TÜRKİYE CUMHURİYET MERKEZ BANKASI

Balance of Payments and International Investment Position Report

2016-IV

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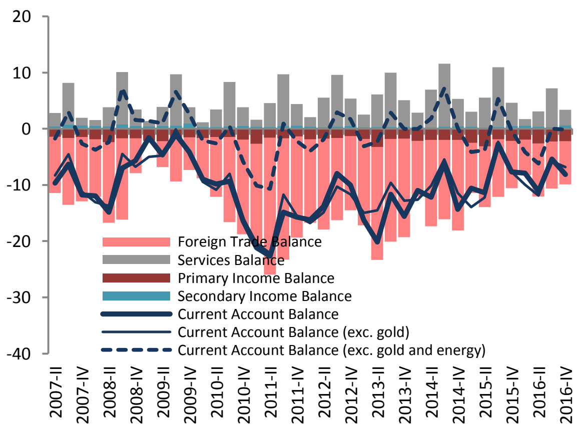
1. Current Account

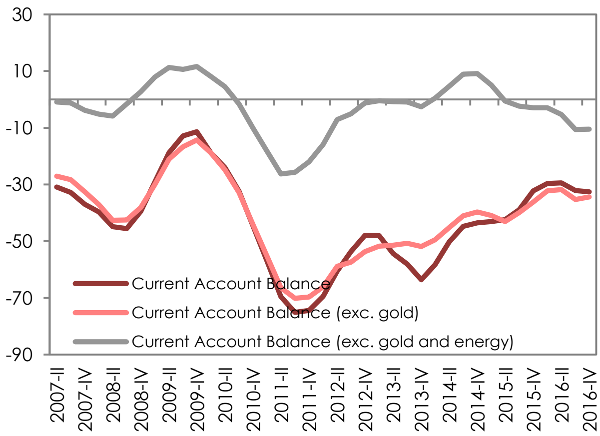
In the final quarter of 2016, although the improvement in foreign trade balance continued, the current account deficit increased slightly due to the deterioration in the services balance stemming from the decline in tourism revenues. The current account balance ran a deficit of approximately USD 8.1 billion in the final quarter. The current account deficit excluding gold and energy was USD 0.1 billion. In this quarter, foreign trade balance improved by USD 0.7 billion while the services balance deteriorated by USD 1.3 billion. There has been no significant change in the primary and secondary income.

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



Source: CBRT.

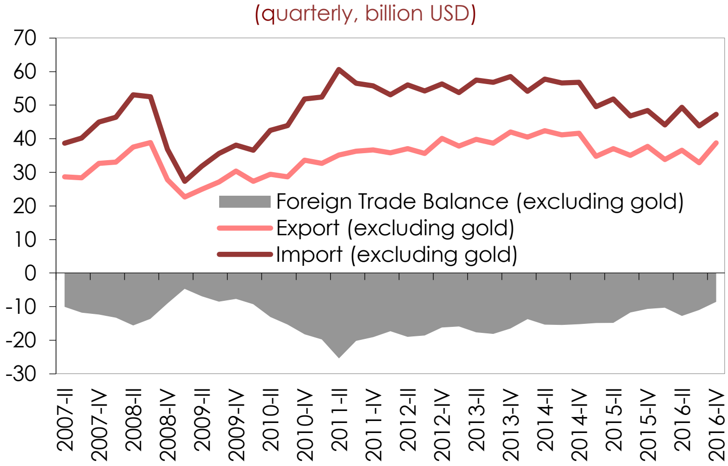
Chart 2. Current Account Balance
(annualized, billion USD)



Source: CBRT.

An analysis by years indicates that the increment in the current account deficit, which has been observed since the second quarter of 2016, continued in the final quarter as well. In this quarter, the annualized current account deficit increased by USD 0.5 billion quarter-on-quarter and reached USD 32.6 billion. Meanwhile, the current account deficit excluding gold decreased by USD 0.9 billion to USD 34.4 billion. The annualized current account deficit excluding gold and energy decreased by USD 0.2 billion quarter-on-quarter and stood at USD 10.4 billion.

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



Source: CBRT.

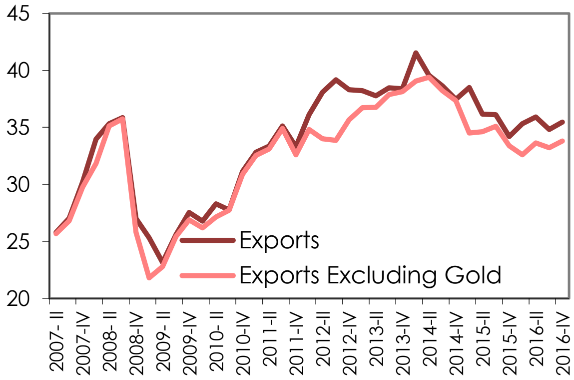
The foreign trade deficit, which is the most significant determinant of the current account deficit, contracted by USD 0.7 billion year-on-year and became USD 9.9 billion. The foreign trade deficit, excluding gold, improved by USD 2.1 billion. The annualized foreign trade balance excluding gold was USD 42.6 billion in the final quarter of 2016.

1.1 Exports of Goods

Even though geopolitical tensions and subdued global demand curbed a further increase in exports, exports increased in nominal and real terms in the final quarter of 2016 thanks to the favorable domestic demand conditions in the EU countries. The slowdown in the decrease in export prices was another factor supporting the nominal increase in exports. In this quarter, exports increased by 4.7 percent year-on-year to USD 142.6 billion; the rise was 5.7 percent in real terms. When gold exports amounting to USD 1.7 billion are excluded, the rise in exports in nominal and real terms becomes 2.4 percent and 3.9 percent, respectively.

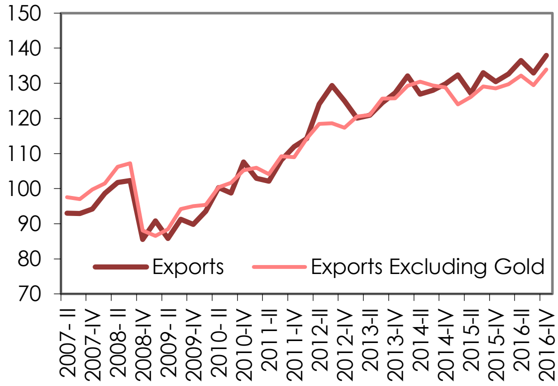
Seasonally adjusted data indicate that in the final quarter of the year, total exports and exports excluding gold displayed an upward trend both in real and nominal terms. Seasonally adjusted exports and exports excluding gold each posted a quarter-on-quarter increase by 1.9 percent and 1.7 percent, respectively.

Chart 4. Exports-Nominal
(seasonally adjusted, billion USD)



Source: TURKSTAT.

Chart 5. Exports-Real
(seasonally adjusted, export quantity index 2010=100)

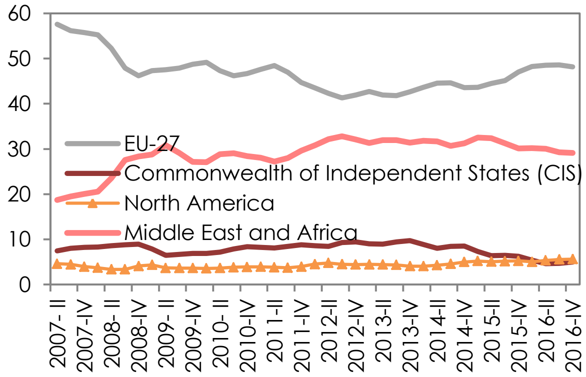


Source: TURKSTAT.

In 2016, the continued improvement in domestic demand conditions in the EU member states largely compensated for contraction in Turkey's exports that was triggered by geopolitical developments in Turkey's region. In the final quarter, the relations between Turkey and Russia started to normalize and the decline in the share of CIS countries - Russia being a member- in Turkey’s exports was reversed. For the first time since 2014Q1, exports to Iraq posted an annual rise curbing the decline in exports to the Middle East and North African (MENA) countries. Although the share of exports to EU countries, Turkey's largest export market, in total exports posted a limited decline in the final quarter, exports to EU countries still remained high.

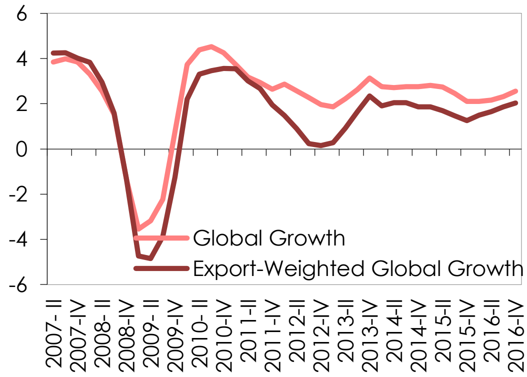
The rise in the global growth rate weighted with countries' share in Turkey's exports continues. While the export-weighted global annual growth rate was 2.6 percent in 2016Q4, the global growth rate was 2.0 percent in the same quarter.

Chart 6. Selected Regions' Shares in Exports Excluding Gold (6-month moving average, percent)



Source: TURKSTAT.

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



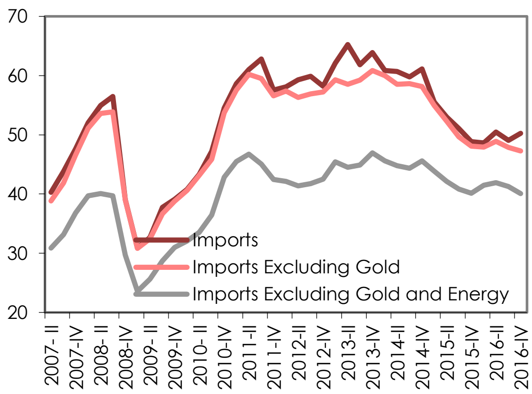
Source: CBRT.

1.2 Imports of Goods

Even though subdued domestic demand and depreciation in real exchange rates restrained an increase in imports, imports increased in nominal and real terms in the final quarter due to the gradual increase in oil prices coupled with the sizable gold imports. In this quarter, imports increased by 2.9 percent year-on-year to USD 198.6 billion pointing to a 5.1 percent rise in real terms. Meanwhile, when USD 3 billion-worth of gold that was imported in the final quarter is excluded, imports decreased by 1.6 percent on an annual basis.

