CENTRAL BANK OF THE REPUBLIC OF TURKEY

Balance of Payments Report 2014-III

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Head Office

İstiklal Cad. 10 Ulus, 06100 Ankara, Türkiye

Editors

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

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

Prepared by

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

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

Yasemin KANMAZ, Yasemin.Yaman@tcmb.gov.tr

Ayşe Sıla KOÇ, Aysesila.Koc@tcmb.gov.tr

Binnur BALKAN KONUK, Binnur.Balkan@tcmb.gov.tr

Elif ÖZCAN TOK, Elif.Tok@tcmb.gov.tr

CONTENTS

OVERVIEW 03

1. CURRENT ACCOUNT 11

1.1. Exports of Goods 12
1.2. Imports of Goods 13
1.3. Global Outlook 14
1.4. Terms of Trade 14
1.5. Services Account 15
1.6. Income Account 16
1.7. Current Transfers 16

2. CAPITAL AND FINANCIAL ACCOUNTS 17

2.1. Direct Investment 18
2.2. Portfolio Investment 19
2.3. Loans and Deposits 20

3. ANNEX TABLES 32

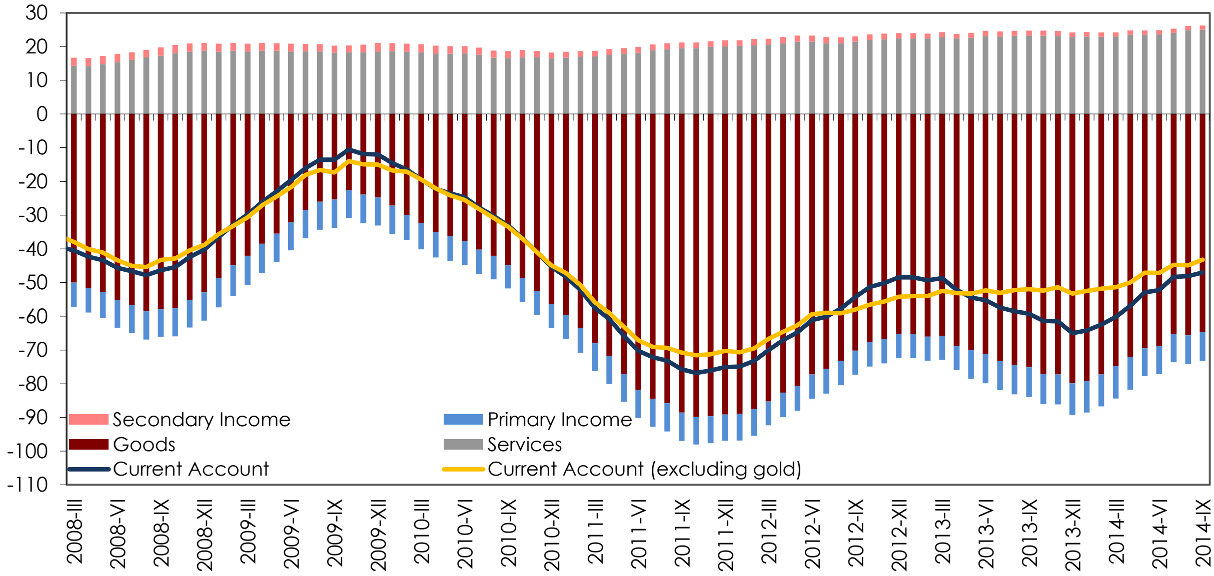
BOXES

Box 1. Impact of Conversion to the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) on Balance of Payments Statistics 06
Box 2. Foreign Currency Composition of the Corporate Sector External Debt 21
Box 3. The Net Errors and Omissions Item and Comparison Across Selected Countries 27

Overview

The contraction in the current account deficit continued in the third quarter of 2014, with improvement in the foreign trade balance as the main driver. Foreign trade of gold stood at its historical averages, thus contributing to the decline in the current account balance. The contribution from net travel revenues to services balance increased in the third quarter of 2014 (Chart 1).

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



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

Exports excluding gold posted an uptrend in the third quarter of the year. The upward trend in exports continued in this quarter thanks to exports to European Union (EU) countries remaining flat; however, exports to Iran recorded a significant decline due to unrest in the area. Despite the weak outlook in EU economies, the competitive level of exchange rates helped increase exports to these countries. Shuttle trade revenues displayed an uptrend in tandem with the rise in travel revenues, thereby contributing positively to the increase in the balance of payments-defined exports. Meanwhile, gold exports decreased compared to the same quarter last year.

The modest upward trend in import expenditures excluding gold, observed over the last quarter, assumed a nominal decline in the third quarter. Moderate domestic demand factors coupled with the decline in oil prices curbing energy imports became the main drivers of the decrease in imports.

The contribution to the improvement in the current account balance of the second most important determinant of the balance after foreign trade, the services item, further increased in the third quarter. The third quarter is the high season for tourism in Turkey and the rise in the number of tourists visiting Turkey as well as in the average expenditure per tourist induced acceleration in travel revenues that had been flat for a while. There is a significant rise in the number of tourists from Asian countries. In this quarter, transportation revenues contributed positively to overall services revenues on the back of the decline in freight expenditures and the rise in the number of tourists visiting Turkey.

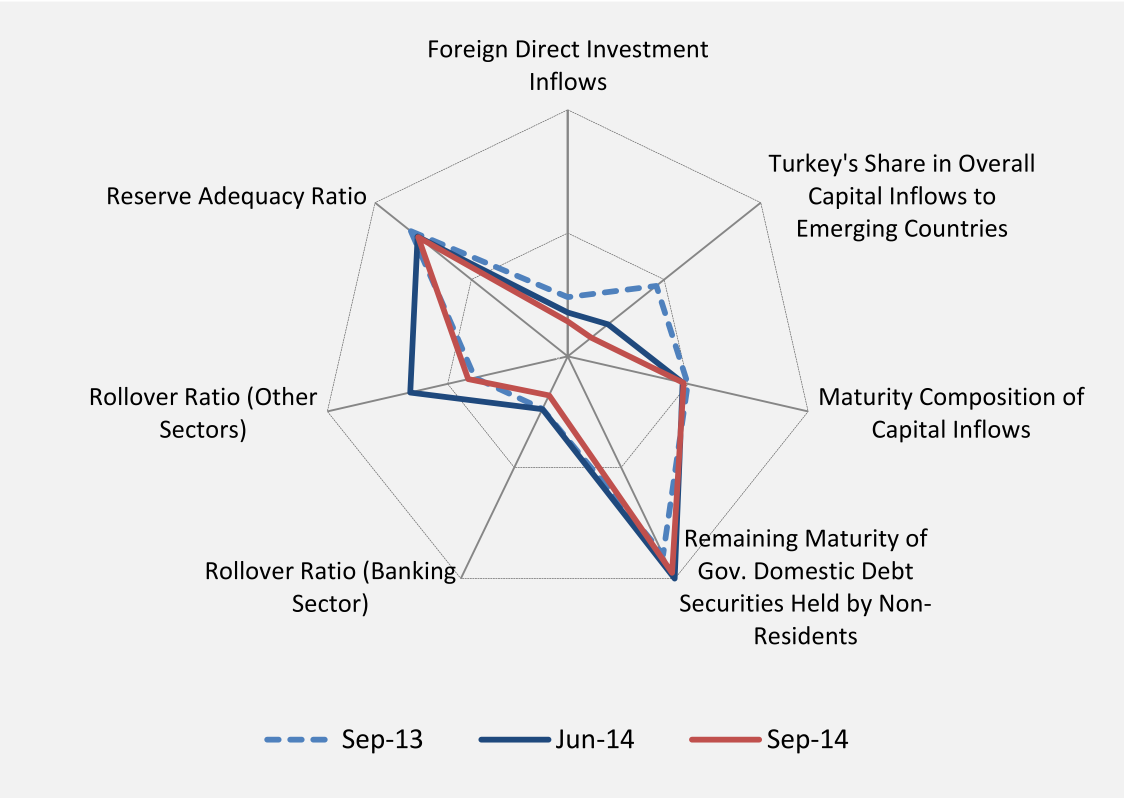
Financing of the Current Account Deficit

The global risk appetite followed a fluctuating course in the third quarter of 2014. The primary factors leading to these fluctuations were the Federal Reserve of the United States' (Fed's) strong communication that it would terminate asset purchases, elevated concerns over growth in China, Japan and additional expansionary monetary policies that are likely to be introduced. Meanwhile, the intense developments in Syria were a factor specifically affecting financial movements in Turkey.

A breakdown of financial accounts in the balance of payments by main headings reveals that the slowdown in direct investments that started in the second quarter further accelerated in the third quarter. While portfolio investments posted outflows in tandem with the global developments in August, they posted inflows throughout the quarter. As for other investment inflows, although the banking sector's and other sectors' debt rollover ratios declined slightly quarter-on-quarter, they still remained above 100. Meanwhile, inflows to deposits under liabilities, which had started in the previous quarter, continued in the third quarter.

An analysis of the quality of financing sources in the final quarter suggests that debt rollover ratios of the banking sector decreased and Turkey's share in capital flows to emerging markets declined quarter-on-quarter while all other factors remained the same as the third quarter (Chart 2).

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



Source: CBRT.

The slowdown in direct investments, which started in the previous quarter, became more evident in this quarter. The lingering economic stagnation in EU countries is the primary factor slowing down direct investment flows to Turkey. Meanwhile, the rapid rise in real estate investments item under direct investments continued in this quarter as well. This increase is attributed to the legal arrangement in 2013 that has facilitated house sales to foreigners (Chart 3).

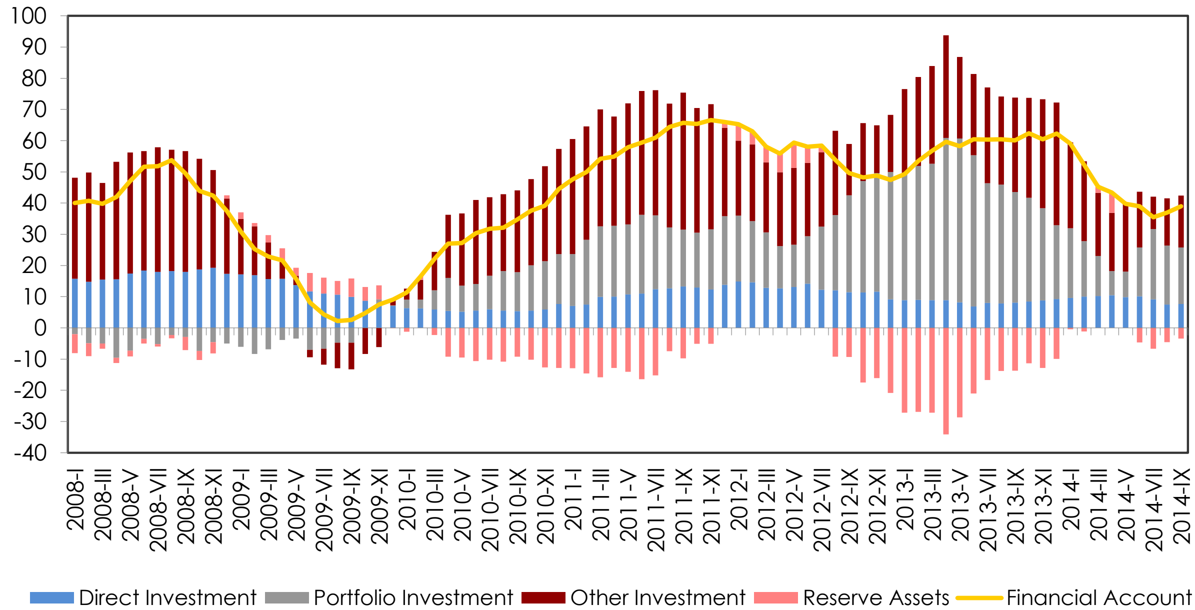
In this quarter, concerns over growth in China, Japan and the EU became the primary factor affecting portfolio flows into emerging economies. Analyzed by type of instrument, non-residents were buyers of all types of instruments except for Government Domestic Debt Securities (GDDS) throughout the period. Inflows through bonds issued by banking sector abroad continued in this quarter.

In the third quarter of 2014, neither the banking sector nor other sectors had any supply-side constraints in external borrowing through loans. Both the banking sector and other sectors were net borrowers in short and long-term loans and debt rollover ratios of both sectors remained above 100 percent.

The inflow to bank deposits included in liabilities in the other investments item, which had started in the previous quarter, continued in this quarter. In this quarter, there were deposit inflows from banks abroad and non-residents.

Capital inflows helped increase official reserves in the third quarter.

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



Source: CBRT.

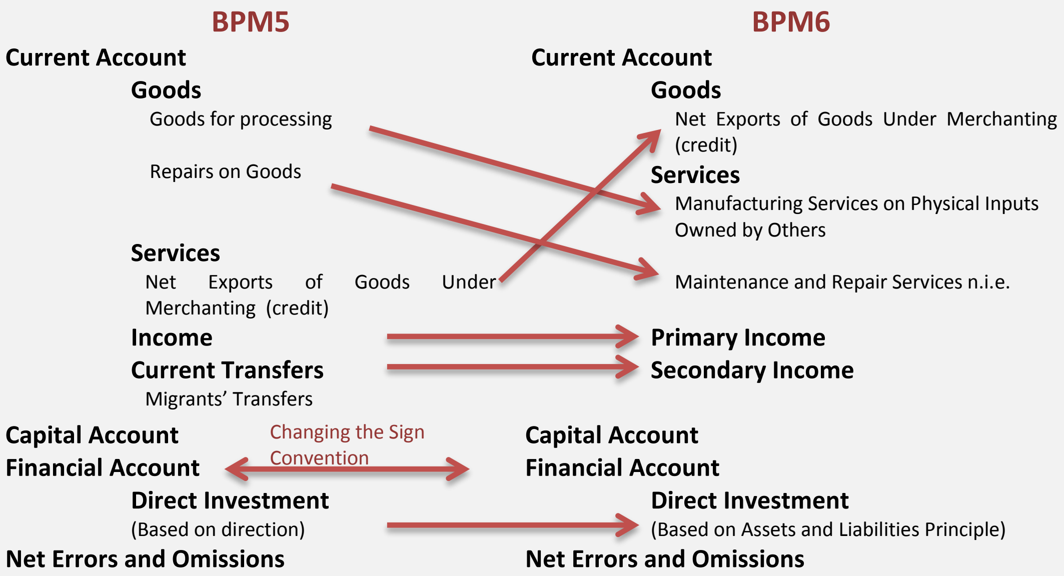
There have been some presentational and methodological changes in balance of payments statistics after the release of the new edition of the Balance of Payments Manual (The Sixth Edition of the Manual) by the International Monetary Fund (IMF) in 2009 that includes concepts, definitions, classifications and practices regarding the balance of payments and international investment position (IIP) statistics. The CBRT started releasing the balance of payments statistics in BPM6 format as of September 2014 data (Box 1).

