CENTRAL BANK OF THE REPUBLIC OF TURKEY

Balance of Payments Report
2012- IV

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Head Office

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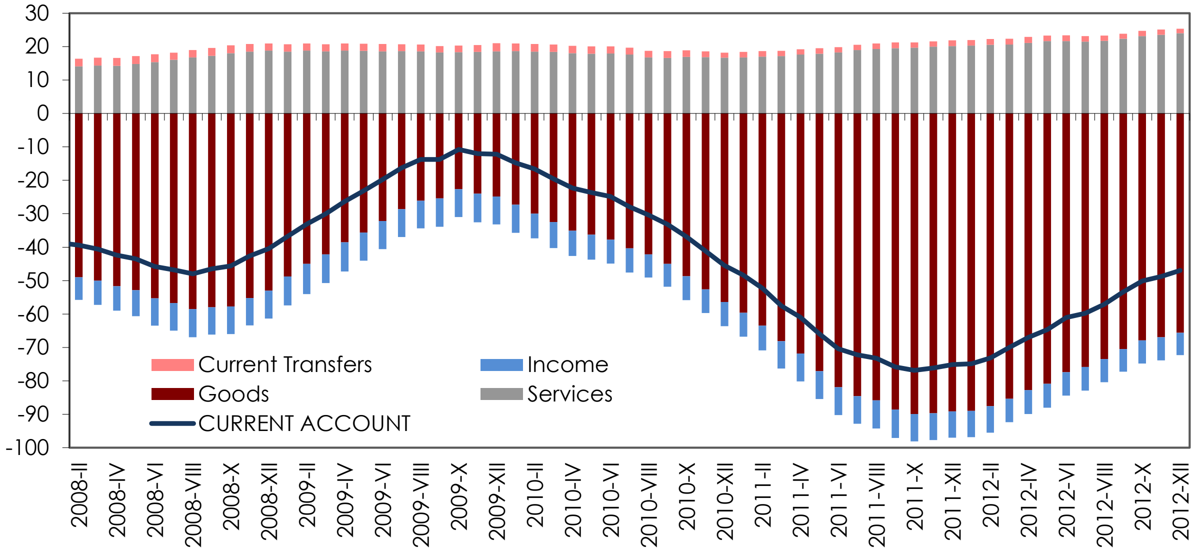
CONTENTS

Overview

Current Account Balance

In the last quarter of 2012, the narrowing of the current account balance continued, despite a slight deceleration compared to the previous quarter. The rebalancing observed in demand as a consequence of the monetary policy implementation that the Central Bank adopted at the end of 2010, weakened domestic demand factors and the increase in net external demand stood as the main factors underlying the decline in the current account deficit throughout 2012. Credit growth was brought down to a sustainable level with the measures taken, which led to a slowdown in imports by triggering a decline especially in investment demand. Meanwhile, the contraction in private consumption caused exporting sectors to concentrate on foreign markets and thus, catalyzed the narrowing of the current account deficit. The Turkish lira, which maintained its competitiveness, also played a significant role in the narrowing of the current account deficit by contributing to the increase in exports of goods and services. The contribution of services balance to the narrowing of the current account deficit increased in the last quarter (Chart 1).

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



Source: CBRT.

The moderate and steady upward trend in exports that started in the wake of the crisis continued throughout 2012, although it lost pace in the last quarter. The financial crisis in European Union (EU) countries that deepened at end-2011 impeded Turkey's exports to the EU. However, adverse effects of the conditions in the EU were mitigated by diversifying to newer export regions and sectors in this period, thanks to the dynamic nature of Turkey's exports. Another significant development in exports was the uptrend in gold exports that started basically in the second quarter of 2012.

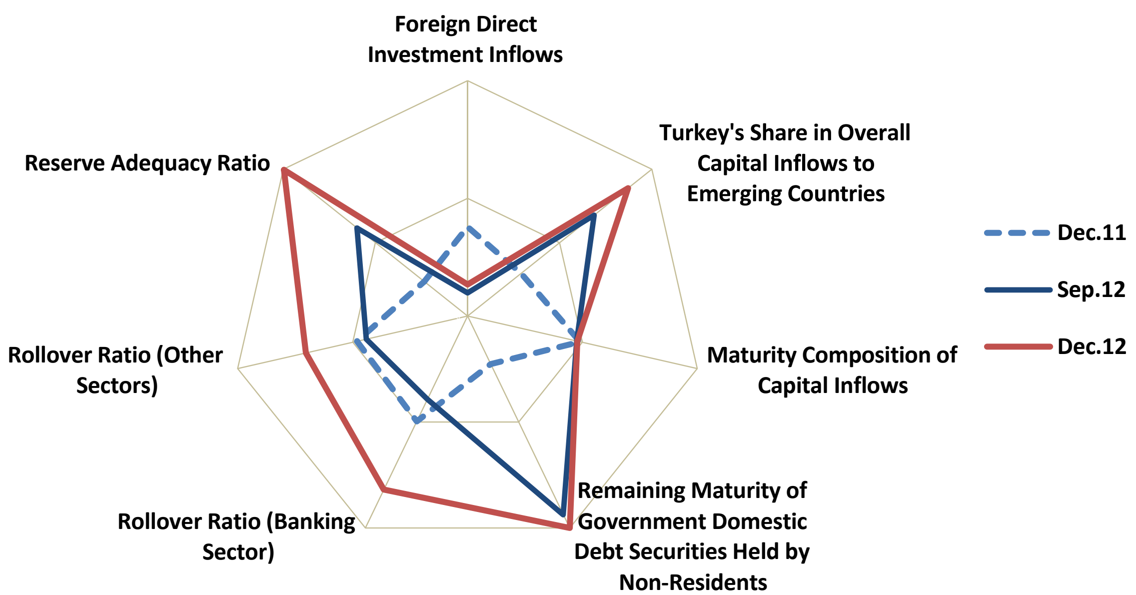
The deceleration in imports that had started in the final quarter of 2011 was nominally replaced by a limited increase in the last quarter of 2012. An overall evaluation of the whole year shows that the decline in domestic demand had a restrictive effect on the total demand for imports; and both total imports and imports excluding energy decreased in year-on-year terms.

Travel and Transportation items continued to be the main determinants of services in 2012. Travel revenues gained pace in the final quarter of the year. This was mainly driven by the increase in the number of visitors from non-euro area, primarily from Asian countries.

Financing of the Current Account Balance

A breakdown of capital inflows by main headings reveals that the share of direct investment and other investment declined in 2012 while portfolio inflows had an outstanding share. Capital inflows that surged on the back of decreased current account deficit led to a significant increase in official reserves and banks' reserves (Chart 2).

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



Source: CBRT.
* For detailed information about the Chart, see Box 1.

The lingering problems in the euro area that has the largest share in direct investment flows to Turkey resulted in a decrease in direct investments from this region compared to the previous year. Meanwhile, Turkish direct investments abroad reached historically high levels, which reflect the relatively positive outlook of the country. Besides, it is also assessed that the negative outlook presented by other economies reduces the company values, leading residents to consider this situation as an opportunity to purchase.

The ample liquidity emerged globally in the post-crisis period oriented towards emerging market economies on the back of the increased risk appetite. The impact of this trend on Turkey's balance of payments was marked by an apparent increase in portfolio inflows that started particularly in the second half of the year. As a matter of fact, in the global portfolio flows towards emerging economies, Turkey's share reached historic highs in the final quarter of 2012. The expectation over upgrade of the country's sovereign rating to investment level, along with the materialization of this expectation, became instrumental in acceleration of portfolio inflows in the said period. Meanwhile, the maturity structure of the instruments invested displayed an improvement. Bond issues abroad by banks and other sectors increased in the final quarter of the year. The said issues with an average maturity of longer than seven years contributed to the improvement of the maturity structure of the portfolio inflows.

Compared to the previous quarter, while there was no significant change in the maturity structure of total capital inflows, the decrease in inward direct investments along with the accelerated portfolio inflows led to increased share of short-term flows in capital inflows throughout 2012 compared to previous years.

Neither the banking sector nor other sectors had any supply side constraint in borrowing from abroad through use of loans. As an implication of the decline in imports, short-term trade credits posted a decrease in 2012. Long term external loans used by other sectors to finance mainly investments posted net inflows throughout the year and materialized at levels close to previous year levels. In the meantime, long term external loans used by the banking sector posted net outflows in 2012 due to the fact that rather than loans, banks opted for borrowing through bonds from abroad, which are considered more eligible from cost and maturity perspectives. As a matter of fact, including the bond issues of the banks, the banking sector's roll-over ratio well exceeded the 100 level in 2012.

Capital inflows that surged on the back of decreased current account deficit also led to a significant increase in official reserves. Meanwhile, the effective use of the Reserve Options Mechanism, which allows banks to keep foreign exchange for maintaining Turkish lira reserve requirements, during the year was an important factor that bolstered the international reserves.

Box 1 Macro Display of the Quality of Current Account Deficit Financing

Current account balance is one of the most important macroeconomic variables monitored by international investors. In cases of a current account deficit, the method of financing the deficit and the sustainability of the financing sources are as critical as the size of the deficit. For instance, financing via long-term flows such as direct investment inflows and/or having a larger pool of investors make financing easier and also provide more flexibility to policy-makers. This box presents the indicators believed to reflect the financing quality of the current account deficit and offers a comparison with previous periods. The “macro display”, aka the “radar chart”, method adequately serves this purpose.

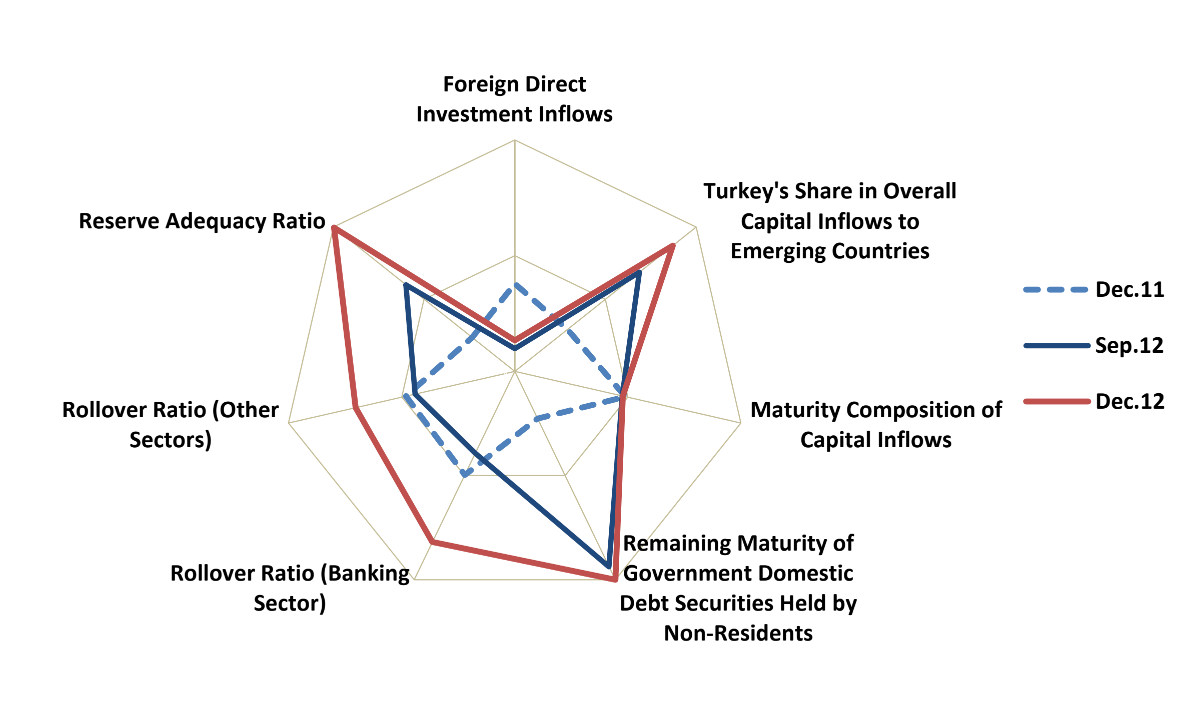
In the macro display, variables of different magnitudes and units have been re-valuated by the scaling method so that they would take a value between “0” and “1”. Increases (distancing from the core) after re-valuation point to an improvement in conditions. The formula is as follows:

$$X_t^* = \frac{X_t - \min(X_1, \ldots., X_t)}{\max\ X_1, \ldots., X_t\ \ - \min\ X_1, \ldots., X_t}$$

The data, with one exception, are monthly data; when these data are transferred to quarterly data, the period averages are calculated. Because the maturity structure of the portfolio is a quarterly monitored variable, it has been transferred as quarterly data. In this analysis, minimum and maximum values have been set based on the 2009-2012 period. It should be noted that the values obtained after the transfer process point to rates of change different from the original values. In other words, an extreme value observed in the period of analysis can significantly amplify the value in the denominator and considerably smooth out the fluctuation in the series. For this reason, one should be cautious when comparing different axes with each other and the data in the same axis with that of the previous periods. Also, note that, because of the display, the changes are not identical.