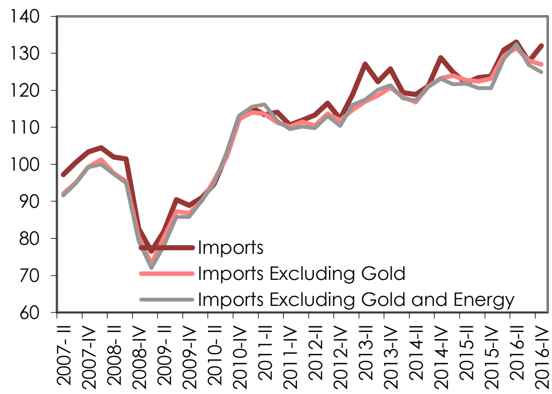
According to seasonally adjusted data, imports increased on a quarterly basis. In this quarter, imports in nominal and real terms increased by 2.5 percent and 3.3 percent, respectively. Meanwhile, the downtrend in imports excluding gold and energy, which started in the previous quarter, continued.

Chart 8. Imports - Nominal
(seasonally adjusted, billion USD)



Source: TURKSTAT.

Chart 9. Imports - Real
(seasonally adjusted, import quantity index , 2010=100)

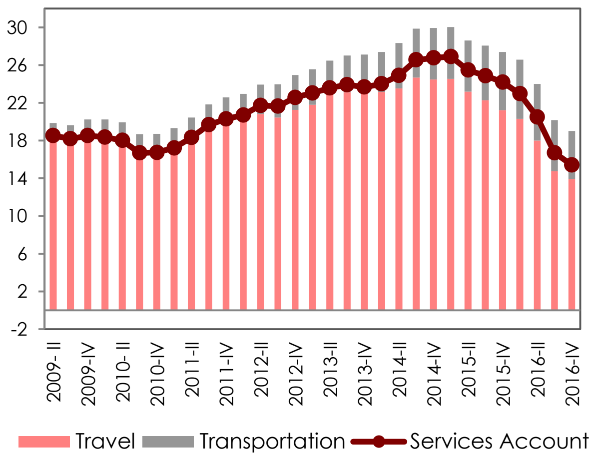


Source: CBRT.

1.3 Services Account

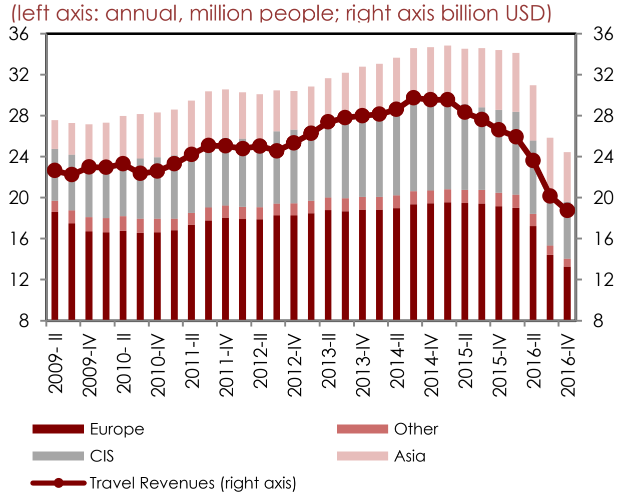
The downtrend observed in the services account surplus, which became more significant as of early 2015 due to the decline in travel and transportation revenues, continued in the final quarter of 2016 as well. In this quarter, the annualized services account surplus decreased by USD 8.8 billion year-on-year to USD 15.4 billion. USD 7.3 billion part of this total amount stemmed from net travel revenues and USD 1.1 billion part from net transportation revenues.

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



Source: CBRT.

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



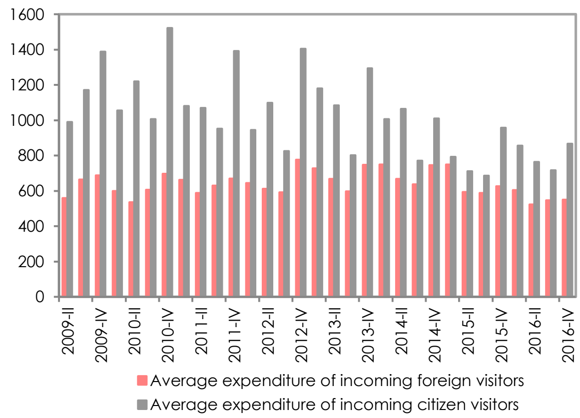
Source: TURKSTAT.

In the final quarter of 2016, net travel revenues decreased by USD 0.8 billion year-on-year and thus, annual net travel revenues decreased to USD 14 billion. In this quarter, the number of tourists visiting Turkey decreased by 21 percent while the annual decline was 30 percent for the entire year. An analysis by country groups reveals that there has been a significant decline in all country groups, with the highest declines in the USA and the European countries.

The average spending of foreign visitors and non-resident Turkish citizens decreased on an annual basis. The average spending per foreign visitor in Turkey was down 12 percent year-on-year to USD 550, while the average spending per non-resident Turkish citizen visiting Turkey was down 9 percent year-on-year to USD 867.

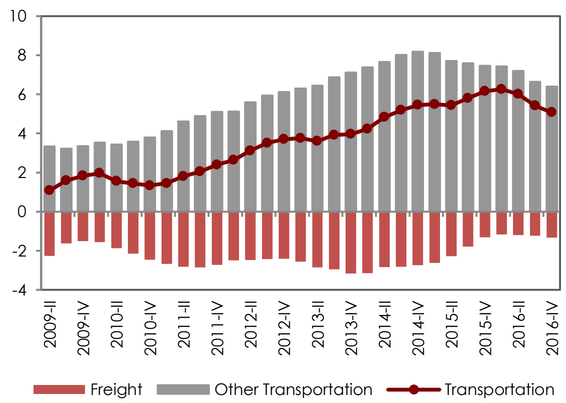
The annual increase in net transportation revenues, which had been observed since 2014Q1, was reversed in 2016Q2. In the final quarter, net transportation revenues decreased by USD 23.6 percent. In this quarter, net freight revenues increased by 37.6 percent, while other transportation revenues decreased by 14.6 percent.

Chart 12. Average Expenditure
(USD/person)



Source: TURKSTAT.

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



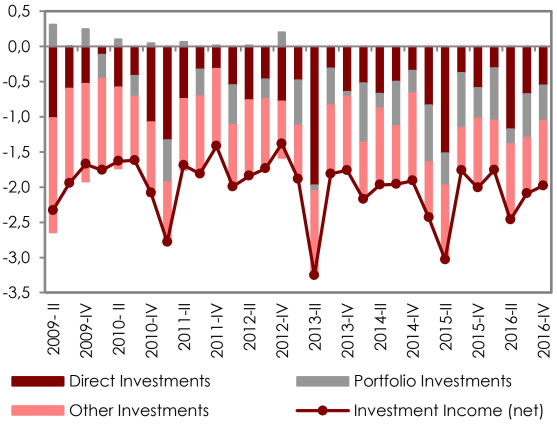
Source: TURKSTAT, CBRT.

1.4 Primary and Secondary Income

In 2016Q4, the primary income deficit, which is the sum of net compensation of employees and investment income, showed no significant change on an annual basis. Throughout 2016, the primary income balance improved by USD 0.7 billion year-on-year. This improvement was mainly driven by the rise in portfolio and interest income. Net outflows from the compensation of employees item increased by USD 0.3 billion in 2016.

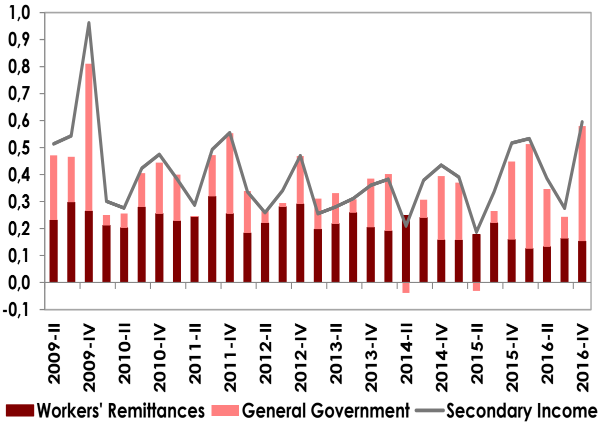
Net inflows in secondary income, which consists of current transfers of the general government and other sectors, increased by USD 0.6 billion year-on-year. This rise was mainly driven by transfers to the general government. Transfers, which generally displayed an uptrend throughout the year, were at USD 1.8 billion.

Chart 14. Composition of Investment Income (Net)
(billion USD)



Source: CBRT.

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



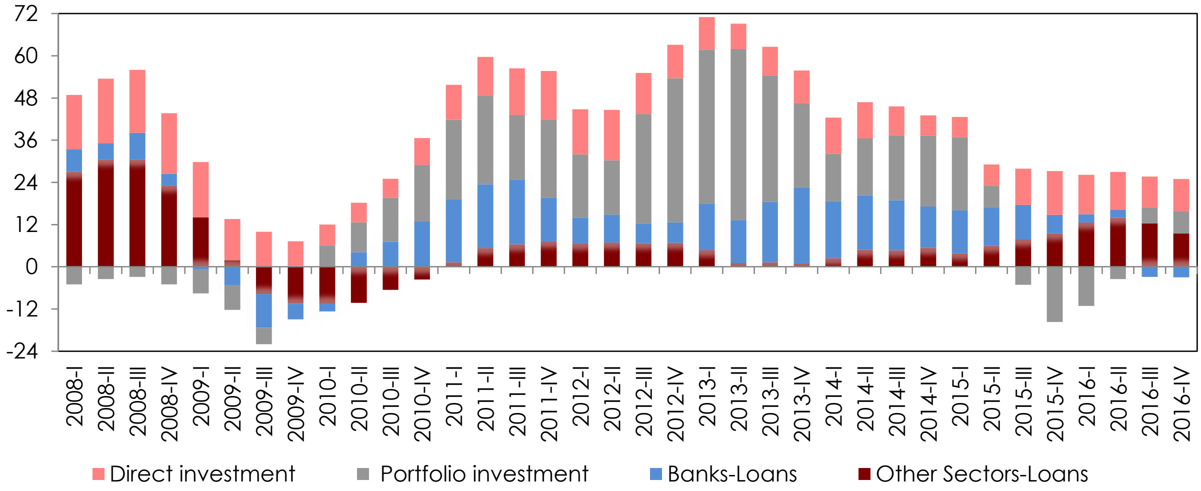
Source: CBRT.

