TÜRKİYE CUMHURİYET MERKEZ BANKASI

Financial Accounts Report

2018-I

Summary

The financial balance sheets of sectors indicate that the Turkish economy maintained its position as a net debtor as of 2018Q1, with households and the rest of the world being the two major financing sectors. The distribution of indebted sectors did not change, with the non-financial corporations sector remaining the most indebted sector, followed by the general government.

Net financial transactions conducted in 2018Q1 reveal that households and financial corporations were net creditors whereas non-financial corporations and the general government were net debtors in the respective period. The total economy had net borrowing of 0.5 percent of GDP in the recent period.

A cross-country comparison of households' and non-financial corporations' indebtedness ratios indicates that Turkey maintained its place among the countries with low indebtedness in this period.

financial.account@tcmb.gov.tr

Contents

1. Evaluations

In 2018Q1, total financial assets of the Turkish economy were TRY 11,850 billion while its liabilities were TRY 13,571 billion, creating a net liability of TRY 1,721 billion for the rest of the world. Thus, the rest of the world and the households sectors emerged as the largest contributors to the financing of the domestic economy (Table 1).

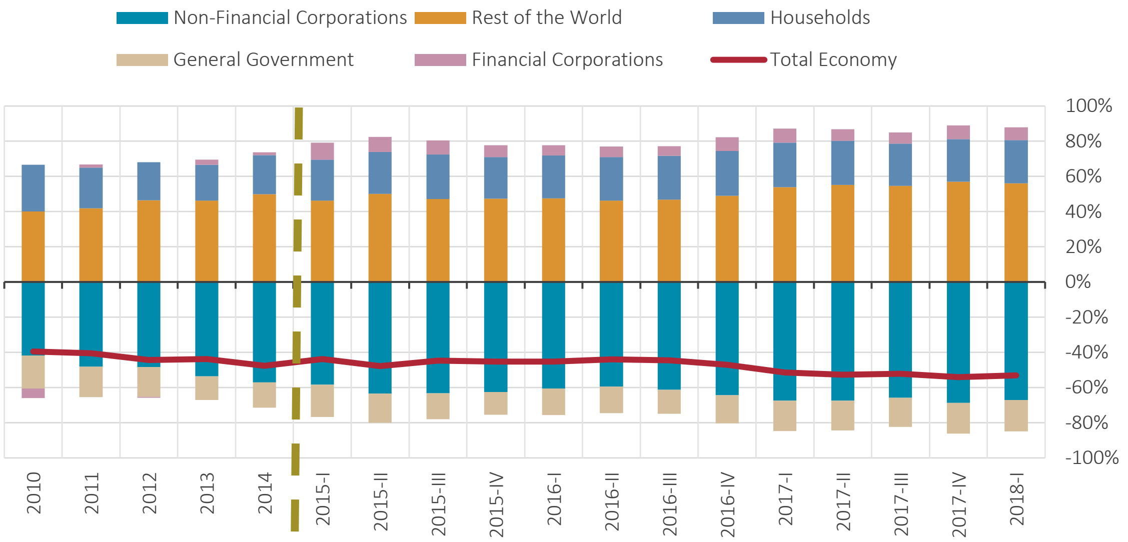
Table 1: Financial Net Worth by Sectors (2018QI, TRY billion)[1,2]

	Total Economy	Non-Financial Corporations	CBRT	Other Monetary and Financial Institutions	Insurance Corporations and Pension Funds	Financial Intermediaries and Auxiliaries	General Government	Households	Rest of the World
Financial Assets	11,850	5,330	669	3,323	193	269	676	1,390	882
Liabilities	13,571	7,509	615	3,160	196	245	1,252	594	2,704
Financial Net Worth	-1,721	-2,179	54	163	-3	24	-576	796	1,882

Source: CBRT

An analysis of the domestic economy's financial balance sheets by sectors from 2010 to 2018Q1 shows that households and the rest of the world generated a financial surplus and assumed a creditor role, whereas non-financial corporations and the general government ran a financial deficit and assumed a debtor role. Meanwhile, due to their financial intermediation activities, financial corporations maintained their balanced position with a financial net worth close to zero (Chart 1).

Chart 1. Financial Net Worth to GDP by Sectors (%)[2]

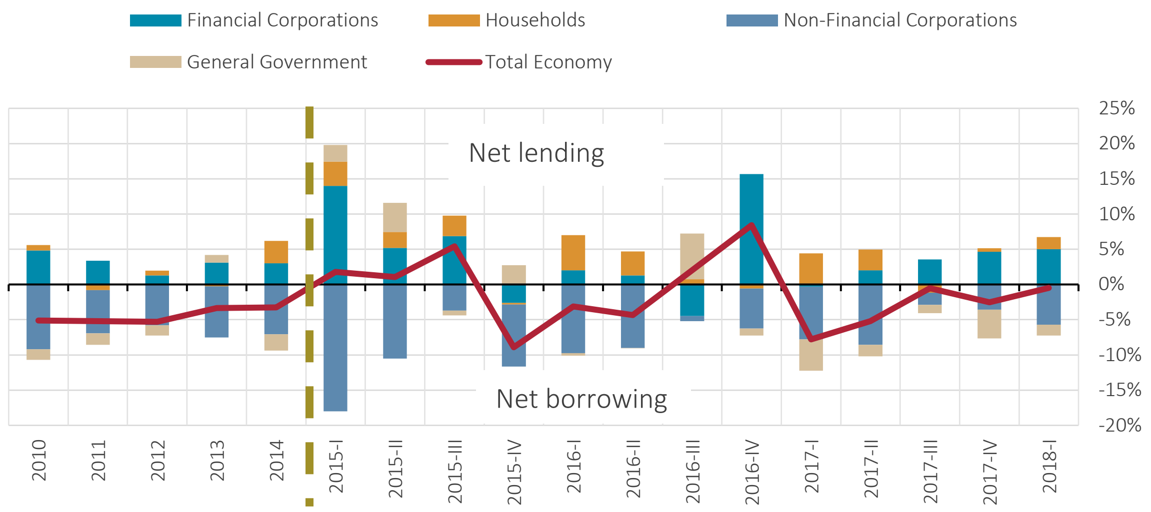


Source: CBRT, TURKSTAT

[1] Pursuant to the methodology, there is a difference between the financial net worth of total domestic economy and rest of the world since there is no counterpart sector for monetary gold. The rest of the world has been reported based on residency, so as to be compatible with the International Investment Position Statistics.

