CBRT.

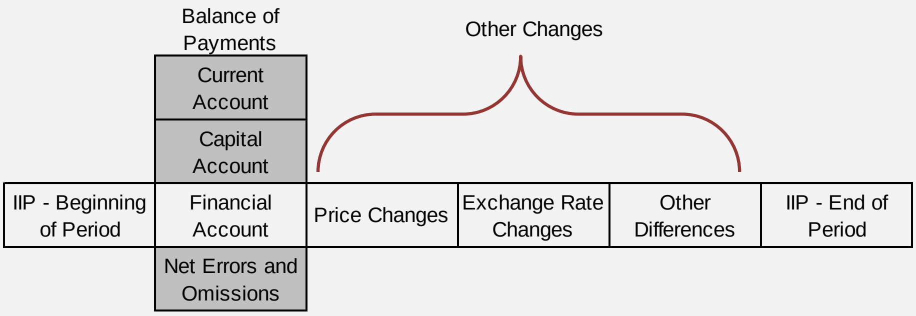
[1] This is an indicator defined by the IMF for emerging markets implementing the floating exchange rate regime as the ratio to the total of official reserves (30%* short-term debt stock + 15%*portfolio liabilities + 5%*broad money supply + 5%*revenues from exports of goods and services) and the IMF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

Box — Integrated International Investment Position Statement (Reconciliation Table)

In most general terms, the balance of payments is a statistical statement that systematically records all economic transactions between residents of an economy and nonresidents for a specific time period. The market prices at the time of the transaction are used to determine the value of economic transactions. As the report is based on USD, other currencies are converted to USD by using the exchange rates at the time of the transaction. The International Investment Position (IIP) is a statistical statement that shows at a point in time the stock value of financial assets of residents of an economy that are claims on non-residents, and gold bullion held as reserve assets and financial liabilities of residents of an economy to non-residents. The IIP stock calculations are based on the market prices of the reference period and the exchange rates at the end of the period. In other words, as the IIP is a summary of a country's external financial assets and liabilities based on sectors and instruments, the difference between IIP stocks in two quarters is expected to be equal to the Financial Account flows in the Balance of Payments in the same quarter. However, there might be some discrepancies between these two due to differences between market prices and exchange rates in the compilation periods or due to methodological revisions. The Reconciliation Table is prepared to detect such discrepancies. In this Box, the Reconciliation Table will be analyzed and the main reasons underlying the discrepancy between the Balance of Payments Finance Account and the IIP will be summarized.

The difference between IIP data of the two selected periods is composed of the flows in the Balance of Payments Financial Account and "Other Changes". Other Changes stem from three factors:

Diagram 1. Flow-Stock Relation

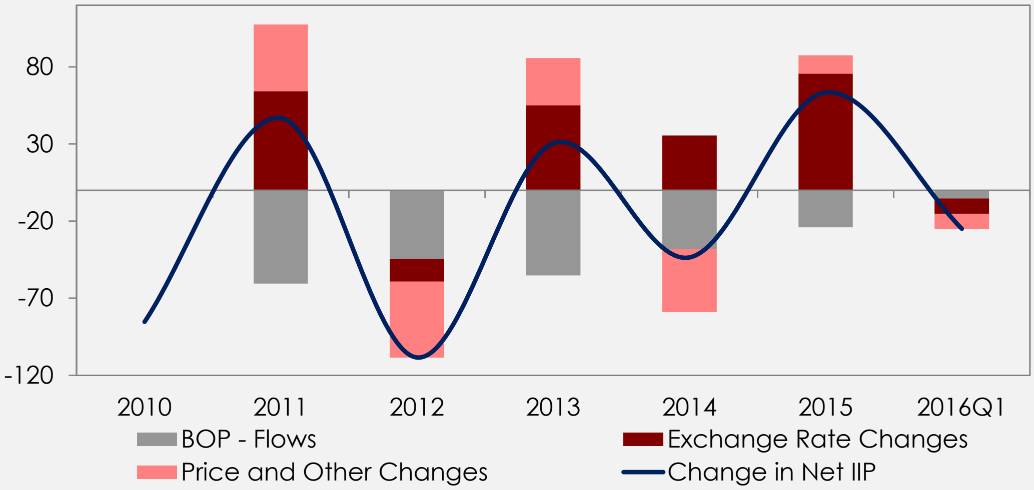


- Price difference: The Balance of Payments data are recorded based on transactions. In IIP, the transactions are recorded in the market prices of the reference period. Therefore, the difference between prices of assets and liabilities affect the value of data between the two stocks.
- The difference in exchange rates: The Balance of Payments data are recorded in the exchange rates on the day of transaction. In IIP, however, the records are kept in the exchange rates at the end of the related period. For this reason, an exchange rate difference appears in stocks between two periods.