2. Financial Account

The relative recovery in the global risk appetite, which started in February 2016 upon expectations that the Fed rate hike would not come soon, terminated in the final quarter of the year. Since the presidential elections in the US in November, there are now higher prospects of accelerated growth in the US amid accommodative fiscal policies and a more aggressive Fed monetary tightening. Due to these developments, capital flows have started to shift from emerging markets to advanced markets as of November. The aggravating geopolitical tensions in the region, which was a negative factor idiosyncratic to Turkey, affected portfolio investments and other investment flows to Turkey in this quarter.

A breakdown of the balance of payments financial account by main headings reveals that the downtrend observed in direct investment inflows for some time continued in this quarter as well. The outflows from portfolio investments via the liabilities item accelerated as of November 2016. Due to decelerated economic growth, other investment inflows decreased, the banking sector continued to be a net payer of credits while other sectors' external credit utilization continued to decrease.

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

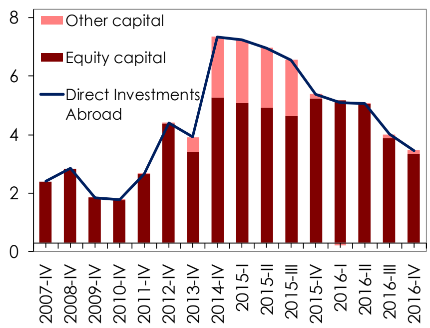


Source: CBRT.

2.1 Direct Investment

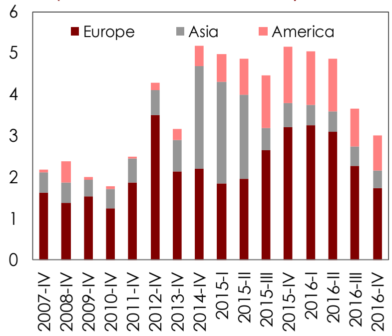
In 2016Q4, Turkey's direct investments abroad increased quarter-on-quarter owing to a high-volume transaction carried out in December, while the same item decreased year-on-year. Direct investments abroad started to trend downward as of 2015, due to both the relative recovery in security prices across Europe - main investment region for Turkey - and the effect of geopolitical developments in the neighboring countries such as Iraq and Russia. This trend continued in the final quarter of 2016 and direct investments abroad receded year-on-year to USD 893 million. In this period, while European countries continued to be the main destination for investment, the services sector received the bulk of investments.

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



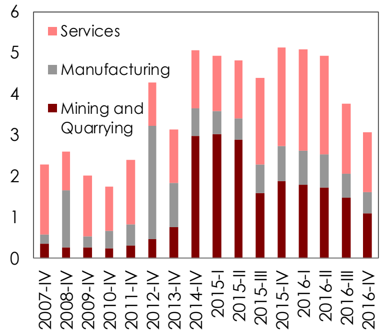
Source: CBRT.

Chart 18: Geographical Distribution
(annualized, billion USD)



Source: CBRT.

Chart 19: Sectoral Distribution
(annualized, billion USD)

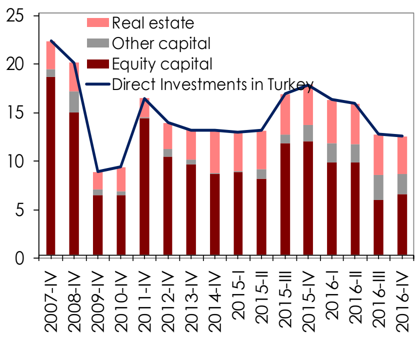


Source: CBRT.

Nonresidents' direct investments in Turkey are mainly composed of capital and real estate investments. Inward direct capital investments that had been declining for a while maintained this trend in the final quarter of 2016, too. The persisting sluggish outlook observed across Europe as well as the negative impact of the geopolitical developments on the risk perception towards Turkey's region have been the main reasons for the decline in direct investment inflows.

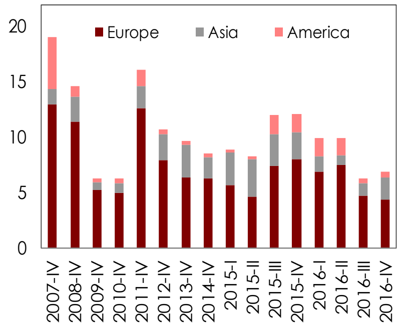
In the final quarter of 2016, Europe continued to be the primary region making capital investments in Turkey, with the services sector attracting the majority of investments. Meanwhile, real estate investments, which is another key component of inward direct investments, have posted a rapid increase since 2013 on the back of the amendment made to the law facilitating acquisition of real estate by foreigners in Turkey in 2012, followed soon by the issue of the communiqué drawing up the application guidelines of this law. In this quarter, real estate investments slightly decreased year-on-year and stood at USD 944 million.

Chart 20: Inward Direct Investments
(annualized, billion USD



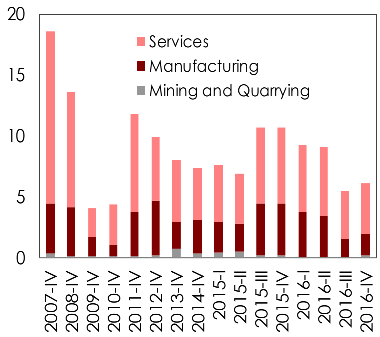
Source: CBRT.

Chart 21: Geographical Distribution
(annualized, billion USD)



Source: CBRT.

Chart 22: Sectoral Distribution
(annualized, billion USD)

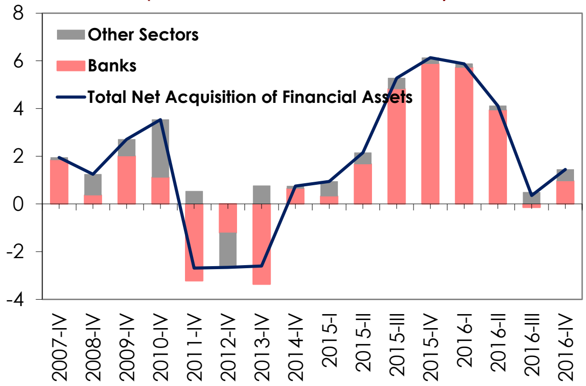


Source: CBRT.

2.2 Portfolio Investment

The trend of portfolio investments is determined by nonresidents' investments in Turkey. Portfolio investments are composed of the sum of residents' investments abroad (portfolio investment net acquisition of financial assets) and non-residents' investments in Turkey (portfolio investment net incurrence of liabilities). Residents' portfolio investments abroad composed of the sum of banks and other sectors, incremented in the final quarter as banks increased their portfolios abroad as a result of their liquidity decisions.

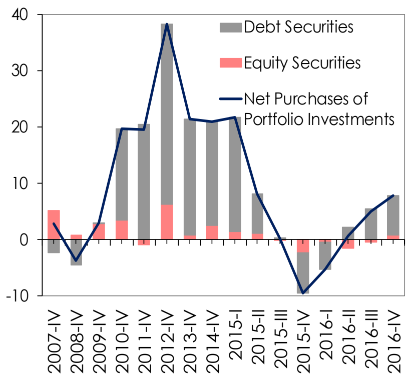
Chart 23: Portfolio Investment – Net Acquisition of Financial Assets
(annualized, billion USD)



Source: CBRT.

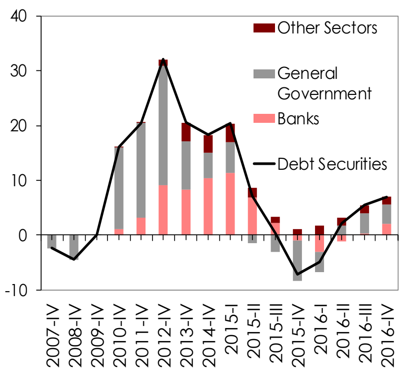
After enjoying strong portfolio inflows in October, emerging markets witnessed portfolio outflows after the presidential elections in the USA and on the back of stronger prospects of a faster-than-expected tightening in monetary policy by the Fed. An analysis by instruments suggests that domestic debt securities issued by the general government posted significant outflows while debt securities and equity securities issued by the private sector posted inflows in the final quarter.

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



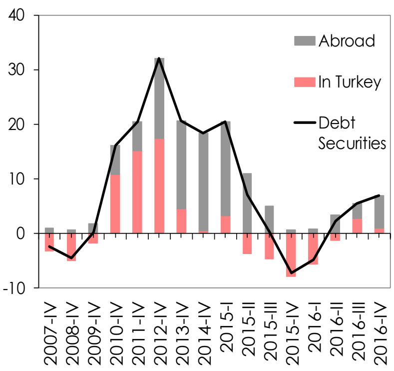
Source: CBRT.

Chart 25. Sectoral Distribution of Debt Security Net Issues
(annualized, billion USD)



Source: CBRT.

Chart 26: Domestic and International Distribution of Debt Security Net Issues
(annualized, billion USD)



Source: CBRT.

2.3 Other Investment - Currency and Deposits

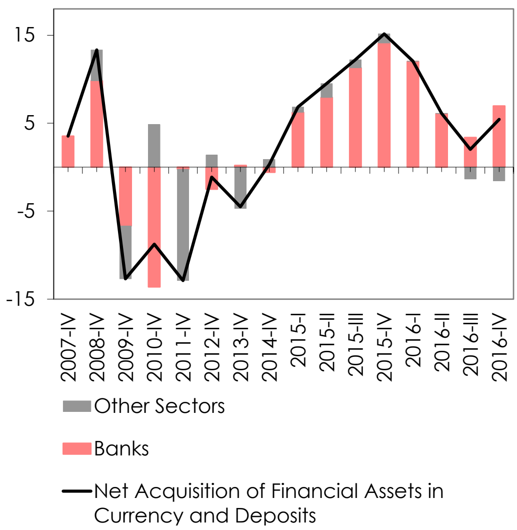
The currency and deposits item, which is a major component of the other investment item in the balance of payments, is composed of domestic sectors' deposits abroad and foreigners' deposits in Turkey.

In the final quarter, banks' deposits abroad declined. Banks' deposits composed of their correspondent accounts abroad are mainly affected by the change in residents' and non-residents' foreign exchange deposit accounts and banks' investment preferences over foreign exchange liquidity and portfolio. In this framework, banks are believed to have strengthened their correspondent accounts as a result of the increased exchange rate volatility.