The first variable used in the analysis is the foreign direct investments, which has been included in the analysis so as to show only the inflows. The share of Turkey in capital flows to emerging market countries (EMC) – another variable in the analysis – is calculated based on the Emerging Portfolio Fund Research (EPFR) data. The EPFR gathers information from international investors about the portfolio size and distribution in the securities and bond markets of emerging economies, without resorting to balance of payments statistics. The maturity structure of capital inflows is calculated as the ratio of net foreign direct investments, long-term portfolio accounts and other investments (loans) to overall capital inflows including those that are short-term. The maturity structure of the portfolio shows the average number of days to the maturity of government domestic debt securities that non-residents hold. The following variables are the roll-over ratios of the banking sector and other sectors. The utilization of these sectors has been proportioned to their repayments and their bond issues have been included. Lastly, the reserve adequacy ratio has been calculated as the ratio of CBRT reserves, including gold, to short-term external debt. Bonds with maturities of less than one year, whose original maturities were longer, have also been included in the calculation.

Chart 1: Macro Display of the Quality of Current Account Deficit Financing



In this framework, an analysis of the financing conditions in the last period of 2012 reveals that there is a more favorable outlook compared to the previous quarter but the improvement in the maturity structure of foreign direct investment inflows and capital inflows remains limited. Yet, the overall recovery is much more apparent when compared to the last quarter of 2011. While foreign direct investment inflows have displayed a less favorable outlook than the last quarter of 2011, there have been no significant changes in the maturity structure of capital inflows.

I. Current Account

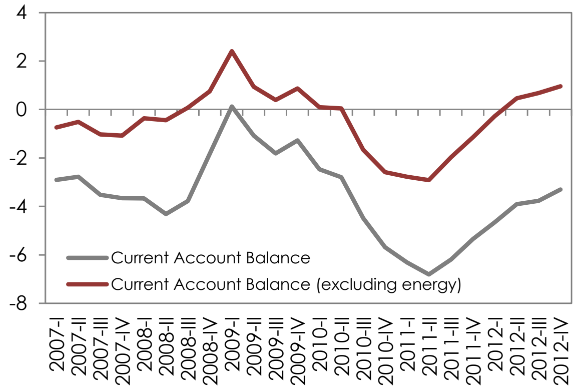
In the last quarter of 2012, the contraction in current account balance continued, although it slightly lost pace compared to the previous quarter. Accordingly, the current account deficit stood at USD 9.4 billion in the last quarter, summing up to USD 46.9 billion in 2012. Seasonally adjusted data suggest that both current account deficit and current account deficit excluding energy continued to decline.

The rebalancing between domestic and external demand continued in the last quarter of the year. Despite the adverse conditions in global growth, exports maintained their upward trend thanks to the diversification in markets and products. Meanwhile, imports continued to increase moderately. In this period, increases in gold exports stimulated the narrowing of the current account deficit. In this context, according to the balance of payments definition, annual foreign trade deficit kept on narrowing in the last quarter of the year and declined to USD 65.6 billion by December.[1]

The moderate and steady upward trend in exports that started in the wake of the crisis continued throughout 2012. Throughout the year, the adverse conditions in the euro zone were mitigated by the increase in exports to the Middle East and North Africa (MENA) region. However, it is observed that this trend is weakening as the shift of exports from EU countries to MENA countries has slowed down in recent months.

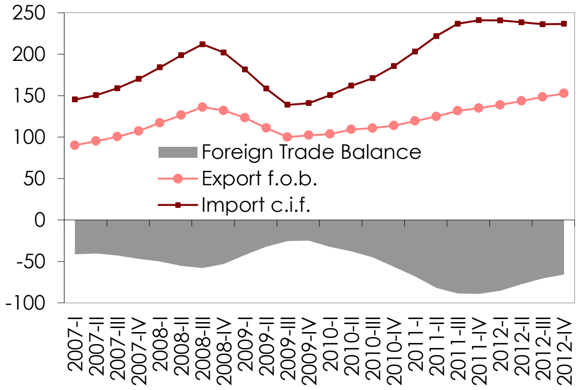
In 2012, the decline in imports was mostly driven by the moderate course of domestic demand and the policies implemented to curb the rate of increase in credits. Credit growth was brought down to a sustainable level with the measures taken, which led to a slowdown in

Chart 1. Current Account Balance
(seasonally adjusted, 3-month average, billion USD)



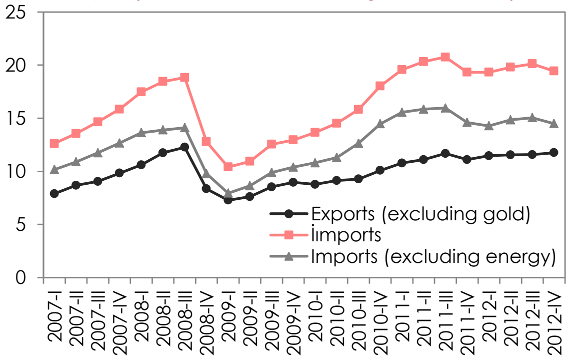
Source: CBRT.

Chart 2. Foreign Trade Deficit
(annualized, billion USD)



Source: CBRT.

Chart 3. Imports and Exports
(seasonally adjusted, 3-month average, billion USD)



Source: CBRT.

1 See annex tables, "Balance of Payments".

imports by triggering a decline especially in investment demand.

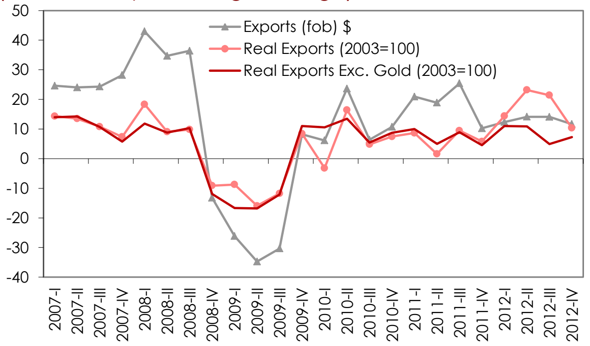
1.1 Exports of Goods

The moderate increase in exports continued in the last quarter of the year. According to the Turkish Statistical Institute (TURKSTAT), the year-on-year nominal increase in exports was 11.7 percent in the last quarter of 2012. In this period, real exports grew by 10.3 percent while export prices decreased by 0.8 percent.

The largest contribution to the total exports growth came from the gold exports to Iran and the United Arab Emirates (UAE), though exports to these countries decelerated in the last quarter. In 2012, a total of USD 13.3 billion worth of gold exports contributed to the total increase in exports by 8.8 points. Meanwhile, exports of textile and apparel sectors, which have a big share and a high domestic value added in exports, displayed a weak performance throughout 2012, despite their increased contribution to exports growth in the last quarter of the year (Box 2). Besides these sectors, exports of motor vehicles and electrical machinery and appliances sectors were also adversely affected by the ongoing weak trend in the euro zone, which is the most important market of the said sectors.

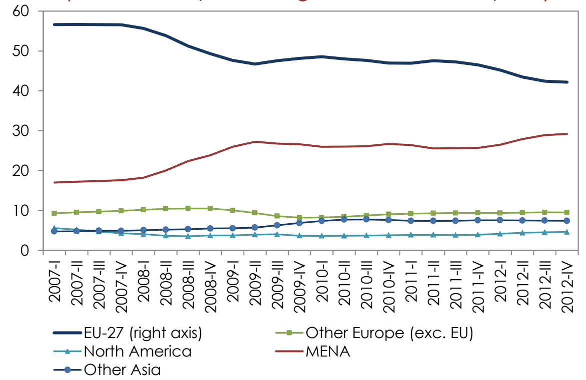
In recent months, the shift in exports from EU countries to MENA countries has decelerated. Throughout 2012, the adverse condition in the euro zone was offset by the increase in exports to the MENA region. Taking into account that the greatest portion of gold exports in 2012 was mainly to the MENA region (49 percent to Iran and 34 percent to the UAE), an analysis of the contributions to exports excluding gold by regions reveals that EU countries had a negative impact on the annual 4.3 percent exports growth (by -2.6 points) whereas MENA countries made a positive contribution (by 4.9 points). Breaking down by countries; Germany, Iraq, Iran, the United Kingdom and the UAE became the leading export partners of Turkey in 2012. While the shares of Iran, the UAE, Iraq, Libya and Egypt increased the most compared to the previous year, the shares of Germany, Italy, France, Syria and Romania recorded the

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



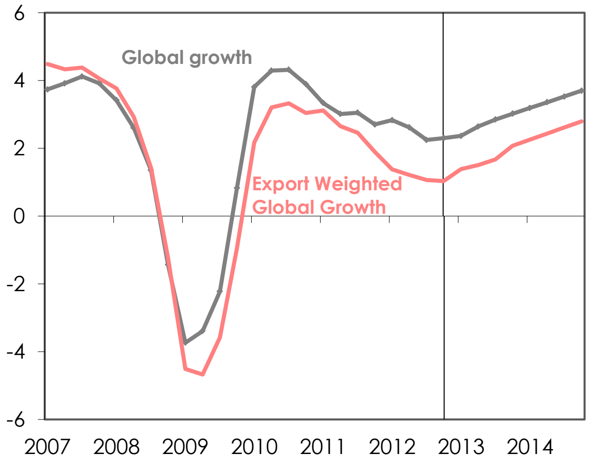
Source: TURKSTAT.

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



Source: TURKSTAT.

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



Source: Bloomberg, Consensus Forecasts, IMF, CBRT.

Box 2 Domestic and Foreign Value Added Ratios in Exports

While globalization has generally increased the importance of foreign trade around the world, the globalization of production chains has highlighted the trade of intermediate goods. Accordingly, it is widely accepted that exports have become increasingly dependent on imports. In this context, the Organization for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO) have created a new data set (OECD/WTO Trade in Value Added, TIVA) that takes into account the contribution of domestic and foreign value added to the exports of countries. This data set was prepared by using the input-output tables of 46 countries; an estimated international input-output table was constructed by using bilateral foreign trade data among countries.[2] This box offers an analysis of Turkey's exports structure by the TIVA data set.

The foreign value added ratios in exports for 2005, 2008 and 2009 are shown in Table 1. As the importance of exports in goods, agriculture and services sector may vary among countries, in order to have a more sound comparison for Turkey, exports of the manufacturing industry, in addition to total exports, have also been included in the analysis. In total exports, the share of foreign value added in Turkey's exports, which was below the world average in 2005, surpassed the world average in 2008 and stood somewhere around the average in 2009. While the value added ratio of exports was low in countries exporting agricultural products like Australia and Brazil, the same ratio was considerably high in EU countries like Hungary, the Czech Republic and Ireland.

Table 1: The Share of Foreign Value Added in Exports (percent)

	TOTAL			MANUFACTURING		
	2005	2008	2009	2005	2008	2009
USA	11,7	14,8	11,4	15,6	19,6	15,6
Germany	24,7	26,5	25,4	27,2	29,4	28,9
Australia	12,3	13,1	12,4	18,0	22,9	18,9
Austria	31,9	33,1	24,4	38,4	39,7	30,0
Belgium	41,4	37,8	32,0	49,0	45,0	38,5
Brazil	12,0	10,9	8,6	14,2	13,3	10,4
Czech Rep.	39,8	38,7	38,7	44,6	44,0	44,4
China	36,1	31,9	28,5	37,2	33,0	29,7
Indonesia	18,2	18,4	14,6	24,1	21,9	18,1
France	25,2	27,9	25,7	30,1	33,4	31,6
S. Africa	17,5	23,3	16,9	24,7	33,9	26,6
S. Korea	36,5	43,5	39,6	38,8	46,4	42,8
Netherlands	29,9	35,2	33,9	41,5	45,6	44,5
UK	16,5	18,4	17,0	23,0	27,0	25,1
Ireland	46,2	39,0	40,3	54,6	47,6	48,4
Spain	26,0	22,8	18,9	34,9	30,4	25,2
Israel	38,7	38,0	32,0	48,8	47,6	41,1
Sweden	30,9	34,0	32,2	35,8	40,4	39,7
Switzerland	31,4	32,9	30,5	37,7	39,3	37,3
Italy	24,2	21,5	17,9	28,5	24,5	20,5
Japan	13,4	19,4	14,9	14,8	21,6	17,0
Canada	26,2	21,7	20,9	35,5	32,7	31,4
Hungary	48,6	45,3	40,7	56,6	52,3	47,9
Mexico	32,1	31,9	31,3	39,6	39,9	38,1
Poland	31,2	30,3	27,8	35,7	33,9	31,2
Portugal	26,8	35,8	31,6	33,4	44,6	40,2
Chile	17,8	21,2	18,6	27,9	36,5	30,3
Turkey	**20,1**	**26,2**	**21,1**	**25,4**	**31,5**	**26,3**
Average	**22,9**	**23,3**	**21,0**	**29,3**	**31,1**	**28,0**

2 For detailed information on the data set, see http://www.oecd.org/industry/industryandglobalisation/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm

In manufacturing industry exports, the share of foreign value added in Turkey was below the world average, except for 2008. The share of foreign value added in exports, which increased significantly in the 2005-2008 period, sharply declined in 2009 due to the global crisis. Both leading Asian countries in world trade, like China and South Korea, and Eastern Europe EU countries, like Poland, Hungary and the Czech Republic, registered higher shares of foreign value added in exports compared to Turkey. Yet, the share of foreign value added in Chinese exports dramatically dropped in the 2005-2009 period.