- Other differences stem from reasons such as the utilization of different data sources by the Balance of Payments and IIP and reclassifications of instruments.

The Chart below shows the main components of the change in net IIP compiled from the Reconciliation Table prepared for Turkey's IIP data for 2010-2016Q1.[2]

Chart 1. Reconciliation Table: Main Components (billion USD)



Source: CBRT

The Chart shows that the change in net IIP was minus USD 103 billion in 2012, while it was plus USD 63 billion in 2015, and the values in other periods remained between these two values. During the analyzed period, the flows stemming from balance of payments running a current account deficit have had a negative impact on net IIP; while in years when the Turkish lira appreciated except for 2012, the exchange rate effect has made an improving contribution to the net IIP in a way to offset the negative impact of BOP transactions. The fact that Direct Investment and Portfolio Investment liabilities are overwhelmingly composed of TL-denominated liabilities decreases liabilities and helps net IIP improve in periods of depreciation of the TL. Meanwhile, the contribution of the Other Changes item including price and other changes to the net IIP has varied over the years; it has had an upward effect on the net IIP in years marked by a fall in equity security prices, and a downward effect in years marked by a rise in equity security prices.

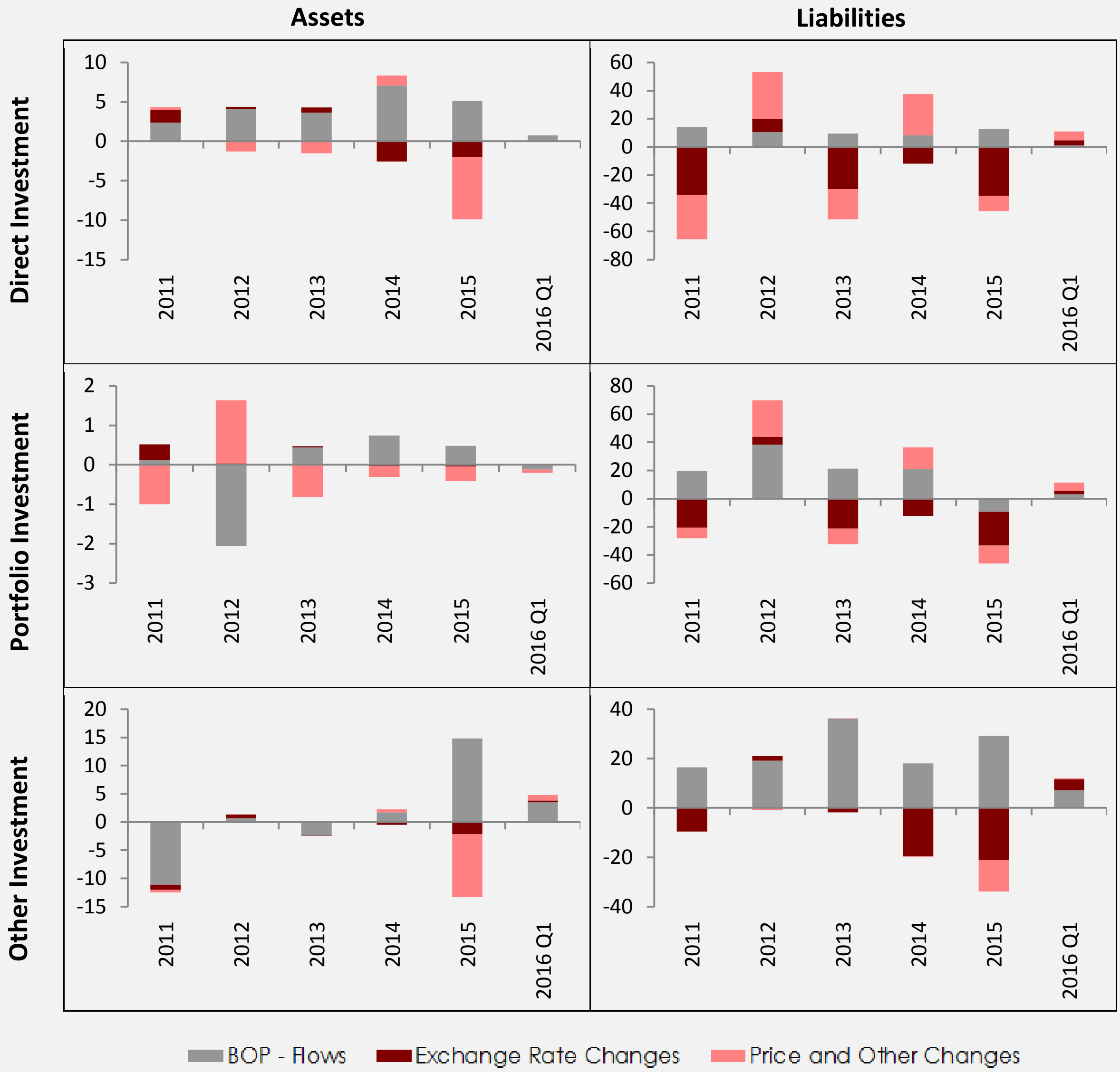
An analysis of the change in the net IIP by main asset and liability items reveals the following conclusions:

- The Balance of Payments flows is the primary factor making a positive impact on the Direct Investment item, which has a 16 percent share on the assets. While the share of the same item can be as high as 25 percent on the liabilities, the change in that item can be mostly attributed to the exchange rate differences and other differences; meanwhile the exchange rate differences depending on the exchange rate developments, have made a decreasing impact on liabilities except for 2012 and 2016Q1.

[2] It is not possible to calculate the price difference for the entire financial assets and liabilities in the IIP statistics. For this reason, the changes stemming from price differences have been compiled under the title "Other Differences".

- While the share of Portfolio Investment on the asset side is at negligible levels (1 percent), it is 25 percent on the liabilities side. The Balance of Payments flows is the most weighted variable making a positive contribution, and exchange rate differences limited the rise in liabilities except in 2012 and 2016Q1.
- The Other Investment item, which is mostly composed of trade credits and advances, loans, and currency and deposits items, constitutes approximately 30 percent of the asset side and approximately 50 percent of the liabilities of the Reconciliation Table. The Balance of Payments flows are a determinant factor in the change on both sides.

Chart 2. Flow-Stock Relation (billion USD)



Source: CBRT.

To conclude, an analysis of the Reconciliation Table data covering the post-2010 period reveals that the Balance of Payments Finance Account flows has made a downward impact on the net IIP; however, exchange rate differences have made an improving contribution throughout this period except in 2012 and 2016Q1 when the Turkish lira appreciated. These contributions played a pivotal role in the flat trend of the net IIP after 2012.

4. Annex Tables

Balance of Payments (billion USD)