Non-bank sectors' deposits abroad decreased. The other sectors item, representing the relevant transactions, uses data compiled by the Bank for International Settlements (BIS). This item is compiled from data about Turkish citizens' accounts in BIS member states reported to the BIS by related central banks. This item generally shows an uptrend in times of increased capital inflows, while it tends to decline in times of heightened volatility in exchange rates and decreased capital inflows as residents use their accounts. As the relevant data on deposits are obtained from the BIS with approximately a four-month lag, the figure for 2016Q4 reflects a provisional and estimate value and points to a slight decline for this quarter.

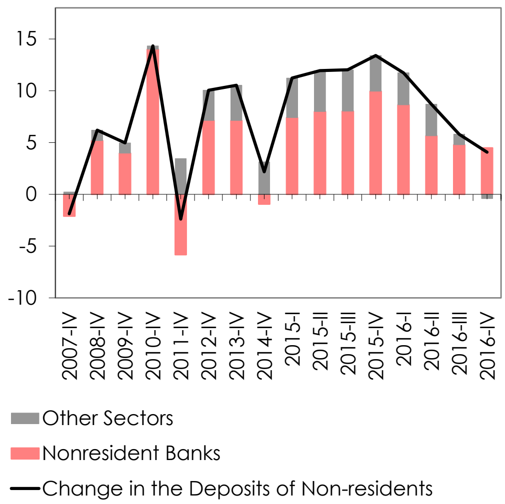
Net liabilities of the currency and deposits item posted a decline due to the decrease in deposits of non-resident banks and non-resident persons. This item is composed of non-resident Turkish citizens' deposits at the CBRT under the name of Foreign Currency Deposit Accounts with Credit Letter, and deposits of non-resident banks and non-resident persons. The relevant items in the final quarter of 2016 decreased as foreign investors reduced their position in Turkish assets.

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



Source: CBRT.

Chart 28. Currency and Deposits - Liabilities
(annualized, billion USD)

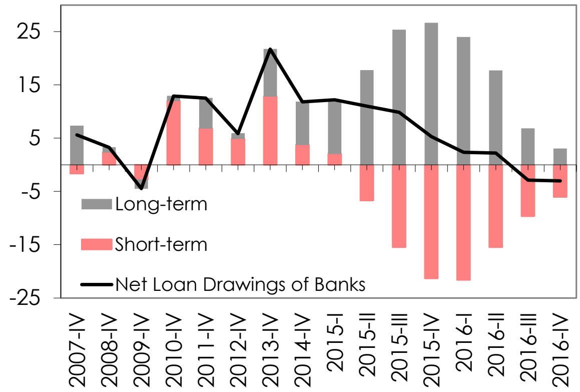


Source: CBRT.

2.4 Other Investment-Loans

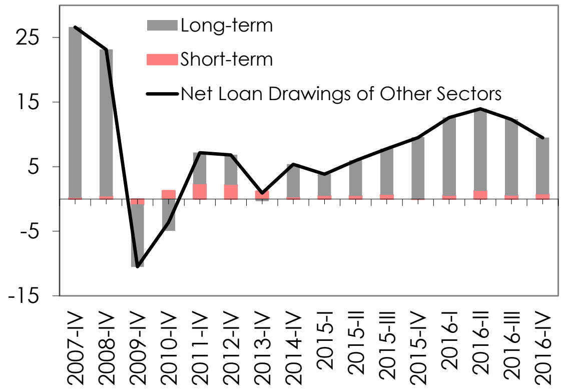
Other investment credit inflows decreased with the effect of the contraction of the economy; net inflows to the banking sector turned negative and deceleration in external borrowings of the other sectors continued. As for external borrowing through loans in the final quarter of 2016, banks were net payers of USD 253 million, while the other sectors were net borrowers of USD 714 million.

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



Source: CBRT.

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

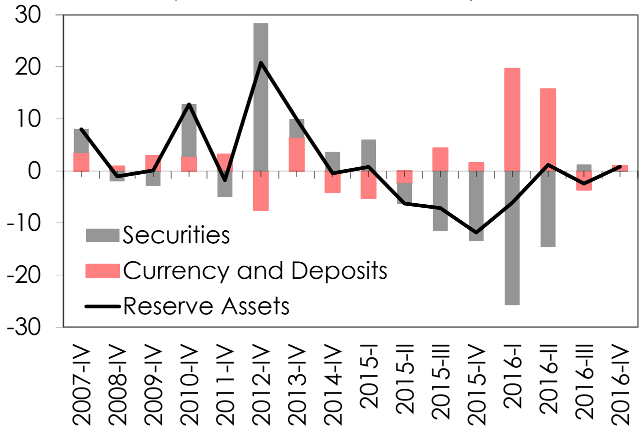


Source: CBRT

2.5 Reserves

Central Bank reserves slumped by USD 4.8 billion in the fourth quarter as well. This was mainly triggered by the outflows from portfolio and other investments.

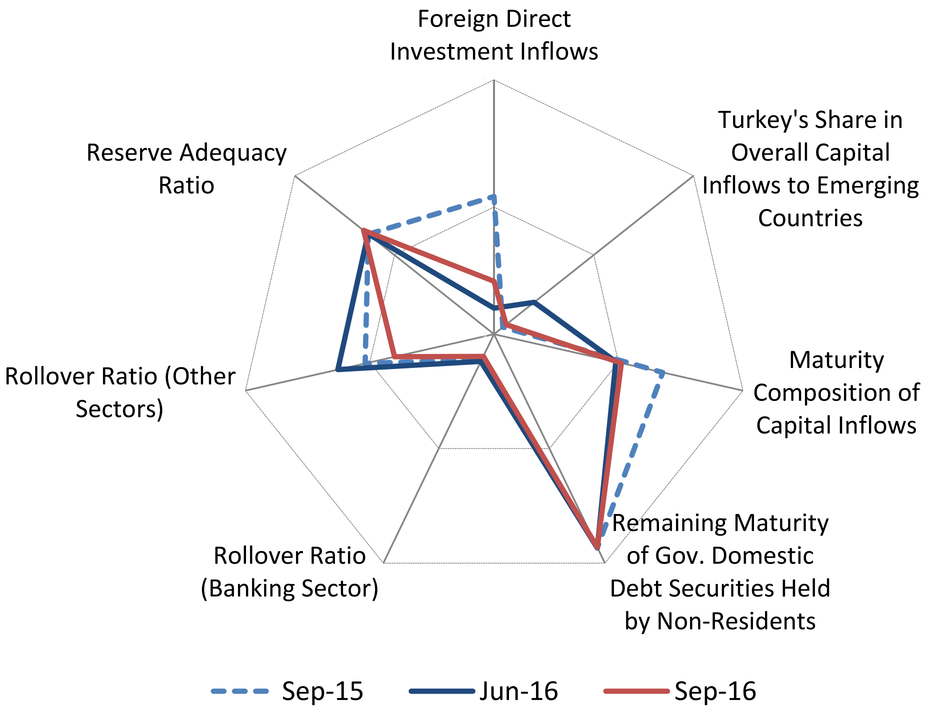
Chart 31: Reserve Assets
(annualized, billion USD)



Source: CBRT.

With the exception of the debt rollover ratio of other sectors dropping slightly, the quality of other financing sources remained unchanged compared to the same quarter last year.

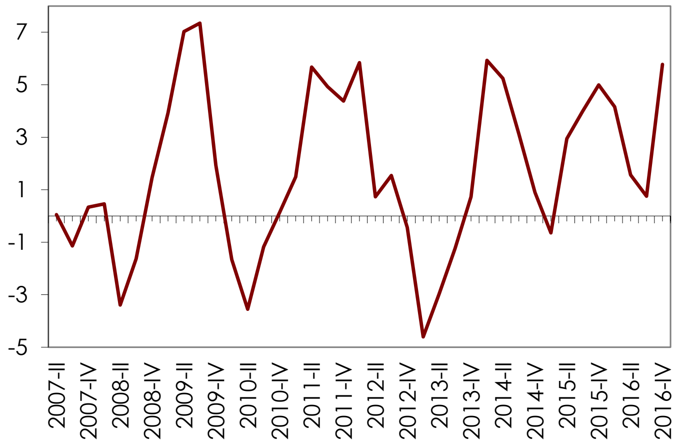
Chart 32: Macro Display of the Quality of Current Account Deficit Financing*



Source: CBRT.
* Expansion outwards denotes improvement.

The Net Errors and Omissions (NEO) item materialized at positive USD 6.7 billion in the fourth quarter of 2016. In annual terms, the 12-month cumulative NEO stood at USD 11 billion and its ratio to total FX inflows was 5.8 percent (Box 1)

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



Source: CBRT.

Box 3 Net Errors and Omissions Item

Balance of payments statistics, by definition, cover all economic transactions of a country with non-residents. Reports prepared by banks, including the Central Bank, provide the primary data source for the compilation of Turkey's balance of payments statistics. Yet, besides bank reports, administrative records received from related sectors and data obtained from surveys are also commonly used for the sake of encompassing all economic transactions in a precise and most accurate manner.

One of the principles of balance of payments compilation is the double-entry book-keeping system in which a transaction is recorded in two equal entries as debit and credit. To fulfill this principle, both entries of the transaction should be recorded at market value and simultaneously with the transfer of ownership. As a result of this book-keeping system, the sum of "Current Account’’ and “Capital Account” items should be equal to the “Financial Account” item at all times.

$$Current\ Account + Capital\ Account = Financial\ Account$$

However, this equivalence in theory is almost impossible to achieve in practice. The diversity of data sources causes variations in valuation and measurement as well as in time of recording. Consequently, the resulting differences are reflected in the Net Errors and Omissions (NEO) item as "residual". This item is obtained by deducting the current account and the capital account from the financial account.

$$Financial\ Account - Current\ Account - Capital\ Account = Net\ Errors\ and\ Omissions$$

Factors leading to the NEO can be categorized in three different headings:

Coverage: Transactions with non-residents may not all have been entirely covered by the data sources in use.