[2] The households sector also covers non-profit institutions serving households.

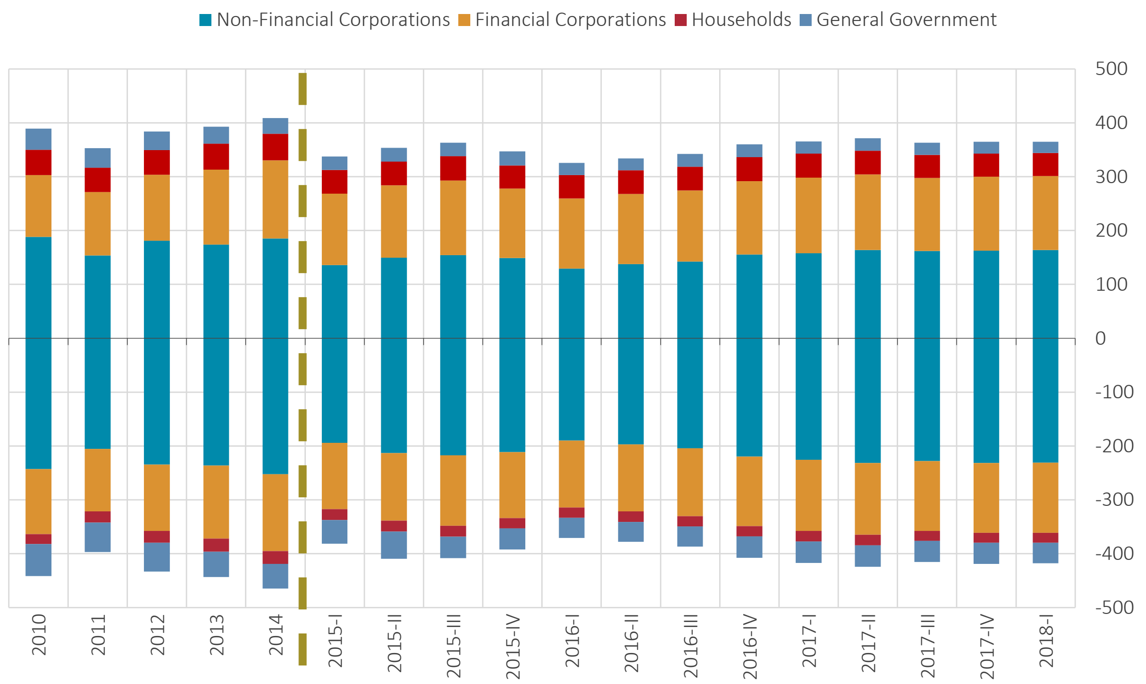
Chart 2: Net Lending \ Borrowing, Ratio to GDP, by Sectors (%) [2]



Source: CBRT, TURKSTAT

Net financial transactions by sectors reveal that financial corporations that were net debtors of 0.3 percent of GDP in 2017Q1 became net creditors of 5 percent of GDP in 2018Q1. While households were net creditors by 4.4 percent compared to the same period of last year, this ratio receded to 1.8 percent in the recent period. The non-financial corporations and general government sectors that maintained their positions as net debtors had net borrowings by 5.7 percent and 1.5 percent of GDP, respectively. The total economy that had net borrowing of 7.8 percent of GDP in the same period of last year reduced its borrowing to 0.5 percent in the recent period (Chart 2).

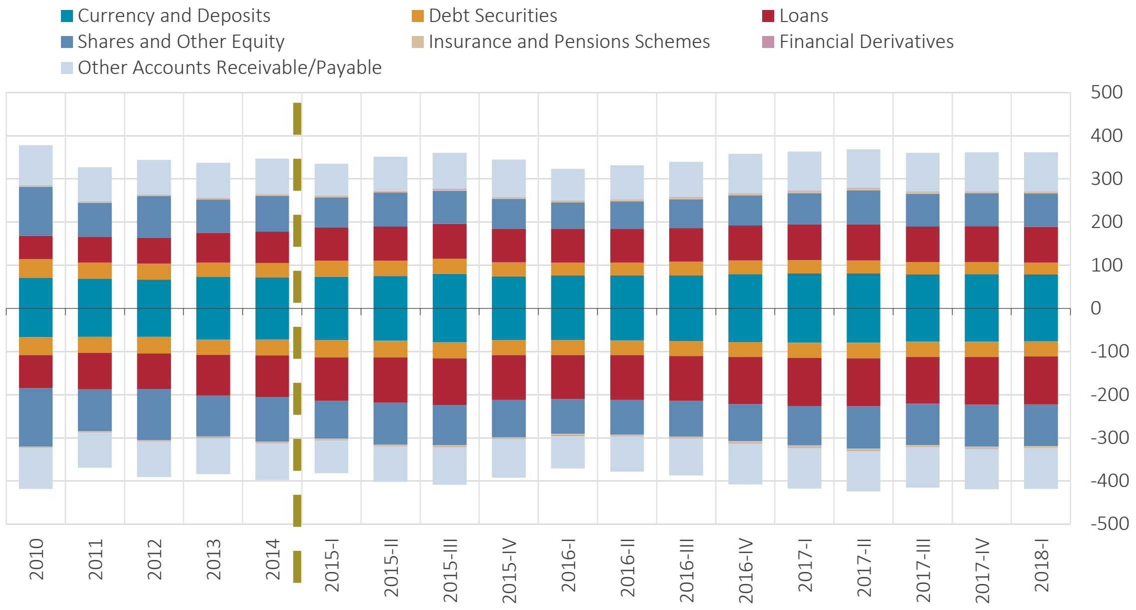
Chart 3: Financial Assets and Liabilities to GDP by Sectors (%) [2]



Source: CBRT, TURKSTAT

An analysis of financial assets and liabilities by sectors as of the recent period suggests that the non-financial corporations sector was the largest sector in terms of liabilities and assets, followed by financial corporations (Chart 3).