	January-June			June (Annualized)		
	2015	2016	% change	2015	2016	% change
Current Account	-21,9	-19,1	-12,7	-42,3	-29,5	-30,4
Goods	-25,4	-20,3	-20,0	-59,6	-43,1	-27,8
Exports	77,3	75,4	-2,5	160,7	150,0	-6,7
Exports (fob)	73,4	71,6		151,0	142,0	
Shuttle Trade	2,7	2,5		7,3	5,3	
Imports	102,8	95,7	-6,9	220,4	193,1	-12,4
Imports (cif)	106,8	99,6		229,1	200,1	
Adjustment: Classification	-5,2	-4,5		-11,5	-9,1	
Services	8,6	4,9	-43,4	25,5	20,4	-20,1
Travel (net)	7,9	4,7		23,2	18,0	
Credit	10,6	7,6		28,3	23,6	
Debit	2,6	2,9		5,1	5,6	
Other Services (net)	0,6	0,2		2,3	2,4	
Primary Income	-5,6	-4,5	-19,2	-9,5	-8,5	-11,3
Compensation of Employees	-0,2	-0,3		-0,3	-0,6	
Direct Investment (net)	-2,3	-1,4		-3,1	-2,3	
Portfolio Investment (net)	-1,3	-1,0		-2,2	-2,2	
Other Investment (net)	-1,9	-1,8		-3,9	-3,4	
Interest Income	0,8	1,1		1,6	2,0	
Interest Expenditure	2,6	2,8		5,6	5,4	
Secondary Income	0,5	0,9	67,6	1,3	1,7	25,4
Workers Remittances	0,3	0,3		0,7	0,6	
Capital Account	0,0	0,0		0,0	0,0	
Financial Account	-13,3	-17,7	33,4	-36,6	-27,3	-25,4
Direct Investment (net)	-5,2	-2,5	-51,3	-6,1	-9,2	50,5
Net Acquisition of Financial Assets	1,9	1,6		6,7	4,7	
Net Incurrence of Liabilities	7,1	4,1		12,8	13,9	
Portfolio Investment (net)	3,8	-8,2	-314,5	-6,0	3,4	-156,9
Net Acquisition of Financial Assets	2,6	0,7		2,2	4,3	
Net Incurrence of Liabilities	-1,2	9,0		8,2	0,8	
Equity Securities	-0,1	0,7		1,0	-1,6	
Debt Securities	-1,2	8,2		7,1	2,4	
GDDS	-3,7	2,5		-3,6	-1,5	
Eurobond Issues of Treasury	0,3	3,2		2,2	3,2	
Borrowing	3,0	4,0		4,9	4,0	
Repayment	2,8	0,8		2,8	0,8	
Banks (net)	1,7	1,6		6,9	-0,8	
Other Sectors (net)	0,6	1,0		1,7	1,5	
Other Investment (net)	-7,4	-15,4	108,9	-18,2	-22,8	24,7
Currency and Deposits	-0,6	-6,0		-0,8	-3,3	
Net Acquisition of Financial Assets	8,9	-1,1		9,6	5,0	
Banks	8,8	0,6		7,9	5,9	
Foreign Exchange	5,3	0,3		2,7	2,4	
Turkish Lira	3,5	0,3		5,2	3,5	
Other Sectors	0,1	-1,7		1,7	-0,9	
Net Incurrence of Liabilities	9,5	4,9		10,4	8,3	
Central Bank	-0,3	-0,2		-1,7	-0,8	
Banks	9,8	5,0		12,1	9,1	
Loans	-5,9	-7,8		-14,6	-15,4	
Net Acquisition of Financial Assets	0,7	0,2		2,4	0,3	
Net Incurrence of Liabilities	6,6	8,0		17,0	15,8	
Banks	3,4	0,4		10,9	1,9	
Short-term	-8,8	-3,0		-6,7	-15,5	
Long-term	12,2	3,4		17,6	17,4	
General Government	-0,4	-0,9		-0,5	-1,7	
Long-term	-0,4	-0,9		-0,5	-1,7	
Other sectors	3,7	8,6		6,6	15,5	
Short-term	0,0	1,2		0,5	1,2	
Long-term	3,7	7,3		6,1	14,3	
Trade Credit and Advances	-0,7	-1,7		-2,6	-4,0	
Net Acquisition of Financial Assets	-1,1	0,4		-1,7	0,5	
Net Incurrence of Liabilities	-0,4	2,1		0,9	4,5	
Other Assets and Liabilities	-0,2	0,1		-0,3	-0,1	
Change in Official Reserves	-4,5	8,5		-6,3	1,2	
Net Errors and Omissions	8,6	1,4		5,7	2,1	

Source: CBRT.

