CENTRAL BANK OF THE REPUBLIC OF TURKEY

Balance of Payments Report
2012- III

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Head Office

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CONTENTS

OVERVIEW

1. The moderate and steady upward trend in exports that started in the wake of the crisis continued in the January-September 2012 period as well. The aggravated financial crisis in the EU countries led to a decline in exports to the European Union, Turkey's largest trade partner. Nevertheless, the adverse impact of the weak exports trend to European countries was mitigated by Turkey's success in diversifying to newer export destinations and sectors.

2. Steady growth of exports together with the slowdown in imports led to improvement in the foreign trade deficit, hence decline in the current account deficit. According to the balance of payments definition, annual foreign trade deficit became USD 70.6 billion by September, pointing to a continued decline in the third quarter of 2012.

3. In the third quarter of 2012, the contraction in the current account deficit continued, bringing it down to USD 8.1 billion. Hence, annual current account deficit had declined to USD 55.7 billion by September. Seasonally adjusted data suggest that both current account deficit and current account deficit excluding energy continued to decline, albeit at a slower pace.

4. The year-on-year rise in the net services revenue was 8.1 percent in the third quarter of 2012. The increase in net transportation revenues offset the adverse impact of the decline in net tourism revenues in this period, boosting the net services revenue.

5. In the third quarter of 2012, capital inflows - excluding changes in reserves (CBT, banks and other sectors) and IMF loans - became USD 14.9 billion. In addition to portfolio investments through equity securities and debt securities (GDDS purchases, bond issues abroad by the Treasury and banks) and foreign direct investments (FDI), short-term borrowings of other sectors were instrumental in capital inflows. In this period, the shares of portfolio investments and short-term capital inflows increased, while those of FDI and long-term capital inflows decreased.

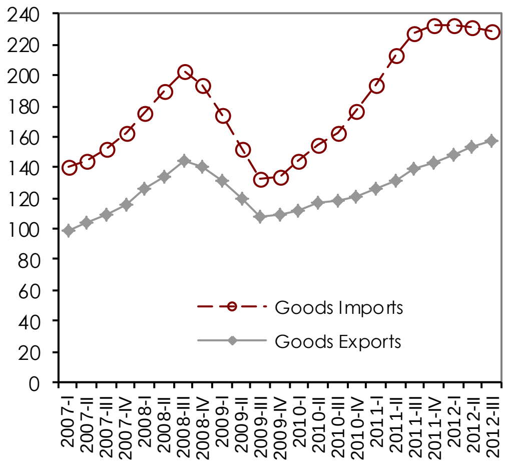
6. According to the International Investment Position (IIP), which shows the value of financial claims of Turkish residents from non-residents as well as their reserve assets, and that of financial liabilities of Turkish residents to non-residents at a particular point in time, Turkey's external assets became USD 201.5 billion while liabilities to non-residents became USD 585.3 billion by the end of the third quarter of 2012.

Balance of Payments
(billion USD)

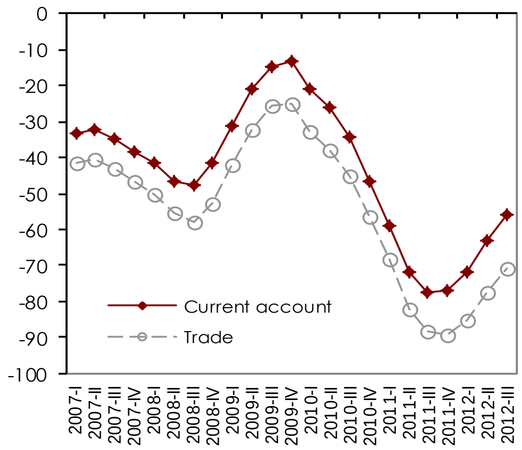
	January-September			September (Annualized)		
	2011	2012	% change	2011	2012	% change
Current Account	-60,5	-39,1	-35,3	-77,2	-55,7	-27,9
Goods	-69,7	-51,3	-26,4	-88,5	-70,6	-20,2
Exports	105,7	120,2	13,7	139,6	157,9	13,2
Exports (fob)	99,4	113,0		131,6	148,4	
Shuttle Trade	3,2	4,2		4,4	5,4	
Imports	-175,4	-171,5	-2,2	-228,1	-228,6	0,2
Imports (cif)	-181,7	-177,0		-236,7	-236,1	
Adjustment: Classification	8,9	8,8		12,0	11,7	
Serv ices	14,3	16,5	15,4	18,0	20,2	12,4
Trav el (net)	14,2	14,5		18,1	18,3	
Credit	17,8	17,3		23,1	22,5	
Debit	-3,6	-2,8		-4,9	-4,2	
Other Serv ices (net)	0,1	2,0		-0,2	1,9	
Income	-6,2	-5,3	-14,4	-8,3	-6,7	-18,9
Compensation of Employees	-0,1	-0,2		-0,2	-0,2	
Direct Inv estment (net)	-2,3	-1,4		-3,3	-1,7	
Portfolio Inv estment (net)	-0,9	-0,8		-0,9	-0,8	
Other Inv estment (net)	-2,9	-2,9		-3,9	-4,0	
Interest Income	0,9	1,3		1,2	1,7	
Interest Expenditure	-3,8	-4,2		-5,2	-5,6	
Current Transfers	1,2	1,0	-17,8	1,6	1,5	-6,8
Workers Remittances	0,8	0,7		1,0	0,9	
Capital and Financial Account	50,3	33,2	-33,9	65,5	52,9	-19,2
Financial Account (excl. reserv e assets)	55,7	49,8	-10,6	75,2	62,2	-17,3
Direct Inv estment (net)	9,8	6,9	-29,4	13,2	10,7	-18,6
Abroad	-1,7	-3,1		-1,9	-4,0	
In Turkey	11,5	10,1		15,1	14,7	
Portfolio Inv estment (net)	15,3	24,8	62,2	18,3	35,8	95,8
Assets	2,0	2,2		0,9	2,8	
Liabilities	13,2	22,6		17,4	33,0	
Equity Securities	-0,4	2,7		0,5	2,1	
Debt Securities	13,6	19,9		16,9	30,9	
Non-residents' Purchases of GDDS	9,6	12,2		11,8	17,4	
Eurobond Issues of Treasury	1,5	3,8		2,2	4,8	
Borrowing	3,3	6,1		4,0	7,1	
Repayment	-1,8	-2,3		-1,8	-2,3	
Banks (net)	2,5	3,9		2,6	4,3	
Other Sectors (net)	0,0	0,0		0,2	4,3	
Other Inv estment (net)	30,6	18,1	-40,9	43,8	15,7	-64,1
Assets	11,8	3,2		12,8	2,6	
Trade Credits	-0,3	-0,3		-2,1	-0,8	
Credits	-0,8	-0,5		-0,7	-0,5	
Currency and Deposits	12,9	4,0		15,7	2,6	
Banks	1,2	5,0		6,0	4,0	
Foreign Exchange	3,2	6,5		8,1	5,7	
Turkish Lira	-2,0	-1,5		-2,2	-1,7	
Other Sectors	11,7	-1,0		9,7	-0,1	
Liabilities	18,8	14,9		31,0	13,1	
Trade Credits	3,7	1,7		5,8	0,0	
Credits	16,1	5,5		24,3	8,3	
Central Bank	0,0	0,0		0,0	0,0	
General Gov ernment	-0,3	-1,4		-0,2	-1,9	
IMF	-2,1	-1,6		-2,8	-2,3	
Long-term	1,8	0,2		2,6	0,4	
Banks	10,5	2,0		18,5	4,0	
Long-term	3,7	-0,8		4,8	1,0	
Short-term	6,7	2,8		13,7	3,0	
Other sectors	5,9	4,9		6,0	6,3	
Long-term	3,9	1,9		3,7	2,3	
Short-term	1,9	3,0		2,4	4,0	
Deposits of Non-residents	-1,5	7,2		0,4	4,3	
Central Bank	-1,4	-1,7		-1,7	-2,2	
Banks	0,0	8,9		2,0	6,5	
Change in Official Reserv es (- increase)	-5,4	-16,5	206,0	-9,7	-9,3	-4,4
Net Errors and Omissions	10,224	5,886		11,75	7,046	