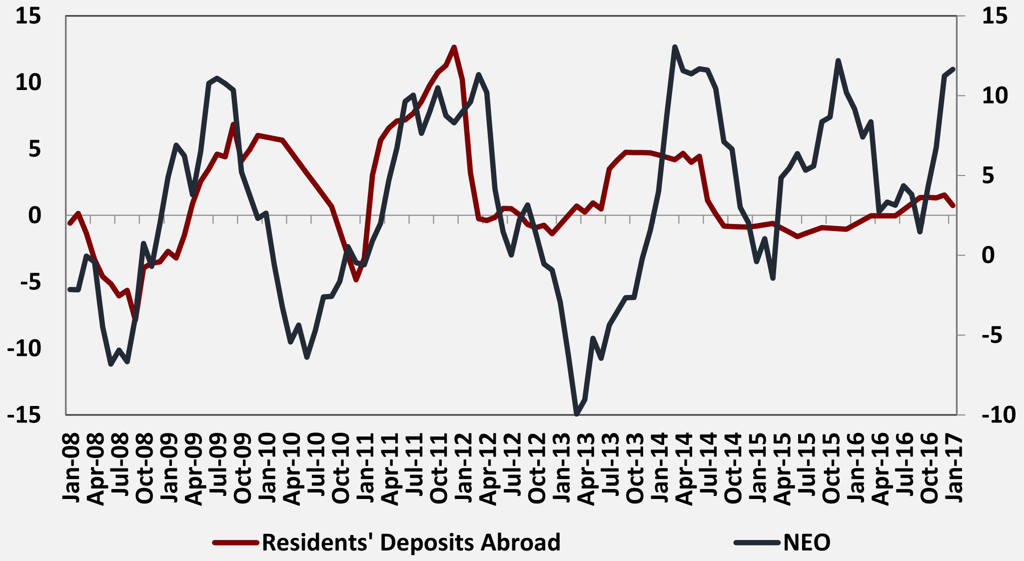
Valuation and Measurement: If different data sources are used for each corresponding entry of debit and credit for the same transaction, these data sources may measure this transaction in different amounts.

Time of Recording: Debit and credit entries obtained from different data sources for the same transaction may have been reported and thus recorded for different periods.

Some Factors Creating NEO in Turkey

In this section, some factors leading to NEO in Turkey will be analyzed in the framework of the above concepts. Residents' deposits abroad are deemed a significant item leading to NEO in balance of payments in terms of coverage. There is no source for gathering data about residents' (excluding banks') deposits in banks abroad. For this reason, the "Locational Banking Statistics[1]" published by the Bank for International Settlements (BIS) are used as a data source. However, these data have two deficiencies in terms of coverage. First, only 46 countries report to the BIS and so not all countries are covered. Therefore, it is not possible to access information about the deposits that real and legal persons in Turkey hold in countries other than these 46 countries. Second, the coverage of the BIS data compiled based on the residency principle is limited to "real and legal persons residing in Turkey who have opened deposit accounts" in member countries reporting to the BIS. Resident real and legal persons' deposits belonging to their affiliates, subsidiaries and branches abroad are considered deposits of the country they reside in and accordingly, they are not included in the BIS' Turkey data. Chart 1 shows the changes in NEO and residents' deposits abroad. As depicted in the Chart, the deposits and the NEO had displayed similar movements until 2013.

Chart 1: NEO and Residents' Deposits Abroad*
(billion USD)



Source: CBRT.
* Annualized data in billion US dollars. Positive values refer to a decline and negative values refer to an increase in deposits abroad.

In the monthly study of the TURKSTAT, "freight and insurance" receipts and payments items measured based on invoices issued together with customs declaration forms are recorded according to the flag of the ship instead of the residency principle. Ships "in Turkish ownership but carrying the flag of a foreign country" are included in statistics as foreign transportation vehicles,

[1] Non-residents' deposits in resident banks in Turkey are reported to the BIS in the framework of locational banking statistics. Likewise, other BIS member countries report non-residents' deposits in resident banks in their own countries. Deposits held abroad by real and legal persons residing in Turkey can be monitored through data aggregated by the BIS.

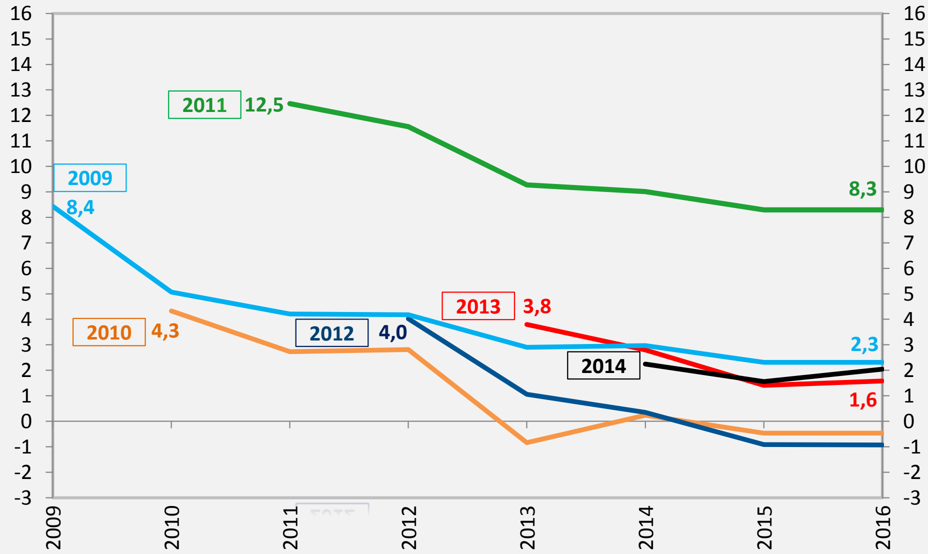
which could lead to NEO in terms of "valuation and measurement".

In Turkey's balance of payments statistics, the data of the relevant month is published with a lag of approximately six months and this lag is deemed considerably short compared to international practices. This practice, which aims to deliver statistics to users before they become irrelevant, necessitates the use of provisional data in place of data that are not available on the date of publication. For example, results of tourism and shuttle trade surveys and data released by the BIS are published on a quarterly basis and provisional data used in this time span cause NEO in terms of time of recording.

Updating the NEO Item and Its Size Compared to Other Countries:

Balance of payments statistics and accordingly the NEO item can be updated as provisional data become finalized over time and data start to be compiled from a new source. In this framework, Chart 2 shows the impact of studies conducted from 2009 to 2014 on the NEO item, on the basis of annual balance of payments statistics. Accordingly, annual NEO levels take high positive values when first published but are constantly revised downwards as a result of updates on data feeding the balance of payments statistics. For instance, the NEO assumed a positive value at USD 8.4 billion in 2009 but declined to USD 2.3 billion in 2016 after the studies conducted in the following years. Likewise, the NEO item for 2010 and 2012 that took positive values at first release dropped to negative values at the end of the third year that followed. Meanwhile, the NEO for 2011 recorded a positive value at USD 12.5 billion when data was first released but receded to USD 8.3 billion in 2016. An analysis of the years between 2009 and 2014 reveals that the NEO data plummetted on average by 45.7 percent within two years and by 80.0 percent within four years.

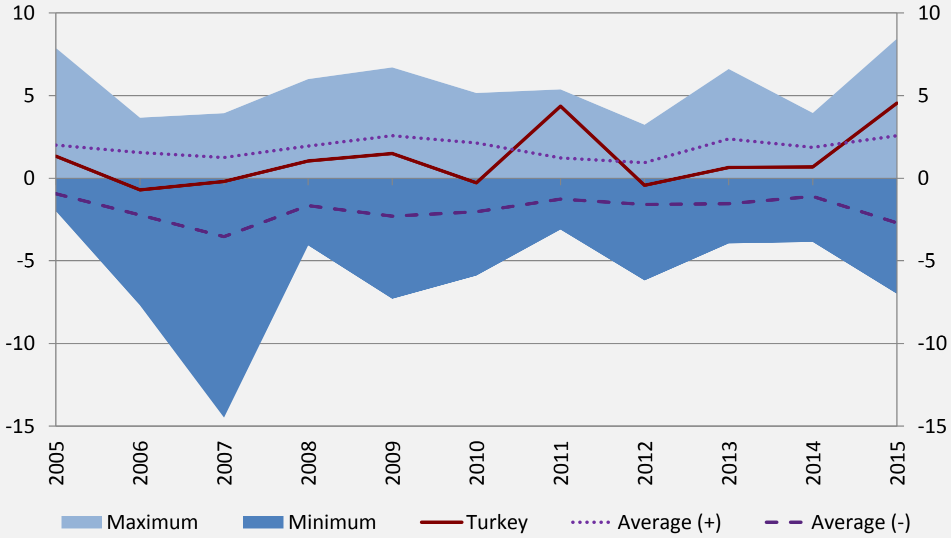
Chart 2: NEO Item by Years, 2009-2014
(billion USD)



Source: CBRT.

Chart 3 presents a comparison of Turkey's NEO with that of 20 selected countries[2]. An analysis of the ratio of NEO to total FX revenues[3] suggests that when compared within the range of minimum and maximum values, the Turkey data moves within the limits on a quite stable track. Moreover, according to positive and negative NEO averages, the Turkey data remained below the averages except for 2011, 2015 and 2016Q3.

Chart 3: Country Comparisons: NEO / Total FX Revenues (percent)



Source: IMF-International Financial Statistics.

To conclude, factors believed to have led to NEO in Turkey in recent years have been analyzed in this study on the basis of three factors. These factors, which may appear depending on the changing economic conjuncture and structure, are discussed in studies conducted in the framework of the dynamic structure of the compilation of balance of payments data and the results are reflected in balance of payments statistics through revisions.

[2] The USA, Germany, Argentina, the United Kingdom, Brazil, Czechia, China, South Africa, India, Spain, Switzerland, Italy, Japan, Republic of Korea, Norway, Portugal, Russia, Thailand and Greece.

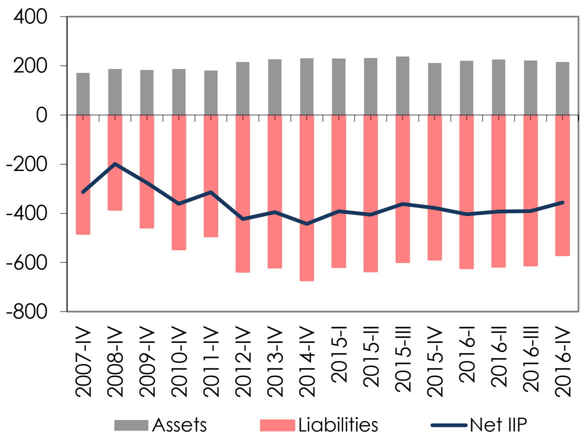
[3] Total foreign exchange revenues are composed of total goods export revenues, services revenues, the income item in the primary income balance and the secondary income balance that are included under the current account balance in the balance of payments table of a country.