International Investment Position (billion USD)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016Q1	2016Q2	16Q2/16Q1 % Change
Net IIP	**-313,7**	**-199,7**	**-276,0**	**-361,3**	**-314,7**	**-423,8**	**-395,5**	**-443,4**	**-379,9**	**-404,9**	**-391,7**	**-3,3**
Assets	**170,1**	**186,4**	**182,1**	**185,9**	**179,7**	**214,4**	**226,1**	**230,0**	**210,1**	**219,4**	**224,9**	**2,5**
Direct Investment	12,2	17,8	23,3	24,0	28,3	31,4	33,7	39,9	35,2	35,9	36,7	2,3
Equity capital	12,2	17,8	19,9	20,8	23,9	27,5	29,9	33,9	30,6	31,5	32,2	2,5
Other capital	0,0	0,0	3,4	3,2	4,4	3,9	3,7	6,0	4,5	4,4	4,5	1,1
Portfolio Investment	2,0	1,9	1,9	2,2	1,8	1,3	1,0	1,5	1,6	1,4	1,4	3,3
Equity securities	0,1	0,1	0,2	0,4	0,3	0,3	0,4	0,5	0,6	0,6	0,5	-3,9
Debt securities	1,9	1,9	1,7	1,9	1,5	1,0	0,6	1,0	1,0	0,8	0,9	8,3
Banks	1,4	1,5	1,0	1,2	1,0	0,5	0,5	0,8	0,8	0,7	0,8	10,5
Other Sectors	0,5	0,4	0,6	0,7	0,5	0,5	0,2	0,2	0,1	0,1	0,1	-2,9
Other Investment	79,5	92,4	82,0	73,7	61,3	62,6	60,4	61,3	62,8	67,6	64,9	-3,9
Other Equity and Participation Shares	0,8	0,8	0,9	1,0	1,0	1,1	1,4	1,3	1,3	1,4	1,4	-0,1
Currency and deposits	65,1	79,2	67,7	58,1	45,0	44,7	40,2	40,6	41,8	45,9	43,1	-6,0
Banks	34,6	46,0	40,1	26,6	26,0	24,1	23,2	22,1	23,2	27,8	25,1	-9,8
Foreign exchange	*34,6*	*42,7*	*37,4*	*24,0*	*22,2*	*18,3*	*16,8*	*14,5*	*17,5*	*20,7*	*19,0*	*-8,1*
Turkish Lira	*0,0*	*3,4*	*2,7*	*2,5*	*3,9*	*5,8*	*6,4*	*7,6*	*5,7*	*7,1*	*6,1*	*-14,5*
Other Sectors	30,5	33,2	27,5	31,6	19,0	20,6	17,0	18,4	18,6	18,0	18,0	-0,2
Loans	1,9	2,4	2,6	2,6	2,8	3,6	4,1	5,7	6,2	6,8	6,4	-5,1
Central Bank	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Banks	1,8	2,3	2,6	2,5	2,6	3,1	3,0	4,4	5,1	5,7	5,6	-2,1
Short-term	1,1	1,5	1,5	1,3	1,0	1,3	1,0	0,8	0,8	1,1	1,0	-15,4
Long-term	0,7	0,8	1,1	1,2	1,5	1,7	2,0	3,5	4,3	4,6	4,7	1,1
General Government	0,0	0,0	0,0	0,0	0,2	0,5	1,1	1,3	1,0	1,0	0,8	-21,5
Trade credit and advances	10,3	8,6	9,3	10,5	10,9	11,7	13,2	12,2	12,0	11,9	12,4	3,8
Other Sectors	10,3	8,6	9,3	10,5	10,9	11,7	13,2	12,2	12,0	11,9	12,4	3,8
Other assets	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	0,1
Central Bank	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	0,1
Reserve Assets	76,4	74,2	74,8	86,0	88,3	119,2	131,0	127,3	110,5	114,6	121,8	6,3
Monetary gold	3,1	3,2	4,1	5,3	9,9	19,2	20,1	20,4	17,6	18,9	20,1	6,6
Special drawing rights	0,1	0,0	1,5	1,5	1,5	1,5	1,5	1,4	1,3	1,4	1,3	-0,8
Reserve position in the IMF	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	-1,3
Other reserve assets	73,1	70,8	69,0	79,1	76,8	98,3	109,2	105,3	91,4	94,2	100,2	6,3
Liabilities	**483,8**	**386,2**	**458,1**	**547,2**	**494,4**	**638,3**	**621,6**	**673,4**	**590,0**	**624,4**	**616,6**	**-1,3**
Direct Investment	155,2	80,5	144,9	188,6	137,2	190,6	150,1	180,9	148,1	159,2	147,2	-7,5