Source: CBT.

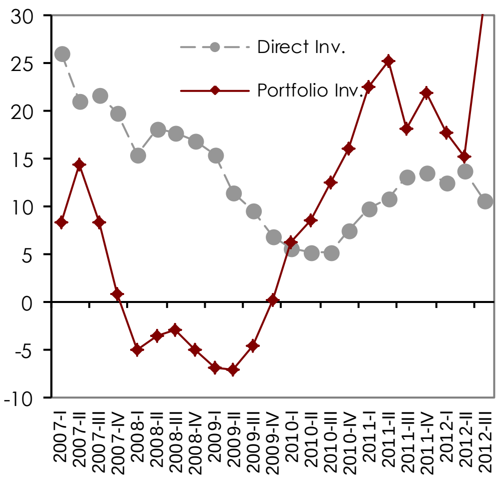
Exports and Imports of Goods
(annualized, billion USD)



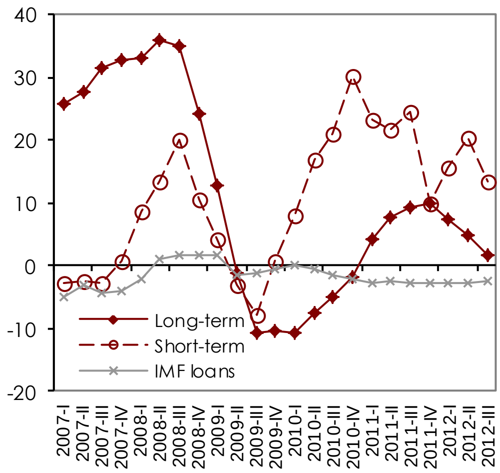
Foreign Trade and Current Account
(annualized, billion USD)



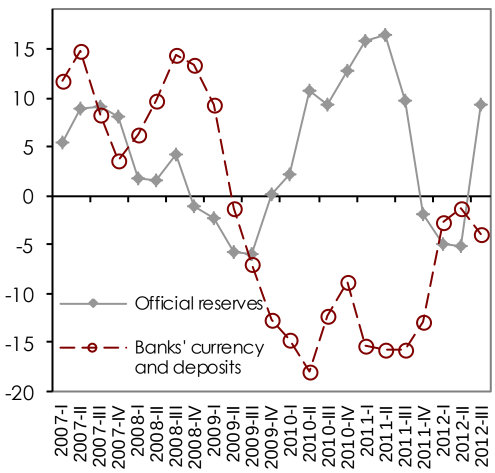
Direct and Portfolio Investment
(annualized, billion USD)



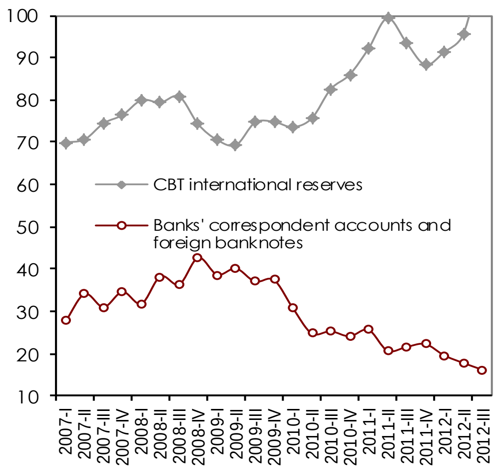
Other Capital Flows
(annualized, billion USD)



Changes in Reserves
(- decrease, + increase)
(annualized, billion USD)



International Reserves
(billion USD)

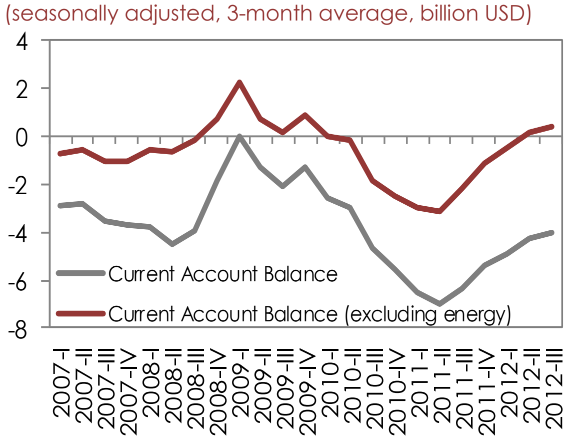


Source: CBT, TURKSTAT.