Box 1 — Impact of Conversion to the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) on Balance of Payments Statistics

In 2009, the IMF released the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) that includes concepts, definitions, classifications and practices regarding the balance of payments and international investment position (IIP) statistics. The CBRT started releasing the balance of payments statistics in BPM6 format as of the September 2014 data. The balance of payments statistics have been revised according to BPM6 retrospectively; thus data for the "Analytical Presentation" since 1975 and for the "Detailed Presentation" since 1984 is now available. In order to facilitate user adjustment, balance of payments statistics will be concurrently issued in both fifth edition of Balance of Payments and International Investment Position Manual (BPM5) and BPM6 formats until March 2015.

With the conversion to BPM6, the key definitions have broadly remained intact but there have been some classification and definition changes in sub-items. In other words, while there have been no numerical changes in the "Current Account", "Capital Account", "Financial Account" and "Net Errors and Omissions" items, there have been some changes in sub-items (Table 1). This Box explains the differences between BPM5 and BMP6 and summarizes the key numerical changes.

Table 1. Key Changes Between BPM5 and BPM6 Presentations



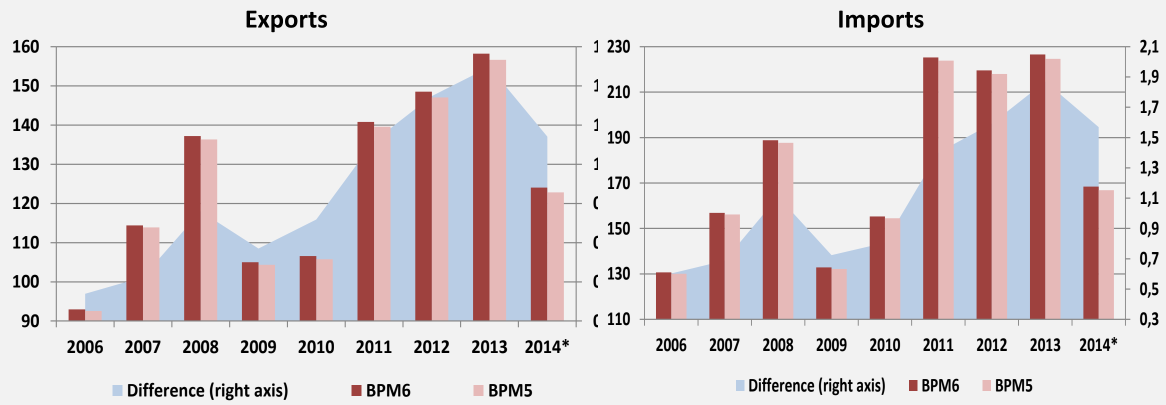
Source: CBRT

A. Current Account

The most significant change in the current account balance is that the exceptions in the “change of ownership" principle have been eliminated and transactions are now recorded in full compliance with the "change of ownership" principle. As a result, some items have changed places among "Goods" and "Services" and some classification items under “Goods” have also changed. The changes are as follows:

- The "Goods Procured in Ports by Carriers" item, which covers exports and imports of fuel and ships’ stores, used to be tracked as separate item under "Goods" in BPM5**.** In BPM6 however, the Goods Procured in Ports by Carriers item is not tracked as an separate item but added to exports and imports through “Adjustment: coverage” sub-item. In sum, the key difference between import and export figures in BPM5 and BPM6 stems from the item "Goods Procured in Ports by Carriers". After the "Goods Procured in Ports by Carriers" item being presented under "General Merchandise on a Balance of Payments Basis" in BPM6, which was presented as a separate item in BPM5, exports figures increased by USD 1.6 billion and imports figures increased by USD 1.9 billion at the end of 2013 (Chart 1).

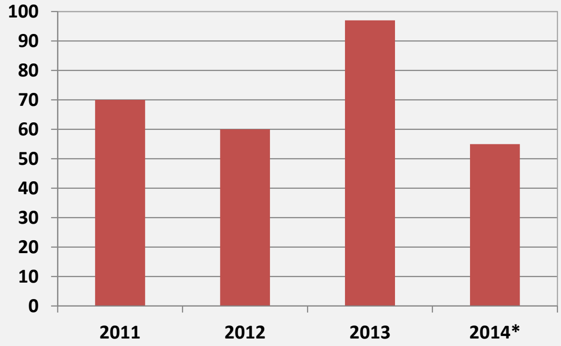
Chart 1. Goods (annualized, billion USD)



* By September 2014
Source: CBRT

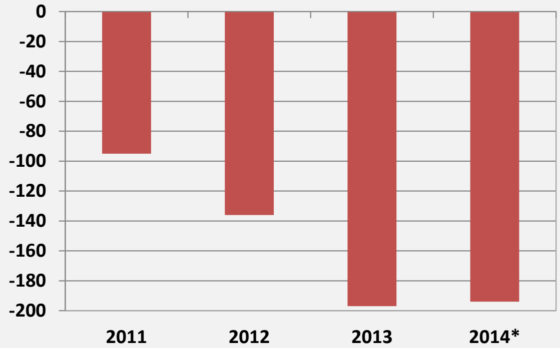
- The content of the "Goods for Processing" item tracked under "Goods" in BPM5 has been changed. Goods, which are sent abroad to be processed and returned to the country without change in ownership after being processed, have been excluded from the scope of general merchandise and the related cost of operation (the difference between the pre-process value and post-process value of the good) is now tracked under Services in BPM6 under the name "Manufacturing services on physical inputs owned by others". With the same approach, “Repairs on Goods” item under “Goods” has been moved to Services under the name "Maintenance and Repair Services n.i.e" (Chart 2 and Chart 3).

Chart 2. Manufacturing Services on Physical Inputs Owned by Others
(annualized, million USD)



* By September 2014
Source: CBRT

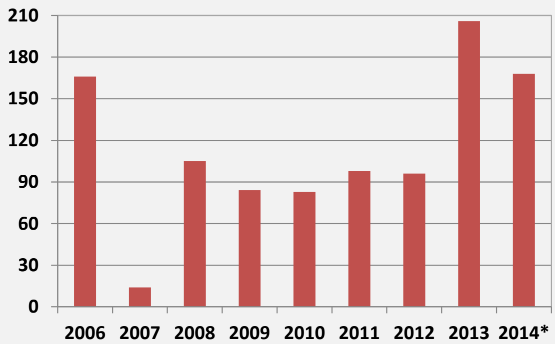
Chart 3. Maintenance or Repair Services n.i.e.
(annualized, million USD)



* By September 2014
Source: CBRT

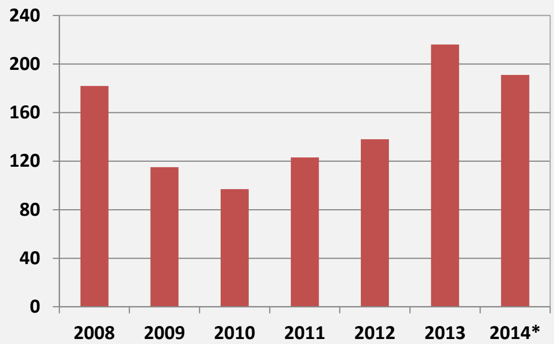
- The "Net exports of goods under merchanting", which used to be presented under "Services"/ "Other Business Services" in BPM5, is defined as the net income from the purchase and subsequent resale of goods abroad without the goods entering or exiting country's borders. In the BPM6 standards, this item was moved under "Goods" as a separate item (Chart 4).
- In BPM6, the "Personal Transfers" item tracked under "Secondary Income"/ Other Sectors" has been expanded so as to include the "Other Personal Transfers" item that covers all current transfers in cash and in kind between resident and non-resident households besides the "Workers' Remittances" item already presented in BPM5 (Chart 5).

Chart 4. Net Exports of Goods Under Merchanting
(annualized, million USD)



* By September 2014
Source: CBRT

Chart 5. Other Personal Transfers
(annualized, million USD)

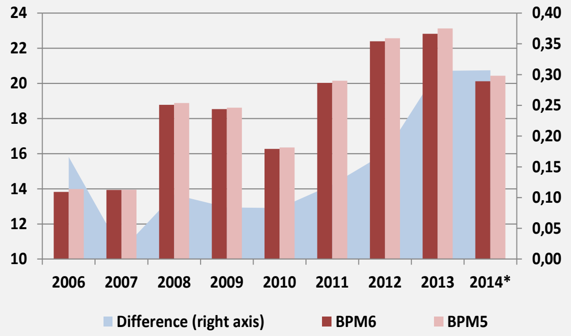


* By September 2014
Source: CBRT

The key changes that BPM6 introduces in the current account is summarized as follows: the “Goods for Processing" and "Repairs on Goods" items under "Goods" have been moved under "Services" under the names “Manufacturing Services on Physical Inputs Owned by Others" and "Maintenance and Repair Services n.i.e"; the "Net Exports of Goods Under Merchanting" presented under "Services” / “Other Business Services" has been moved under "Goods". Therefore, the changes in presentation have led to a USD 306 million rise in "Goods" and a USD 306 million drop (of the same amount, in opposite directions) in the "Services" (Chart 6 and Chart 7).

Chart 6. Services**

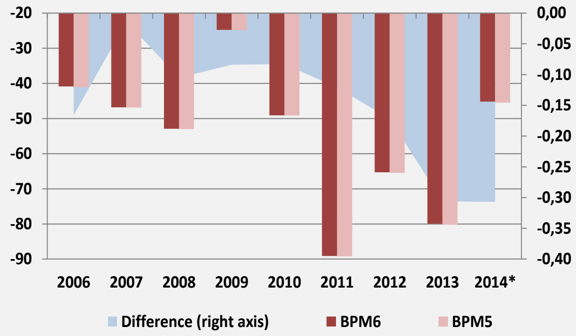
(billion USD)



* By September 2014
** For representation, the differences have been multiplied by minus.
Source: CBRT.

Chart 7. Goods**

(billion USD)



* By September 2014
** For representation, the differences have been multiplied by minus.
Source: CBRT.

B. Capital Account

The only change made in the Capital Account is that the “Migrants’ Transfers” item has been removed from BPM6 presentation as the transactions that used to be tracked under this item are not actually economic transactions and there is no change in ownership of goods possessed by migrants that permanently migrate from one country to another.

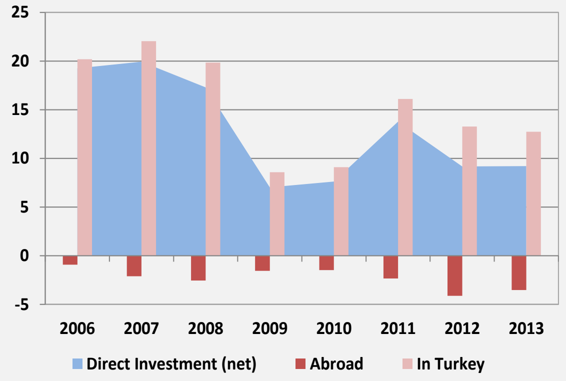
C. Financial Account

The key change introduced by BPM6 in the financial account is that “Direct Investments” will be broken down into “Assets” and “Liabilities” based on the balance sheet approach in line with the International Investment Position instead of the previous “In Turkey” and “Abroad” presentation which was in line with the directional principle. The most significant impact of this key change in approach is the change in signs of the related items. To make it more clear:

- The direct investments made by the main partner (branch, affiliate or subsidiaries) resident in Turkey to its branch, affiliate or subsidiary (main partner) resident abroad are presented under “Net Acquisition of Financial Assets”;
- The direct investments made by the branch, affiliate and subsidiary resident abroad to the main partner resident in Turkey (Reverse Investment) are tracked under “Net Incurrence of Liabilities”.

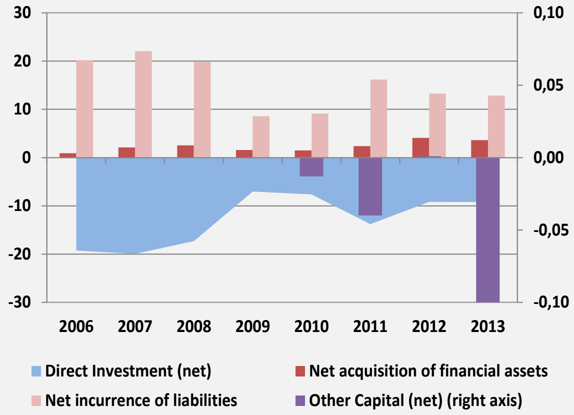
While there is data for the Reverse Investment in BPM5 presentation of balance of payments statistics; with conversion to BPM6, the direct investment made by the main partner resident in Turkey to its branch, affiliate or subsidiary abroad is now presented under "Financial Account" / "Direct Investment" / "Net Acquisition of Financial Assets" / "Other Capital (net)" (Chart 8 and Chart 9).

Chart 8. Direct Investment - BPM5
(billion USD)



Source: CBRT

Chart 9. Direct Investment - BPM6
(billion USD)



Source: CBRT

To summarize, with conversion to BPM6, there have been some changes in Turkey's balance of payments statistics both in methodology and presentation. Yet, the changes have not led to a numerical shift in key items such as the "Current Account", "Capital Account", "Financial Account" and "Net Errors and Omissions", but there have been some changes in classifications and definitions in the sub-items. In order to facilitate user adjustment, statistics will be released concurrently in both new and old formats for 6 months. The documents issued by the CBRT about the conversion to BPM6 and their links are provided below:

- Balance of Payments Statistics Methodology
- Note on the Changeover to the 6th Edition of the Balance of Payments and International Investment Position Manual (BPM6)
- Turkey's Practice in the Changeover to the 6th Edition of the Balance of Payments and International Investment Position Manual (Balance of Payments Report 2014- Quarter II, Box 1)
- Transition to BPM6 AND IIP (International Investment Position Report (December 2013), Box 1)

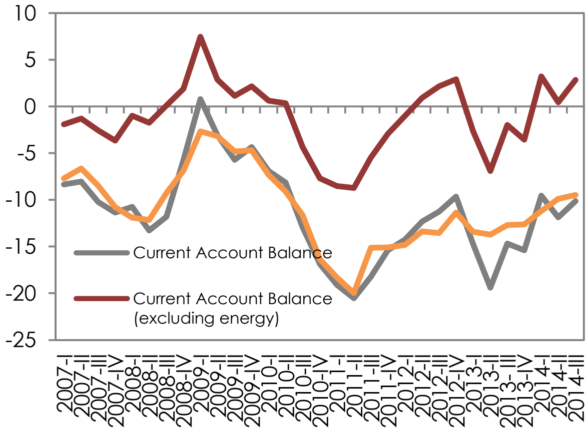
I. Current Account

The seasonally adjusted data suggests that both the current account balance and current account balance excluding gold significantly improved in the third quarter compared to the second quarter. The contraction in the current account deficit was mainly driven by the improvement in the foreign trade deficit and the level of net gold exports. When gold is excluded, the gradual improvement in the current account deficit since the second quarter of 2014 continues.