3. International Investment Position

The net International Investment Position (IIP), defined as the difference between Turkey's assets abroad and the liabilities to non-residents, recorded an improvement in the last quarter of 2016. Price and exchange rate movements were instrumental in this improvement. According to IIP data, Turkey's net liability position improved by USD 35.0 billion quarter-on-quarter and stood at USD 356.0 billion by the end of December 2016. In this period, external assets decreased by 2.8 percent and external liabilities receded by 6.7 percent.

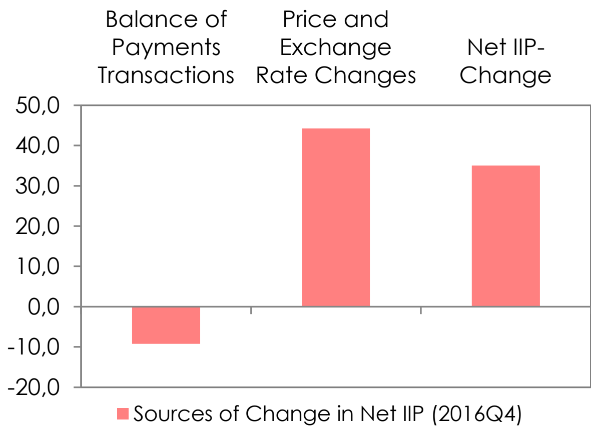
An analysis of the reconciliation calculations based on the comparison between flow transactions of the balance of payments and stock IIP data reveals that the improvement was mainly driven by price and exchange rate changes rather than movements triggered by balance of payments. In the last quarter of the year, the BIST National 100 Index increased by 2.2 percent quarter-on-quarter, whereas the depreciation by 17.9 percent in the Turkish lira against the USD was the main driver of the changes in exchange rates and prices.

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



Source: CBRT.

Chart 35. Current Account Balance and IIP
(billion USD)



Source: CBRT.

The other sectors, which include non-financial companies, had the highest net liability position with USD 284 billion, followed by the banking sector with USD 195 billion. The contribution of these sectors to the sum accounts for 83.9 percent and thus developments in these sectors determine the general IIP. On the other hand, while the Central Bank conventionally has a net asset position, the general government has a net liability position. The relevant sectoral distribution and contributions remained unchanged in the last quarter of 2016 as well.

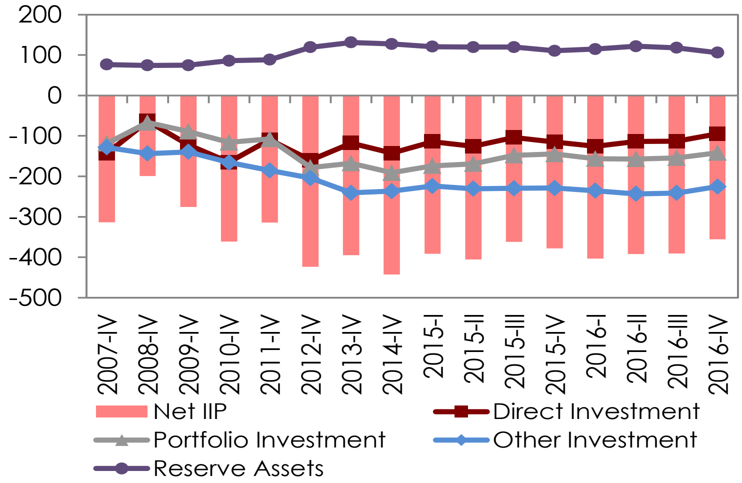
Table 1. IIP by Sectors (billion USD)

	2015			2016-I			2016-II			2016-III			2016-IV		
Sector	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net
General Government	2,1	-93,9	-91,8	2,2	-97,0	-94,8	2,0	-100,3	-98,3	2,0	-100,4	-98,4	1,8	-90,9	-89,1
Central Bank	112,3	-1,3	111,0	116,4	-1,3	115,1	123,6	-1,2	122,4	119,7	-1,0	118,7	107,9	-0,8	107,1
Banks	35,9	-197,7	-161,8	41,0	-205,8	-164,9	38,2	-206,5	-168,3	39,7	-202,0	-162,3	42,8	-195,3	-152,5
Other Sectors	68,8	-293,8	-225,0	68,9	-316,7	-247,7	61,1	-309,7	-248,7	59,9	-307,8	-247,9	62,2	-283,8	-221,5
Total	**210,5**	**-588,6**	**-378,1**	**219,9**	**-623,2**	**-403,3**	**225,1**	**-617,4**	**-391,0**	**221,0**	**-612,0**	**-391,0**	**214,8**	**-570,8**	**-356,0**

Source: CBRT.

An analysis by investment instruments reveals that the last-quarter changes in the IIP were mainly triggered by the decline in reserve assets at the Central Bank - the largest asset item of the net IIP; the downturn on the liabilities side in portfolio investments due to foreigners' government securities outflows; and the drop in equity securities and loans due to price and exchange rate changes. The decline in reserve assets resulted from the slump in banks' deposits held at the CBRT despite the increase in the Treasury account boosted by repayments of rediscount credits, bond issues and other factors. On the liabilities side, although balance of payments transactions created a total of USD 6.8 billion of inflow in direct investments, portfolio investments and other investments, there was also a total of USD 48-billion decline resulting from price and exchange rate changes.

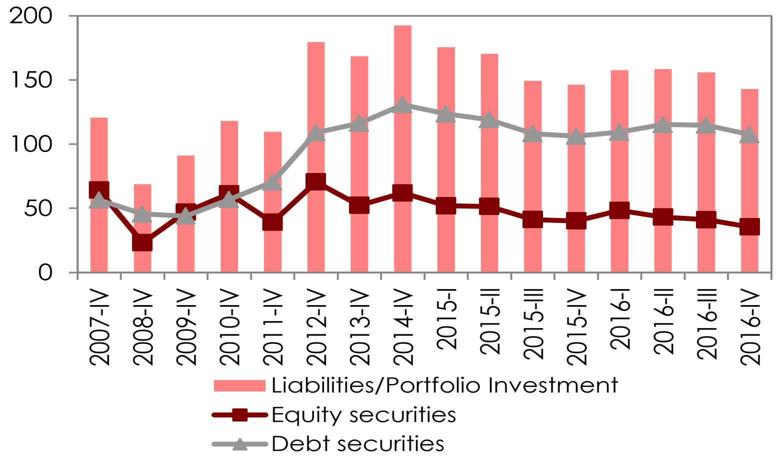
Chart 36. Contribution of Investment Instruments to IIP
(billion USD)



Source: CBRT.

An instrument and sector-based analysis of portfolio inflows having a 25 percent weight on the liabilities side of the IIP reveals that while there was not a major equity securities-driven change, debt securities posted GDDS outflows and Eurobond inflows in the last quarter of 2016. In this period, the equity securities stock decreased by USD 5.6 billion, USD 2.1 billion of which stemmed from banks and USD 3.5 billion from other sectors. Almost this entire drop was driven by exchange rate movements. Meanwhile, as inflows and outflows in balance of payments transactions were counterbalanced, the USD 7.3-billion decline in debt securities was essentially caused by price and exchange rate changes.

Chart 37. Liabilities: Portfolio Investments
(billion USD)



Source: CBRT.

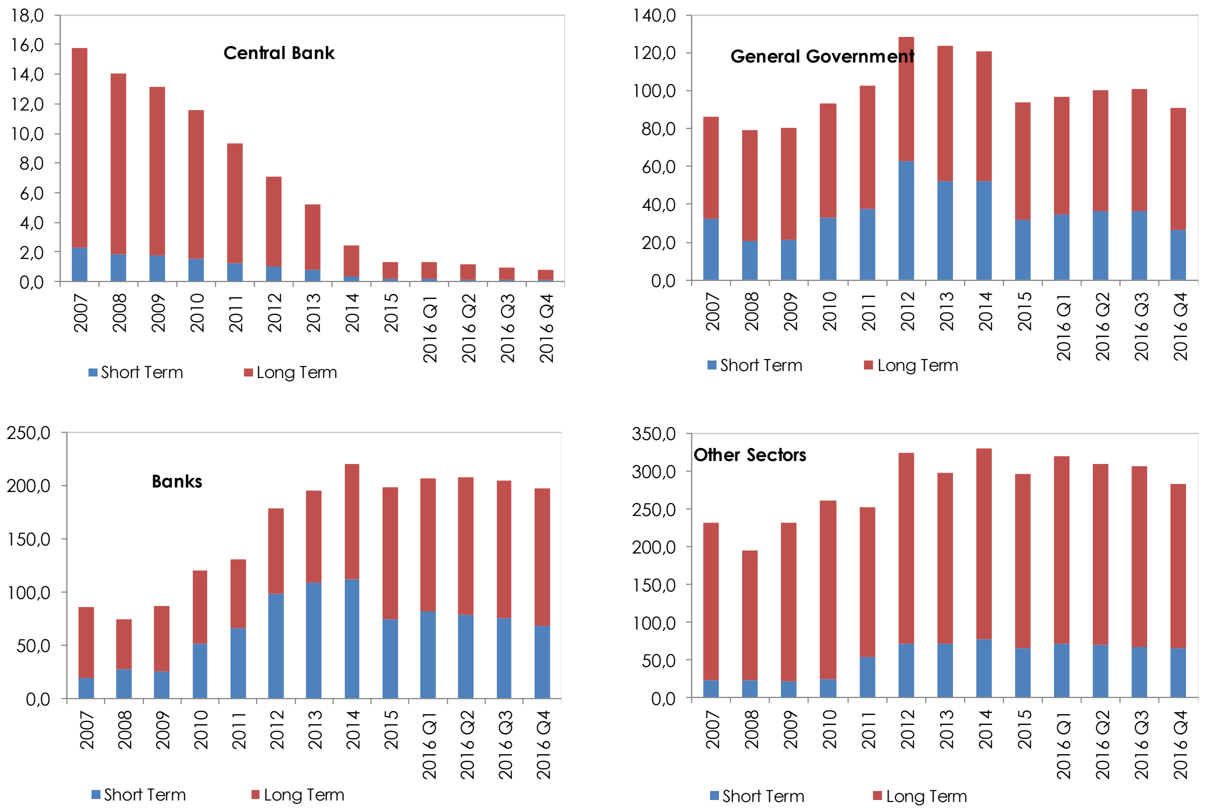
Table 2. Liabilities: Sources of Change in Portfolio Investments
(million USD)

Flow-Stock Relation	2016Q3	Balance of Payments Transactions	Price and Exchange Rate Changes	2016Q4	Changes in Amount	% Change
Liabilities/Portfolio Investment	**155.896,0**	**-460,0**	**-12.476,0**	**142.960,0**	**-12.936,0**	**-8,3**
(Equity Securities)	41.128,0	85,0	-5.708,0	35.505,0	-5.623,0	-13,7
(General Government/Debt Securities/GDDS)	36.427,0	-3.460,0	-6.228,0	26.739,0	-9.688,0	-26,6
(General Government/Debt Securities/Eurobond)	37.196,0	1.500,0	-104,0	38.592,0	1.396,0	3,8
(Banks/Debt Securities)	31.010,0	936,0	-344,0	31.602,0	592,0	1,9
(Other Sectors/Debt Securities)	10.135,0	479,0	-92,0	10.522,0	387,0	3,8

Source: CBRT.