Table 2 illustrates the share of foreign value added in Turkey's exports by sectors. The ratio of foreign value added in the manufacturing industry, which has the most significant share in Turkey's exports, was above the average, while that of the services sector stood at a low level. An analysis of sub-sectors of the manufacturing industry reveals that the uptrend in the 2005-2008 period and the downtrend in 2009 in the share of foreign value added in exports were spread over all sectors. The share of foreign value added in the textiles and apparel sector, which has an outstanding share in exports of the manufacturing industry, was well below the average of the manufacturing industry, whereas the share of foreign value added in the basic metals and fabricated metal products, transport equipment and chemicals and non-metallic mineral products sectors, which are the leading sectors of exports, reached high levels. In this framework, the textile and apparel sector exports remain an important component of Turkey's total exports in terms of value added.

Table 2: Sectoral Breakdown of the Share of Foreign Value Added in Turkey's Exports (percent)

	2005		2008		2009	
	Exports (billion $)	Foreign value added (%)	Exports (billion $)	Foreign value added (%)	Exports (billion $)	Foreign value added (%)
TOTAL	105,6	20,1	174,6	26,2	143,3	21,1
AGRICULTURE	4,2	7,0	5,0	8,7	5,5	7,8
MINING	0,8	9,7	1,1	11,2	1,8	9,8
MANUFACTURING	73,4	25,4	132,8	31,5	101,5	26,3
Textiles and apparel	21,4	17,7	26,5	19,4	21,8	18,1
Basic metals and fabricated metal products	10,0	31,9	30,7	38,6	21,3	31,3
Transport	12,9	29,9	22,5	31,9	16,5	28,5
Chemicals and non-metalic minerals	10,7	33,7	22,4	42,8	16,5	33,8
Machinery and equipment	4,9	24,3	9,9	28,3	8,3	24,0
Food products	4,7	11,9	7,2	15,7	6,4	13,9
Electrical equipment	5,3	28,5	7,8	31,4	6,1	28,7
Other manufactures	2,4	28,5	3,9	33,0	3,0	27,1
Paper products	1,0	21,4	1,9	24,3	1,7	21,5
ELECTRICITY, GAS and WATER SUPPLY	0,3	33,8	0,7	41,4	0,8	32,1
CONSTRUCTION	3,0	16,3	4,0	18,6	3,5	15,9
SERVICES	23,9	6,8	31,0	7,5	30,2	7,0
Wholesale and Retail Trade, Hotels and Restaurants	5,2	5,8	7,9	6,4	7,5	6,0
Transportation and communication	11,2	7,9	13,3	8,8	12,3	8,5
Financial Intermediation	3,4	4,3	4,4	4,6	5,1	4,2
Other services	4,1	7,3	5,3	8,2	5,3	7,5

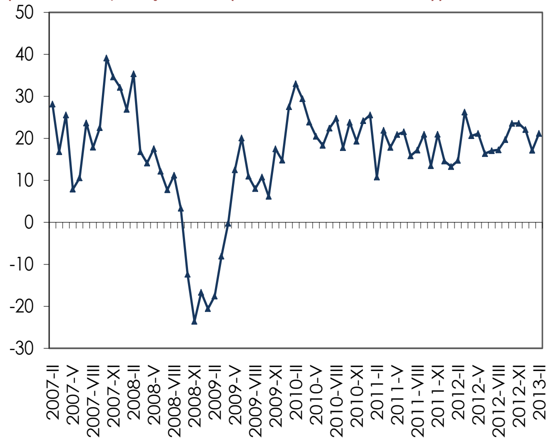
TIVA data released by the OECD and the WTO show that the ratio of foreign value added in Turkey's exports is close to the world average. However, considering that the latest version of Turkey's input-output table that provides the basis for the TIVA data is from the year 2002, the impact of the structural transformation experienced in Turkey may not have been precisely measured.

highest drop in Turkey's exports.

Uncertainties about the global economy persist. Despite steps taken towards settling the problems in the euro area, the subdued credit market conditions and weak growth outlook as well as concerns over debt sustainability persist. The foreign demand index compiled by the CBRT point to a gradual recovery in Turkey's foreign demand in 2013.[3]

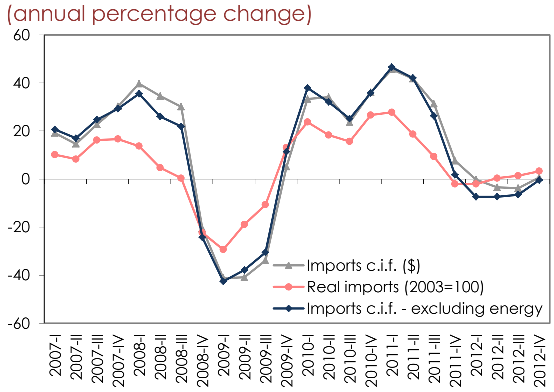
The exports expectations in the Consumer Tendency Survey (CTS) suggest an optimistic outlook. Manufacturing companies' expectations about exports for the next three months were optimistic in January and February 2013.

Chart 7. Export Expectations
(export orders-expectations of next 3 months) (seasonally adjusted, (increase-decrease))



Source: CBRT.

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



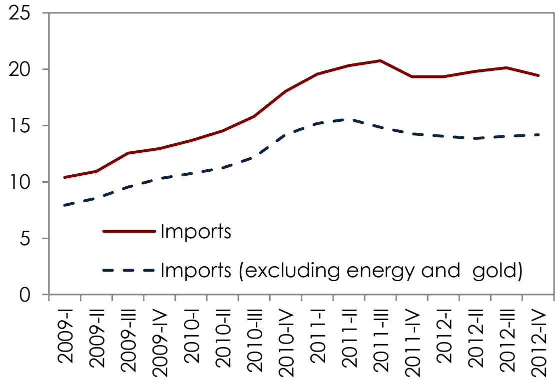
Source: TURKSTAT.

1.2 Imports of Goods

According to TURKSTAT data, the deceleration in nominal imports, which started in the final quarter of 2011, was replaced by a limited increase in the final quarter of 2012. With the contribution of the rise in the final quarter of 2012, imports increased by 0.7 percent on a year-on-year basis. Imports excluding the energy item decreased by 0.4 percent. In this period, the import quantity index increased by 3.2 percent against the 2.5 percent-decline in the unit value index.

The upward trend in the imports of gold parallel to the rise in exports of gold, did not continue in the final quarter of 2012. In the first 3 quarters of the year, USD 6.7 billion worth of gold was imported, while this figure fell down to USD 0.95 billion in the final quarter. In this context, seasonally adjusted data suggest that though overall imports decreased moderately in the final quarter of 2012, imports excluding energy and gold, which show the main trend of imports, remained flat.

Chart 9. Imports Excluding Gold and Energy
(seasonally adjusted, 3-month average, billion USD)

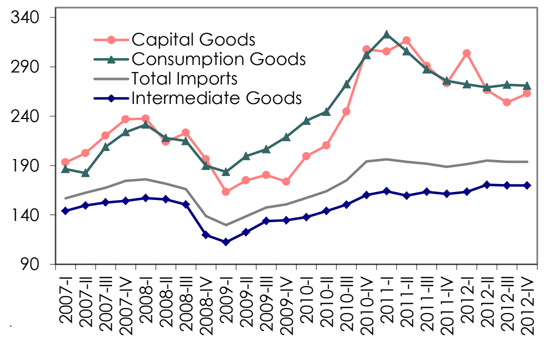


Source: CBRT.

3 See Inflation Report 2010-II, Box 2.1: Foreign Demand Index for Turkey.

Imports of capital goods displayed a rise in the final quarter of 2012. An analysis of sub-items of imports by seasonally adjusted quantity indices reveals that imports of consumption goods and intermediate goods remained flat in the fourth quarter of 2012. However, the downward trend in imports of capital goods was interrupted and increased by 3.6 percent compared to the third quarter.

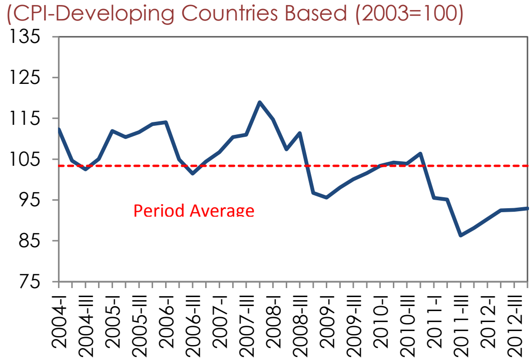
Chart 10. Imports and Selected Sub-Sectors
(seasonally adjusted quantity indices, 2003=100)



Source: TURKSTAT, CBRT.

Turkey's real exchange rates based on developing countries continued to hover below the period average. Based on developing countries, real exchange rates, which did not display a notable change in the last quarter, depreciated by 5.5 percent on a year-on-year basis.

Chart 11. Real Effective Exchange Rate
(CPI-Developing Countries Based (2003=100)

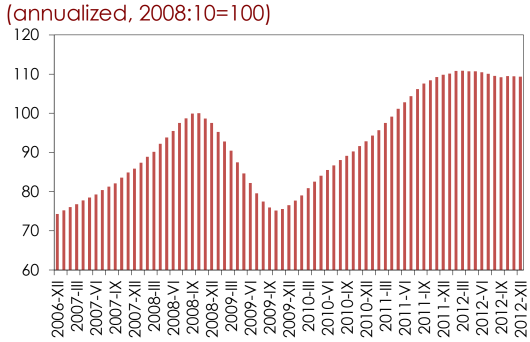


Source: CBRT.

1.3 Global Outlook

The World Trade Organization data suggest that the weak trend in global trade persists. The decline in world exports observed throughout 2012 continued in the final quarter of the year, albeit a slowdown. In terms of annualized data, in the final quarter of 2012, world exports increased by 0.2 percent year-on-year and decreased by 0.2 percent quarter-on-quarter.

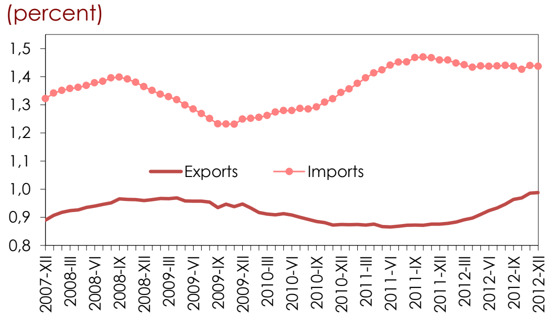
Chart 12. World Trade
(annualized, 2008:10=100)



Source: WTO.

Turkey's share in overall world exports continued to increase gradually. The share of Turkey's exports in world exports, which was 0.83 percent at the end of 2011, reached 0.92 percent by the end of 2012.

Chart 13. Share of Turkey in World Trade
(percent)



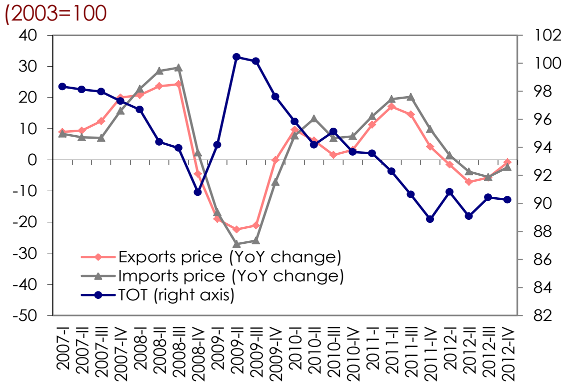
Source: WTO.

1.4 Terms of Trade

In the last quarter of 2012, both import and export prices decreased in annual terms. While the decline was 2.4 percent in import prices, it was 0.8 percent in export prices. Accordingly, terms of trade displayed a limited recovery.

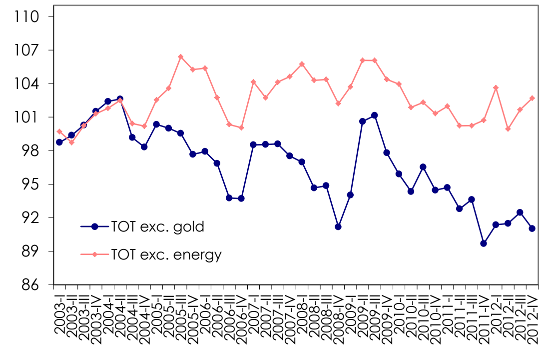
In quarterly terms, the terms of trade followed a flat course. However, terms of trade excluding gold and energy displayed a different trend. While terms of trade excluding energy improved by 1 percent, terms of trade excluding gold deteriorated by 1.6 percent.

Chart 14. Terms of Trade (TOT)
(2003=100



Source: TURKSTAT.