Chart 4: Distribution of Financial Instruments-Total Economy, Ratio to GDP* (%)



Source: CBRT, TURKSTAT
(*)Monetary gold and SDR have been excluded.

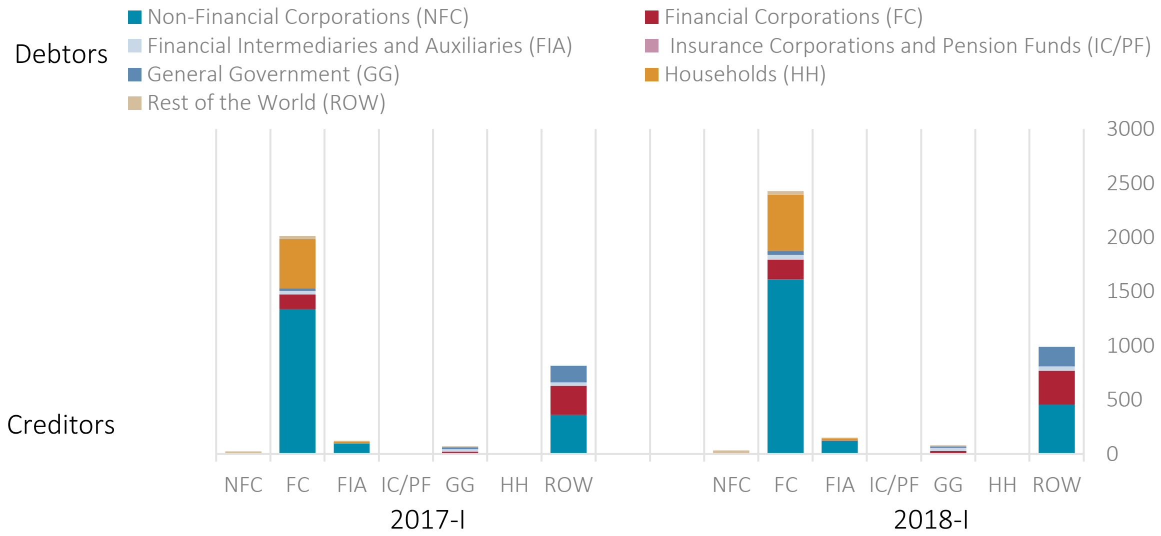
As for the financial instrument distribution in 2018Q1, loans and other accounts receivable had the largest weight in assets while the loans and the shares and other equity items had the largest weight in liabilities, respectively (Chart 4).

2. From-Whom-to-Whom (Deposits and Loans)

Below is the breakdown of relations among economic sectors compiled as deposits and loans according to from-whom-to-whom matrices.

From-whom-to-whom matrices of loans indicate that the strongest connection occurred between non-financial corporations and monetary and financial institutions in 2018Q1. Monetary and financial institutions extended a total of TRY 2,427 billion worth of loans, granting TRY 1,611 billion of it to non-financial corporations and TRY 519 billion to households. The rest of the world offered TRY 988 billion worth of loans, out of which non-financial corporations received TRY 454 billion and monetary and financial institutions received TRY 314 billion (Chart 5).

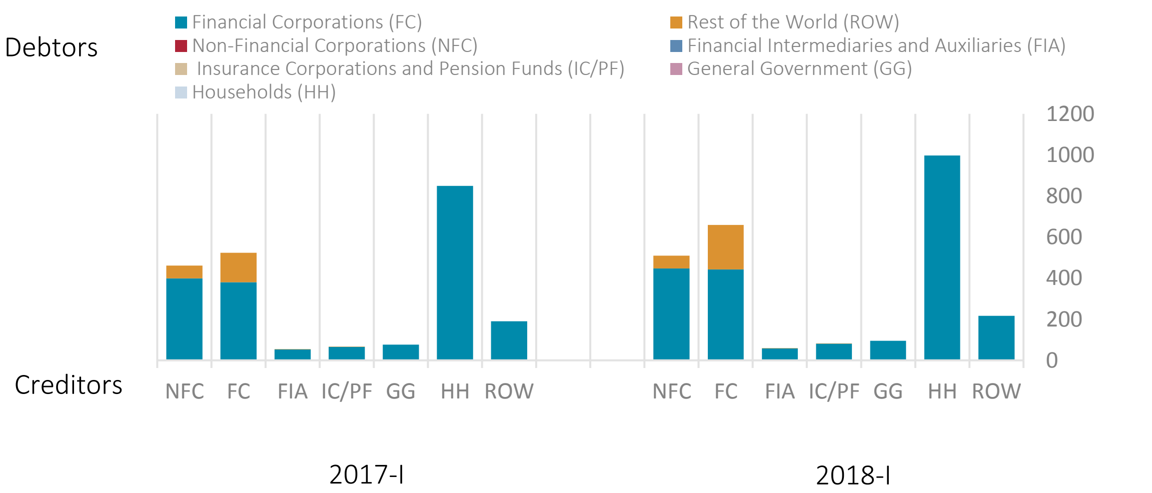
Chart 5: Loans, From-Whom-to-Whom (2018QI, TRY Billion)[2]



Source: CBRT

2018Q1, of the total TRY 2,642 billion worth of deposits opened by domestic and foreign sectors, TRY 2,362 billion were taken by monetary and financial institutions and TRY 279 billion by the rest of the world. A large portion of deposits taken by monetary and financial institutions belongs to households (TRY 997 billion) and non-financial corporations (TRY 447 billion). On the other hand, the majority of deposits taken by the rest of the world (TRY 216 billion) was opened by monetary and financial institutions (Chart 6).