I. Current Account

1. In the third quarter of 2012, the contraction in the current account deficit continued, bringing it down to USD 8.1 billion. Hence, annual current account deficit had declined to USD 55.7 billion by September. Seasonally adjusted data suggest that both current account deficit and current account deficit excluding energy continued to decline, albeit at a slower pace.

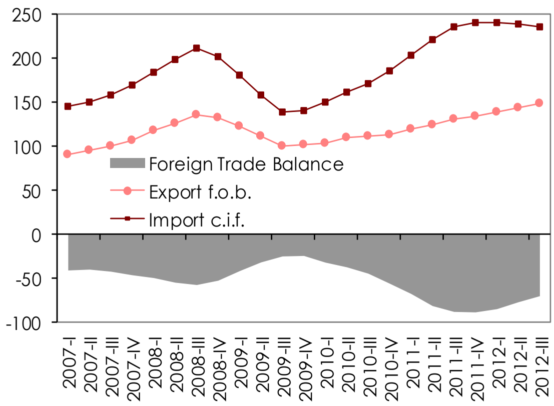
Current Account Balance
(seasonally adjusted, 3-month average, billion USD)



Source: CBT.

2. Steady growth of exports together with the slowdown in imports led to improvement in foreign trade deficit, hence decline in the current account deficit. Surges in gold exports also stimulated the narrowing down of the current account deficit in this period. According to the balance of payments definition, annual foreign trade deficit became USD 70.6 billion by September, pointing to a continued decline in the third quarter of 2012.

Foreign Trade Deficit
(annualized, billion USD)

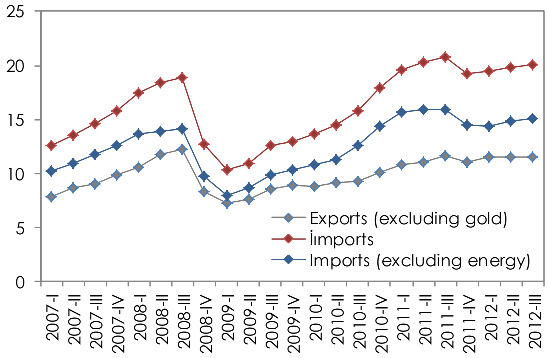


Source: CBT.

3. The moderate and steady upward trend in exports that started in the wake of the crisis continued in the January-September 2012 period as well. The aggravated financial crisis in the EU countries led to a decline in exports to the European Union, Turkey's largest trade partner. Nevertheless, the adverse impact of the weak exports trend to European countries was mitigated by Turkey's success in diversifying to newer export destinations and sectors.

4. Meanwhile, the slowdown in domestic demand curbed demand for imports. Thus, both total imports and imports excluding energy barely increased.

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



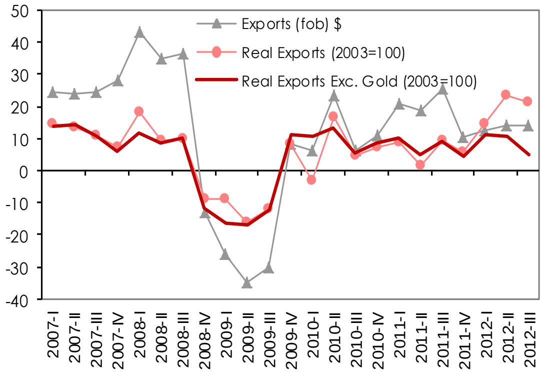
Source: CBT.

I.1 Exports of Goods

5. According to TURKSTAT data, exports grew by 14.2 percent in year-on-year terms in the July-September 2012 period. However, this growth in exports becomes very moderate when the USD 5.3 billion worth of gold exports in the same period is

excluded. Real exports increased by 21.4 percent during this period, while real exports excluding gold rose by 5.2 percent. Meanwhile, the nominal exports growth was contained by the 5.7-percent fall in export prices.

Exports-Nominal and Real
(annualized, percentage change)

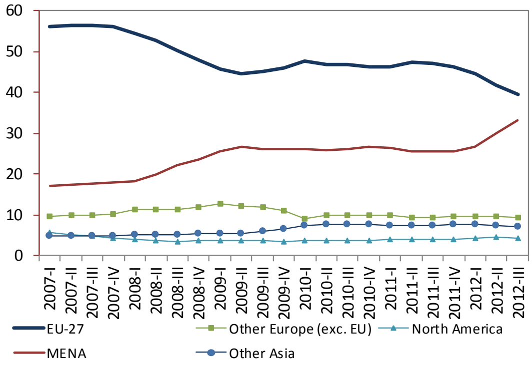


Source: TURKSTAT.

6. Gold exports to Iran and the UAE became the exports item that made the largest contribution to the exports growth in the third quarter of 2012. However, exports of motor vehicles and electrical machinery and appliances declined in this period whereas exports of textile products, apparel and iron and steel remained flat.

7. The share of exports to European Union countries in Turkey's overall exports continued to decline in the July-September 2012 period due to the weak import demand in the Euro area. While the share of exports to non-EU European countries remained unchanged, the rise in the share of exports to North Africa and Middle East countries continued. In this period, the UAE, Germany, Iran, Iraq and the United Kingdom became the leading export partners of Turkey. While the shares of the UAE, Iran, Iraq, Libya and Jordan increased the most compared to the previous year, the shares of Germany, Italy, France, Syria and the United Kingdom were the ones that recorded the highest drop in the share of Turkey's exports.

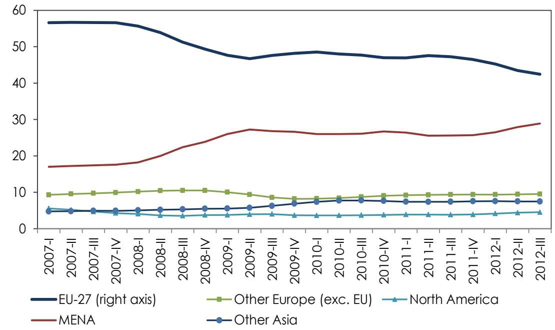
Selected Regions' Shares in Exports
(3-month, percentage share in total exports))



Source: TURKSTAT.