Chart 15. TOT and TOT Excluding Energy
(2003=100)

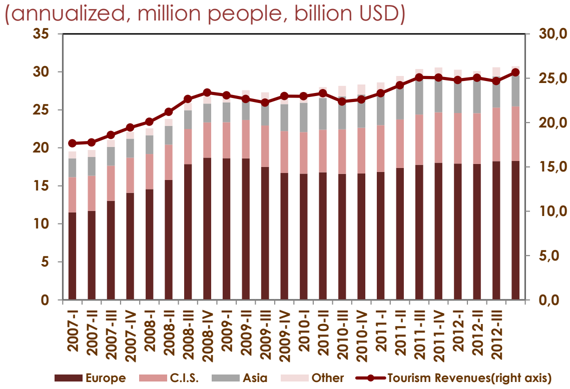


Source: TURKSTAT.

1.5 Services Account

The upward trend that prevailed in the services throughout 2012 continued with increased pace in the fourth quarter of the year. Travel and Transportation items continued to be the main determinants of services in 2012. Meanwhile, the incorporation of the TURKSTAT's revisions to tourism statistics methodology on 14 February 2013 into 2003-2012 figures for travel revenues and expenditures had a narrowing effect on the current account deficit for the mentioned periods (Box 3).

Chart 16. Breakdown of Foreign Visitors and Turkish Citizens Visiting Turkey by Country, and Tourism Revenues
(annualized, million people, billion USD)



Source: TURKSTAT.

Box 3 Methodological Revision in Tourism Statistics and Its Impact on Balance of Payments Statistics

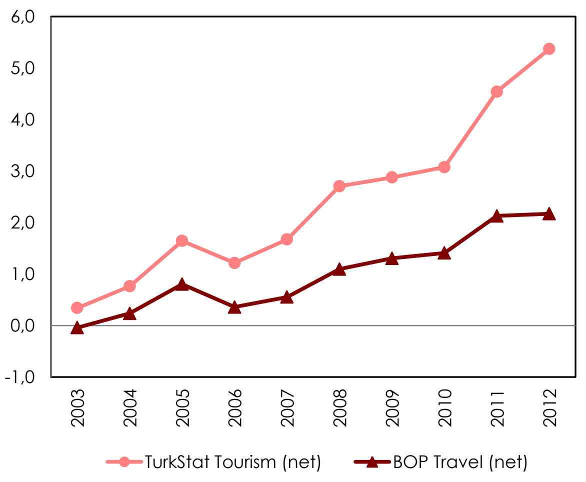
In its press release[4] of April 14, 2013, the TURKSTAT announced that it has revised its tourism methodology, taking into account the recent revisions that the European Statistics Office (Eurostat) and the United Nations World Tourism Organization (WTO) made in the methodology on tourism statistics. Accordingly, in line with international definitions, international transport expenditures of visitors carried by domestic firms, marina service charges paid by visitors and Global System for Mobile Communications (GSM) roaming revenues have been included in tourism revenues. Again, according to international definitions, Turkish residents' expenditures of international transport by foreign firms and GSM roaming expenditures abroad have been included in the tourism expenditures.

As per the "Revision Policy" of the Balance of Payments Statistics, when a large-scale revision is necessary in any data composing the balance of payments statistics, the previous year's data can be revised provided that the public at large is informed. In this framework, as prescribed in the IMF's Fifth Edition of the Balance of Payments Manual (BPM5), the "international transport expenditures" are currently covered under **"Current Account/Services/Transportation/Other Transportation"** and "GSM roaming expenditures" are covered under the **"Current Account/Services/Other Services"** item. Therefore, the revisions made to cover **"package tour expenditures"** and **"marina service charges"** other than the **"international transport expenditures"** and **"GSM roaming expenditures"** were included in the **"Current Account/ Services/Travel"** item in the balance of payments statistics for 2003-2012 with the dissemination of January 2013 Balance of Payments statistics. Even if the TURKSTAT's revision on tourism revenues cover a period spanning from 2001 to 2012, statistics from 2001 and 2002 have not been covered. However, the 2003-2012 data have been revised, as the data source of the "travel" item in the balance of payments statistics was a survey conducted by a private firm for the Central Bank. Meanwhile, since TURKSTAT's revision on tourism expenditures has covered a period between 2003 and 2012, there has been a common revision period. Below is the summary of the revisions and the subsequent changes in the balance of payments tables:

- TURKSTAT revised **tourism revenues** for 2001-2012 upwards by USD 31.5 billion (total of 2001-2002 is USD 0.9 billion) and **tourism expenditures** for 2003-2012 upwards by USD 6.6 billion. Thus, the rise in net tourism revenues became USD 24.9 billion (Chart 1).
- The revision subsequently showed a rise in **travel revenues and expenditures items in the balance of payments statistics** for 2003-2012 by USD 12.2 billion and by USD 2.3 billion. Thus, the upward revision in **net travel revenues** became USD 9.9 billion (Chart 1).

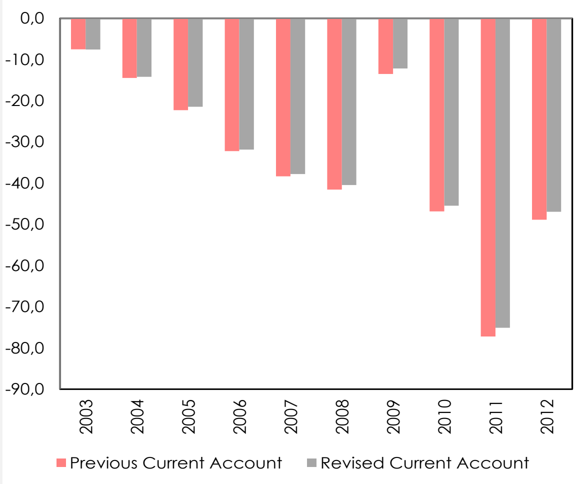
[4] Detailed tables related to results of the revised tourism statistics and explanations on the revision can be found at the TurkStat's http://www.turkstat.gov.tr Internet address under the heading "Tourism/Tourism Statistics/Last Press Release."

Chart 1:Net Amount of Revision Reflected In Travel (billion US dollars)



Source: TURKSTAT, CBRT.

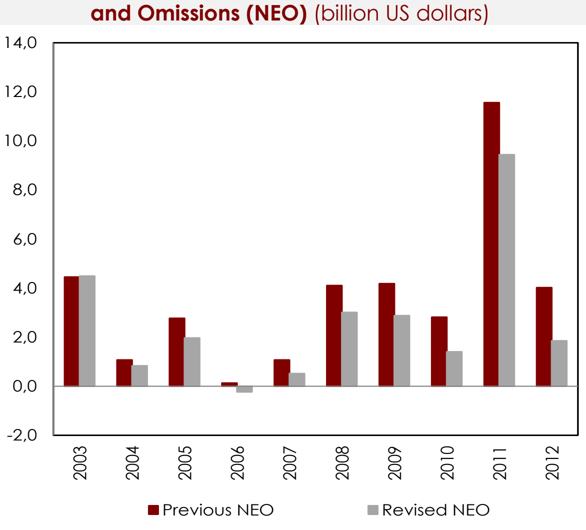
Chart 2: The Effect of Tourism Revision On Current Account Deficit (billion US dollars)



Source: CBRT.

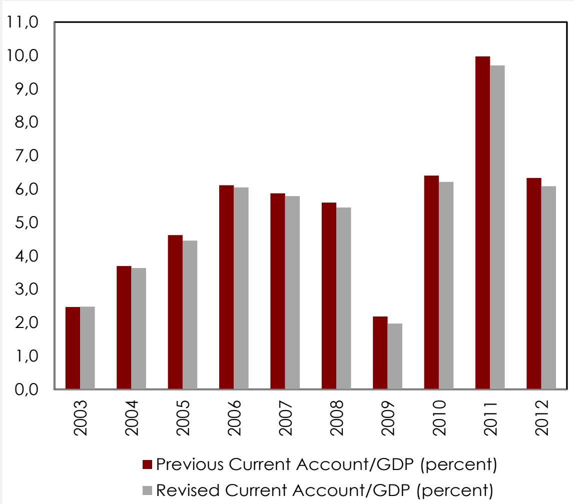
- With respect to balance of payments, the highest revision in travel revenues was USD 2.1 billion made in 2012, and the highest revision in expenditures was USD 0.4 billion in 2009.
- After the revision, the current account balance and the net errors and omissions item decreased by USD 9.9 billion (Charts 2 and 3).
- The ratio of the current account deficit to Gross Domestic Product (GDP), which was 6.3 percent in 2012, became 6.1 percent after the revision. In 2011, this ratio was 10.0 before the revision and became 9.7 percent after the revision (Chart 4).

Chart 3: The Effect of Tourism Revision On Net Errors and Omissions (NEO) (billion US dollars)



Source: CBRT.

Chart 4: Changes in Current Account/GDP Ratio (percent)

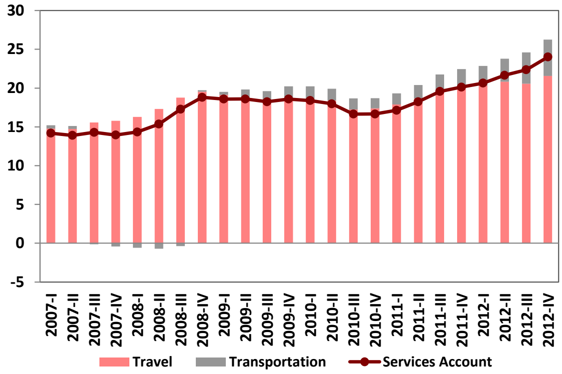


Source: TURKSTAT, CBRT.
Note: GDP for 2012 has been annualized as of Q3.

To sum up, the methodological revision made by the TURKSTAT in line with the international methodology on tourism statistics, has been reflected in the travel revenues and expenditures items within the framework of the balance of payments statistics. As a result of the revisions, the current account balance and the net errors and omissions item for 2003-2012 period have been revised downwards by USD 9.9 billion.

Travel revenues gained pace in the final quarter of the year. This was mainly driven by the increase in the number of visitors from non-euro area, primarily from Asian countries. In the fourth quarter of 2012, travel revenues and expenditures surged by 17.4 percent and 0.2 percent, respectively, compared to the same quarter of the previous year. As a result, in the final quarter of 2012, net travel revenues posted an increase by 22.2 percent year-on-year and reached USD 5.4 billion. Meanwhile, the number of visitors recorded a 3.0 percent increase compared to the fourth quarter of 2011.

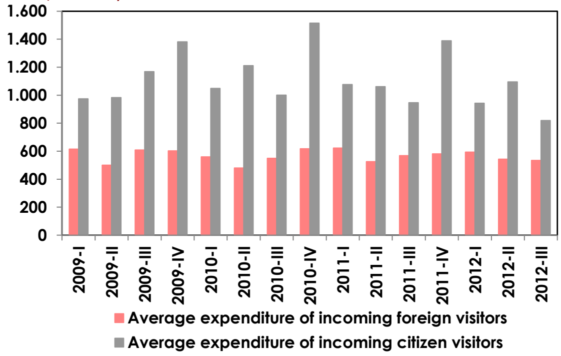
Chart 17. Services Account, Travel and Transportation
(annualized, billion USD)



Source: CBRT.

In the fourth quarter of 2012, the average expenditure per foreign visitor in Turkey increased. Relevant data suggest that the average expenditure per foreign visitor increased by 17.6 percent year-on-year to become USD 683, while the average expenditure per non-resident Turkish citizen visiting Turkey remained unchanged at USD 1,389.

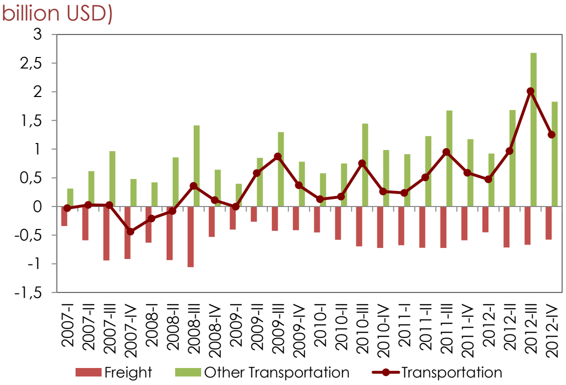
Chart 18. Average Expenditure
(USD/person)



Source: TURKSTAT.

Transportation revenues that have been on the rise throughout the year continue to increase. In the fourth quarter of 2012, transportation revenues increased by 29.3 percent year-on-year as opposed to the increase of 5.4 percent in transportation expenditures; thus the rise in net transportation revenues became 113.1 percent. The main driver of this rise is the 55.6 percent net increase in the other transportation revenues item composed of tickets and food-beverage. In this period, the share of foreign carriers in imports declined by 1.7 points quarter-on-quarter and became 52.3 percent.