Long-term items still have weight on the liabilities side of the IIP. In terms of sectors, 87 percent of the Central Bank's liabilities, 71 percent of the General Government's liabilities and 77 percent of other sectors' liabilities were long-term liabilities by the last quarter of 2016. The share of long-term maturities in the maturity structure of the banking sector liabilities had progressively increased since 2015 in tandem with the Central Bank's decisions, recorded at around 66 percent by 2016Q4. Approximately 72 percent of IIP liabilities across all sectors were long-term in this period.

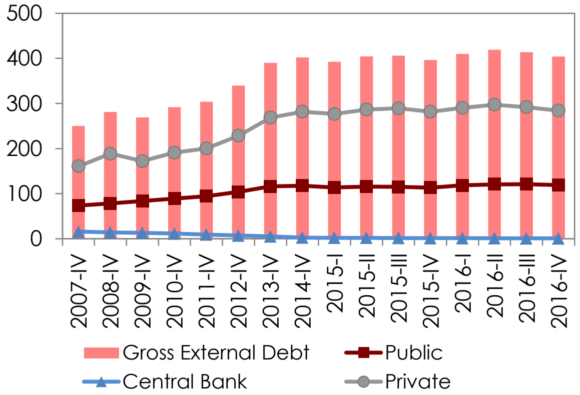
Chart 38. Liabilities: Maturity Distribution
(billion USD)



Source: CBRT.

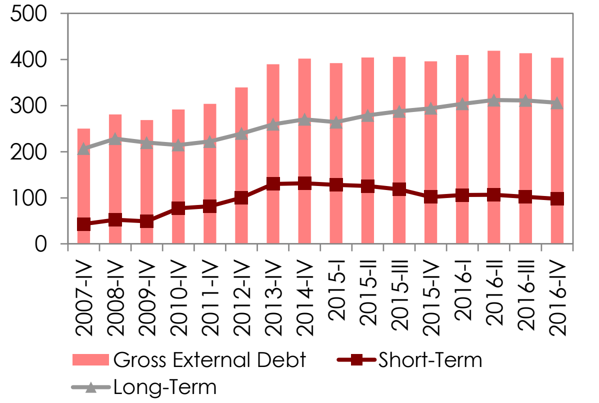
Basically, liability items of the IIP make up the main components of external debt stock. An analysis of the external debt stock data with respect to the related liability items indicates that the external debt stock posted a limited decline in 2016Q4 and materialized as USD 404.2 billion. By type of borrower, the private sector has the largest weight in gross external debt stock with a share of 70 percent. In terms of maturity distribution, the share of short-term debt has been decreasing over the last few years against a rise in the share of long-term debt. By 2016Q4, the share of long-term debt was 75.8 percent.

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



Source: CBRT.

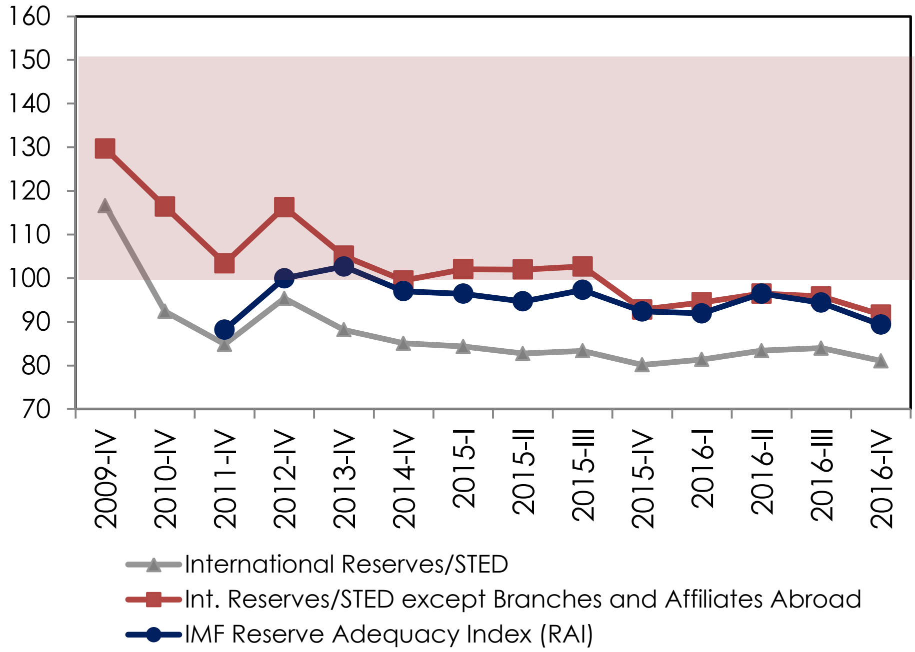
Chart 41. External Debt Stock: Distribution by Maturity (billion USD)



Source: CBRT.

In 2016Q4, the CBRT's gross international reserves dropped by USD 11.7 billion quarter-on-quarter to USD 106.1 billion. Banks' reserves that constitute the other component of Turkey's international reserves rose by USD 2.9 billion to USD 23.4 billion. Meanwhile, 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, decreased by 3.0 percent quarter-on-quarter to USD 159.8 billion. As a result, the ratio of total international reserves to STED, which is monitored as a reserve adequacy indicator, was recorded as 81.0 percent. This ratio becomes 91.6 percent when branches and affiliates abroad are excluded. The IMF Reserve Adequacy Ratio[4] was calculated as 89.3 percent.

Chart 42. Reserve Adequacy Indicators (percent)



Source: CBRT.

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

4. Annex Tables

Balance of Payments (billion USD)

	2015	2016	% change
Current Account	-32,1	-32,6	1,5
Goods	-48,1	-40,8	-15,1
Exports	152,0	150,2	-1,2
Exports (fob)	143,8	142,6	
Shuttle Trade	5,5	5,1	
Imports	200,1	191,0	-4,5
Imports (cif)	207,2	198,6	
Adjustment: Classification	-9,7	-9,0	
Services	24,2	15,4	-36,3
Travel (net)	21,2	14,0	
Credit	26,6	18,7	
Debit	5,4	4,8	
Other Services (net)	3,0	1,5	
Primary Income	-9,6	-9,0	-6,8
Compensation of Employees	-0,4	-0,7	
Direct Investment (net)	-3,3	-2,7	
Portfolio Investment (net)	-2,5	-2,1	
Other Investment (net)	-3,4	-3,5	
Interest Income	1,7	2,1	
Interest Expenditure	5,2	5,6	
Secondary Income	1,4	1,8	25,1
Workers Remittances	0,7	0,6	
Capital Account	0,0	0,0	
Financial Account	-21,9	-21,3	-2,7
Direct Investment (net)	-12,5	-9,1	-26,8
Net Acquisition of Financial Assets	5,1	3,2	
Net Incurrence of Liabilities	17,6	12,3	
Portfolio Investment (net)	15,7	-6,4	-140,4
Net Acquisition of Financial Assets	6,1	1,4	
Net Incurrence of Liabilities	-9,6	7,8	
Equity Securities	-2,4	0,8	
Debt Securities	-7,2	7,0	
GDDS	-7,7	0,8	
Eurobond Issues of Treasury	0,3	2,7	
Borrowing	3,0	5,5	
Repayment	2,8	2,8	
Banks (net)	-0,9	2,1	
Other Sectors (net)	1,1	1,4	
Other Investment (net)	-13,4	-6,7	-50,0
Currency and Deposits	2,7	1,8	
Net Acquisition of Financial Assets	15,1	5,4	
Banks	14,1	7,0	
Foreign Exchange	7,4	5,2	
Turkish Lira	6,7	1,7	
Other Sectors	1,0	-1,5	
Net Incurrence of Liabilities	12,5	3,6	
Central Bank	-0,9	-0,5	
Banks	13,4	4,1	
Loans	-12,8	-5,3	
Net Acquisition of Financial Assets	0,8	0,2	
Net Incurrence of Liabilities	13,6	5,6	
Banks	5,3	-3,0	
Short-term	-21,3	-6,0	
Long-term	26,6	3,0	
General Government	-1,2	-0,9	
Long-term	-1,2	-0,9	
Other sectors	9,5	9,5	
Short-term	0,0	0,8	
Long-term	9,5	8,7	
Trade Credit and Advances	-2,9	-3,3	
Net Acquisition of Financial Assets	-1,0	0,3	
Net Incurrence of Liabilities	2,0	3,6	
Other Assets and Liabilities	-0,3	0,1	
Change in Official Reserves	-11,8	0,8	
Net Errors and Omissions	10,2	11,2	

Source: CBRT.