Chart 6: Deposits, From-Whom-to-Whom (2018QI, TRY Billion)[2]

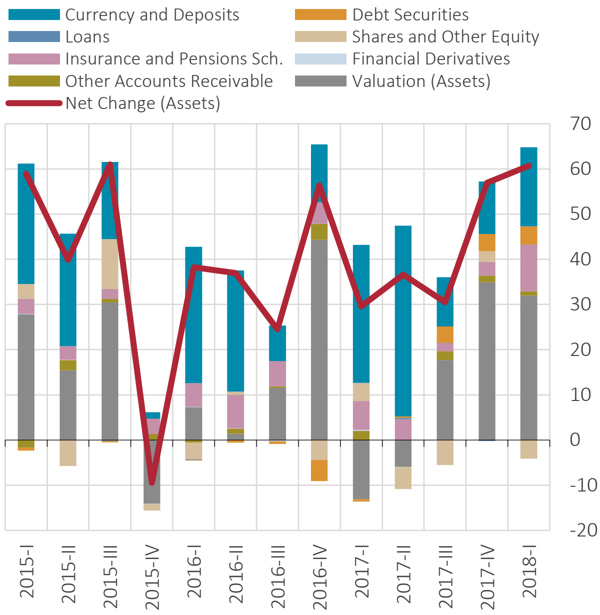


Source: CBRT

3. Households

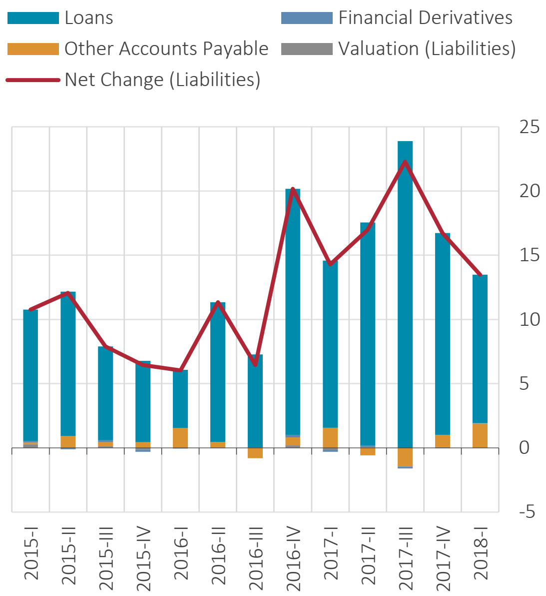
In 2018Q1, household financial assets increased by TRY 61 billion. This increase was mainly driven by the positive valuation of TRY 32 billion in the current financial assets. Meanwhile, currency and deposits increased by TRY 18 billion and insurance and pensions schemes by TRY 10 billion. The shares and other equity item, dropping by TRY 4 billion, was the only item of household assets that posted a decrease in the respective period. (Chart 7). In 2018Q1, household liabilities increased by TRY 14 billion. Loans amounting to TRY 12 billion were the main driver of this increase (Chart 8).

Chart 7. Financial Assets, Transaction (TRY Billion)



Source: CBRT

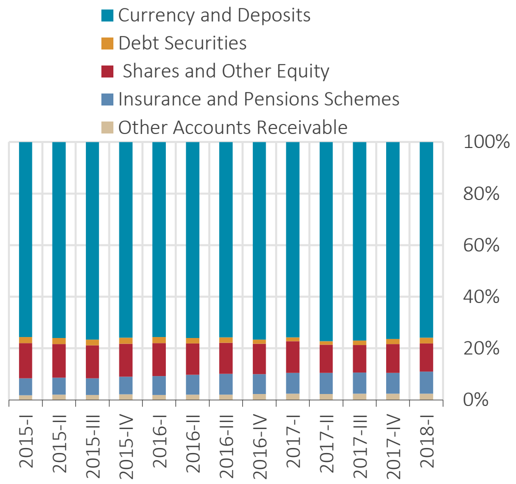
Chart 8. Liabilities, Transaction (TRY Billion)



Source: CBRT

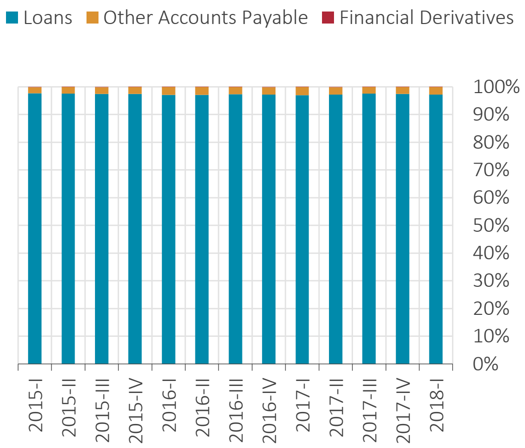
The leading instrument in household financial assets was deposits with a share of 76 percent followed by shares and other equity. During the data period, the share of debt securities and insurance and pensions schemes in total financial investments increased while that of deposits and shares and other equity remained flat (Chart 9). As for liabilities, almost all of them were composed of loans (Chart 10).