Chart 19. Transportation and Sub-items
(billion USD)

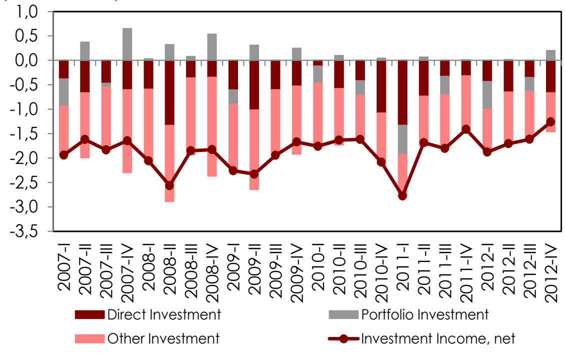


Source: TURKSTAT, CBRT.

1.6 Income Account

Income account item covers compensation of foreign employees in Turkey and receipts and payments on direct investment, portfolio investment and other investment. In the last quarter of 2012, net outflows from the income account decreased by 9.7 percent year-on-year and became USD 1.3 billion. Constituting the largest part of the investment income item, the outflows from direct investment increased to USD 663 million, whereas the outflows from other investment declined to USD 797 million. In this period, the net inflow of USD 200 million in portfolio investments exerted a downward pressure on outflows from the income account.

Chart 20. Composition of Investment Income, net
(billion USD)

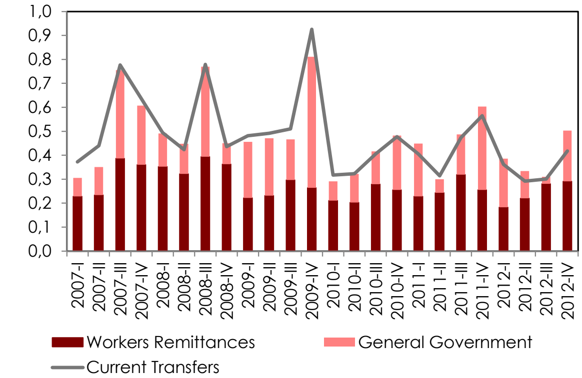


Source: CBRT.

1.7 Current Transfers

The most important items of current transfers are the grants between the countries and the workers' remittances item composed of non-resident Turkish citizens' transfers to their relatives in Turkey. In the last quarter of 2012, net inflows through current transfers decreased by 26.0 percent year-on-year and stood at USD 0.4 billion. This decrease is mainly attributable to the 39.1 percent decline in the general government item, which includes grants between the countries.

Chart 21. Current Transfers and Workers' Remittances
(billion USD)



Source: CBRT.

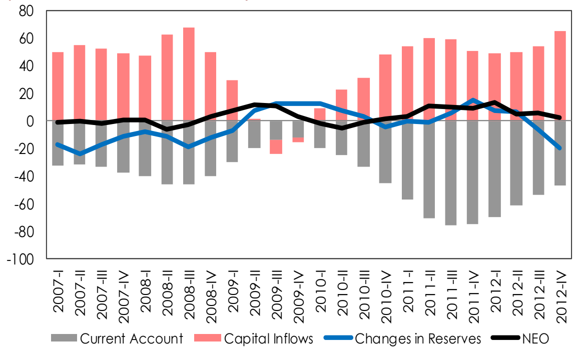
II. Capital and Financial Accounts

In the fourth quarter of 2012, marked by an ongoing widening in the current account deficit, total reserves posted an increase on the back of increased capital flows. The maturity structure of total capital inflows improved compared to the previous quarter. However, accelerating portfolio inflows despite decreased inward direct investments led to increased share of short-term flows in capital inflows throughout 2012 compared to previous years. In 2012, inflows led by government domestic debt securities (GDDS) and equities, along with bond issues abroad (by the Treasury, banks and other sector) were instrumental in the surge of portfolio investments.

In the fourth quarter of 2012, current account deficit excluding current transfers decreased by USD 6.6 billion compared to the same quarter of the previous year. Accordingly, the financing need decreased by USD 5.9 billion and became USD 19.8 billion.[5]

Parallel to the developments in financing sources, debt creating flows increased by USD 14.7 billion and non-debt creating flows increased by USD 5.9 billion in the fourth quarter of 2012. Whereas, in the same quarter of 2011, the said flows posted an increase by USD 4.8 billion and USD 4.1 billion, respectively.[6]

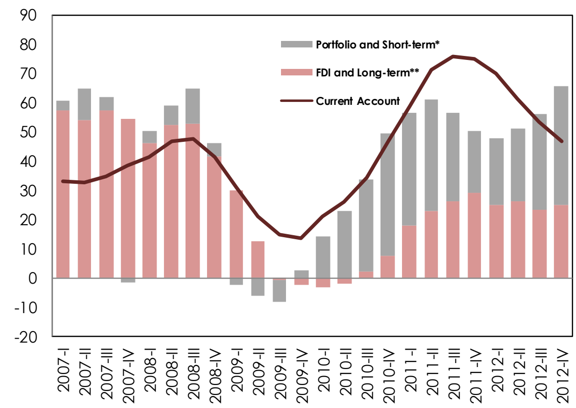
Chart 22. Current Acoount Balance and Net Capital Inflows
(annualized, billion USD)



Source: CBRT.

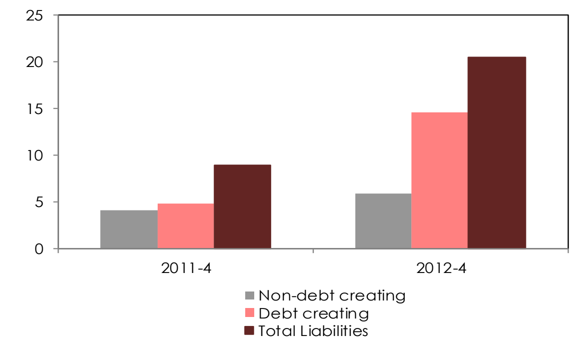
* Changes in reserves are composed of banks' and other sectors' total currency and deposits besides official reserves in the balance of payments table. A negative value denotes increase, while a positive value denotes decrease in reserves.

Chart 23. Current Account and Its Financing
(annualized, billion USD)



Source: CBRT.

Chart 24. Debt Creating and Non-debt Creating Liabilities under Financial Account
(annualized, billion USD)



Source: CBRT.

5 See Annex Tables, "Financing Requirements and Sources".
6 See Annex Tables, "Balance of Payments Debt Creating and Non-Debt Creating Flows".

2.1 Direct Investment

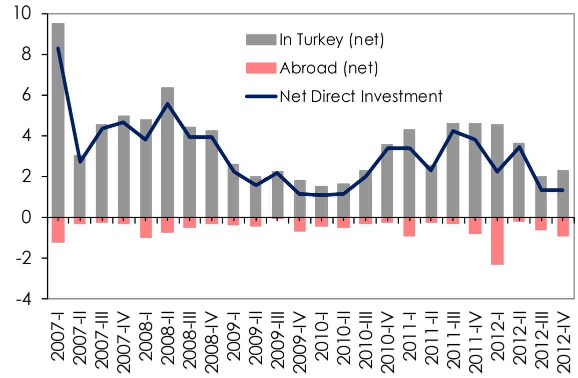
In 2012, the lingering problems in the euro area that has the largest share in direct investment flows to Turkey resulted in a decrease in direct investments from this region compared to the previous year. Meanwhile, Turkish direct investments abroad reached historically high levels, which reflects the relatively positive outlook of the country. Besides, it is also assessed that the negative outlook presented by other economies reduces the company values, leading residents to consider this situation as an opportunity to purchase.

In the fourth quarter of 2012, inward direct investments materialized as USD 2.3 billion; the majority of which was driven by investments in manufacturing industry as well as in finance, insurance and health sectors. The euro area, which has the largest share in direct investment inflows and which was stricken by a financial crisis starting in 2008 and persisting in 2012, faced a recession in the third quarter of 2012. Therefore, direct investments from euro area countries plunged in the second and third quarter of 2012 and this trend continued in the fourth quarter as well, albeit with less pace. In the fourth quarter, while the share of Europe in total investments was 56.9 percent, that of Asian countries increased to 36.0 percent.

In 2012, direct investments abroad reached historic highs. In the fourth quarter of 2012, while the said investments materialized as USD 0.9 billion, the share of European countries and EU members became 70.7 percent and 56.0 percent, respectively.

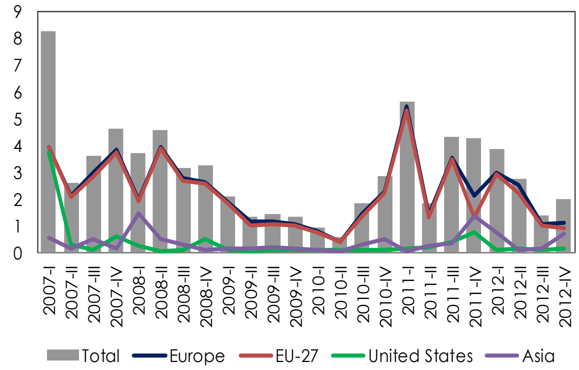
As a result, net direct investments declined in the final quarter of 2012. Net direct investments declined by 64.7 percent compared to the same quarter of 2011 and became USD 1.3 billion; while, according to cumulative figures for 2012, they decreased by 39.2 percent compared to 2011 and became USD 8.3 billion.

Chart 25. Direct Investment
(billion USD)



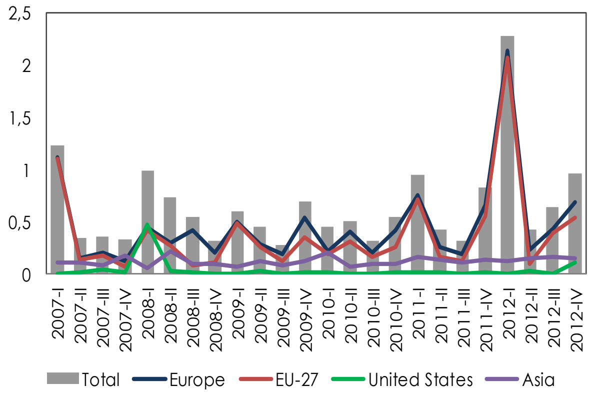
Source: CBRT.

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



Source: CBRT.

Chart 27. Direct Investment Abroad - Geographical Distribution
(billion USD)



Source: CBRT.

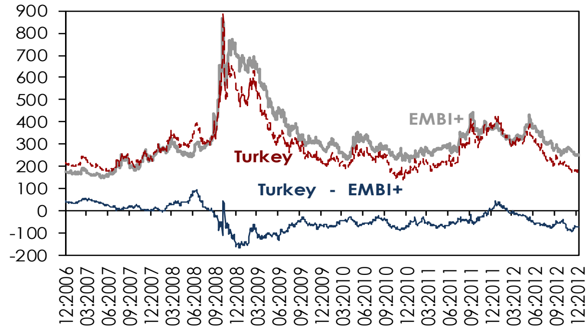
2.2 Portfolio Investment

The ample liquidity emerged globally in the post-crisis period oriented towards emerging market economies on the back of the increased risk appetite. The impact of this trend on Turkey's balance of payments was marked by an apparent increase in portfolio inflows that started particularly in the second half of the year. As a matter of fact, in the global portfolio flows towards emerging economies, Turkey's share reached historic highs in the final quarter of 2012. The expectation over upgrade of the country's sovereign rating to investment level in 2012, along with the materialization of this expectation, became instrumental in acceleration of portfolio inflows in the said period. Turkey's risk premium remained below the average risk premium of Emerging Markets Bond Index (EMBI+) and the discrepancy between the two risk premiums increased in favor of Turkey in the mentioned period.

In addition to the increase in portfolio inflows (GDDS and equity security purchases), the maturity structure of the instruments invested also indicated an improvement. Bond issues abroad by banks and other sectors increased in the final quarter of the year. The above-mentioned issues with an average maturity of longer than seven years contributed to the improvement of the maturity structure of the portfolio inflows.

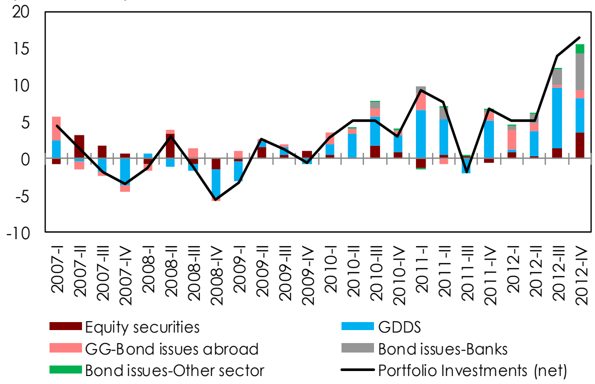
In the fourth quarter of 2012, banks' bond issues abroad exceeded USD 5 billion and reached the highest level since 2010, the year in which the said issues started. Meanwhile, bond issues abroad by the General Government became USD 1 billion, while the private sector's borrowing through bond issues abroad gained pace for the first time in this period and the sector's bond issues reached USD 1.2 billion. As a result, GDDS-driven net inflows became USD 4.7 billion, while the net purchases of non-residents in the equity security market recorded as USD 3.6 billion. Moreover, regarding debt securities issued in the domestic market, non-residents purchased USD 75 million and USD 18 million on net basis from banks and other sectors, respectively, in the fourth quarter of 2012.