International Investment Position (billion USD)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016Q1	2016Q2	2016Q3	2016Q4	16Q4/16Q3 % Change
Net IIP	**-313,6**	**-199,6**	**-275,8**	**-361,2**	**-314,5**	**-423,6**	**-395,2**	**-442,9**	**-378,1**	**-403,3**	**-392,3**	**-391,0**	**-356,0**	**-9,0**
Assets	**170,1**	**186,4**	**182,1**	**185,9**	**179,7**	**214,4**	**226,2**	**230,0**	**210,5**	**219,9**	**225,1**	**221,0**	**214,8**	**-2,8**
Direct Investment	12,2	17,8	23,3	24,0	28,3	31,4	33,7	39,9	35,2	35,9	36,8	37,4	38,3	2,4
Equity capital	12,2	17,8	19,9	20,8	23,9	27,5	29,9	33,9	30,6	31,5	32,2	32,9	33,7	2,5
Other capital	0,0	0,0	3,4	3,2	4,4	3,9	3,7	6,0	4,5	4,5	4,5	4,5	4,6	1,9
Portfolio Investment	2,0	1,9	1,9	2,2	1,8	1,3	1,0	1,5	1,6	1,4	1,4	1,5	1,3	-14,6
Equity securities	0,1	0,1	0,2	0,4	0,3	0,3	0,4	0,5	0,6	0,6	0,5	0,5	0,5	-2,9
Debt securities	1,9	1,9	1,7	1,9	1,5	1,0	0,6	1,0	1,0	0,8	0,9	1,0	0,8	-20,6
Banks	1,4	1,5	1,0	1,2	1,0	0,5	0,5	0,8	0,8	0,7	0,8	0,8	0,6	-23,7
Other Sectors	0,5	0,4	0,6	0,7	0,5	0,5	0,2	0,2	0,1	0,1	0,1	0,1	0,1	-2,7
Other Investment	79,5	92,4	82,0	73,7	61,3	62,6	60,5	61,3	63,2	68,0	65,1	64,2	69,1	7,6
Other Equity and Participation Shares	0,8	0,8	0,9	1,0	1,0	1,1	1,4	1,3	1,3	1,4	1,4	1,4	1,5	2,2
Currency and deposits	65,1	79,2	67,7	58,1	45,0	44,7	40,3	40,6	42,2	46,3	43,3	44,1	47,5	7,6
Banks	34,6	46,0	40,1	26,6	26,0	24,1	23,3	22,2	23,3	27,9	25,1	26,4	29,8	12,7
Foreign exchange	*34,6*	*42,7*	*37,4*	*24,0*	*22,2*	*18,4*	*16,9*	*14,6*	*17,6*	*20,7*	*19,1*	*20,5*	*23,4*	*14,5*
Turkish Lira	*0,0*	*3,4*	*2,7*	*2,5*	*3,9*	*5,8*	*6,4*	*7,6*	*5,7*	*7,1*	*6,1*	*6,0*	*6,4*	*6,7*
Other Sectors	30,5	33,2	27,5	31,6	19,0	20,6	17,0	18,4	18,9	18,4	18,2	17,7	17,7	0,0
Loans	1,9	2,4	2,6	2,6	2,8	3,6	4,1	5,7	6,2	6,8	6,4	6,5	6,3	-4,0
Central Bank	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Banks	1,8	2,3	2,6	2,5	2,6	3,1	3,0	4,4	5,1	5,7	5,6	5,7	5,7	-0,7
Short-term	1,1	1,5	1,5	1,3	1,0	1,3	1,0	0,8	0,8	1,1	1,0	1,0	0,9	-3,2
Long-term	0,7	0,8	1,1	1,2	1,5	1,7	2,0	3,5	4,3	4,6	4,7	4,7	4,7	-0,2
General Government	0,0	0,0	0,0	0,0	0,2	0,5	1,1	1,3	1,0	1,0	0,8	0,8	0,6	-27,4
Trade credit and advances	10,3	8,6	9,3	10,5	10,9	11,7	13,2	12,2	12,0	11,9	12,4	10,6	12,3	16,5
Other Sectors	10,3	8,6	9,3	10,5	10,9	11,7	13,2	12,2	12,0	11,9	12,4	10,6	12,3	16,5
Other assets	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	0,1
Central Bank	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5	0,1
Reserve Assets	76,4	74,2	74,8	86,0	88,3	119,2	131,0	127,3	110,5	114,6	121,8	117,8	106,1	-10,0
Monetary gold	3,1	3,2	4,1	5,3	9,9	19,2	20,1	20,4	17,6	18,9	20,1	18,8	14,1	-25,4
Special drawing rights	0,1	0,0	1,5	1,5	1,5	1,5	1,5	1,4	1,3	1,4	1,3	1,4	1,3	-4,1
Reserve position in the IMF	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	-4,4
Other reserve assets	73,1	70,8	69,0	79,1	76,8	98,3	109,2	105,3	91,4	94,2	100,2	97,5	90,6	-7,1
Liabilities	**483,7**	**386,0**	**457,9**	**547,1**	**494,2**	**638,1**	**621,3**	**673,0**	**588,6**	**623,2**	**617,4**	**612,0**	**570,8**	**-6,7**
Direct Investment	155,4	80,9	145,4	189,1	137,9	191,6	151,6	182,5	150,1	161,8	150,4	150,8	133,2	-11,7
Equity capital	151,9	75,4	138,0	181,2	130,9	183,8	143,5	174,8	141,5	152,4	140,5	140,1	123,0	-12,2
Other capital	3,4	5,5	7,4	8,0	7,0	7,8	8,1	7,7	8,6	9,4	9,9	10,7	10,2	-4,7
Portfolio Investment	120,6	68,7	91,0	118,2	109,5	179,5	168,5	192,6	146,4	157,7	158,4	155,9	143,0	-8,3
Equity securities	64,2	23,1	47,1	61,3	39,1	70,5	52,2	61,9	40,2	48,3	43,2	41,1	35,5	-13,7
Banks	0,0	0,0	0,0	0,0	13,5	29,9	17,6	21,4	11,6	14,0	12,9	12,9	10,7	-16,7
Other Sectors	0,0	0,0	0,0	0,0	25,5	40,6	34,6	40,5	28,6	34,3	30,3	28,2	24,8	-12,3
Debt securities	56,4	45,6	43,9	56,9	70,5	109,0	116,2	130,7	106,1	109,4	115,3	114,8	107,5	-6,4
Banks	0,0	0,0	0,0	1,1	4,2	13,3	21,4	31,4	30,0	29,4	31,5	31,0	31,6	1,9
In Turkey	0,0	0,0	0,0	0,1	0,4	1,1	1,2	1,2	0,8	0,7	0,7	0,6	0,6	2,6
Abroad	0,0	0,0	0,0	1,0	3,7	12,3	20,2	30,2	29,2	28,7	30,8	30,4	31,0	1,9
General Government	56,4	45,6	43,9	55,5	66,1	94,1	89,9	91,0	66,9	69,8	73,6	73,6	65,3	-11,3
In Turkey	32,2	20,4	21,1	32,7	37,5	62,7	52,1	52,2	31,8	34,5	36,4	36,4	26,7	-26,6
Abroad	24,3	25,2	22,9	22,8	28,5	31,5	37,8	38,7	35,1	35,3	37,1	37,2	38,6	3,8
Other Sectors	0,0	0,0	0,0	0,2	0,2	1,5	4,9	8,3	9,3	10,2	10,2	10,1	10,5	3,8
In Turkey	0,0	0,0	0,0	0,0	0,0	0,1	0,1	0,1	0,1	0,3	0,3	0,3	0,3	-17,3
Abroad	0,0	0,0	0,0	0,2	0,2	1,4	4,8	8,1	9,2	9,9	9,9	9,8	10,2	4,6
Other Investment	207,7	236,3	221,4	239,7	246,8	267,0	301,2	297,9	292,1	303,8	308,6	305,3	294,6	-3,5
Currency and deposits	26,6	31,4	32,0	44,3	37,6	46,1	53,2	49,1	43,1	49,7	48,2	47,2	43,5	-8,0
Central Bank	15,8	14,1	13,2	11,6	9,3	7,1	5,2	2,5	1,3	1,3	1,2	1,0	0,8	-15,0
Banks	10,8	17,3	18,9	32,8	28,3	39,0	48,0	46,6	41,8	48,4	47,0	46,3	42,6	-7,9
Foreign exchange	*7,0*	*9,4*	*10,1*	*15,2*	*19,9*	*27,4*	*36,9*	*33,2*	*32,2*	*34,3*	*33,0*	*31,8*	*30,5*	*-4,2*
Turkish Lira	*3,8*	*7,9*	*8,8*	*17,6*	*8,4*	*11,6*	*11,1*	*13,4*	*9,6*	*14,1*	*14,0*	*14,5*	*12,2*	*-15,9*
Loans	159,6	182,3	166,3	170,6	182,0	192,7	213,9	215,3	214,1	219,3	223,3	221,9	213,0	-4,0
Central Bank	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Banks	39,3	40,4	35,6	47,6	58,0	64,9	86,6	94,4	93,0	92,9	94,3	91,8	89,1	-3,0
Short-term	7,5	9,5	6,3	18,1	23,9	29,4	42,8	44,0	20,8	18,9	17,9	16,1	14,5	-9,9
Long-term	31,8	30,9	29,3	29,5	34,1	35,5	43,9	50,4	72,2	74,0	76,4	75,7	74,5	-1,5
General Government	30,1	33,5	34,8	36,1	35,0	32,8	32,2	28,7	25,7	25,9	25,4	25,7	24,3	-5,5
Short-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Long-term	30,1	33,5	34,8	36,1	35,0	32,8	32,2	28,7	25,7	25,9	25,4	25,7	24,3	-5,5
Other Sectors	90,3	108,5	95,9	86,9	89,0	95,0	95,1	92,2	95,4	100,5	103,6	104,4	99,7	-4,5
Short-term	1,4	1,8	0,9	2,0	2,7	4,2	4,9	4,6	3,8	4,6	5,1	4,8	3,9	-17,8
Long-term	88,8	106,7	94,9	84,9	86,3	90,8	90,2	87,6	91,6	95,9	98,5	99,6	95,7	-3,9
Trade credit and advances	21,5	22,6	21,6	23,4	25,7	26,8	32,7	32,2	33,6	33,4	35,8	34,9	36,9	5,7
Other Sectors	21,5	22,6	21,6	23,4	25,7	26,8	32,7	32,2	33,6	33,4	35,8	34,9	36,9	5,7
Short-term	21,1	22,0	21,1	22,8	25,4	26,4	32,3	31,9	33,1	33,0	35,3	34,5	36,4	5,8
Long-term	0,4	0,6	0,5	0,6	0,3	0,4	0,3	0,3	0,4	0,4	0,4	0,4	0,4	1,5
SDRs (Net inc. of liabilities)	0,0	0,0	1,5	1,5	1,5	1,5	1,5	1,4	1,3	1,3	1,3	1,3	1,3	-4,1

Source: CBRT.

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