The foreign trade deficit (seasonally adjusted), which is the most important component of the current account balance, improved slightly in the third quarter partly offsetting the deterioration in the second quarter. The foreign trade deficit, which climbed to USD 21.5 billion in Q2-2014, dropped to USD 20.6 in Q3-2014 with a USD 0.9-billion fall.

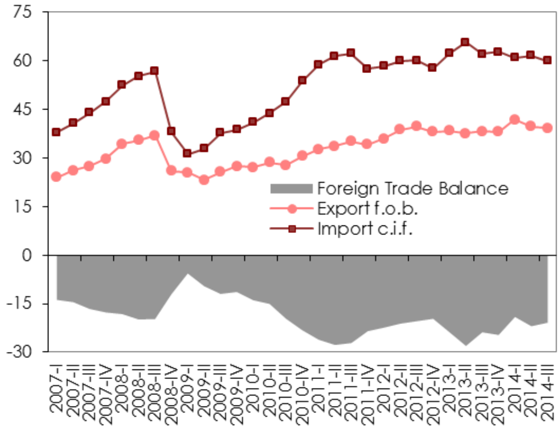
There was a slight deterioration in the foreign trade deficit excluding gold. The deterioration stemmed from the small drop in exports against the flat trend in imports. The seasonally adjusted foreign trade deficit excluding gold expanded by USD 0.5 billion and became USD 19.9 billion in the third quarter. This level is still below the quarterly average of 2013 of USD 22.1 billion.

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



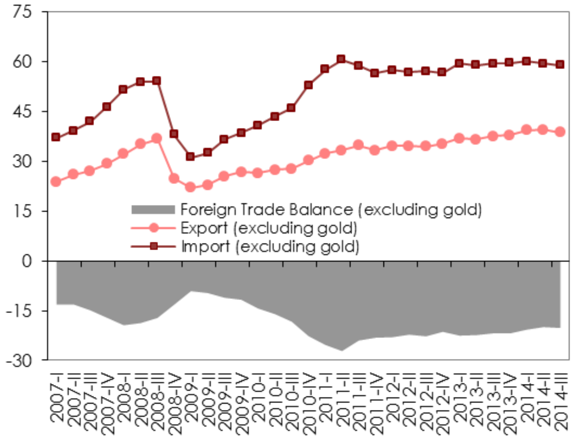
Source: CBRT.

Chart 2. Foreign Trade Deficit
(seasonally adjusted, quarterly, billion USD)



Source: CBRT.

Chart 3. Imports and Exports
(seasonally adjusted, quarterly, billion USD)



Source: CBRT.

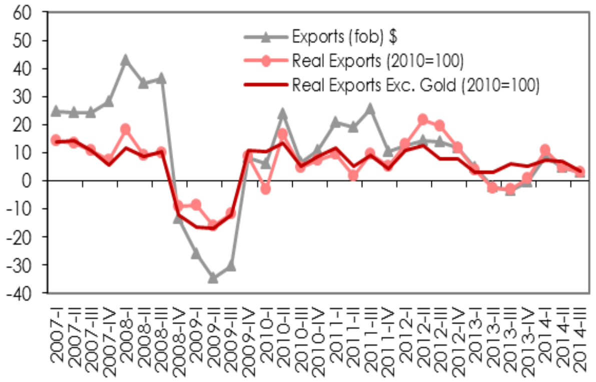
1.1 Exports of Goods

The uptrend in total exports observed in the first half of 2014 continued in the third quarter, albeit slower, and imports increased by 3 percent quarter-on-quarter. Having dropped by 0.43 percent annually in 2013, total exports increased by 8.5 percent and 4.8 percent year-on-year in the first and second quarters of 2014, respectively. Meanwhile, gold exports in the third quarter remained close to the levels recorded in the same quarter in 2013. In this quarter, the volume of exports excluding gold increased by 4.1 percent while overall exports rose 3.2 percent.

The uptrend in the EU countries' share in Turkey's exports in 2013 continued in the third quarter of 2014 with a weaker pace. Consequently, the EU countries' share in Turkey's exports excluding gold increased to 44.2 percent in Q3-2014 from 42.8 percent by end-2013. The Middle East and Africa (MEA) countries' share in Turkey's exports declined in the third quarter to 29.9 percent due to the tension in Syria. Conversely, the share of exports to non-EU member European countries and Commonwealth of Independent States countries bounced after three quarters of decline.

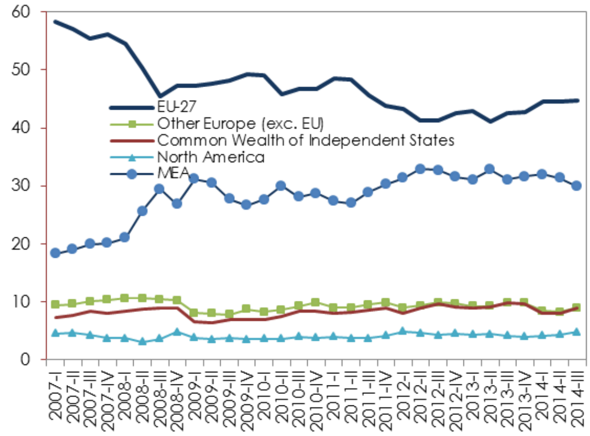
Turkey's export markets had started to recover in Q2-2013, however the slowdown observed in Q2-2014 continued in Q3-2014 as well. In the third quarter of 2014, while the global growth was 1.2 percent in annual terms, the export-weighted global growth decreased by 0.3 points quarter-on-quarter becoming 1.8 percent in annual terms. Thus, growth in Turkey's export partners has moved closer to global growth.

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



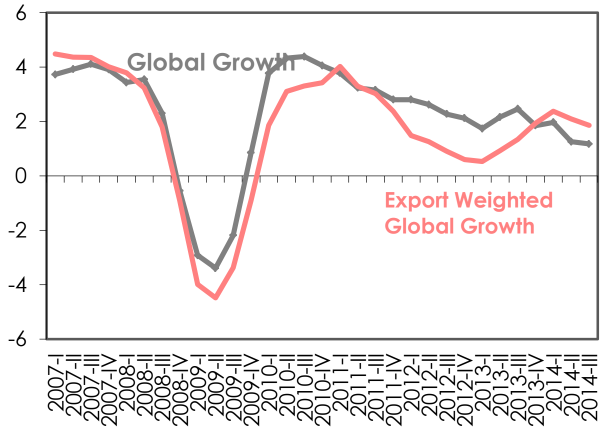
Source: TURKSTAT.

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



Source: TURKSTAT.

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

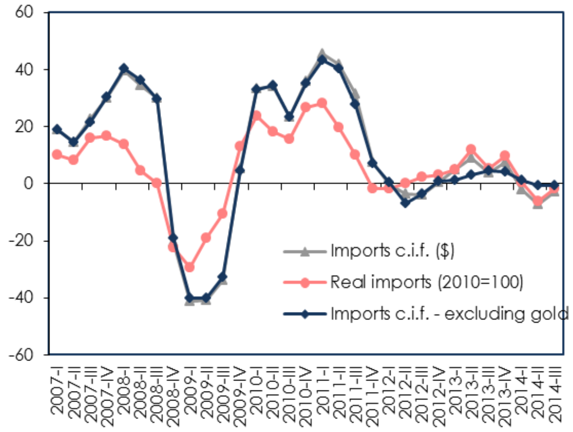


Source: Bloomberg, Consensus Forecasts, IMF, CBRT.

1.2 Imports of Goods

The downtrend in imports, which started in the second quarter on the back of the slowdown in domestic demand and the normalization process in gold imports, continued in the third quarter. Consequently, imports dropped by 4.2 percent in the first nine months of 2014 compared to the same period last year. The annual growth in imports excluding gold, which was 4.1 percent in the last quarter of 2013, declined to 0.4 percent in the second quarter of 2014 and dropped further by 0.4 percent in the third quarter.

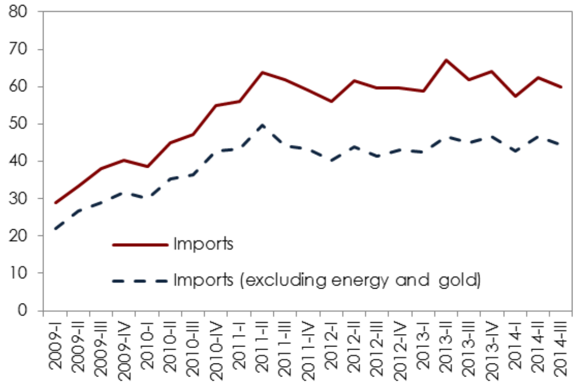
Chart 7. Imports-Nominal and Real
(annual percentage change)



Source: TURKSTAT.

Seasonally adjusted core imports, defined as imports excluding gold and energy, maintained the fluctuating trend observed throughout 2013. Core imports, which increased by 0.2 percent quarter-on-quarter in Q2-2014, decreased by 0.7 percent in Q3-2014.

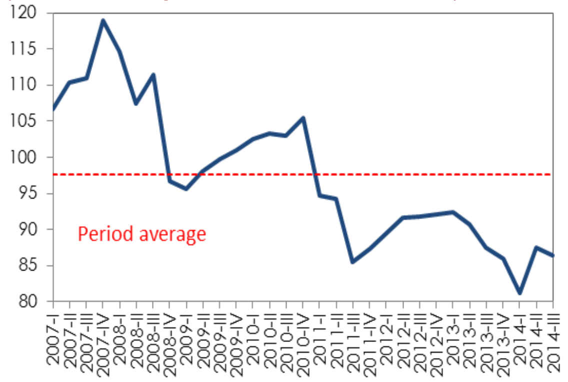
Chart 8. Imports Excluding Energy and Gold
(seasonally adjusted, quarterly, billion USD)



Source: CBRT.

The CPI-based real exchange rate index covering only emerging economies decreased slightly in the third quarter after a rise in the second quarter of 2014. Thus, the real exchange rate index based on emerging economies stood at the 86.37 level in the third quarter of 2014. The index, which has been hovering below the quarterly average since Q1-2011, maintains this trend in 2014 as well.

Chart 9. Real Effective Exchange Rate
(CPI-developing countries based, 2003=100)

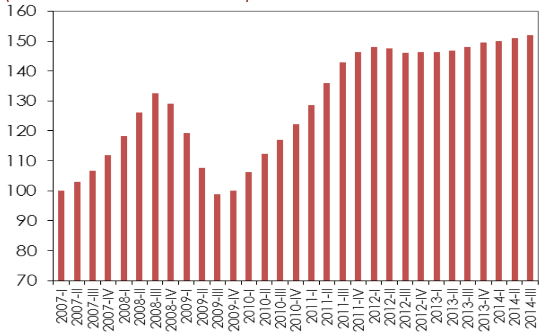


Source: CBRT.

1.3 Global Outlook

The World Trade Organization data point to a persisting uptrend in world trade in line with the moderate upbeats in global growth as of the final quarter of 2012. Global exports, which had posted a year-on-year increase of 2.4 percent in the second quarter of 2014, posted a similar trend in the third quarter; and increased by 2.1 percent in this quarter.

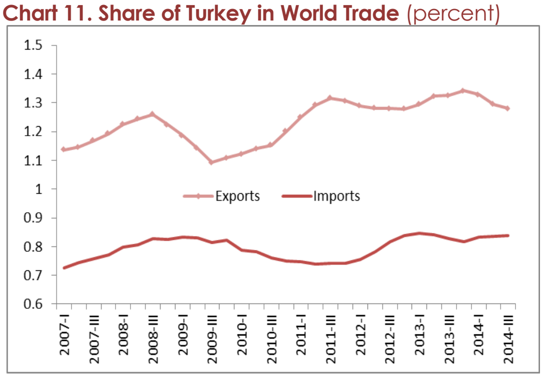
Chart 10. World Trade
(annualized, 2007-I=100)



Source: CBRT.

According to World Trade Organization data, the uptrend in Turkey's share in global imports and the downtrend in global exports continued in this quarter despite a slowdown. While Turkey's share in global imports was 1.28 percent, her share in global exports was 0.84 percent.

Chart 11. Share of Turkey in World Trade (percent)



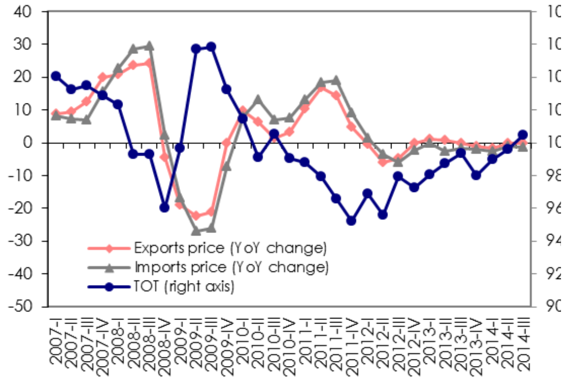
Source: WTO.

1.4 Terms of Trade

Turkey's terms of trade exceeded the 100 percent level in Q3-2014 for the first time in sixteen consecutive quarters since the third quarter of 2010. Similar to the second quarter, terms of trade rose in the third quarter of 2014 as the fall in export prices was relatively more limited than the fall in import prices. In this quarter, annual export and import prices inched down by 0.15 percent and 1.23 percent, respectively.

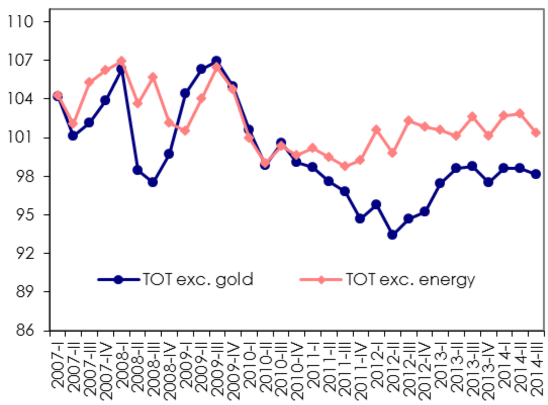
Terms of trade excluding gold and energy hovered below the previous quarter's level and the level registered in same quarter of 2013.

Chart 12. Terms of Trade (ToT)
(2010=100)



Source: TURKSTAT.

Chart 13. ToT Excluding Gold and Energy
(2010=100)



Source: TURKSTAT.