8. When the impact of gold exports is excluded, it is observed that the share of exports to EU has decreased, while those of Middle East and North Africa countries have increased. This case shows that the adverse effect of weakened import demand in EU countries has been mitigated by the increase in exports to Middle East and North Africa countries (Box 1).

Selected Regions' Shares in Exports excluding Gold
(annualized, percentage share in total exports)



Source: TURKSTAT.

Box 1 — Latest Developments in Exports to the European Union and Middle East and North African (MENA) Countries

European Union (EU) and Middle East and North African (MENA) countries are the two main export partners of Turkey.[1] While the share of the EU, the largest trade partner of Turkey, has been dramatically declining since the global crisis started to aggravate in the last quarter of 2008, the share of exports to the MENA region increased strikingly (Chart 1). Hence, the uptrend in exports to the MENA region offset the adverse impact of the global crisis on exports to the EU region.[2] This trend continued in the first nine-month period of 2012 as well: Exports to EU countries had a negative share (of -3.9 percentage points) in the 3.7-percent annual growth of exports excluding gold, whereas exports to MENA countries made a positive contribution (of 5.4 percentage points). An analysis of the first 25 countries contributing to exports reveal that the contribution of especially those EU countries like Germany, Italy and France, the largest trade partners of Turkey, turned negative in general. Yet, MENA countries, Iraq in particular, made a positive contribution to export growth (Chart 2).

Chart 1: Share of Exports to EU and MENA Countries in Turkey's Overall Exports (percent)

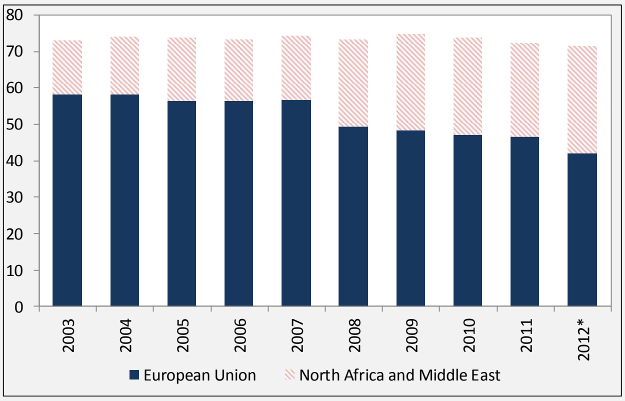
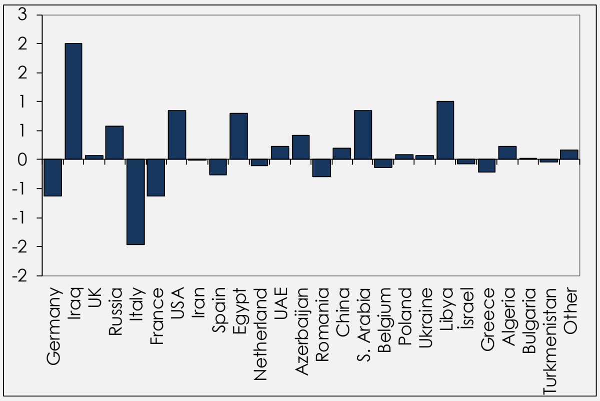


Chart 2: Contribution of the First 25 Countries to Annual Export Growth (January-September 2012, percent)



Source: TURKSTAT.
(*) January-September period.

Exports to EU countries were mainly led by exports of textile-apparel, motor vehicles, electrical machinery and appliances, livestock and food, and machinery-equipment sectors. Meanwhile, exports to MENA countries predominantly consisted of exports of iron-steel, livestock and food, mineral fuels and oils, electrical machinery and apparatus, and machinery-equipment sectors. Among the leading sectors of exports, exports of motor vehicles, textile and apparel were mainly directed to EU countries, while exports of the iron-steel sector were oriented towards the MENA region. An analysis of the development of exports over time shows that the share of EU countries dropped in all sectors except the apparel sector, whereas exports of the textile, machinery-equipment and electrical machinery and apparatus sectors to MENA countries notably increased. As seen, the export performance of the above sectors was significantly affected by the developments particularly in EU and MENA regions (Table 1).

[1] As of 2011, the shares of EU and MENA countries in overall exports were 46.5 percent and 25.7 percent, respectively.
[2] For more information, see Aldan et al., "Regional and Sectoral Export Diversification: The Case of Turkey"(in Turkish), CBRT Research Notes in Economics, No: 2012-18.

Table 1: Regional Breakdown of Exports by Sectors (percent share)

	European Union										North Africa and Middle East									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Motor vehicles	73,5	76,9	75,0	76,9	79,4	74,7	77,1	74,7	73,1	67,5	11,7	9,4	10,2	7,7	7,6	8,5	10,4	10,9	9,4	11,9
Textiles	56,8	55,0	53,8	55,8	54,3	51,0	50,7	48,0	48,1	42,7	10,9	11,8	12,0	12,0	12,6	15,3	19,6	19,5	19,2	22,1
Wearing apparel	74,8	75,4	77,6	79,6	81,1	81,1	81,4	81,4	80,8	77,1	3,3	3,8	3,6	3,9	4,0	4,8	6,9	6,8	7,5	9,3
Iron and steel	31,7	33,5	29,8	35,1	39,4	21,1	15,7	15,9	21,1	12,1	38,9	35,0	44,7	43,1	45,5	62,5	61,8	61,3	47,6	54,8
Machinery and equipment	52,6	49,6	47,8	46,1	49,2	46,9	41,6	41,5	44,2	39,4	17,1	20,8	23,0	24,2	26,1	32,8	40,2	41,0	43,8	49,0
Electrical machinery and apparatus	61,4	56,1	56,1	55,5	54,1	50,2	51,8	51,4	49,0	48,9	18,6	22,8	23,2	23,6	25,6	27,6	29,4	27,5	26,2	28,5
Food and live animals	50,1	53,6	53,2	48,7	47,5	42,2	40,1	38,5	35,5	33,0	20,4	18,3	19,8	21,4	20,8	24,3	29,2	29,6	33,5	37,3
Mineral fuels and oils	26,2	25,7	22,3	35,7	30,4	27,5	23,2	19,2	26,3	29,3	20,4	18,3	19,8	21,4	20,8	24,3	29,2	29,6	33,5	37,3
Manufactures of metals,n.e.s.	50,3	47,0	44,7	41,4	43,2	43,3	36,9	39,1	41,4	35,7	19,5	22,6	24,4	26,5	25,2	27,6	36,4	34,9	30,9	36,0
Miscellaneous manufactured articles, n.e.s.	32,4	37,1	37,1	38,8	37,1	36,3	33,5	30,7	28,1	24,3	17,1	20,8	23,0	24,2	26,1	32,8	40,2	41,0	43,8	49,0

Source: TURKSTAT.
(*) January-September period.