Chart 28. Secondary Market Spreads and Turkey's Relative Position
(basis point)



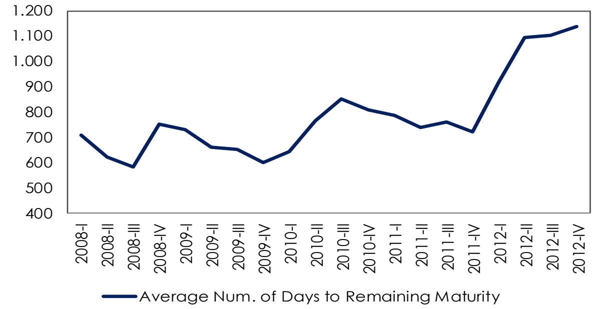
Source: JP Morgan.

Chart 29. Portfolio Investment - Liabilities
(billion USD)



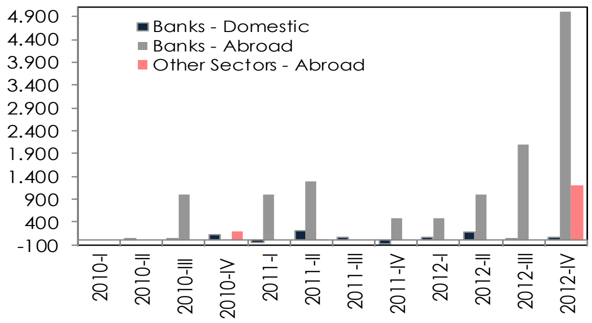
Source: CBRT.

Chart 30. The Maturity Structure of Non-residents' Holdings of GDDS
(weighted market value, billion USD)



Source: CBRT.

Chart 31. Debt Securities Issued by Banks and Other Sectors
(million USD)



Source: CBRT.

2.3 Loans and Deposits

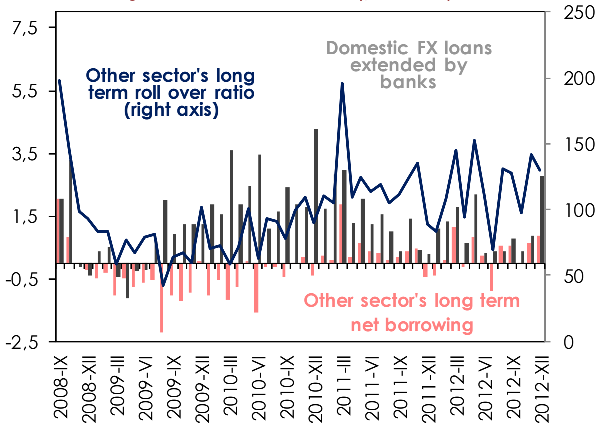
Neither the banking sector nor other sectors had any supply side constraint in borrowing from abroad through use of loans. Long term external loans used by other sectors to finance mainly investments posted net inflows throughout the year and materialized at levels close to previous year levels. In the meantime, long term external loans used by the banking sector posted net outflows in 2012 due to the fact that rather than loans, banks opted for borrowing bonds from abroad, which are considered more eligible from cost and maturity perspectives.

As for borrowing through use of loans, banks predominantly opted for short-term borrowing in the fourth quarter of 2012. In this quarter, banks used net USD 0.3 billion of long-term loans and net USD 2 billion of short- term loans. Long-term external debt roll-over ratio was 118.7 percent in the fourth quarter.

Long-term debt roll-over ratio of the other sectors increased from 109.3 percent to 123.3 percent in the fourth quarter. In this quarter, the relevant sectors used net USD 1.5 billion worth of long-term loans, while they repaid net USD 0.3 billion worth of short-term loans.

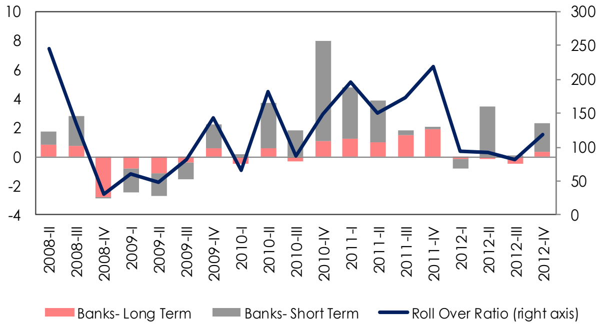
With the final payment to be effected by the Undersecretariat of Treasury in May 2013, principal repayments of IMF loans will have been fully made (Box 4). For the IMF loans that were used in 2002, the principal amount of USD 429 million was repaid against the SDR of 281.1 million in November 2012.

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



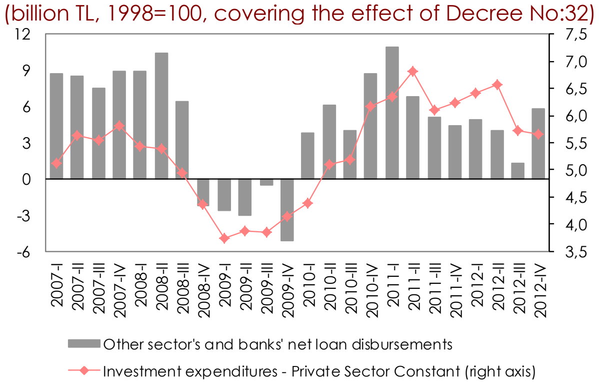
Source: CBRT.

Chart 33. Banks' Long and Short Term Net Borrowing (billion USD) **and Long Term Roll-over Ratio** (percent)



Source: CBRT.

Chart 34. Net Long-term Loan Utilization* and Investment Expenditures of Other Sectors
(billion TL, 1998=100, covering the effect of Decree No:32)



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

Source: CBRT.

Box 4 IMF Lending Arrangements and Balance of Payments Statistics

Member countries of the IMF may request financial assistance from the IMF in the circumstances of sustainability problems of import payments, having difficulty in finding sufficient international financing or requirement of restructuring their reserves. The loans used from the IMF and the related repayments can be traced in the balance of payments statistics of the borrowing country. In this Box, the loans drawn from IMF by Turkey and the record of their repayments in the balance of payments statistics are described for 1999-2012, a period when such loans were intensely utilized and repayments were made.

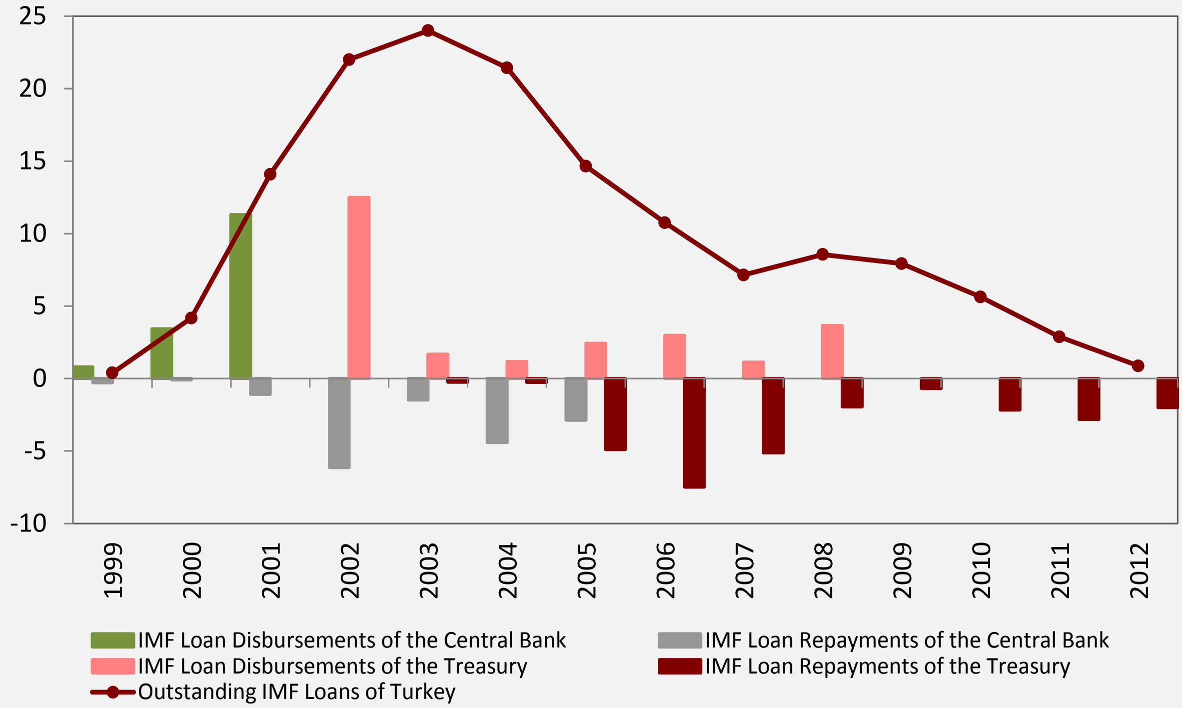
Upon request by a member country, IMF loan is extended in the framework of an agreement made by the member country and the IMF, oriented to the implementation of certain economic policies accepted by the country. The economic policy program underlying an arrangement is formulated by the country and the IMF and is presented to the Fund's Executive Board in a "Letter of Intent". Following the approval of the arrangement by the Board, the loans extended to the member country are given in installments as the requirements of the program are fulfilled. The IMF has developed various loan instruments and credit facilities for financing needs of its members, so the member countries can borrow from the IMF in concessional terms.

The first loan relationship between Turkey and the IMF was the stand-by agreement signed in 1961. Since then, 19 stand-by agreements have been made, SDR 37.7 billion was foreseen under these arrangements and SDR 32.8 billion of this total amount was used. The 19th stand-by agreement was successfully completed in May 2008, and no other resource utilization oriented program has been signed with the IMF since then. The principal repayments to the IMF will be completed once the last repayment is made in May 2013 (Chart 1).

While the loans extended by the IMF to Turkey until 2002 was intended to solve the balance of payments problems, in 2002 the IMF loans were made available to finance the budget. The debtor of the above-mentioned loan, as well as the authority with the power to utilize the loan, was the Undersecretariat of Treasury. In line with these developments and with the aim of allowing the public to follow soundly the disbursements and the repayments of the debtor institutions (the Central Bank of Turkey and the Undersecretariat of Treasury), new entry areas have been opened in the balance of payments statistics and the necessary arrangements have been made as explained below.

The IMF borrowings are recorded under **Financial Account/Other Investment/Liabilities/ Loans/Monetary Authority/Use of Fund Credits and Loans** if the debtor is the Central Bank and under Financial **Account/Other Investment/Liabilities/Loans/General Government/ Use of Fund Credits and Loans** if the debtor is the Undersecretariat of Treasury. The interest repayments of these loans are recorded under **Current Account/Income/ Investment Income/Other Investment/Interest Expenditure/Long Term/Monetary Authority** (if the debtor is the Treasury, then **General Government**) items.

Chart 1. IMF Loans: Disbursements, Repayments and Debt Stock (billion USD)



Source: CBRT, Undersecretariat of Treasury, IMF

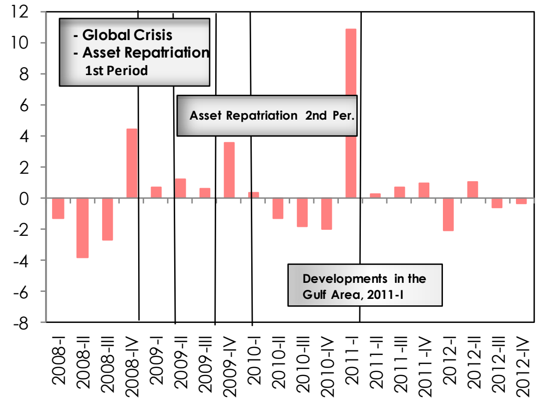
To conclude, the repayment of the principal of the IMF loans extended to the Central Bank was completed in 2005. The IMF loans that were used by the Undersecretariat of Treasury first in 2002 were mostly paid in the 2005-2007 period; the repayment of the principal of the said loans will be completed with the last repayment in May 2013. After the Stand-by agreement is over, the IMF-Turkey relations will continue as per membership terms.

Residents' deposits at banks abroad are recorded in the balance of payments table under "Financial Account / Other Investment / Currency and Deposits / Other Sectors". Activities in these accounts particularly at times of crisis become an important determinant of capital movements in the balance of payments statistics, while at other times deposits tend to accumulate at these accounts. In this context, other sectors' deposits at banks abroad surged in 2012. According to the Bank for International Settlements (BIS), the final data for the first three quarters of 2012 suggests that while other sectors' deposits abroad posted an increase of USD 1.6 billion, the indicator data for the fourth quarter signals an increase of USD 0.3 billion.

As a result of the interest rates cut paid to FX accounts of non-resident Turkish citizens at the Central Bank of Turkey, these accounts have recently displayed a notable decline. The last cut on the interest paid to long-term FX deposit accounts with letters of credit and on super FX accounts was in October 2012. These accounts posted the largest outflow in 2012. In figures, a net outflow of USD 0.5 billion was observed in the fourth quarter of 2012.