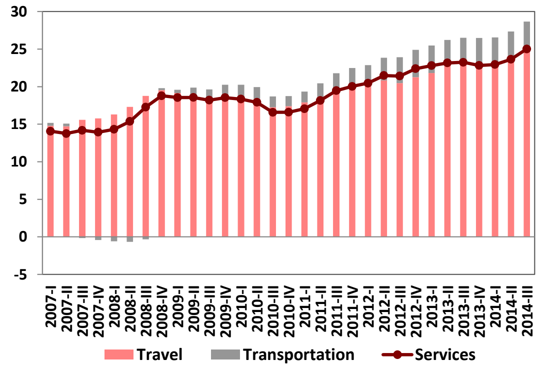
1.5 Services Account

The services item, which is the second most important determinant of the current account after foreign trade, continued to contribute positively to the improvement in the current account balance. The third quarter is the high season for tourism in Turkey and the rise in the number of tourists visiting Turkey as well as in the average expenditure per tourist induced acceleration in travel revenues that had been flat for a while. There is a significant rise in the number of tourists from Asian countries. In this quarter, transportation revenues contributed positively to overall services revenues owing to the decline in freight expenditures and the rise in the number of tourists visiting Turkey.

On the back of the rise in travel, transportation and other services items under the services balance, services income increased by 14.3 percent compared to the same period in 2013; thus, the positive contribution from services income to the current account was up as well. In the third quarter of 2014, travel revenues rose by 11.3 percent year-on-year while travel expenditures decreased by 2.4 percent. In conclusion, net travel revenues increased by 13.0 percent year-on-year to USD 10.2 billion in the third quarter of 2014. Meanwhile, the number of tourists increased by 6.9 percent compared to the same quarter last year. An analysis by country groups indicates that in the third quarter, the highest proportional year-on-year rise with respect to the number of tourists was registered for Asia and Africa.

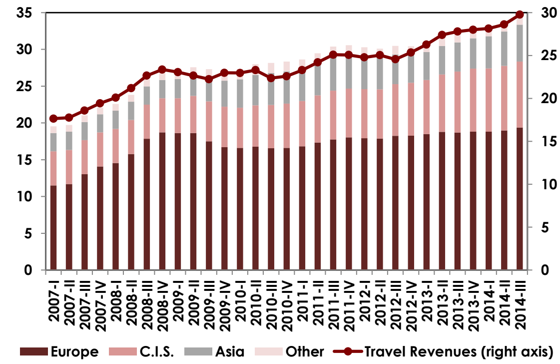
In this quarter, the average expenditure per foreign visitor increased whereas the average expenditure per non-resident Turkish citizen in Turkey decreased in year-on-year terms. The related data show that the average expenditure per foreign visitor in Turkey rose by 6.7 percent year-on-year to USD 637, while the average expenditure per non-resident Turkish citizen visiting Turkey decreased by 3.9 percent year-on-year to USD 771.

Chart 14. Services Account, Travel and Transportation (annualized, billion USD)



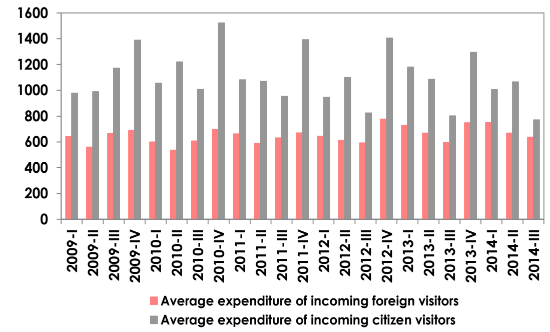
Source: CBRT.

Chart 15. Breakdown of Tourists Visiting Turkey by Country and Travel Revenues
(left axis: annualized, million people; right axis: billion USD)



Source: TURKSTAT.

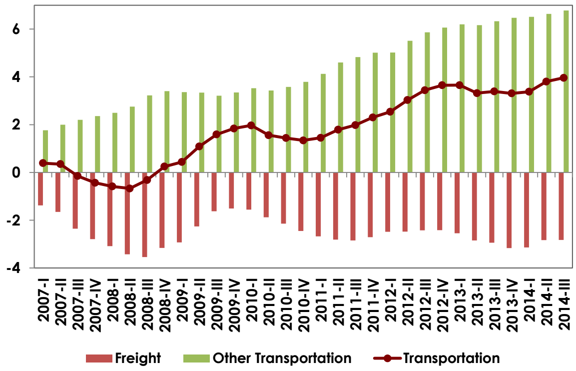
Chart 16. Average Expenditure (USD/person)



Source: TURKSTAT.

The uptrend observed in net transportation revenues since Q1-2014, continued in this quarter. In the third quarter of 2014, transportation revenues and transportation expenditures increased by 7.2 percent and 5.2 percent, respectively, year-on- year, thereby leading to a 10.8 percent-rise in net transportation revenues. This rise can be mainly attributed to the 6.7 percent net rise in other transportation revenues composed of international passenger and baggage transport and postal and courier services**.** Meanwhile, the 1.2 percent net decline in net freight expenditures was an additional factor boosting transportation revenues. In this period, the share of foreign carriers in imports increased by 2.4 points quarter-on-quarter to 56.0 percent.

Chart 17. Transportation and Sub-items
(annualized, billion USD)

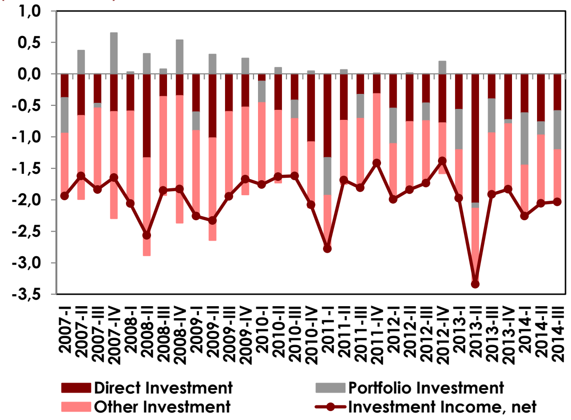


Source: TURKSTAT, CBRT.

1.6 Primary Income

In the third quarter of 2014, the primary income balance posted net outflows in sub-items compensation of employees and the investment income balance. Net outflows from the primary income balance increased by 7.1 percent year-on-year to reach USD 2.1 billion in the third quarter of 2014. Outflows from direct investments under the investment income item increased year-on-year to stand at USD 0.6 billion while outflows from other investments stood at USD 0.8 billion. Portfolio investments posted an outflow of USD 0.6 billion with a 14.6 percent-rise compared to the same period last year.

Chart 18. Composition of Investment Income (net)
(billion USD)

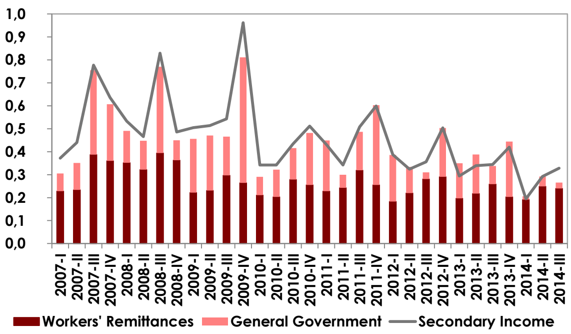


Source: CBRT.

1.7 Secondary Income

Net inflows in the secondary income balance, which consists of current transfers of the General Government and Other Sectors, continued with the previous quarter's uptrend. In this period, the secondary income balance decreased by 4.7 percent year-on-year and registered a net inflow of USD 328 million. This decrease was mainly attributed to the 67.1 percent fall in net inflows in the general government item, which includes grants between countries, despite the rise in net inflows in the other personal transfers item under the other sectors item.

Chart 19. Current Transfers and Workers' Remittances
(billion USD)



Source: CBRT.

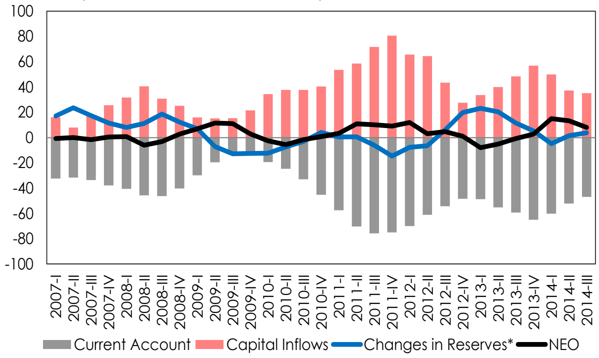
II. Financial Account

The global risk appetite followed a fluctuating course in the third quarter of the year. The main factors that led to fluctuations in the global risk appetite were strengthened signals from the Fed for the termination of its bond buying program and the probability of additional expansionary monetary policy implementations in line with the increased concerns over the growth in China, Japan and the EU. On the other hand, the intensified unrest in Syria has stood out as a Turkey-specific factor affecting financial movements. A breakdown of the financial account in the balance of payments by main headings reveals that the deceleration that started in direct investments in the previous quarter became more evident in the third quarter, while portfolio investments posted inflows overall in this period. As for other investment inflows, both the banking sector's and other sectors' debt rollover ratios remained above 100, despite a slight decline compared to the previous quarter. Meanwhile, the inflow trend in deposits on the liabilities side, which had started in the second quarter, continued in this quarter as well.

In the third quarter, the financing requirement increased year-on-year. The financing requirement item decreased by USD 3.9 billion quarter-on-quarter to USD 18.6 billion.[1]

In this quarter, the share of debt-creating flows in total liabilities surged while that of non-debt-creating flows in total liabilities fell year-on-year. Debt-creating flows and non-debt-creating flows increased by USD 8.3 billion and USD 2.5 billion, respectively.[2]

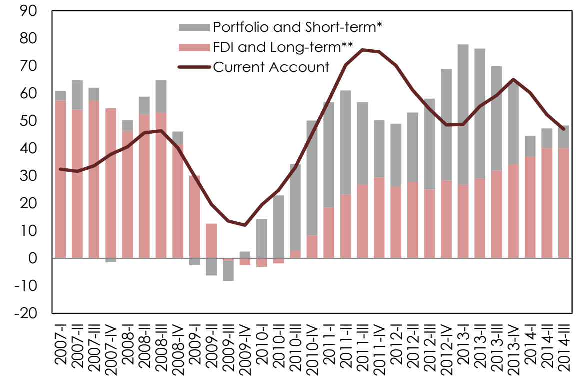
Chart 20. Current Account Balance and Net Capital Inflows (annualized, billion USD)



Source: CBRT.

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

Chart 21. Current Account and its Financing (annualized, billion USD)

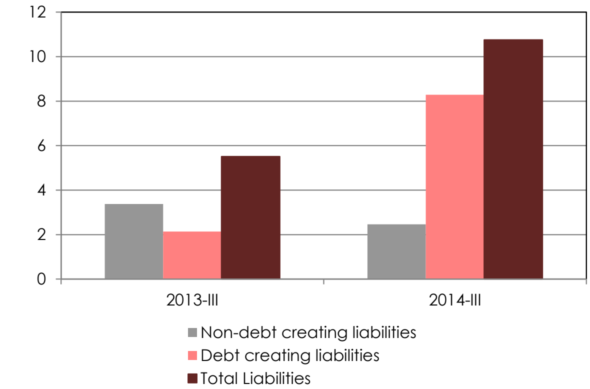


Source: CBRT.

* Composed of equity securities, Government domestic debt securities, short-term credits of banks and other sectors and deposits at the banks.

** Composed of long-term capital movements, long-term net credits of banks and other sectors and bonds issued by banks and the Treasury abroad.

Chart 22. Debt-Creating and Non-Debt-Creating Liabilities under the Financial Account (billion USD)



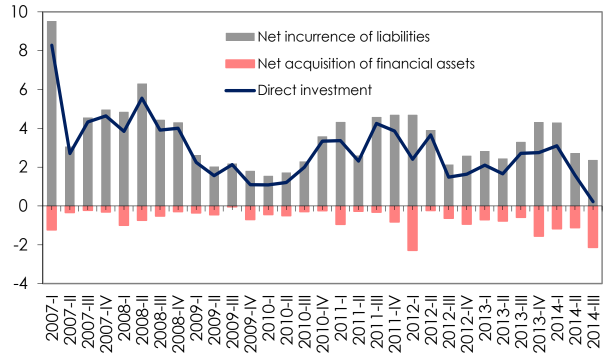
Source: CBRT.

[1] See Annex Tables, "Financing Requirements and Sources".
[2] See Annex Tables, "Balance of Payments Debt-Creating and Non-Debt-Creating Flows".

2.1 Direct Investment

The slowdown in direct investment inflows, which started in the previous quarter, became obvious in the third quarter of the year. The surging economic stagnation in EU countries has been the main factor slowing down direct investment inflows. Meanwhile, the rapid rise in real estate investments under the direct investment item continued in this quarter. This increase is attributed to the legal arrangement introduced in 2013 facilitating real estate acquisition for foreigners.

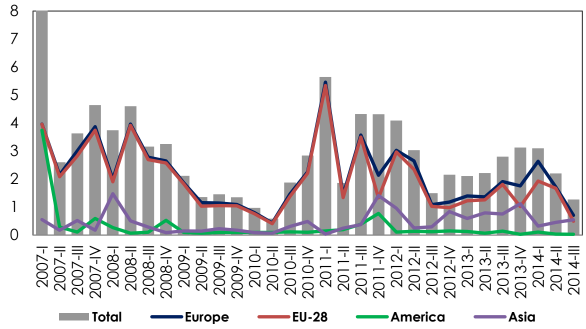
Chart 23. Direct Investment
(billion USD)



Source: CBRT.

In the third quarter of 2014, the amount of direct investment in Turkey was USD 2.4 billion. The majority of these investments were composed of investments in the mining and quarrying sector as well as investments in finance and insurance. In this quarter, the share of investments from Asia in Turkey's overall investments increased to 42.7 percent, while that of European countries fell to 55.5 percent.

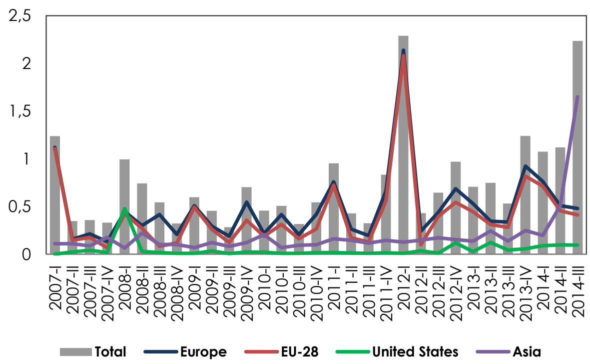
Chart 24. Direct Investment in Turkey - Geographical Distribution (billion USD)



Source: CBRT.

Turkey's direct investments abroad bounced in the third quarter of 2014 as a result of the rise in direct investments in Asian countries. Direct investments abroad were approximately USD 2.1 billion in this quarter, while the share of European countries dropped to 21.4 percent and that of Asian countries increased to 73.9 percent.

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

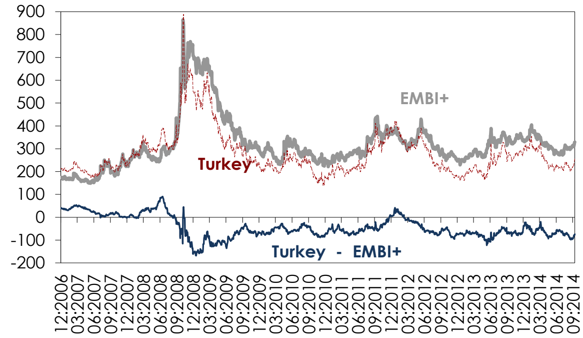


Source: CBRT.