An analysis of real sectoral export developments in the post-crisis period reveals that the exports of motor vehicles to EU countries were the most adversely affected sector. There was a gradual revival in all sectors, the textile sector in the first place; however, motor vehicles and machinery-equipment sectors resumed a downtrend starting from end-2011. It is observed that deterioration in exports of the motor vehicles sector to EU countries has been continued in the recent period as well (Chart 3). On the other side of the analysis, post-crisis real export developments in sectors exporting to MENA countries point to a fluctuated but mostly upward course. However, recently, sectors excluding iron-steel signal a slowdown (Chart 4).[3]

Chart 3: Real Exports: European Union
(seasonally adjusted, 2003=100)

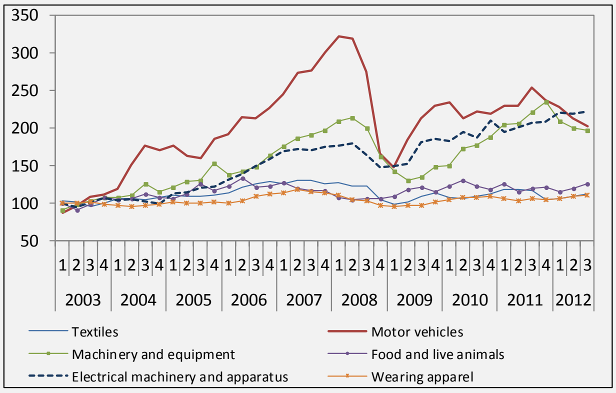
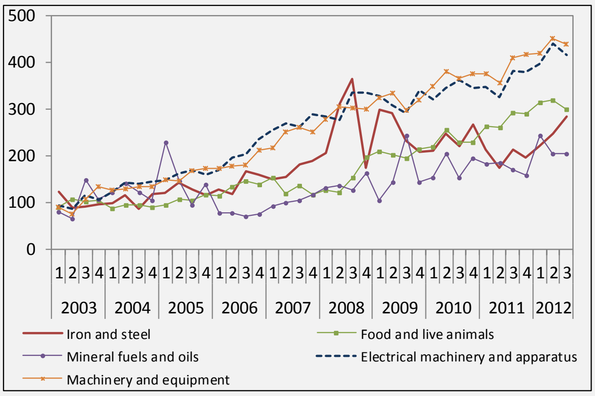


Chart 4: Real Exports: Middle East and North Africa Region (seasonally adjusted, 2003=100)

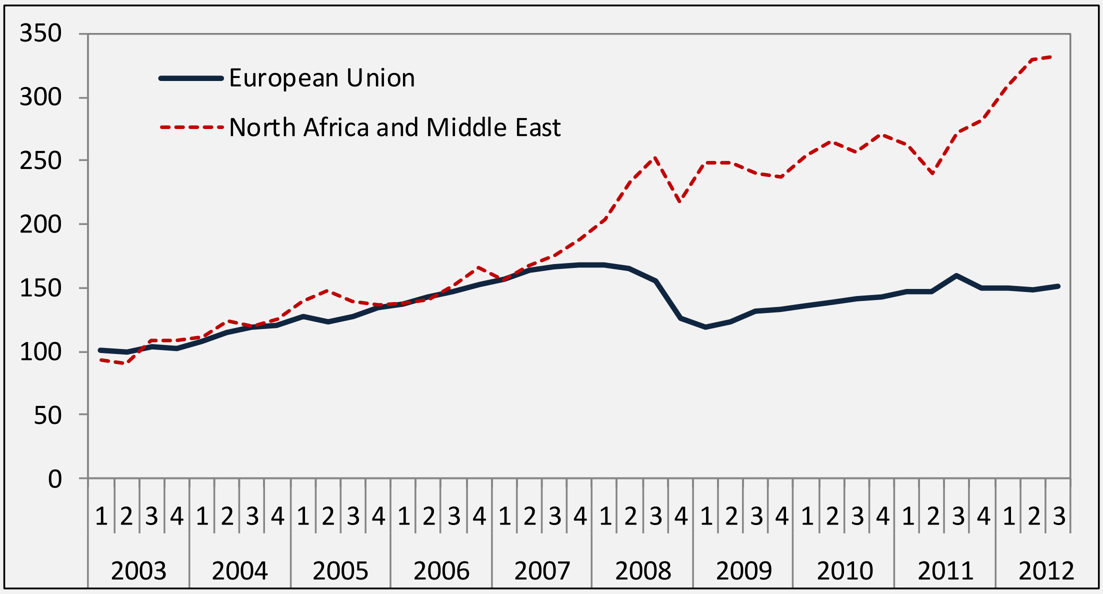


Source: TURKSTAT.
(*) January-September period.

[3] Real export data were obtained by dividing nominal export values by the export unit value index with 2003=100 base pertaining to the related sector.

When regional real exports are analyzed[4], it is seen that the economic turmoil in EU countries did not have a marked impact on exports to these countries after the decline in the global crisis period, and exports remained nearly flat. Real data also underline the mitigating role of exports to MENA countries in the post-crisis period. This role is especially apparent in the swift recovery of exports which had lost pace due to regional political developments (Chart 5). In light of all these information, latest developments indicate that exports to EU countries will not get worse though they will not catch up with the pre-crisis level, and exports to MENA countries may not register rapid increases as before.