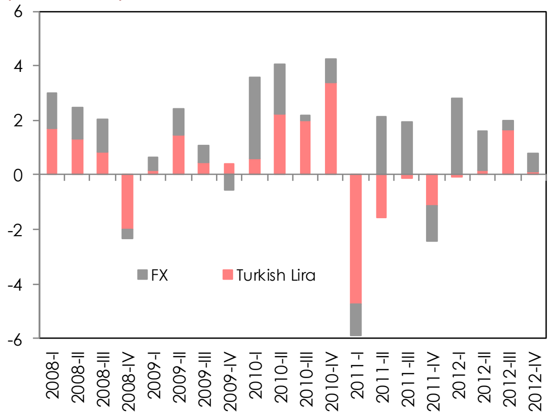
The cost advantage provided by the facility allowing banks to keep a certain fraction of their Turkish lira reserve requirements as FX and gold has led to a surge in non-resident citizens' and banks' deposits in domestic banks. Non-resident citizens' and banks' deposits in domestic banks posted an increase in the fourth quarter of 2012, comparable to the third quarter and became USD 1.1 billion. The said increase was mainly driven by USD 0.6 billion surge in the FX deposits of non-resident banks.

Chart 35. Other Sectors' Deposit Assets Abroad
(billion USD)



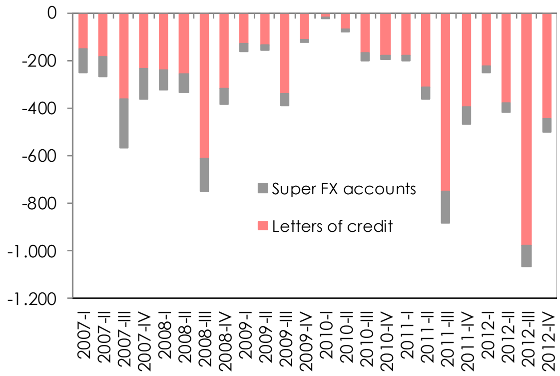
Source: CBRT.
(+): Decrease in deposits abroad, (-): Increase in deposits abroad

Chart 36. Deposits within the Central Bank
(billion USD)



Source: CBRT.

Chart 37. Deposits of Non-resident Banks within the Domestic Banks - Composition of FX and TL
(billion USD)



Source: CBRT.

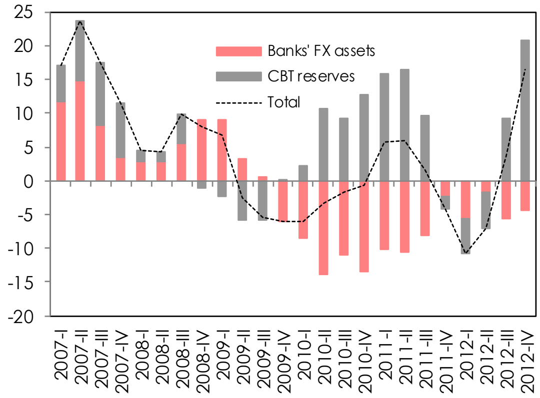
Capital inflows that surged on the back of decreasing current account deficit led to a significant increase in official reserves and banks' reserves. Meanwhile, the effective use of the Reserve Option Mechanism, which allows banks to keep foreign exchange for maintaning Turkish lira reserve requirements, during the year, was an important factor that bolstered the international reserves.

In the fourth quarter, the official reserves posted an increase by USD 4.3 billion. The increase in official reserves was mainly driven by the surge in banks' deposits held at the Central Bank as well as the Treasury's bond issue in the amount of USD 1 billion in December. In this period, on account of the USD 2.2 billion surge in FX assets of the banks, the total international reserves (CBRT and banks) recorded an increase by USD 6.5 billion.

Due to the rise in reserves, CBRT reserves went up by 34.9 percent compared to end-2011 and reached to USD 119.2 billion at end-2012. In the meantime, compared to the end of the previous quarter, the short -term external debt stock on a remaining maturity basis (STED), which is calculated regardless of the original maturity but based on the external debt maturing within 1 year or less, increased by 1.7 percent to reach USD 144.2 billion by December 2012. As a result, the ratio of international reserves to STED, which is considered to be one of the reserve adequacy indicators, became 95 percent. Whereas, the said ratio becomes 116 percent when branches and affiliates abroad are excluded (Box 5).

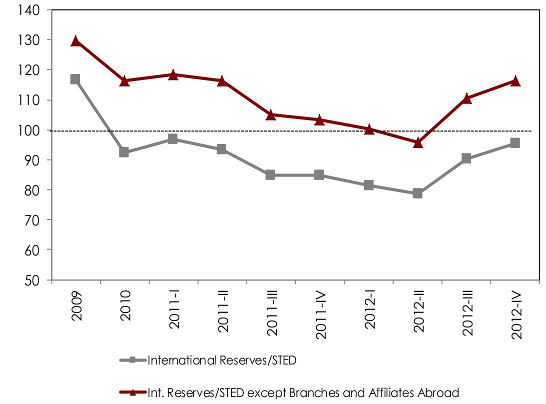
In the fourth quarter of 2012, the ratio of Net Errors and Omissions (NEO) item to total FX inflows registered a quarter-on-quarter decline and became 0.9 percent. TURKSTAT's retroactive revision on tourism revenues contributed to the decrease in the Net Errors and Omissions item.

Chart 38. International Reserves
(billion USD, annualized)



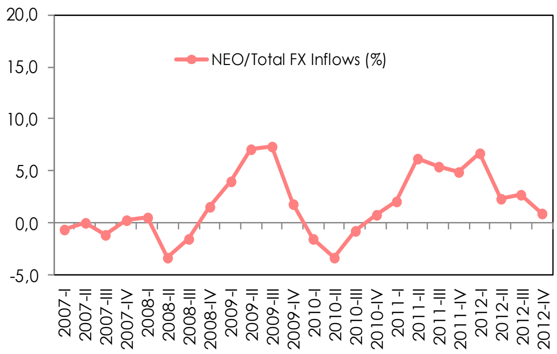
Source: CBRT.
Note: + increase; - decrease

Chart 39. The Ratio of International Reserves to STED on a Remaining Maturity Basis (percent)



Source: CBRT.

Chart 40. Net Errors and Omissions (NEO) and Total Foreign Exchange Inflows
(annualized, percent)



Source: CBRT.

Box 5 A New Approach to Assessing Reserve Adequacy

Foreign exchange (FX) reserves of a country can be briefly defined as external assets that are controlled by monetary authorities and readily available for use in the case of external payment difficulties. Not only can FX reserves be used as a source of direct financing, but also as a means of market intervention by affecting the exchange rate in the context of indirect regulation and supervision of potential adverse conditions driven by external payment difficulties. In other words, in times of crises, liquidity supplied through reserves can prevent further deepening of the crises by averting sharp downturns in domestic consumption and capital outflows. Although there is a consensus in economic literature on the importance of holding reserves, there is little consensus on what constitutes an adequate level as a precautionary measure; in other words, what portion is considered "adequate" and what are the methods of assessing it. The most widely used criteria based on traditional metrics are coverage of at least three months of imports (goods and services), full cover of short-term external debt or coverage of twenty percent of the broad money (M2).

The recent global financial crisis has confirmed that reserves held by countries are an important part of their defenses against exogenous shocks and has led to the development of new approaches in assessing reserve adequacy. In this context, the IMF has proposed a new metric that can be applied separately to advanced economies, emerging market economies and low-income countries (IMF, 2011). A two-stage approach has been adopted in the development of this metric: In the first stage, a metric is developed that reflects the relative risk levels of different potential sources of balance of payments pressure, based on observed outflows in exchange market pressure events. In the second stage, the evidence is brought to bear on how much reserves cover might be needed relative to this risk-weighted measure. Accordingly, metrics developed for emerging market economies, including Turkey, based on fixed and floating exchange rate regimes are as follows:

Fixed Exchange Rate Regimes: 30% of STD + 15% of OPL + 10% of M2 + 10% of X (1)

Floating Exchange Rate Regimes: 30% of STD + 10% of OPL + 5% of M2 + 5% of X (2)

STD: Short-Term External Debt

OPL: Other Portfolio Liabilities

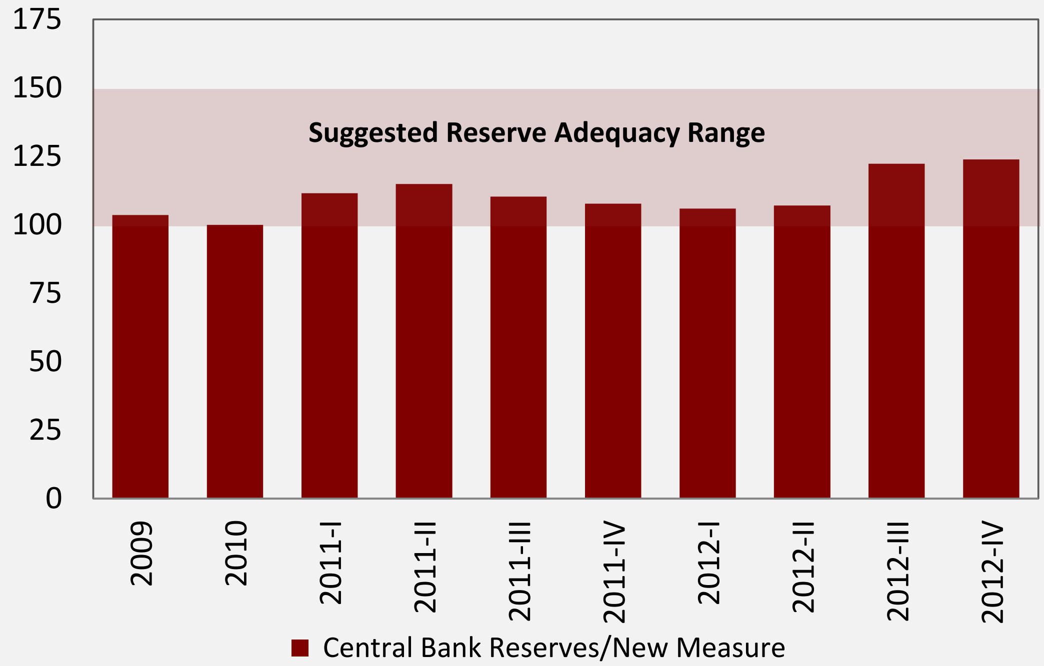
M2: Broad Money

X: Exports

This approach suggests that coverage in the region of 100-150 percent of the metric can be regarded as "adequate" for emerging market economies. Although these ratios are proposed as an adequacy range, countries might want to hold reserves at varying levels depending on their particular circumstances and degree of risk aversion.

An assessment made for Turkey based on risk weights defined for emerging market economies and for floating exchange rate regimes reveals that reserve adequacy ratios of the country hovered constantly above 100 percent in the aftermath of the global financial crisis. Meanwhile, the reserve adequacy ratio that was recorded as 103 percent at end-2009 materialized 24 points above the lower bound of the optimal reserves proposed by the new metric, in the last quarter of 2012 (Chart 1).

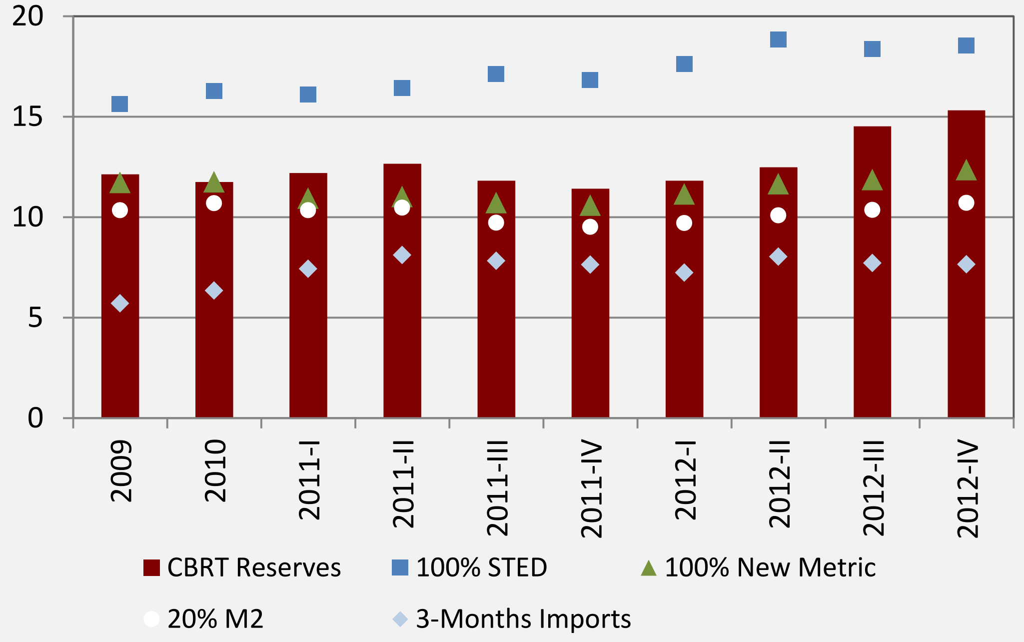
Chart 1. Reserve Adequacy According to The New Metric (percent)



Source: CBRT

A comparison of GDP ratios calculated based on the new metric and traditional metrics suggests that CBT reserves have fulfilled the adequacy conditions for all indicators except for STD since 2009. That is, in December 2012, the ratio of the new indicator and selected indicators to GDP materialized as 18.54 percent for STD, 7.66 percent for three months of imports and 10.70 percent for the level covering twenty percent of M2. In the same period, the ratio to GDP of the lower bound of the new metric based on IMF definition became 12.37 and the ratio of reserves to GDP materialized as 15.3 percent (Chart 2).