2.2. Portfolio Investment

The global risk appetite followed a fluctuating course in the third quarter of the year. Concerns over the growth in China, Japan and the EU constituted the main factor affecting portfolio inflows to emerging countries. In the third quarter of the year, Turkey's risk premium remained below the average risk premium of the Emerging Markets Bond Index (EMBI+) and both risk premiums escalated.

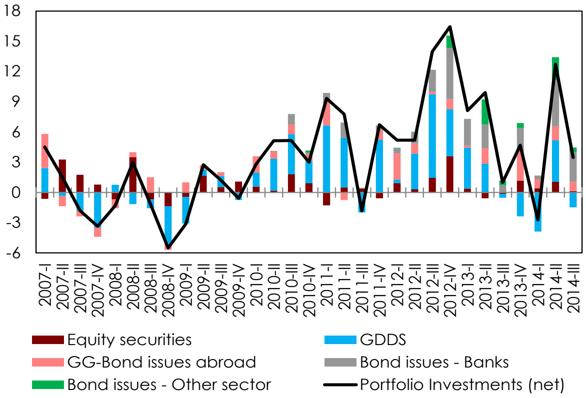
Chart 26. Secondary Market Spreads and Turkey's Relative Position
(basis point)



Source: JP Morgan.

In this period, portfolio investments mostly posted inflows, despite the outflow observed in August parallel to global movements. In terms of investment instruments, non-residents were buyers of all types of instruments, excluding GDDS, throughout the period. In the third quarter, USD 1.5 billion of net outflows was recorded in the GDDS market, and USD 0.2 billion of net inflows in the stock market. The maturity structure of the portfolio investments item improved quarter-on-quarter.

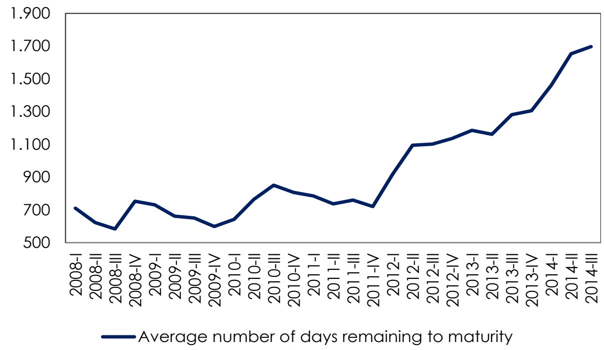
Chart 27. Portfolio Investment - Liabilities
(billion USD)



Source: CBRT.

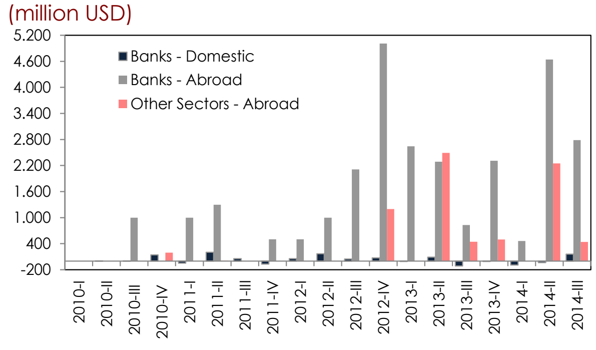
Banks had significant amounts of bond issues abroad in this quarter, while other sectors also continued their bond issues abroad. Through these bond issues, in the third quarter, banks and other sectors borrowed net USD 2.8 billion and USD 0.4 billion, respectively. Consequently, as of end-September, stocks of debt securities issued abroad by banks and other sectors grew to USD 27.9 billion and USD 7.5 billion, respectively. Regarding domestic debt securities, non-residents purchased net USD 158 million worth of debt securities from banks and net USD 23 million worth of debt securities from other sectors.

Chart 28. Maturity Structure of Non-Residents' Holdings of GDDS
(weighted market value, billion USD)



Source: CBRT.

Chart 29. Debt Securities Issued by Banks and Other Sectors
(million USD)



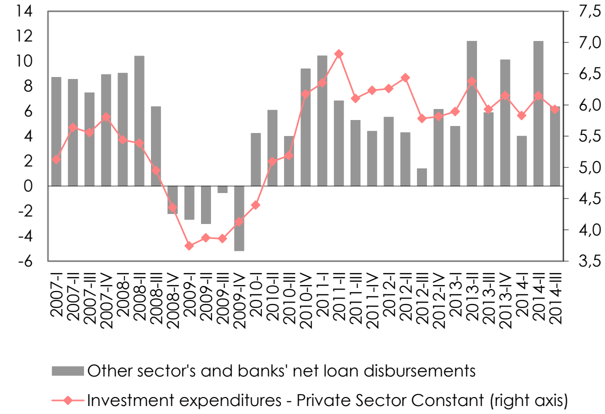
Source: CBRT.

2.3 Loans and Deposits

In the third quarter of 2014, neither the banking sector nor other sectors had any supply-side constraints in external borrowing through loans. The total loan utilization recorded a net quarter-on-quarter decline in line with the net decrease in banks' short-term external loans, whereas long-term loan utilization posted a net increase. In this period, banks used net USD 2.0 billion of long-term loans and USD 1.1 billion of short-term loans. The total debt rollover ratio of banks did not change significantly compared to the second quarter and stood at 107 percent. The banking sector's total rollover ratio, including banks' borrowings through bonds, stands at 113 percent.

Long-term external loans used by other sectors mainly to finance investments posted net inflows in the third quarter of 2014, despite a moderate fall compared to the previous quarter. Net USD 0.2 billion worth of long-term loans were used in this period and the rollover ratio dropped quarter-on-quarter to 104 percent. Including short-term loans and borrowings through bonds, the total rollover ratio of other sectors also decreased quarter-on-quarter to 111 percent. Changes in the EUR/USD parity did not have any effect on the foreign currency composition of long-term borrowing, whereas they affected the foreign currency composition of short-term borrowing (Box 2).

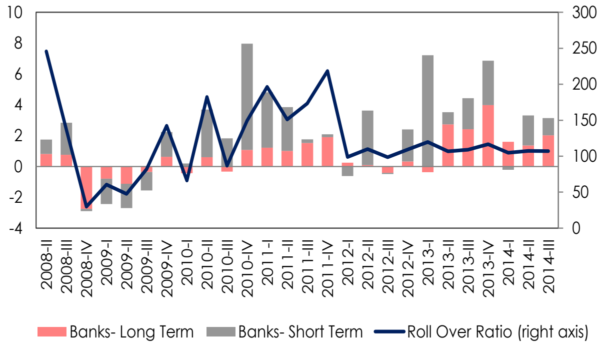
Chart 30. Net Long-Term Loan Utilization* and Other Sectors' Investment Expenditures
(billion TL, 1998=100, covering the effect of Decree No: 32)



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

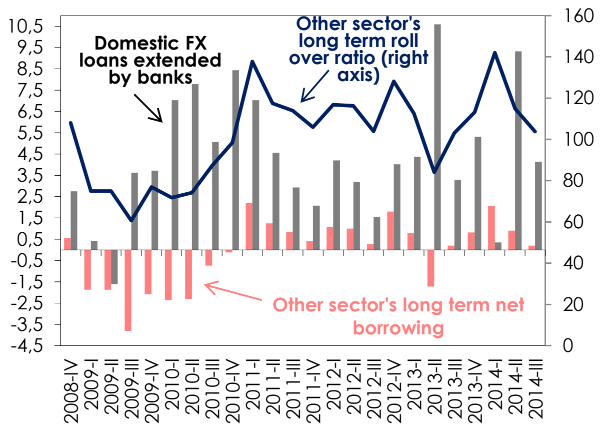
Source: CBRT.

Chart 31. Banks' Long and Short Term Net Borrowing (billion USD) **and Long-Term Rollover Ratio** (percent)



Source: CBRT.

Chart 32. Domestic FX Loans Extended by Banks - Other Sectors' Long-Term Net Borrowing (billion USD) **and Long-Term Debt Rollover Ratio** (percent)



Source: CBRT.

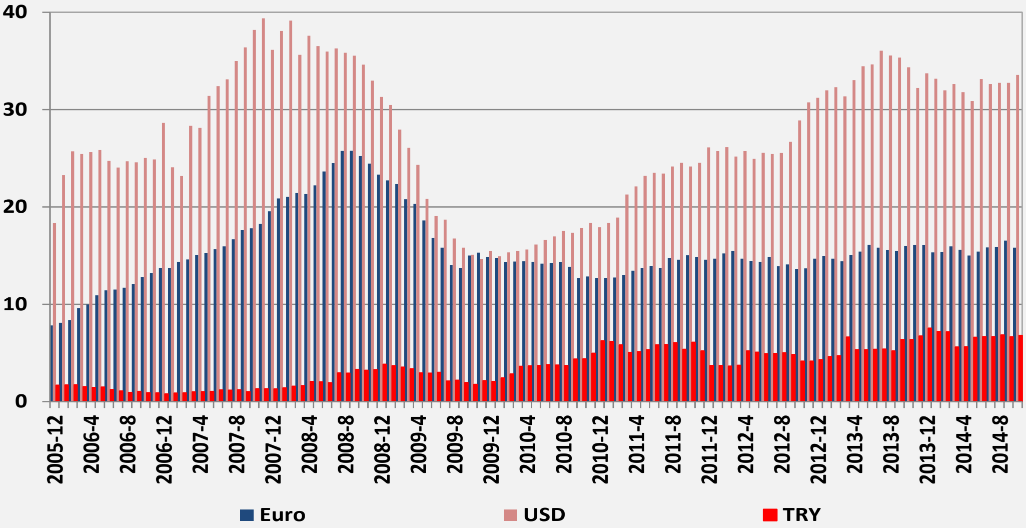
Box 2 Foreign Currency Composition of the Corporate Sector External Debt

Strengthened signals from the Fed for the start of interest rate hikes and the statement by the European Central Bank regarding the continuation of the expansionary monetary policy due to concerns over the Euro area growth led to significant movements in the euro/dollar parity in the third quarter of 2014. The foreign currency composition of exports has also changed as the geographical diversification of exports has increased in recent years. This box presents a graphical analysis of the effect of parity-related expectations and the change in the export structure on the foreign currency composition of external borrowing.

Pursuant to Decree No.32 on the Protection of the Value of the Turkish Currency, external loans obtained by the corporate sector are monitored by the Central Bank. External debt of the corporate sector is built of cash loans, bond issues abroad, trade loans and loans as foreign capital belonging to private banks (excluding state banks), non-bank financial institutions, non-financial institutions (excluding State Economic Enterprises) and real persons. These loans are published by the CBRT with the heading “Outstanding Loans Received From Abroad by the Private Sector”, broken down as short-term and long-term. The foreign currency composition of the corporate sector external debt is displayed as stock value in this publication.

Analysis of the currency composition of the outstanding loans received from abroad by private sector reveals that the external borrowing is predominantly USD-denominated. According to annualized data, the USD-denominated borrowing increased to USD 33.6 billion as of October 2014 from USD 18.3 billion at end-2005. The euro-denominated borrowing peaked to EUR 25.8 billion in September 2008 as a result of a steady uptrend between 2005 and 2008. Borrowings in both denominations decreased with the global financial crisis; afterwards, the euro-denominated borrowing remained flat around USD 15 billion, whereas the USD-denominated borrowing increased to more than USD 30 billion. The most outstanding feature in the foreign currency composition is that the share of the Turkish lira-denominated borrowing has grown. Accordingly, the Turkish lira-denominated borrowing escalated to USD 6.8 billion in October 2014 from USD 1.7 billion at end-2005 (Chart 1).

Chart 1. Foreign Currency Composition of the Corporate Sector Long-Term External Debt (annualized, billion USD)

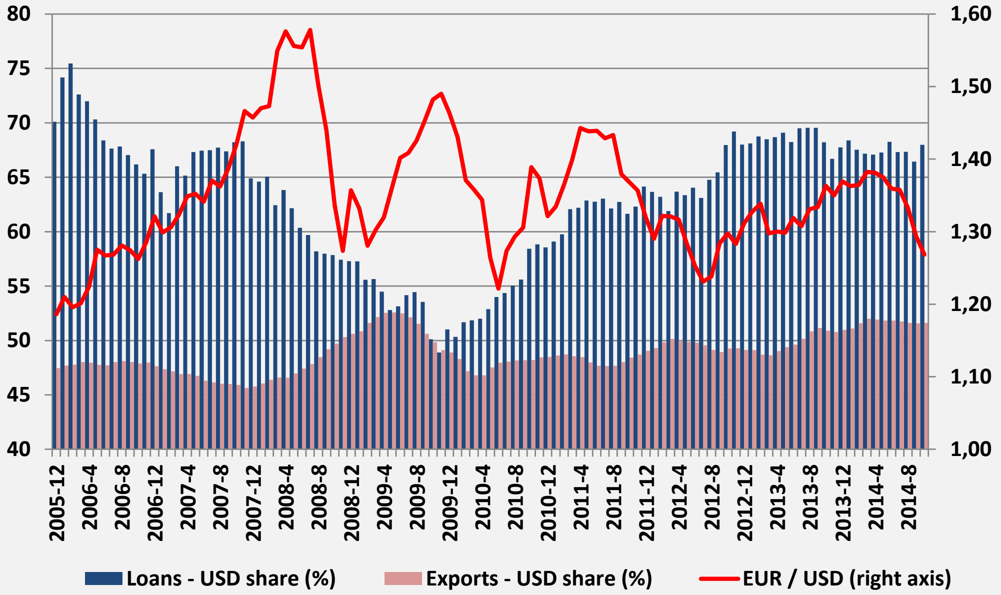


Source: CBRT.

Chart 2 displays the percentages of the USD-denominated long-term external borrowing of the corporate sector and USD-denominated exports[3] as well as the EUR/USD parity. Despite the rise in the EUR/USD parity between 2006 and 2008, the share of the USD-denominated borrowing first regressed from 75 percent to 60 percent and then recorded the lowest level with 49 percent at end-2009. During the same period, the share of USD-denominated exports rose to 53 percent from 47 percent. In the aftermath of the global financial crisis, the share of the USD-denominated borrowing increased and converged to 70 percent. Meanwhile, the EUR/USD parity followed a fluctuating course, while the share of USD-denominated exports in overall exports surged.

[3] Percentages reflect the share of the USD in the sum of (Euro + USD). The share of USD and euro-denominated loans in total loans is 87 percent for long-term loans (according to annualized data) and 94 percent for short-term loans (according to 6-month data). The share of USD and euro-denominated exports in total exports is 92 percent (according to annualized data).