Chart 9: Breakdown of Financial Assets by Instruments (%)



Source: CBRT

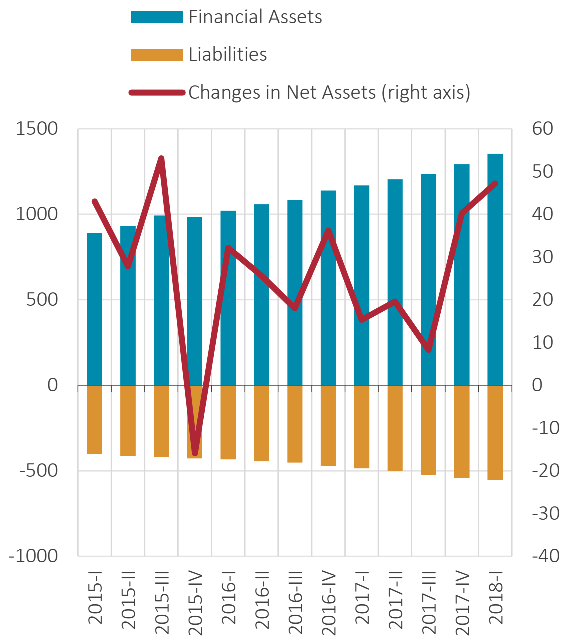
Chart 10: Breakdown of Liabilities by Instruments (%)



Source: CBRT

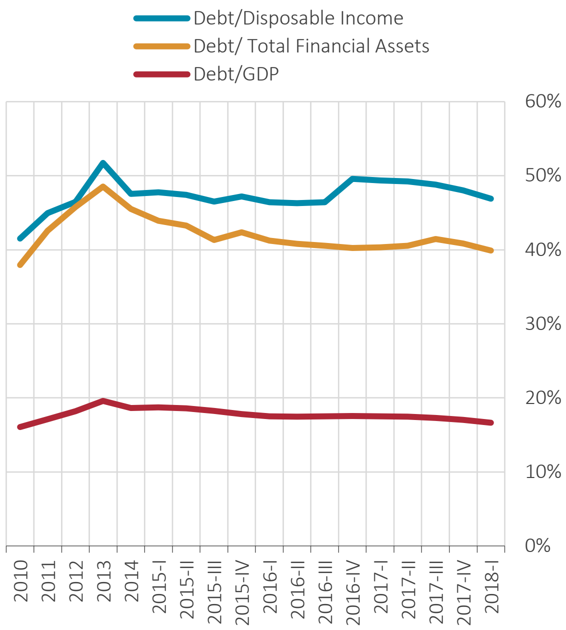
In 2018Q1, the household financial net worth increased by TRY 47 billion quarter-on-quarter (Chart 11). Household indebtedness indicators suggest that the ratio of household debt to GDP posted a slight decline to 16.6 percent, accompanied by decreases also in the ratios of debt to disposable income and debt to total financial assets in the first quarter (Chart 12).

Chart 11: Change in Net Assets of Households (TRY Billion)



Source: CBRT

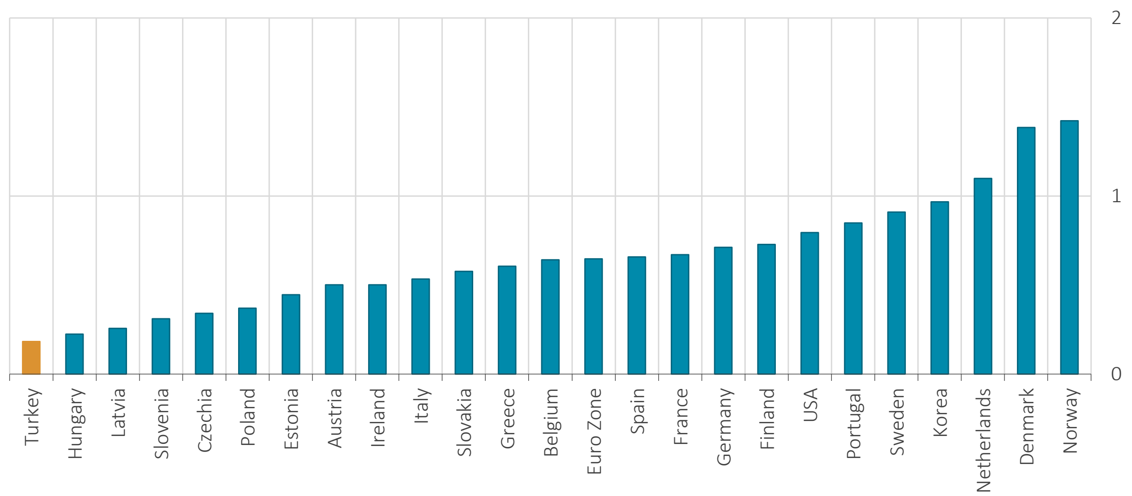
Chart 12: Household Debt* (%)



Source: CBRT, TURKSTAT
*Household debt is composed of loans.

The ratio of household liabilities to GDP indicates that Turkey stood out as the country with the lowest level of indebtedness among countries compared in 2018Q1 (Chart 13).

Chart 13: Household Liabilities/GDP, Comparison*[2]

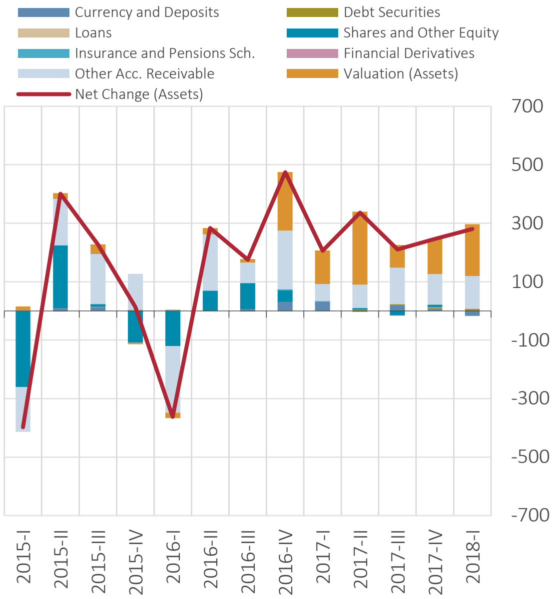


Source: CBRT, TURKSTAT, OECD
(*) Data for Norway and Korea are as of 2017Q4.