Chart 5: Real Exports to EU and MENA Regions (seasonally adjusted, 2003=100)

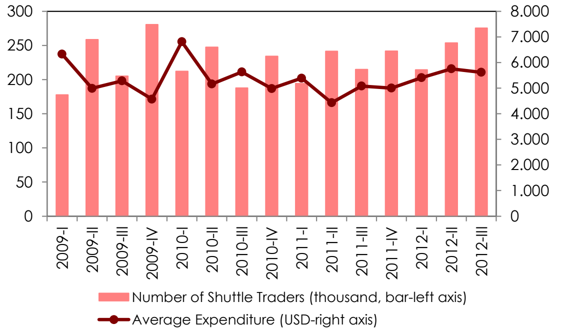


Source: TURKSTAT.

[4] For detailed information on the calculation of regional real exports data, see Aldan and Çulha, "Regional Real Exports"(in Turkish), CBRT Research Notes in Economics No: 2012/12.

9. According to the TURKSTAT data, in the third quarter of 2012, the number of shuttle traders and the average amount of expenditures increased by 28.2 percent and 10.6 percent, respectively, year-on-year. Thus, total revenues from shuttle trade increased by 41.7 percent and exceeded USD 1.5 billion.

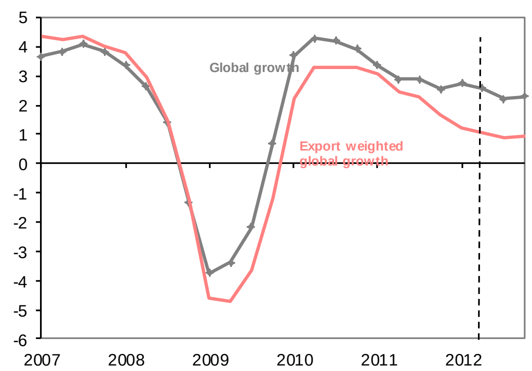
Shuttle Trade



Source: TURKSTAT.

10. Uncertainties stemming from the problems across the euro area that have been aggravating since mid-2011 persist, and the growth outlook of the US economy remains weak. Accordingly, the foreign demand index compiled by the CBT suggests that Turkey's foreign demand will remain subdued in the upcoming period.

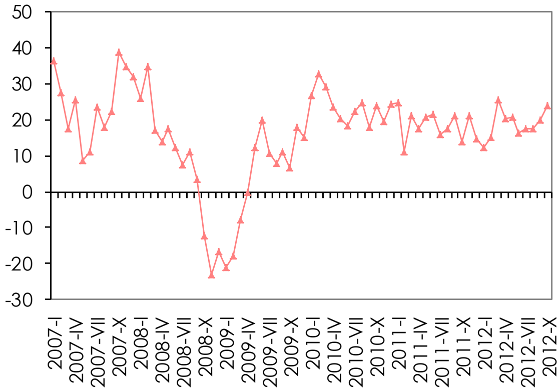
Foreign Demand Index for Turkey
(annual percentage change)



Source: Bloomberg, Consensus Forecasts, IMF, CBT.

11. Manufacturing companies' expectations about exports for the next three months continued to be optimistic in October, as in the third quarter of the year.

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

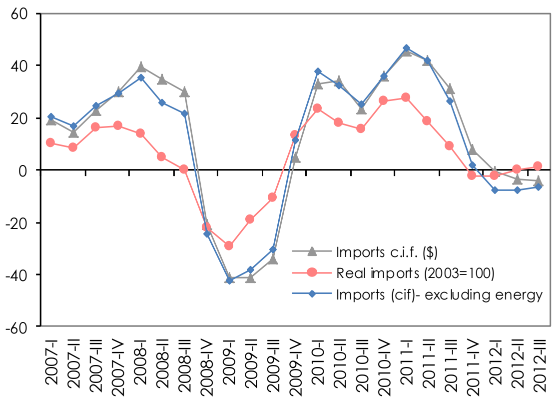


Source: CBT

1.2 Imports of Goods

12. According to TURKSTAT data, the deceleration in imports, which started in the final quarter of 2011, continued in the July-September 2012 period. While total imports decreased by 3.8 percent on year-on-year basis, imports excluding the energy item decreased by 6.5 percent. In this period, the import quantity index increased by 1.4 percent against the 5.5 percent-decline in the unit value index.

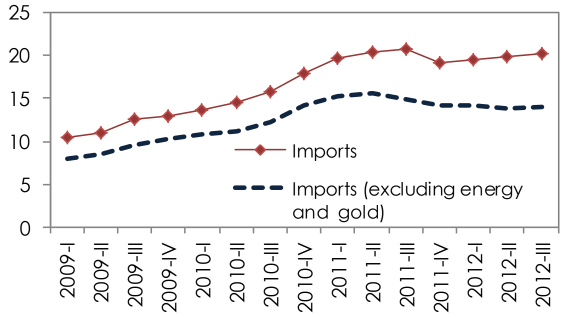
Imports - Nominal and Real
(annual percentage change)



Source: TURKSTAT.

13. Parallel to the rise in exports of gold in the recent period, imports of gold also increased significantly in 2012. USD 3 billion worth of gold was imported in the third quarter of the year, with which the imports of gold by the first nine months of the year reached USD 6.7 billion. In this context, seasonally adjusted data suggest that though overall imports increased moderately in the third quarter of 2012, imports excluding energy and gold, which reveal the main trend of imports, remained flat.

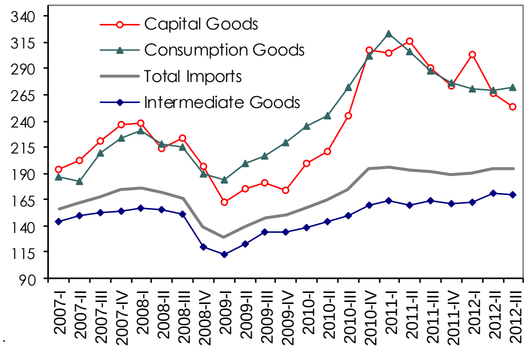
Imports Exc. Gold and Energy
(seasonally adjusted, 3-month average, billion USD)



Source: TURKSTAT, CBT.

14. An analysis of sub-items of imports by seasonally adjusted quantity indices reveals that imports of consumption goods, which had been on the fall since the second quarter of 2011, started to increase in the third quarter of 2012 while imports of intermediate goods remained flat. However, the downward movement in imports of capital goods persisted in this period as well.