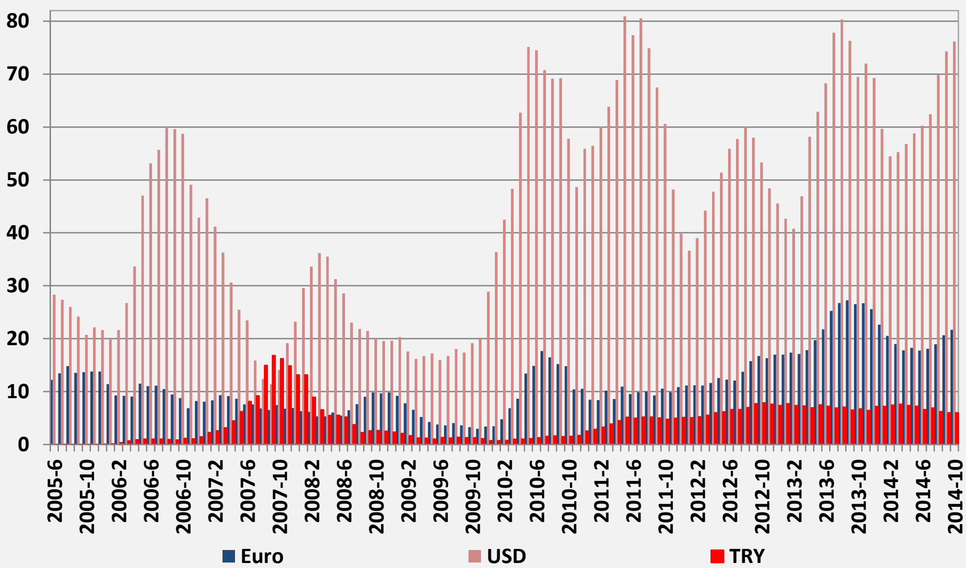
Chart 2. Share of the USD in the Corporate Sector Long-Term External Borrowing and in Exports - EUR/USD Parity (annualized, percent)



Source: CBRT.

An analysis of the foreign currency composition of the corporate sector short-term external debt for the 2005-October 2014 period suggests that the weight of the USD-denominated borrowing increased. According to 6-month cumulative data, the USD-denominated borrowing, which plunged to USD 17 billion in 2009 due to the global crisis, displayed a fluctuating course. However, it increased in the post-crisis period and reached USD 76 billion as of October 2014. The euro-denominated borrowing was on a relatively more balanced track and stood at USD 22 billion as of October 2014. Meanwhile, the Turkish lira-denominated short-term borrowing has been around USD 7 billion, on a flat course since the post-2011 period.

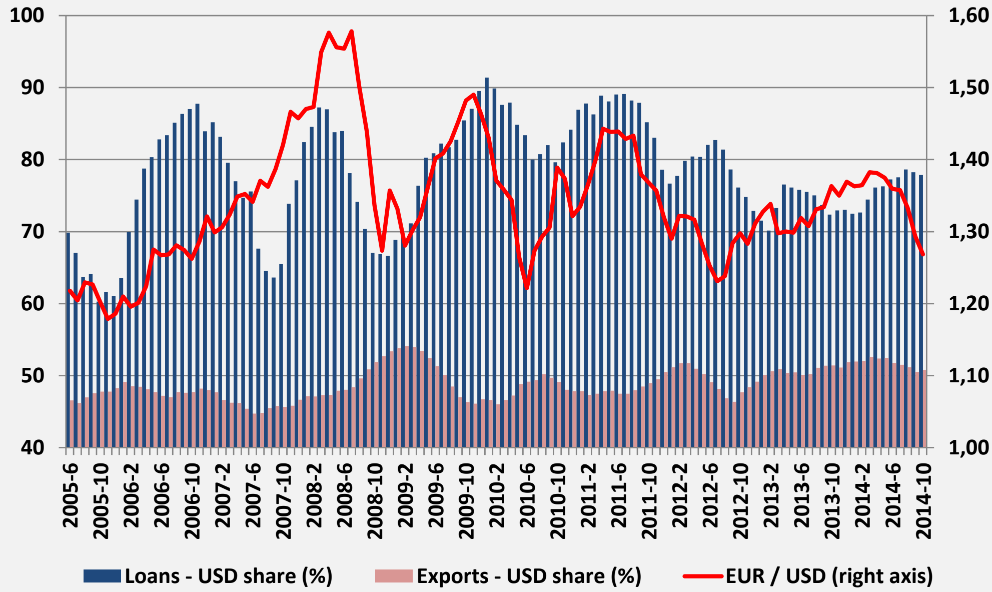
Chart 3. Foreign Currency Composition of the Corporate Sector Short-Term External Debt (6-month, billion USD)



Source: CBRT.

Percentages of the corporate sector's USD-denominated short-term external borrowing and of the USD-denominated exports as well as the EUR/USD parity are shown in Chart 4. The Chart reveals that there is a positive relation between the share of the USD-denominated borrowing and the EUR/USD parity: during the periods in which the EUR/USD parity increases (when other variables remain stable), the USD-denominated borrowing becomes more attractive and its share also increases.[4] On the other hand, as expected, there is a negative relation between the EUR/USD parity and the share of USD-denominated exports.[5] During the periods in which the EUR/USD parity increases, the share of USD-denominated exports also decreases.

Chart 4. Share of the USD in the Corporate Sector Short-Term External Borrowing and in Exports - EUR/USD Parity (6-month, percent)



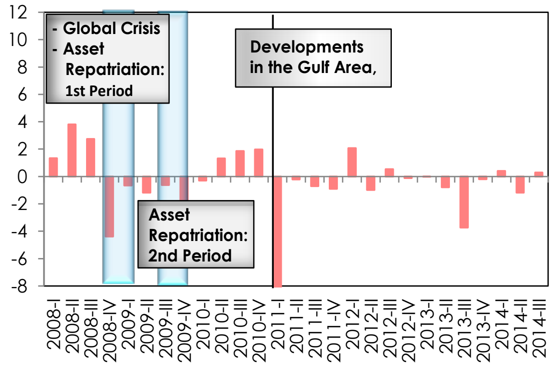
Source: CBRT.

To conclude, the corporate sector's external borrowing has been predominantly in US dollars, for both long-term and short-term. The changes in the parity did not have any effect on the foreign currency composition of long-term borrowing, whereas there was a positive relation between the EUR/USD parity and the share of USD-denominated short-term borrowing. On the other hand, the foreign currency structure of exports has been a determining factor in both short-term and long-term borrowing.

[4] The correlation value between the EUR/USD parity and the share of USD-denominated borrowing is 0.40.
[5] The correlation value between the EUR/USD parity and the share of the USD in exports is -0.13.

Residents' deposits in banks abroad are recorded in the balance of payments table under the "Financial Account / Other Investment / Currency and Deposits / Net Acquisition of Financial Assets / Other Sectors". This is an important item to monitor with respect to capital movements as rapid and short-term movements are observed in these accounts particularly in times of financial turbulence. In other times though, deposits tend to accumulate in these accounts. From this perspective, the indicative data for the third quarter of 2014 point to a USD 0.3-billion rise.

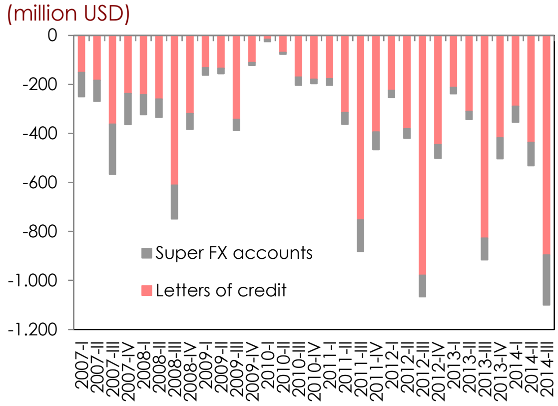
Chart 33. Other Sectors' Deposit Assets Abroad
(billion USD)



Source: CBRT.

The decline in FX accounts of non-resident Turkish citizens within the Central Bank of Turkey continues due to the rate cuts applied to these accounts. The last cut in the interest rates applied to long-term FX deposit accounts with credit letters and to super FX accounts was made in April 2013. The highest net outflow from these accounts was registered in the third quarter of 2014, with an outflow of USD 1.1 billion.

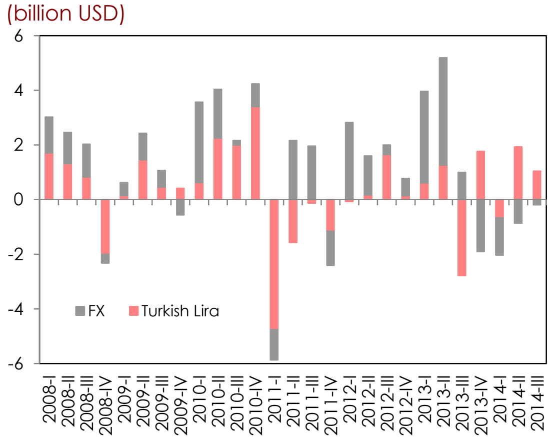
Chart 34. Deposits within the CBRT
(million USD)



Source: CBRT.

The inflow in bank deposits on the liabilities side of the other investment item, which had started in the second quarter, continued in this quarter. In this period, there were deposit inflows from both banks abroad and non-residents. In the third quarter of 2014, the FX deposits of banks abroad in domestic banks decreased by net USD 196 million, whereas TL deposits of banks abroad in domestic banks increased by USD 1,049 million.

Chart 35. Deposits of Non-resident Banks within the Domestic Banks - Composition of FX and TL
(billion USD)



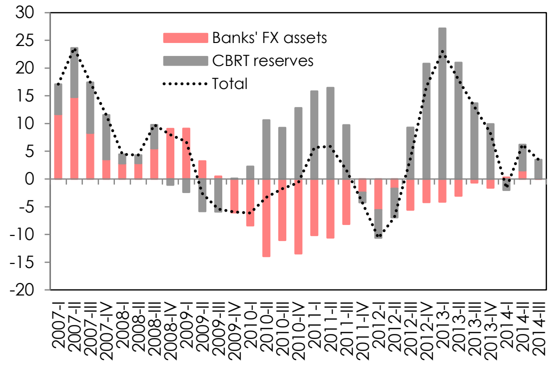
Source: CBRT.

The reserve assets item in the balance of payments table, which was boosted by capital inflows in the second quarter of 2014, continued to increase in the third quarter as well. In this quarter, the official reserves in the balance of payments table increased by USD 1.6 billion. This increase can be mainly attributed to FX inflows arising from the Treasury's bond issues in September as well as the repayment of rediscount loans that the CBRT extends to exporters. Meanwhile, outflows originated primarily from the CBRT's FX sales, the Treasury's interest payments on bonds and outflows from workers' remittances accounts.

The CBRT's international reserves decreased by USD 1.7 billion quarter-on-quarter to USD 131.8 billion. The "short-term external debt stock on a remaining maturity basis (STED)", which is calculated based on the external debt maturing within 1 year or less regardless of the original maturity, dropped by 1.2 percent as of September compared to the end of the previous quarter and stood at USD 166.3 billion. As a result, the ratio of total international reserves to STED, which is considered to be one of the reserve adequacy indicators, was recorded as 88 percent. However, this ratio becomes 103 percent when branches and affiliates abroad are excluded.

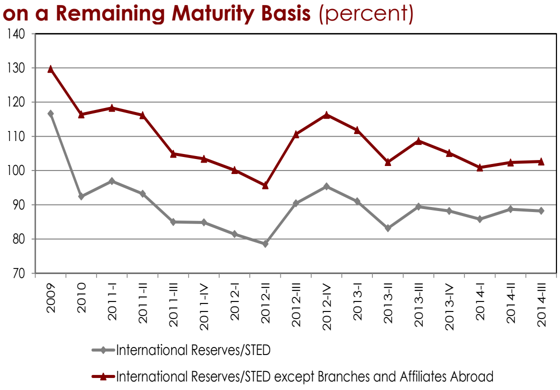
The Net Errors and Omissions (NEO) item posted a net inflow of approximately USD 2.1 billion in the third quarter of 2014. In annual terms, the 12-month cumulative NEO materialized as USD 8.1 billion in this period and the ratio of 12-month cumulative NEO to total FX inflows fell to 3.6 percent (Box 3).

Chart 36. International Reserves
(annualized, billion USD)



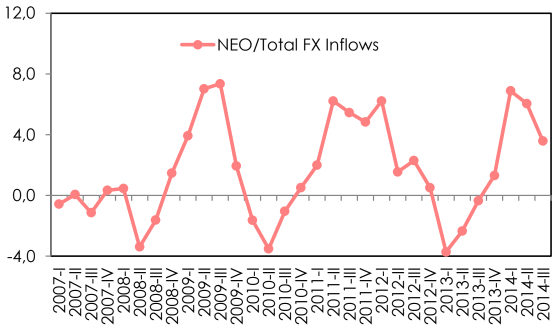
Source: CBRT.
Note: (+) increase; (-) decrease

Chart 37. The Ratio of International Reserves to STED on a Remaining Maturity Basis (percent)



Source: CBRT.

Chart 38. Net Errors and Omissions (NEO) and Total Foreign Exchange Inflows
(annualized, percent)



Source: CBRT.

Box 3 The Net Errors and Omissions Item and Comparison Across Selected Countries

The Net Errors and Omissions (NEO) item in the balance of payments statistics has been notably fluctuated and high, constituting a controversial issue among the public. Various aspects of this issue were analyzed in a number of boxes published in previous Balance of Payments reports. This box presents a summary of the changes in the NEO in Turkey and a comparison with other countries, with references to the results of other studies.

Definition and Examples

The balance of payments is an accounting system in which each transaction is recorded as credit and debit. Thus, when a transaction subject to balance of payments is recorded to a relevant item, it should also have a cross-entry in another item. In other words, each transaction should be recorded as both a credit and a debit entry in equal values. Hence, the sum of the "Current Account" and the "Capital Account" items should be equal to the "Financial Account" item at all times. The balance of payments methodology regards such equality in theory. However, it is not always possible to achieve it in practice. In fact, the diversity of data sources causes differences in valuation, measurement and time of recording. This leads to differences in related credit and debit entries. These differences make up the NEO item and are reflected in balance of payments statistics as a "residual" item (Balance of Payments and International Investment Position Manual, 6th Edition).

On the other hand, in Turkey's balance of payments statistics, the data belonging to the respective month is published with a lag of approximately six weeks, which is deemed considerably short compared to international practices. This practice, which aims to deliver statistics to users when they are still up-to-date, requires substituting as yet unavailable data on the date of publication with provisional data. Balance of payments statistics and accordingly the NEO item can be revised as these provisional data become actual data in time and as data start to be compiled from a new source.