Chart 2. Alternative Metrics in Assessing Reserve Adequacy
(ratio to GDP, percent)



Source: CBRT.

In conclusion, as confirmed by the recent global financial crisis, foreign exchange reserves are an important indicator of countries' resilience against exogenous shocks. However, there is no single most true indicator as reserve adequacy varies depending on country-specific circumstances. According to the new reserve adequacy metrics, which was developed by the IMF in the aftermath of the crisis and is being used widely, the 2012 Q4 figures for Turkey's reserves point to an adequate level.

Reference:

IMF. (2011) "Assessing Reserve Adequacy". *IMF Policy Papers*. Washington. 14 February 2011.
(See: http://www.imf.org/external/np/pp/eng/2011/021411b.pdf)

III. Annex Tables

Balance of Payments (billion USD)

	October-December					
	2011	2012	% change	2011	2012	% change
Current Account	-15,9	-9,4	-40,7	-75,1	-46,9	-37,5
Goods	-19,4	-14,5	-24,9	-89,1	-65,6	-26,4
Exports	37,7	43,1	14,4	143,4	163,3	13,9
Exports (fob)	35,5	39,6		134,9	152,5	
Shuttle Trade	1,2	2,1		4,4	6,3	
Imports	-57,1	-57,7	1,1	-232,5	-228,9	-1,5
Imports (cif)	-59,2	-59,6		-240,8	-236,5	
Adjustment: Classification	2,9	3,1		11,8	11,9	
Services	4,4	6,0	37,8	20,1	24,0	19,3
Travel (net)	4,5	5,4		20,2	21,6	
Credit	5,7	6,7		25,1	25,7	
Debit	-1,3	-1,3		-4,9	-4,1	
Other Services (net)	-0,1	0,6		0,0	2,4	
Income	-1,5	-1,3	-9,7	-7,8	-6,7	-14,9
Compensation of Employees	0,0	-0,1		-0,2	-0,2	
Direct Investment (net)	-0,3	-0,7		-2,7	-2,1	
Portfolio Investment (net)	0,0	0,2		-0,9	-0,6	
Other Investment (net)	-1,1	-0,8		-4,1	-3,7	
Interest Income	0,3	0,7		1,2	2,1	
Interest Expenditure	-1,4	-1,5		-5,3	-5,8	
Current Transfers	0,6	0,4	-26,0	1,8	1,4	-21,9
Workers Remittances	0,3	0,3		1,0	1,0	
Capital and Financial Account	15,3	12,5	-18,6	65,7	54,0	-17,8
Financial Account (excl. reserve assets)	8,1	16,8	106,7	63,9	74,8	17,1
Direct Investment (net)	3,8	1,3	-64,7	13,7	8,3	-39,2
Abroad	-0,8	-0,9		-2,3	-4,1	
In Turkey	4,6	2,3		16,0	12,4	
Portfolio Investment (net)	6,7	16,4	144,5	22,0	49,7	126,3
Assets	0,6	0,9		2,7	2,6	
Liabilities	6,1	15,6		19,3	47,1	
Equity Securities	-0,6	3,6		-1,0	6,3	
Debt Securities	6,7	12,0		20,3	40,8	
Non-residents' Purchases of GDDS	5,2	4,7		14,8	16,8	
Eurobond Issues of Treasury	1,0	1,0		2,5	4,8	
Borrowing	1,0	1,0		4,3	7,1	
Repayment	0,0	0,0		-1,8	-2,3	
Banks (net)	0,4	5,1		2,9	9,0	
Other Sectors (net)	0,0	1,2		0,0	10,2	
Other Investment (net)	-2,4	-1,0	-58,3	28,2	16,7	-40,7
Assets	-0,6	-3,7		11,1	-1,1	
Trade Credits	-0,5	-0,6		-0,8	-0,9	
Credits	0,0	-0,4		-0,8	-0,9	
Currency and Deposits	-0,1	-2,7		12,9	-1,1	
Banks	-1,0	-2,4		0,2	2,6	
Foreign Exchange	-0,8	-2,2		2,4	4,3	
Turkish Lira	-0,2	-0,2		-2,2	-1,7	
Other Sectors	0,9	-0,3		12,6	-2,0	
Liabilities	-1,8	2,7		17,1	17,9	
Trade Credits	-1,7	-0,7		2,0	1,0	
Credits	2,8	2,8		18,9	8,6	
Central Bank	0,0	0,0		0,0	0,0	
General Government	-0,5	-0,7		-0,8	-2,1	
IMF	-0,7	-0,4		-2,8	-2,0	
Long-term	0,2	-0,3		2,0	-0,1	
Banks	2,1	2,3		12,5	4,3	
Long-term	1,9	0,3		5,7	-0,5	
Short-term	0,2	2,0		6,9	4,8	
Other sectors	1,2	1,1		7,1	6,3	
Long-term	0,4	1,5		4,4	3,5	
Short-term	0,8	-0,3		2,7	2,8	
Deposits of Non-residents	-2,9	0,6		-4,3	7,8	
Central Bank	-0,5	-0,5		-1,9	-2,2	
Banks	-2,4	1,1		-2,4	10,0	
Change in Official Reserves (- increase)	7,2	-4,3		1,8	-20,8	
Net Errors and Omissions	0,558	-3,047		9,433	1,964	

Source: CBRT.

Financing Requirements and Sources (billion USD)

	2011				2011	2012				2012
	I	II	III	IV		I	II	III	IV	
Financing Requirements	-19,8	-33,4	-24,9	-25,7	-103,9	-29,3	-24,4	-18,0	-19,8	-91,6
Current Account Balance (Excluding Current Transfers)	-21,8	-23,2	-15,5	-16,5	-76,9	-16,6	-14,2	-7,6	-9,8	-48,3
Debt Security and Credit Repayments	-9,2	-11,5	-9,7	-10,3	-40,7	-11,0	-10,0	-11,6	-9,5	-42,1
Debt Securities (Abroad)	-1,0	-0,8	0,0	0,0	-1,8	-1,0	0,0	-1,3	0,0	-2,3
Long Term Credits	-8,2	-10,7	-9,7	-10,3	-38,9	-10,0	-10,0	-10,3	-9,5	-39,9
Trade Credits	-0,1	-0,1	-0,2	0,0	-0,4	0,0	-0,1	0,0	0,0	-0,1
Monetary Authority	0,0	0,0	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	0,0	0,0
General Government	-1,0	-1,6	-1,4	-1,7	-5,7	-1,0	-1,6	-0,8	-1,4	-4,9
(IMF)	-0,5	-0,6	-1,0	-0,7	-2,8	-0,6	-0,6	-0,4	-0,4	-2,0
Banks	-1,3	-2,0	-2,1	-1,6	-6,9	-2,6	-2,3	-2,8	-1,7	-9,4
Other Sectors	-5,8	-7,1	-5,9	-7,0	-25,8	-6,4	-6,0	-6,7	-6,3	-25,4
Other Assets (- indicates to an increase) 1/	11,1	1,3	0,2	1,0	13,6	-1,6	-0,2	1,2	-0,5	-1,1
Financing Sources	19,8	33,4	24,9	25,7	103,9	29,3	24,4	18,0	19,8	91,6
Current Transfers	0,4	0,3	0,5	0,6	1,8	0,4	0,3	0,3	0,4	1,4
Capital Account	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Direct Investment (Net)	3,4	2,3	4,3	3,8	13,7	2,2	3,4	1,3	1,3	8,3
Equity Securities (Net)	-1,3	0,5	0,4	-0,6	-1,0	0,9	0,3	1,4	3,6	6,3
Debt Securities and Credits	25,8	25,5	12,4	18,1	81,8	15,2	23,2	21,5	23,6	83,6
Debt Securities	10,9	6,4	-1,9	6,7	22,0	4,5	5,7	12,0	12,0	34,1
In Turkey (Net)	6,6	5,1	-1,9	5,2	15,0	0,4	3,7	8,3	4,7	17,2
Abroad	4,3	1,3	0,0	1,5	7,1	4,1	2,0	3,6	7,2	16,9
Long Term Credits	11,2	13,5	11,1	12,1	47,9	10,4	10,1	9,8	10,6	40,9
Trade Credits	0,0	0,0	0,0	0,0	0,1	0,1	0,1	0,1	0,0	0,3
Monetary Authority	0,0	0,0	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	0,0	0,0
General Government	0,7	2,1	1,0	1,2	4,9	0,6	0,9	0,6	0,8	2,8
(IMF)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Banks	2,5	3,0	3,6	3,5	12,6	2,4	2,1	2,3	2,1	8,9
Other Sectors	8,0	8,3	6,6	7,4	30,2	7,3	7,0	6,9	7,8	29,0
Short Term Credits (Net)	3,8	5,6	3,2	-0,7	11,9	0,3	7,5	-0,2	1,0	8,5
Trade Credits	-0,4	1,8	2,6	-1,7	2,3	-0,2	2,6	-0,9	-0,7	0,9
Monetary Authority	0,0	0,0	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	0,0	0,0
Banks	3,6	2,8	0,3	0,2	6,9	-0,7	3,5	0,0	2,0	4,8
Other Sectors	0,6	1,0	0,3	0,8	2,7	1,2	1,3	0,6	-0,3	2,8
Deposits (Net)	-5,8	1,2	3,1	-2,9	-4,3	3,7	4,0	-0,5	0,6	7,8
Other Liabilities	0,0	0,2	0,3	0,0	0,5	0,0	0,2	0,3	0,0	0,5
Net Errors and Omissions	2,5	4,9	1,6	0,6	9,4	6,0	-3,5	2,5	-3,0	2,0
Banks' Currency and Deposits 2/	-1,2	4,3	-1,9	-1,0	0,2	1,5	2,1	1,4	-2,4	2,6
Reserve Assets 2/	-3,9	-5,8	4,4	7,2	1,8	-0,7	-5,6	-10,2	-4,3	-20,8

Source: CBRT.

1/ Excluding Banks' Currency and Deposits

2/- denotes an increase.

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

	2011				2011	2012				2012
	I	II	III	IV		I	II	III	IV	
A) Current Account Balance	-21,4	-22,8	-15,0	-15,9	-75,1	-16,2	-13,9	-7,3	-9,4	-46,9
B) Capital and Financial Acount	18,9	18,0	13,5	15,3	65,7	10,2	17,4	4,9	12,5	45,0
Capital Account	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial Account	18,9	18,0	13,4	15,3	65,7	10,3	17,4	4,9	12,5	45,0
Assets	8,9	5,3	-2,0	-0,8	11,5	-2,4	1,6	2,0	-3,8	-2,6
Direct Investment	-0,9	-0,3	-0,3	-0,8	-2,3	-2,3	-0,2	-0,6	-0,9	-4,1
Portfolio Investment	0,7	1,6	-0,3	0,6	2,7	0,8	-0,8	1,8	0,9	2,6
Other Investment	9,1	4,0	-1,4	-0,6	11,1	-0,9	2,7	0,8	-3,7	-1,1
Liabilities	13,9	18,5	11,1	8,9	52,4	13,4	21,4	13,1	20,6	68,4
Non-Debt Creating Flows	3,1	3,2	5,2	4,1	15,6	5,3	3,9	3,7	5,9	18,8
Direct Investment 1/	4,3	2,5	4,6	4,7	16,1	4,4	3,4	2,0	2,3	12,0
Portfolio Investment/Equity Securities	-1,3	0,5	0,4	-0,6	-1,0	0,9	0,3	1,4	3,6	6,3
Other Investment/Other Liabilities 2/	0,0	0,2	0,3	0,0	0,5	0,0	0,2	0,3	0,0	0,5
Debt Creating Flows	10,8	15,3	5,8	4,8	36,8	8,0	17,5	9,5	14,7	49,6
Portfolio Investment/Debt Securities	9,9	5,7	-1,9	6,7	20,3	3,5	5,7	10,7	12,0	31,9
Trade Credits	-0,5	1,8	2,4	-1,7	2,0	-0,1	2,7	-0,8	-0,7	1,0
Loans	7,2	6,6	2,3	2,7	18,8	0,9	5,2	0,1	2,8	9,0
Deposits	-5,8	1,2	3,1	-2,9	-4,3	3,7	4,0	-0,5	0,6	7,8
Other Investment/Other Liabilities 2/	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Reserve Assets	-3,9	-5,8	4,4	7,2	1,8	-0,7	-5,6	-10,2	-4,3	-20,8
C) Net Errors and Omissions	2,5	4,9	1,6	0,6	9,4	6,0	-3,5	2,5	-3,0	2,0

Source: CBRT.

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

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