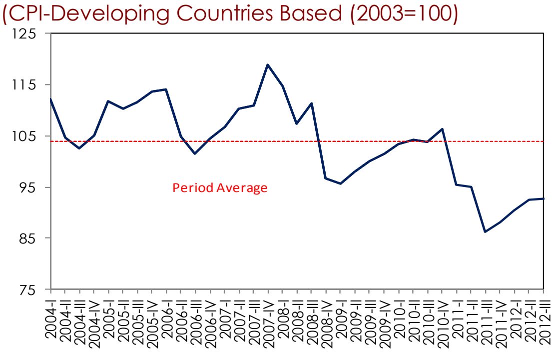
Imports and Selected Sub-Sectors
(seasonally adjusted quantity indices, 2003=100)



Source: TURKSTAT, CBT.

15. Real exchange rates have been appreciating since the final quarter of 2011. However, Turkey's real exchange rates based on developing countries continue to hover below the period average.

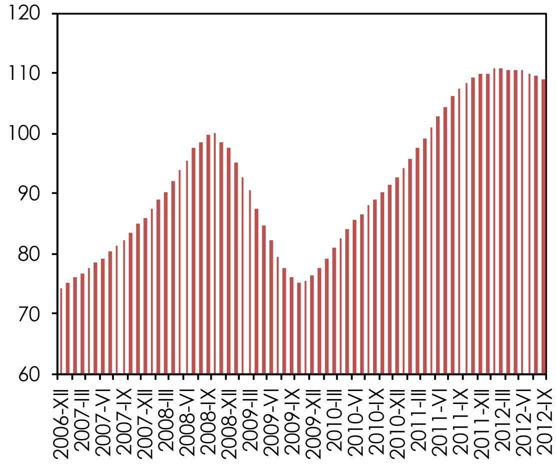
Real Effective Exchange Rate
(CPI-Developing Countries Based (2003=100)



1.3 Global Outlook

16. According to World Trade Organization data, the deceleration in world exports observed in the second quarter of 2012 continued in the third quarter of the year. In this period, world exports decreased by 4.5 percent compared to the same period in 2011. In terms of annualized data, in the third quarter of 2012, world exports fell by 1.2 percent compared to the previous quarter.

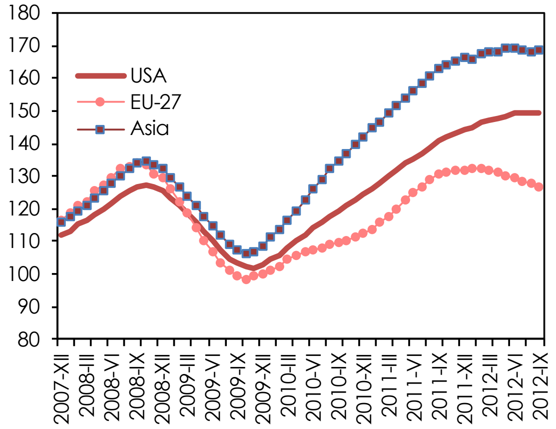
World Trade
(annualized, 2008:10=100)



Source: WTO

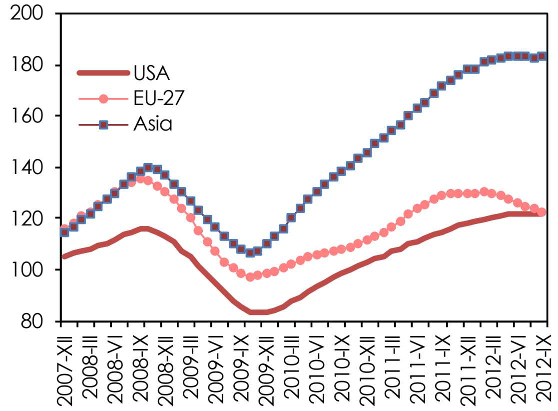
17. Foreign trade data by regions suggest that the deceleration in both the exports and imports of EU countries continues, while exports and imports of the US and Asian countries remain flat.

Exports of Selected Regions
(annualized, 2006:12=100)



Source: WTO.

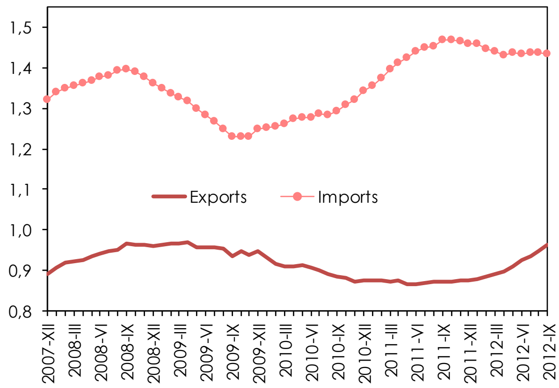
Imports of Selected Regions
(annualized, 2006:12=100)



Source: CBT.

18. Turkey's share in overall world exports continued to increase incrementally and reached its level of 2009 by September. Meanwhile, the share of Turkey's imports remained at the level it fell to in April 2012.

Share of Turkey in World Trade (percent)

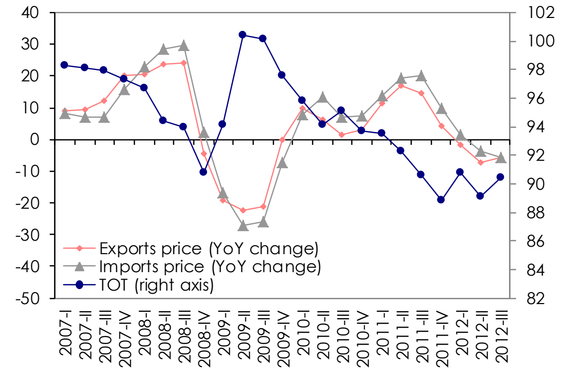


Source: WTO.

1.4 Terms of Trade

19. In the third quarter of 2012, import prices decreased by 5.5 percent year-on-year against the 5.7-percent fall in export prices. Export prices in textile and apparels, motor vehicles and electrical machinery and appliances sectors, which have a considerable weight in exports, became the ones that displayed the highest decline in this period.