It is possible to give various examples regarding the NEO:

- The requirement of repatriation of export proceeds was abolished in 2008, which led to an increase in deposits held abroad by Turkish residents excluding banks. In goods movements in foreign trade, exporters can deposit a portion of the payment they have received in a domestic bank and the remaining portion in a bank abroad, which causes a difference between the data obtained from the banks system and the data obtained from customs records. This difference is reflected in the NEO item.
- The Bank for International Settlements (BIS) releases the International Locational Banking

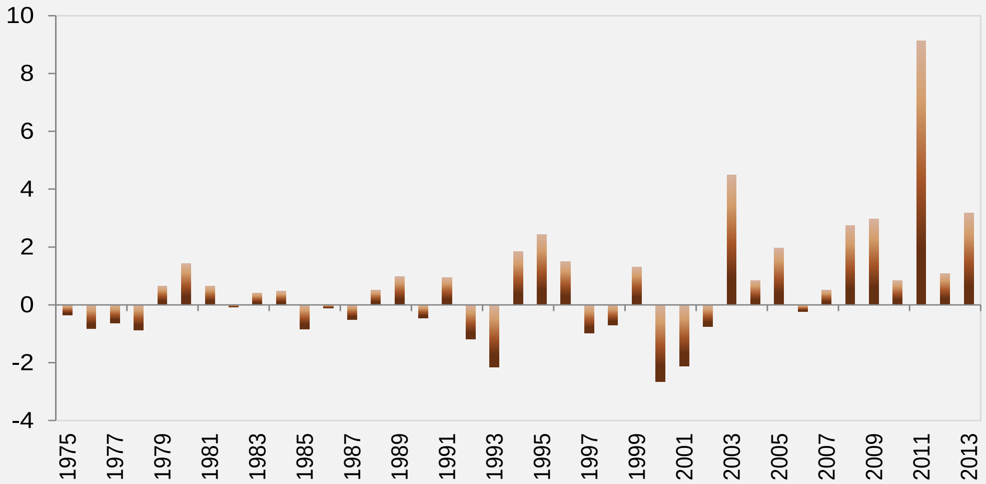
Statistics on a quarterly basis with a lag of about four months and data related to foreign branches of banks are used as indicative data in the balance of payments statistics until the BIS data is announced. The difference between these two data is also reflected in the NEO item.

- If "travel revenues or expenditures", which have been calculated after the surveys conducted to monitor tourism revenues and expenditures, are not reflected one-to-one in banks' foreign currency assets, the difference is reflected in the NEO item (Balance of Payments Report 2014-I, Box 3).

Comparisons Across Countries

An analysis of the annual change in the NEO item in Turkey's balance of payments statistics suggests that the NEO item, which was relatively low in terms of inflows and outflows in the 1975-2000 period, increased as of the 2000s and has recorded inflows regularly since 2007. The NEO item reached the historical high in 2011 (Chart 1).

Chart 1. Change in the NEO (billion USD)



Source: CBRT.

The ratios of NEO items of 20 selected countries, including Turkey, to their total foreign exchange revenues[6] and GDPs have been calculated to compare Turkey's NEO item with other countries. An analysis of countries' NEO-to-FX revenues ratios suggests that in general, the ratio is higher in Switzerland, Norway, Italy and Japan than in Turkey. In addition, in some years, high NEO/total FX revenues ratios have been recorded in Argentina, China, Germany, Russia and India as well. The absolute value averages of the ratios calculated for these countries have hovered above the data for Turkey except for 2011 (Table 1). Also, when compared with minimum and maximum values throughout the analysis period, the data for Turkey have displayed a very stable trend close to zero, except for the respective year (Chart 1).

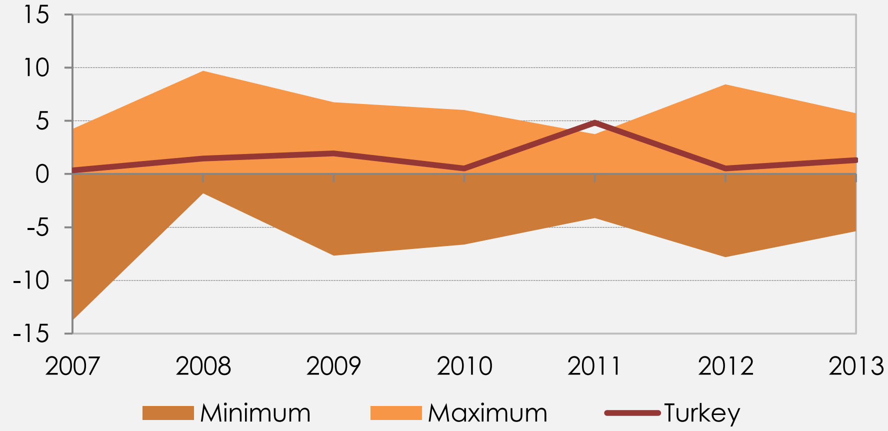
[6] Total foreign exchange revenues are composed of total goods export revenues, services revenues, the revenue item in the primary income balance and the secondary income balance in the balance of payments and the current account of a country.

Table 1: NEO/Total FX Revenues (percent)

	2007	2008	2009	2010	2011	2012	2013	2014 Q1	2014 Q2	2014 Q3
Turkey	0,33	1,46	1,94	0,51	4,83	0,51	1,31	15,99	-4,72	3,48
Argentina	0,05	1,20	-0,49	-0,64	-3,98	-2,80	-5,38	-0,95	0,08	-
Brazil	-1,57	0,73	0,30	-1,45	-0,41	0,13	0,34	2,43	1,50	-
China	0,96	1,14	-2,92	-2,88	-0,63	-3,62	-2,98	4,12	-	-
Czech Republic	1,00	0,11	-2,16	-0,76	0,46	0,17	-0,44	-2,98	1,79	-
Germany	3,26	1,65	0,78	-2,73	-0,26	1,04	3,33	4,05	4,35	-
Greece	1,29	1,13	-1,09	-0,78	0,05	-0,66	-1,36	6,89	-7,47	-
India	0,41	5,88	0,00	-0,24	-0,20	0,46	0,00	-0,62	-	-
Italy	1,77	2,58	-1,45	-6,63	-4,14	-2,45	1,73	7,45	-	-
Japan	1,60	4,54	3,84	3,76	3,26	0,35	-4,02	-1,62	5,54	-
Korea	1,18	-1,77	-1,01	-0,96	0,82	0,10	-0,39	1,12	0,04	-
Norway	-13,76	1,78	6,75	-4,64	-1,43	-7,82	-5,13	6,53	12,22	-
Portugal	0,74	-0,08	-0,65	1,07	0,62	-0,68	0,21	0,59	-1,39	-
Russian Federation	-2,20	-0,51	-1,67	-1,88	-1,37	-1,59	-1,66	-3,12	3,16	-
South Africa	4,24	9,71	-3,64	-0,47	3,75	-0,12	5,72	6,86	4,31	-
Spain	-0,05	-0,53	-1,84	-0,74	0,78	1,44	2,34	-	-	-
Switzerland	3,18	0,44	-7,68	6,02	-0,41	8,44	5,36	-	-	-
Thailand	1,59	4,47	2,46	-1,61	-0,07	-2,44	-0,94	-3,44	-	-
United Kingdom	1,19	-0,70	-3,33	0,63	1,65	-1,43	-0,82	3,54	-	-
United States	3,93	-1,82	6,56	0,27	-1,84	0,98	0,94	-0,86	11,30	-
Absolute Value Average	2,21	2,11	2,53	1,93	1,55	1,86	2,22	4,06	4,45	

Source: CBRT, IMF-International Financial Statistics.

Chart 1: NEO/Total FX Revenues* (percent)



Source: CBRT, IMF-International Financial Statistics.

*Minimum ratios: Norway(2007), USA(2008), Switzerland(2009), Italy(2010-2011), Norway(2012), Argentina(2013).
*Maximum ratios: South Africa(2007-2008-2011-2013), Norway(2009), Switzerland(2010-2012).

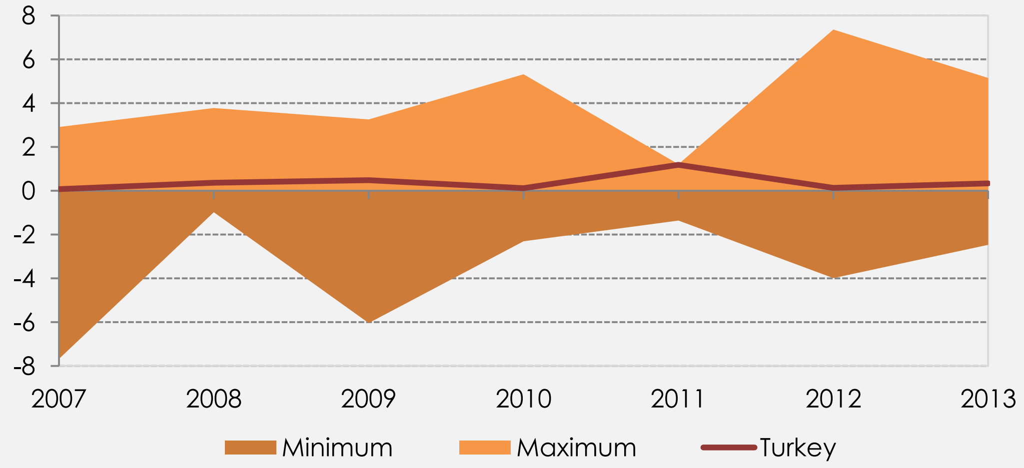
An analysis of the same countries' NEO-to-GDP ratios reveals that likewise, Norway and Switzerland have registered high ratios throughout the period, while South Africa has recorded high ratios periodically. In terms of absolute value averages of NEO/GDP ratios, Turkey's ratios have remained below these values, except for 2011 (Table 2). A comparison of the data for Turkey with minimum and maximum ratios by years shows that it is on a stable track close to zero (Chart 2).

Table 2: NEO/GDP (percent)

	2007	2008	2009	2010	2011	2012	2013
Turkey	0,08	0,37	0,48	0,11	1,18	0,14	0,34
Argentina	0,01	0,27	-0,09	-0,12	-0,75	-0,46	-0,89
Brazil	-0,23	0,11	0,04	-0,17	-0,05	0,02	0,04
China	0,38	0,42	-0,83	-0,89	-0,19	-1,06	-0,84
Czech Republic	0,71	0,08	-1,34	-0,53	0,35	0,14	-0,36
Germany	1,83	0,91	0,38	-1,45	-0,15	0,60	1,88
Greece	0,35	0,33	-0,25	-0,19	0,01	-0,20	-0,46
India	0,10	1,79	0,00	-0,06	-0,05	0,13	0,00
Italy	0,59	0,87	-0,41	-2,02	-1,36	-0,83	0,59
Japan	0,37	1,02	0,65	0,74	0,65	0,07	-0,88
Korea	0,51	-0,98	-0,52	-0,50	0,49	0,06	-0,23
Norway	-7,67	1,02	3,26	-2,30	-0,72	-3,98	-2,47
Portugal	0,32	-0,04	-0,24	0,45	0,29	-0,33	0,10
Russian Federation	-0,75	-0,18	-0,52	-0,60	-0,45	-0,51	-0,52
South Africa	1,46	3,78	-1,07	-0,14	1,21	-0,04	1,92
Spain	-0,02	-0,18	-0,55	-0,25	0,29	0,55	0,92
Switzerland	2,91	0,36	-6,04	5,32	-0,34	7,36	5,15
Thailand	1,24	3,64	1,80	-1,20	-0,06	-1,99	-0,74
United Kingdom	0,56	-0,33	-1,34	0,25	0,74	-0,61	-0,34
United States	0,70	-0,34	1,04	0,05	-0,35	0,19	0,18
Absolute Value Average	1,04	0,85	1,04	0,87	0,48	0,96	0,94

Source: CBRT, IMF-International Financial Statistics, World Bank Database.

Chart 2: NEO/GDP* (percent)



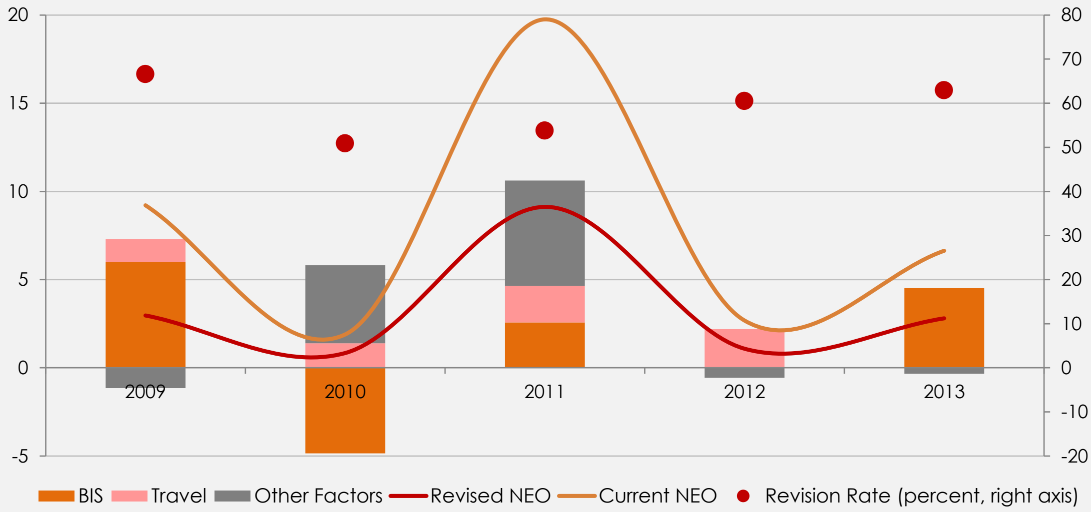
Source: CBRT, IMF-International Financial Statistics, World Bank Database.
*Minimum values: Norway(2007), Korea(2008), Switzerland(2009), Norway(2010), Italy(2011), Norway(2012-2013)
*Maximum values: Switzerland(2007-2010-2012-2013), South Africa(2008-2011), Norway(2009).

Revisions in the NEO Item

Since data in balance of payments statistics are collected from different sources, differences emerge in valuation, measurement and time of recording; these differences are reflected in the balance of payments table as “Net Errors and Omissions” item. On the other hand, as allowed by the revision policy in place, data pertaining to previous periods can be revised[7] and these revisions may have important repercussions on the NEO item.

To see the scale of revisions in the NEO item, the NEO values on the date of the balance of payments statistics were first published have been compared with the revised values published in the balance of payments statistics of October 2014. These comparisons reveal that the NEO levels implied by the current month data have been revised downwards to 50-70 percent in time and the "travel" and "Turkish residents' deposits abroad" items (BIS) have been the main determinants of the revisions (Chart 3; for detailed analysis, please see: Balance of Payments Report 2014-I, Box 3).

Chart 3: Primary Revisions in Balance of Payments Items and Their Effect on the Revision of the NEO* (billion USD)



Source: CBRT.

* Positive (negative) values denote the increase (decrease) in the respective item as well as the downward (upward) effect by the same amount on the NEO.