4. Non-Financial Corporations

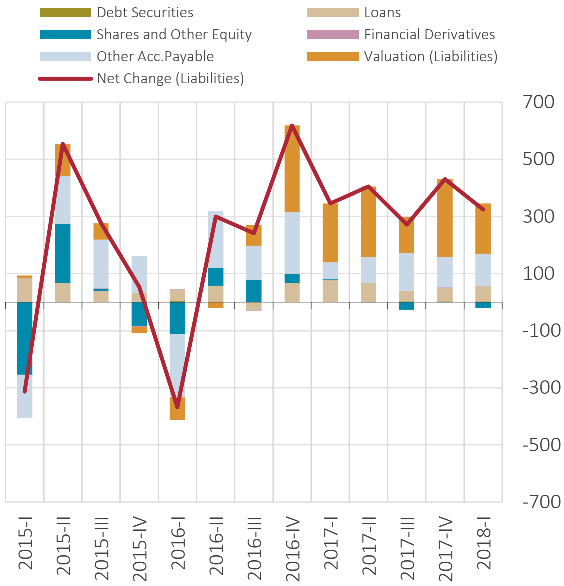
In 2018Q1, financial assets of non-financial corporations increased by TRY 280 billion. This increase was mainly driven by the positive valuation of TRY 177 billion in financial assets, while the other accounts receivable was up by TRY 112 billion. The currency and deposits of non-financial corporations decreased by TRY 14 billion in the respective period (Chart 14). In the first quarter of 2018, liabilities of non-financial corporations increased by TRY 325 billion. While the most significant factor in this increase was the positive valuation of TRY 176 billion in liabilities, the items of other accounts payable and loans increased by TRY 113 billion and 53 billion, respectively. Alternatively, liabilities related to shares and other equity decreased by TRY 21 billion (Chart 15).

Chart 14: Financial Assets, Transaction (TRY Billion)



Source: CBRT

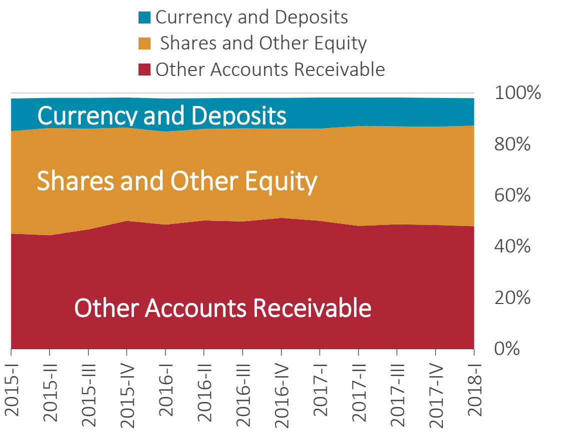
Chart 15. Liabilities, Transaction (TRY Billion)



Source: CBRT

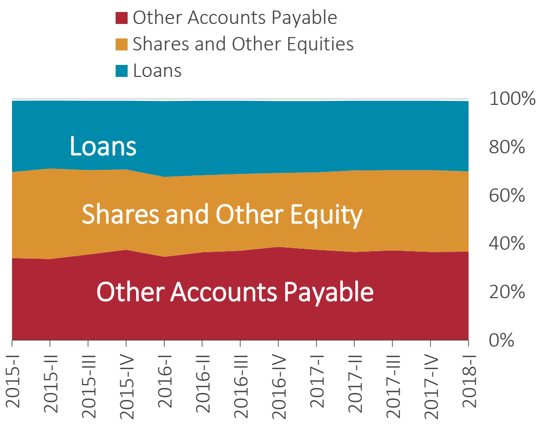
In 2018Q1, the most significant item on the assets side of non-financial corporations was the other accounts receivable (48 percent) composed of the sum of trade credits and advances, and other items. The share of the shares and other equity item was 39 percent, and that of currency and deposits was 11 percent (Chart 16). On the liabilities side, the share of financing through issues of shares and other equity in total liabilities was 33 percent, while the shares of other accounts payable and loans used were 37 percent and 29 percent, respectively (Chart 17).

Chart 16: Breakdown of Financial Assets by Instruments (%)



Source: CBRT

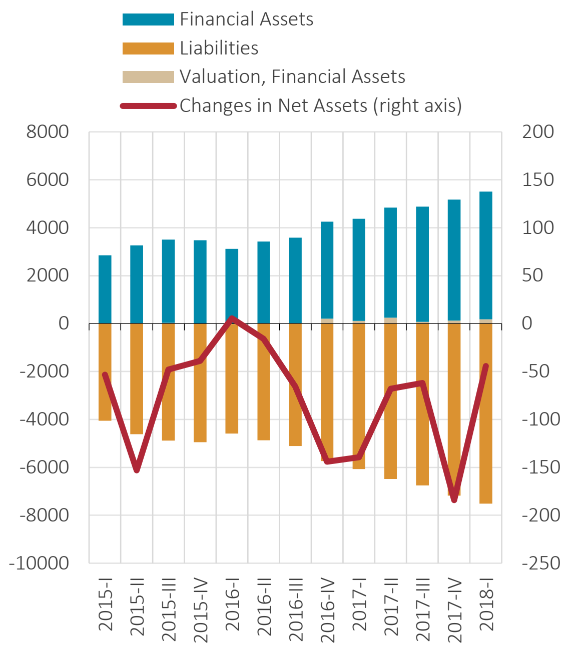
Chart 17: Breakdown of Liabilities by Instruments (%)