Equity capital	151,9	75,4	138,0	181,2	130,9	183,8	143,5	174,8	141,5	152,4	140,2	-8,0
Other capital	3,2	5,1	6,9	7,4	6,3	6,8	6,6	6,1	6,7	6,8	7,0	2,8
Portfolio Investment	120,6	68,7	91,0	118,2	109,5	179,5	168,5	192,5	146,5	157,8	158,6	0,5
Equity securities	64,2	23,1	47,1	61,3	39,1	70,5	52,2	61,9	40,2	48,3	43,2	-10,7
Banks	0,0	0,0	0,0	0,0	13,5	29,9	17,6	21,4	11,6	14,0	12,9	-8,3
Other Sectors	64,2	23,1	47,1	61,3	25,5	40,6	34,6	40,5	28,6	34,3	30,3	-11,7
Debt securities	56,4	45,6	43,9	56,9	70,5	109,0	116,2	130,6	106,3	109,5	115,4	5,4
Banks	0,0	0,0	0,0	1,1	4,2	13,3	21,4	31,3	30,1	29,5	31,6	7,0
In Turkey	0,0	0,0	0,0	0,1	0,4	1,1	1,2	1,2	0,8	0,7	0,7	-6,7
Abroad	0,0	0,0	0,0	1,0	3,7	12,3	20,2	30,2	29,3	28,8	30,9	7,3
General Government	56,4	45,6	43,9	55,5	66,1	94,1	89,9	91,0	66,9	69,8	73,6	5,4
In Turkey	32,2	20,4	21,1	32,7	37,5	62,7	52,1	52,2	31,8	34,5	36,4	5,6
Abroad	24,3	25,2	22,9	22,8	28,5	31,5	37,8	38,7	35,1	35,3	37,1	5,3
Other Sectors	0,0	0,0	0,0	0,2	0,2	1,5	4,9	8,3	9,3	10,2	10,3	0,7
In Turkey	0,0	0,0	0,0	0,0	0,0	0,1	0,1	0,1	0,1	0,3	0,3	29,7
Abroad	0,0	0,0	0,0	0,2	0,2	1,4	4,8	8,1	9,2	9,9	9,9	0,0
Other Investment	208,1	237,0	222,1	240,4	247,6	268,2	303,0	300,0	295,4	307,4	310,8	1,1
Currency and deposits	26,6	31,4	32,0	44,3	37,6	46,1	53,2	49,1	43,6	50,2	48,8	-2,9
Central Bank	15,8	14,1	13,2	11,6	9,3	7,1	5,2	2,5	1,3	1,3	1,2	-10,6
Banks	10,8	17,3	18,9	32,8	28,3	39,0	48,0	46,6	42,2	48,9	47,6	-2,7
Foreign exchange	*7,0*	*9,4*	*10,1*	*15,2*	*19,9*	*27,4*	*36,9*	*33,2*	*32,6*	*34,8*	*33,6*	*-3,4*
Turkish Lira	*3,8*	*7,9*	*8,8*	*17,6*	*8,4*	*11,6*	*11,1*	*13,4*	*9,6*	*14,1*	*14,0*	*-1,0*
Loans	160,0	183,0	167,0	171,3	182,8	193,9	215,7	217,4	217,0	222,4	224,9	1,1
Central Bank	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
Banks	39,3	40,4	35,6	47,6	58,1	64,9	86,7	94,5	92,6	92,1	91,8	-0,3
Short-term	7,5	9,5	6,3	18,1	23,9	29,4	42,8	44,0	20,9	18,9	17,9	-4,9
Long-term	31,8	30,9	29,3	29,5	34,1	35,5	43,9	50,5	71,8	73,2	73,9	0,9
General Government	30,1	33,5	34,8	36,1	35,0	32,8	32,2	28,7	25,7	25,9	25,4	-1,6
Short-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
Long-term	30,1	33,5	34,8	36,1	35,0	32,8	32,2	28,7	25,7	25,9	25,4	-1,6
Other Sectors	90,6	109,1	96,6	87,6	89,8	96,2	96,8	94,2	98,6	104,4	107,6	3,1
Short-term	1,4	1,8	0,9	2,0	2,7	4,2	4,9	4,6	3,9	4,7	5,1	9,5
Long-term	89,1	107,3	95,7	85,6	87,1	91,9	91,9	89,6	94,7	99,7	102,5	2,8
Trade credit and advances	21,5	22,6	21,6	23,4	25,7	26,8	32,7	32,2	33,6	33,4	35,8	7,0
Other Sectors	21,5	22,6	21,6	23,4	25,7	26,8	32,7	32,2	33,6	33,4	35,8	7,0
Short-term	21,1	22,0	21,1	22,8	25,4	26,4	32,3	31,9	33,1	33,0	35,3	7,0
Long-term	0,4	0,6	0,5	0,6	0,3	0,4	0,3	0,3	0,4	0,4	0,4	5,6
Special drawing rights	0,0	0,0	1,5	1,5	1,5	1,5	1,5	1,4	1,3	1,3	1,3	-0,8

Source: CBRT.

Boxes in Balance of Payments Reports