To sum up, the NEO item in the balance of payments statistics that are released in compliance with international standards and with a short time lag is at a reasonable level and in a reasonable trend when compared with data of other countries. On the other hand, according to the revision policy in place, statistics of the preceding five-year period can be revised retrospectively in balance of payments items and these revisions considerably reduce fluctuations in the NEO item compared to the values when they were first published.

[7] When disseminating the current month’s data except for December, short-term external debt data and long-term private external debt data until the year 2002 can be revised retrospectively, while, for other items, the current year’s data as well as the previous year’s monthly data can be subject to a retrospective revision. On the other hand, when disseminating December's data, the previous five years’ data of all the items can be revised retrospectively. Apart from these, whenever a large-scale revision is needed in any data that compose the balance of payments statistics, the previous years’ data will be subject to revision by informing the public at large.

III. Annex Tables

Balance of Payments (billion USD)

	January-September			September (Annualized)		
	2013	2014	% change	2013	2014	% change
Current Account	-49,2	-31,1	-36,7	-59,3	-47,0	-20,7
Goods	-60,6	-45,4	-25,1	-75,1	-64,7	-13,9
Exports	119,5	127,2	6,5	162,3	169,5	4,5
Exports (fob)	112,4	118,5		151,9	157,9	
Shuttle Trade	5,5	6,7		7,6	8,7	
Imports	180,1	172,6	-4,2	237,4	234,2	-1,3
Imports (cif)	187,6	179,8		247,2	243,9	
Adjustment: Classification	-9,6	-9,5		-12,7	-12,9	
Services	17,9	20,1	12,2	23,2	25,0	7,6
Travel (net)	17,9	19,4		23,1	24,7	
Credit	21,3	23,0		27,8	29,8	
Debit	3,4	3,6		4,7	5,1	
Other Services (net)	0,0	0,7		0,1	0,3	
Primary Income	-7,4	-6,6	-10,8	-8,9	-8,5	-3,7
Compensation of Employees	-0,2	-0,3		-0,3	-0,4	
Direct Investment (net)	-3,0	-2,0		-3,8	-2,7	
Portfolio Investment (net)	-1,3	-1,7		-1,1	-1,7	
Other Investment (net)	-3,0	-2,7		-3,8	-3,8	
Interest Income	1,3	1,2		2,0	1,7	
Interest Expenditure	4,2	3,9		5,8	5,5	
Secondary Income	1,0	0,8	-16,6	1,5	1,2	-16,6
Workers Remittances	0,7	0,7		1,0	0,9	
Capital Account	-0,1	-0,1		-0,1	-0,1	
Financial Account	-46,7	-23,3	-50,0	-60,1	-39,0	-35,2
Direct Investment (net)	-6,5	-4,9	-24,0	-8,1	-7,7	-5,5
Net Acquisition of Financial Assets	2,1	4,4		3,0	6,0	
Net Incurrence of Liabilities	8,5	9,3		11,1	13,6	
Portfolio Investment (net)	-19,0	-13,5	-29,1	-35,5	-18,2	-48,8
Net Acquisition of Financial Assets	-2,4	0,7		-3,3	0,5	
Net Incurrence of Liabilities	16,6	14,2		32,1	18,7	
Equity Securities	-0,3	1,6		3,3	2,8	
Debt Securities	16,9	12,6		28,9	15,9	
GDDS	6,5	-1,2		11,2	-3,6	
Eurobond Issues of Treasury	1,7	3,2		2,7	6,1	
Borrowing	3,2	6,3		4,2	9,2	
Repayment	1,5	3,1		1,5	3,1	
Banks (net)	5,7	7,9		10,8	10,2	
Other Sectors (net)	3,0	2,7		4,2	3,2	
Other Investment (net)	-30,6	-7,8	-74,3	-30,2	-16,6	-45,0
Currency and Deposits	-13,1	0,4		-11,5	0,4	
Net Acquisition of Financial Assets	-4,4	0,5		-2,2	0,3	
Banks	0,1	1,0		2,5	1,0	
Foreign Exchange	-2,8	-1,2		-0,7	0,0	
Turkish Lira	3,0	2,1		3,2	1,0	
Other Sectors	-4,6	-0,5		-4,7	-0,7	
Net Incurrence of Liabilities	8,7	0,1		9,3	0,0	
Central Bank	-1,5	-2,0		-2,0	-2,5	
Banks	10,2	2,1		11,3	2,4	
Loans	-13,7	-8,2		-16,3	-16,0	
Net Acquisition of Financial Assets	0,5	2,0		0,9	2,1	
Net Incurrence of Liabilities	14,2	10,2		17,1	18,2	
Banks	14,8	7,8		17,2	14,7	
Short-term	10,0	2,9		12,1	5,7	
Long-term	4,8	5,0		5,1	9,0	
General Government	-0,5	-1,0		-1,2	-1,3	
Long-term	0,4	-1,0		0,1	-1,3	
Other sectors	-0,1	3,4		1,1	4,8	
Short-term	0,7	0,2		0,1	0,8	
Long-term	-0,7	3,2		1,1	4,0	
Trade Credit and Advances	-3,3	0,4		-2,1	-0,5	
Net Acquisition of Financial Assets	0,5	0,0		1,1	0,9	
Net Incurrence of Liabilities	3,8	-0,4		3,2	1,4	
Other Assets and Liabilities	-0,4	-0,4		-0,4	-0,5	
Change in Official Reserves	9,4	2,9		13,7	3,5	
Net Errors and Omissions	2,6	7,8		-0,8	8,1	

Source: CBRT.

Financing Requirements and Sources (billion USD)

	2013				2013	2014		
	I	II	III	IV		I	II	III
Financing Requirements	-28,9	-33,2	-17,3	-27,1	-106,5	-25,3	-22,5	-18,6
Current Account Balance (Excluding Current Transfers)	-16,8	-20,9	-12,4	-16,3	-66,4	-11,9	-12,9	-7,1
Debt Security and Credit Repayments	-12,5	-13,8	-8,8	-10,2	-45,3	-11,5	-10,7	-9,9
Debt Securities (Abroad)	-1,5	0,0	-0,2	-0,7	-2,3	-4,2	-1,2	-1,8
Long Term Credits	-11,0	-13,8	-8,6	-9,6	-43,0	-7,3	-9,6	-8,1
Trade Credits	0,0	-0,1	-0,1	-0,1	-0,3	-0,1	0,0	0,0
Monetary Authority	0,0	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	0,0
General Government	-0,9	-1,5	-0,5	-1,0	-3,8	-0,5	-1,0	-0,6
(IMF)	-0,4	-0,4	0,0	0,0	-0,9	0,0	0,0	0,0
Banks	-3,8	-1,4	-1,7	-2,2	-9,1	-1,9	-2,5	-2,2
Other Sectors	-6,3	-10,8	-6,4	-6,3	-29,8	-4,9	-6,0	-5,3
Other Assets (- indicates to an increase) 1/	0,4	1,4	4,0	-0,6	5,2	-1,9	1,2	-1,5
Financing Sources	28,9	33,2	17,3	27,1	106,5	25,3	22,5	18,6
Current Transfers	0,3	0,3	0,3	0,4	1,4	0,2	0,3	0,3
Capital Account	0,0	0,0	0,0	0,0	-0,1	0,0	0,0	0,0
Direct Investment (Net)	2,1	1,7	2,7	2,7	9,2	3,1	1,6	0,2
Equity Securities (Net)	0,4	-0,6	-0,1	1,2	0,8	0,4	1,0	0,1
Debt Securities and Credits	29,9	27,6	12,6	23,2	93,3	9,7	28,0	16,9
Debt Securities	8,4	9,2	0,9	4,0	22,6	1,6	13,5	4,6
In Turkey (Net)	4,1	3,0	-0,5	-2,4	4,1	-4,0	4,1	-1,3
Abroad	4,3	6,3	1,4	6,4	18,5	5,5	9,4	6,0
Long Term Credits	11,1	13,9	11,9	14,0	50,8	10,7	11,3	10,2
Trade Credits	0,1	0,1	0,0	0,0	0,2	0,0	0,0	0,0
Monetary Authority	0,0	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	0,0
General Government	0,5	0,6	1,2	0,6	3,0	0,2	0,4	0,5
(IMF)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Banks	3,4	4,1	4,1	6,2	17,8	3,5	3,9	4,2
Other Sectors	7,1	9,1	6,6	7,1	29,9	6,9	7,0	5,5
Short Term Credits (Net)	10,4	4,4	-0,3	5,3	19,9	-2,6	3,2	2,1
Trade Credits	3,5	3,4	-3,0	1,8	5,7	-2,3	1,4	0,5
Monetary Authority	0,0	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	0,0
Banks	7,2	0,8	2,0	2,9	12,9	-0,2	2,0	1,1
Other Sectors	-0,3	0,3	0,7	0,6	1,3	-0,1	-0,2	0,4
Deposits (Net)	4,8	5,7	-1,7	-0,1	8,6	-2,4	1,3	1,1
Other Liabilities	0,0	0,2	0,3	0,0	0,6	0,1	0,2	0,1
Net Errors and Omissions	-3,8	-1,0	7,4	0,2	2,8	8,4	-2,7	2,1
Banks' Currency and Deposits 2/	2,3	-1,1	-1,3	-0,1	-0,2	1,0	-1,2	-0,7
Reserve Assets 2/	-7,0	0,5	-2,9	-0,5	-9,9	4,9	-6,1	-1,6

Source: CBRT.

1/ Excluding Banks' Currency and Deposits

2/- denotes an increase.

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

	2013				2013	2014		
	I	II	III	IV		I	II	III
A) Current Account Balance	-16,5	-20,5	-12,1	-15,9	-65,0	-11,7	-12,6	-6,8
B) Capital and Financial Account	20,3	21,5	4,7	15,6	62,2	3,3	15,3	4,7
Capital Account	0,0	0,0	0,0	0,0	-0,1	0,0	0,0	0,0
Financial Account	20,4	21,6	4,7	15,6	62,3	3,3	15,3	4,7
Assets	2,0	-0,5	2,1	-2,3	1,3	-2,1	-1,1	-4,4
Direct Investment	-0,7	-0,8	-0,6	-1,6	-3,6	-1,2	-1,1	-2,1
Portfolio Investment	0,8	1,3	0,3	0,2	2,6	-0,5	-0,7	0,5
Other Investment	1,9	-1,0	2,3	-0,9	2,4	-0,4	0,7	-2,7
Liabilities	25,4	21,5	5,5	18,4	70,9	0,5	22,6	10,8
Non-Debt Creating Flows	3,0	2,4	3,4	5,3	14,1	4,6	4,5	2,5
Direct Investment 1/	2,6	2,8	3,2	4,1	12,7	4,1	3,2	2,2
Portfolio Investment/Equity Securities	0,4	-0,6	-0,1	1,2	0,8	0,4	1,0	0,1
Other Investment/Other Liabilities 2/	0,0	0,2	0,3	0,0	0,6	0,1	0,2	0,1
Debt Creating Flows	22,4	19,1	2,1	13,1	56,8	-4,0	18,1	8,3
Portfolio Investment/Debt Securities	6,9	9,2	0,8	3,3	20,2	-2,6	12,4	2,8
Trade Credits	3,5	3,3	-3,0	1,8	5,6	-2,3	1,4	0,5
Loans	7,2	0,9	6,1	8,1	22,3	3,3	3,0	3,8
Deposits	4,8	5,7	-1,7	-0,1	8,6	-2,4	1,3	1,1
Other Investment/Other Liabilities 2/	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Reserve Assets	-7,0	0,5	-2,9	-0,5	-9,9	4,9	-6,1	-1,6
C) Net Errors and Omissions	-3,8	-1,0	7,4	0,2	2,8	8,4	-2,7	2,1

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: "Special Drawing Rights (Net Incurrence of Liabilities)" and "Reserve Assets / Official Reserves / Currency and Deposits".

Boxes in Balance of Payments Reports

2014-II

Box 1. Turkey's Practice in the Changeover to the 6th Edition of the Balance of Payments and International Investment Position Manual
Box 2. Impact of the Geopolitical Tension in Iraq on Exports
Box 3. Bonds and Bills Issued Abroad by the Banking Sector

2014-I

Box 1. Evaluation of the Developments in Russia and Ukraine with Respect to the Balance of Payments Statistics
Box 2. The Impact of Expectations Regarding the Quantitative Easing Program on Portfolio Investments in Turkey
Box 3. Revisions in the Net Errors and Omissions Item

2013-IV

Box 1. Impact of Economic Developments in the Euro Area on Foreign Direct Investments in Turkey
Box 2. The Effect of Rediscount Credits on International Reserves
Box 3. An Analysis on the External Debt Service in 2014

2013-III

Box 1. Recent Developments in Exports to EU Countries
Box 2. A Correction in Tourism Statistics about Syrian Refugees and its Impact on Balance of Payments Statistics
Box 3. International Investment Position: An Analysis of Turkey
Box 4. Corporate Sector External Debt Stock

2013-II

Box 1. Turkey's Energy Imports for Electricity Generation
Box 2. The Impact of Turkey’s Gold Trade on the Current Account Deficit and Recent Developments
Box 3. Investment Income and International Money Market Rates
Box 4. The ROM Facility and Structural Change in International Reserves

2013-I

Box 1. Technological Structure of Foreign Trade in Turkey: 1990-2012
Box 2. Maturity Structure of Non-Residents’ Holdings of Securities
Box 3. Outflows From the Net Errors and Omissions Item

2012-IV

Box 1. Macro Display of the Quality of Current Account Deficit Financing
Box 2. Domestic and Foreign Value Added Ratios in Exports
Box 3. Methodological Revision in Tourism Statistics and Its Impact on Balance of Payments Statistics
Box 4. IMF Lending Arrangements and Balance of Payments Statistics
Box 5. A New Approach to Assessing Reserve Adequacy

2012-III

Box 1. Latest Developments in Exports to the European Union and Middle East and North Africa Countries
Box 2. FX Deposit Accounts with Letters of Credit and Super FX Accounts Flows and Net Errors and Omissions
Box 3. Outstanding Loans Received From Abroad by Private Sector

2012-II

Box 1. Latest Developments in the European Union and Exports by Sectors
Box 2. Profile of Tourists Visiting Turkey and a General Analysis of Travel Revenues by Nationality
Box 3. Composition of Non-Residents’ Government Domestic Debt Securities

2012-I

Box 1. Turkey's Export Performance with Respect to the Diversification of Product and Country Groups
Box 2. Turkish Residents' Deposits Abroad and Net Errors and Omissions
Box 3. Repo Transactions with Non-Residents
Box 4. Net International Reserves

2011-IV

Box 1. Credit Expansion and Current Account Balance
Box 2. Repercussions of the Developments In Syria on Turkey's Exports
Box 3. Current Account Deficit and Financing Items
Box 4. The Impact of European Debt Crisis on Capital Flows To Turkey
Box 5. Foreign Direct Investments in Turkey
Box 6. Revisions Made in the Scope of the Revision Policy for Balance of Payments Statistics

2011-III

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

2011-II

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

2011-I

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

2010-IV

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