Source: CBRT

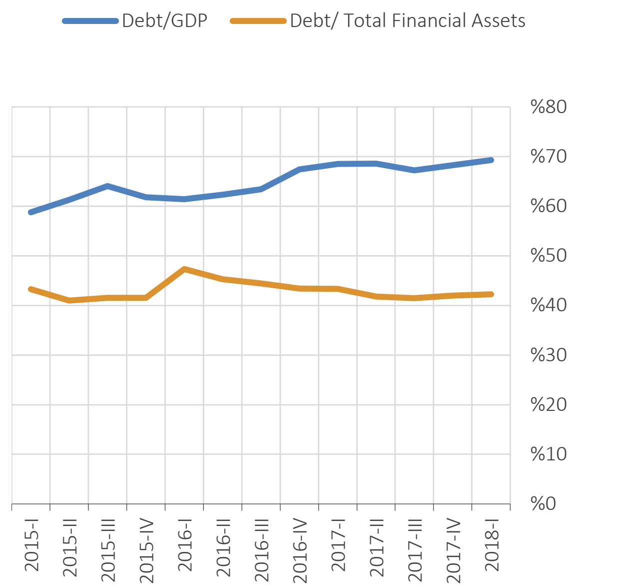
In the first quarter of 2018, net assets of non-financial corporations decreased by TRY 44 billion compared to the previous quarter (Chart 18). While the ratio of non-financial corporations' debts to GDP was 69 percent in the 2018Q1, the ratio of debts to total financial assets increased modestly (Chart 19).

Chart 18. Change in Net Assets of Non-Financial Corporations (TRY Billion)



Source: CBRT

Chart 19: Non-Financial Corporations' Debt * (%)

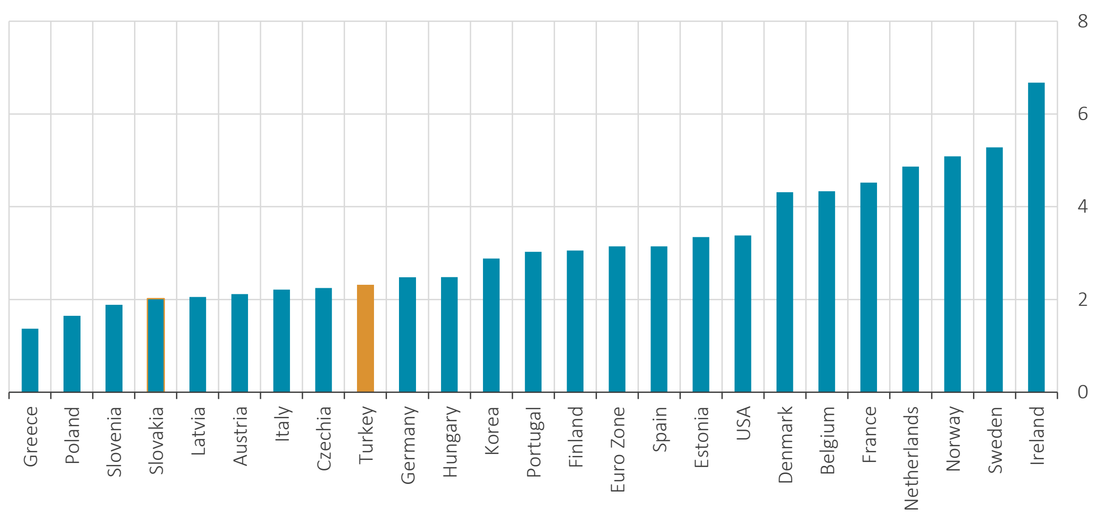


Source: CBRT, TURKSTAT.

(*) Debts are composed of loans and government debt securities

A comparison of the ratios of non-financial corporations' debts to GDP with those of several countries shows that Turkey ranked among the countries with low indebtedness levels in 2018Q1 (Chart 20).

Chart 20. Non-Financial Corporations' Liabilities / GDP, Comparison (*)



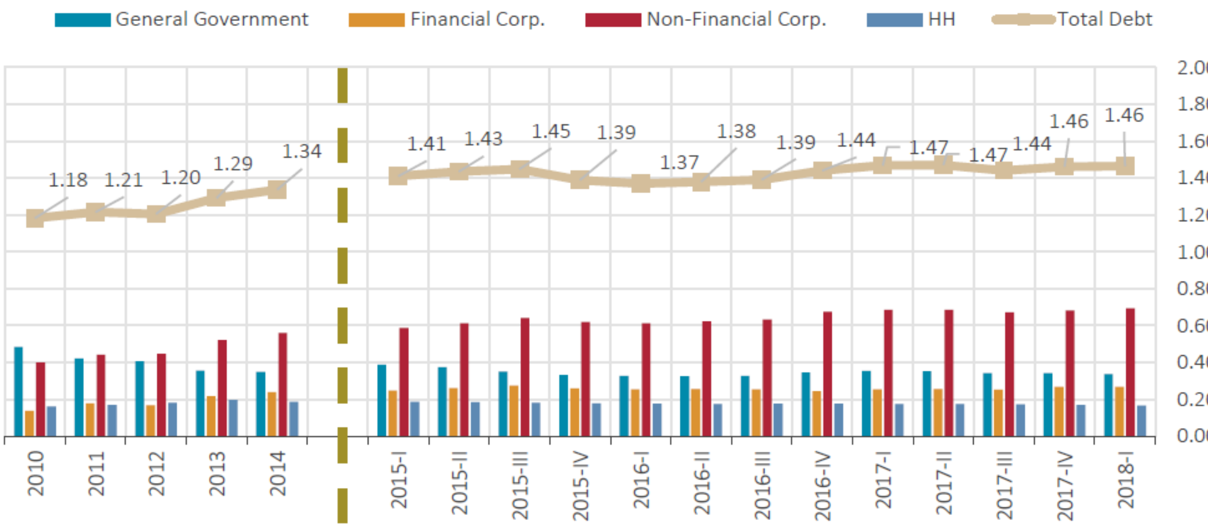
Source: CBRT, TURKSTAT, OECD.

(*) Data for Norway and Korea are as of 2017Q4.

5. Total Debt of Resident Sectors

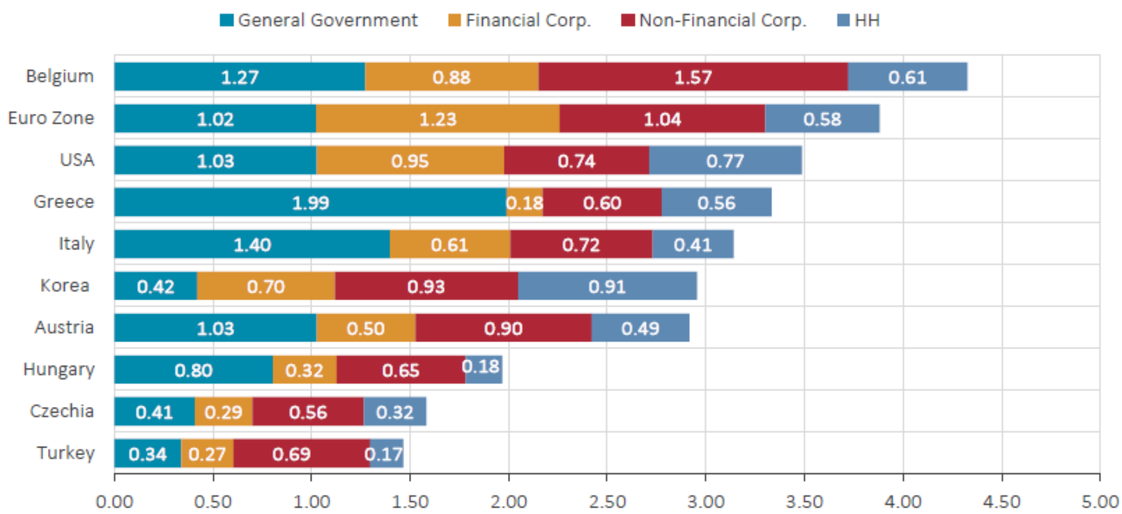
The ratio of resident sectors' financial accounts-defined total debt, which is the sum of the loans they use and the debt securities they issue, to GDP was flat in the first quarter of 2018 compared to the previous quarter (Chart 21).

Chart 21: Total Debt of Sectors/GDP [2]



A cross-country comparison of this indebtedness ratio reveals that the total debt of resident sectors in Turkey was low in 2018Q1 (Chart 22).

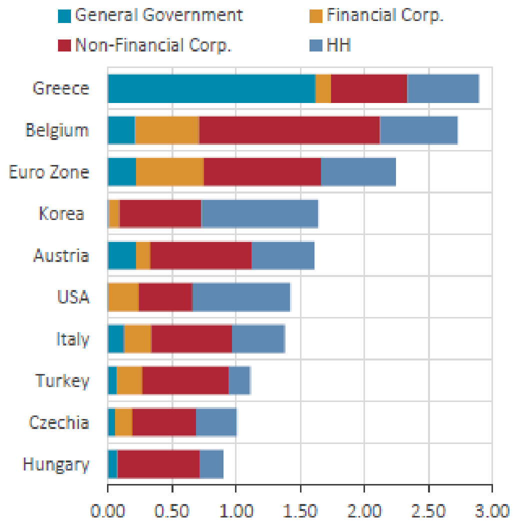
Chart 22: Cross-Country Comparison of Debt/GDP by Sectors (2018Q1)*[2]



Source: CBRT, TURKSTAT, OECD.
(*) Data for Korea is as of 2017Q4.

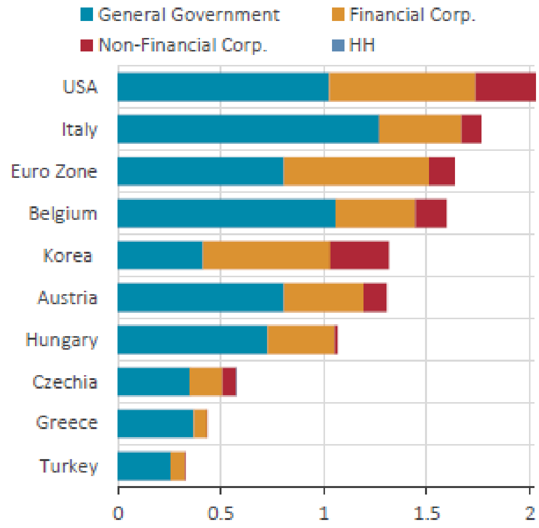
A cross-country comparison of indebtedness ratios by financial instruments shows that Turkey posted low levels of loan/GDP and debt securities/GDP ratios in the first quarter of 2018. While the largest sector with respect to loan indebtedness ratio was non-financial corporations with a ratio of 67 percent of GDP, the general government was the leading sector in debt securities with a ratio of 27 percent (Chart 23 and 24).

Chart 23: Cross-Country Comparison of Loan/GDP by Sectors (2018Q1)*2



Source: CBRT, TURKSTAT, OECD.
(*) Data for Korea is as of 2017Q4.

Chart 24: Cross-Country Comparison of Debt Securities/GDP by Sectors (2018Q1)*2



Source: CBRT, TURKSTAT, OECD.
(*) Data for Korea is as of 2017Q4.