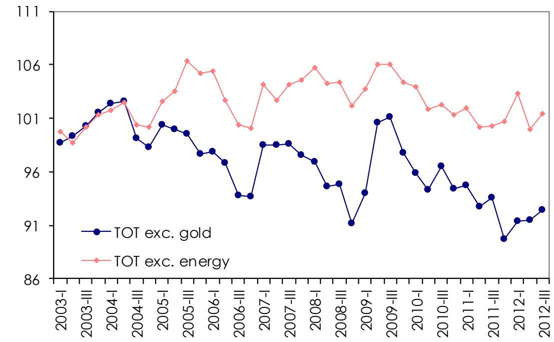
Terms of Trade
(2003=100)



Source: TURKSTAT.

20. In year-on-year terms, in the third quarter of 2012, import prices and export prices decreased by 1.9 percent and 0.4 percent, respectively. Hence, terms of trade posted a slight improvement in the July-September period. Similarly, terms of trade excluding gold and energy improved in the third quarter as well.

Terms of Trade
(2003=100)

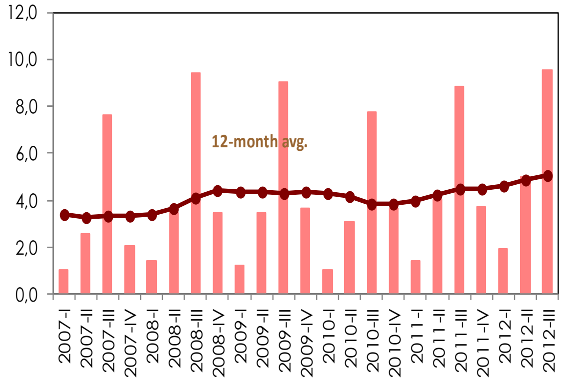


Source: TURKSTAT.

1.5 Services Account

21. The year-on-year rise in the net services revenue was 8.1 percent in the third quarter of 2012. The increase in net transportation revenues offset the adverse impact of the decline in net tourism revenues in this period, boosting the net services revenue.

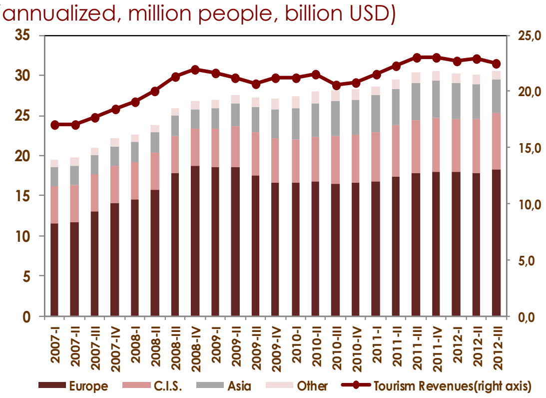
Services Account, net
(billion USD)



Source: CBT.

22. An analysis of net tourism revenues, which assume the largest share in the services account, reveals that in the third quarter of 2012, tourism revenues decreased by 4.1 percent and tourism expenditures fell by 12.2 percent year-on-year. Consequently, compared to the same quarter of the previous year, in 2012Q3, net tourism revenues declined by 3.1 percent and stood at USD 8 billion. Meanwhile, the number of tourists visiting Turkey rose by 3.6 percent compared to the same period last year.

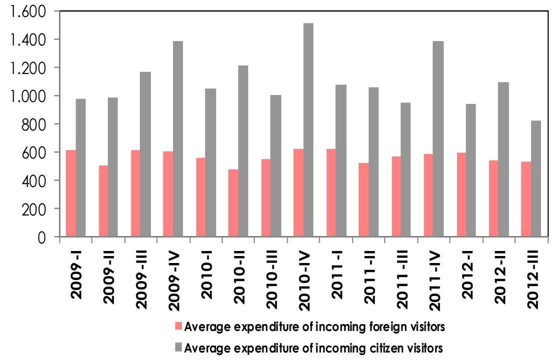
Breakdown of Foreign Visitors and Turkish Citizens Visiting Turkey by Country, and Tourism Revenues
(annualized, million people, billion USD)



Source: TURKSTAT.

23. In 2012Q3, average expenditure per foreign visitor increased by 6 percent compared to the same quarter last year and became USD 534. Meanwhile, the average expenditure per expatriate Turkish citizen visiting Turkey dropped by 13.4 percent and stood at USD 820.

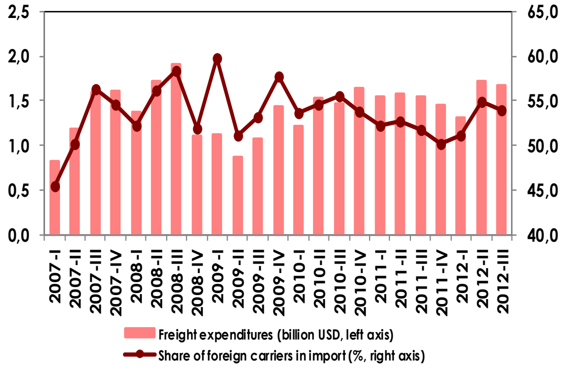
Average Expenditure
(USD/person)



Source: TURKSTAT.

24. In 2012Q3, transportation revenues increased by 37.6 percent and transportation expenditures were up by 2.2 percent in year-on-year terms; thus, the rise in net transportation revenues became 121 percent. The rise was mainly driven by the 66.7 percent net rise in the other transportation revenues item composed of tickets and food-beverage. In this period, the share of foreign carriers in imports fell by 1 percentage point to 53.9 percent.

Freight Expenditures in Imports and the Share of Foreign Carriers in Imports
(billion USD, percent)

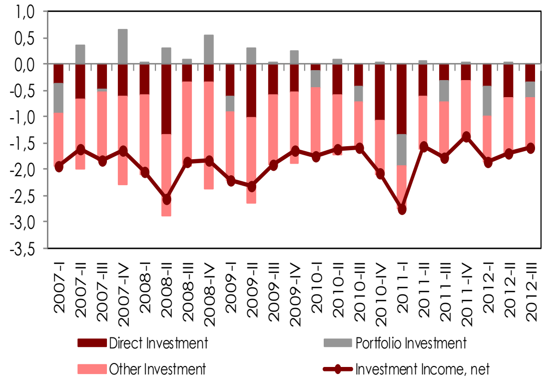


Source: CBT.

1.6 Income Account

25. In the third quarter of 2012, net outflows from the income account decreased by 9.6 percent year-on-year and became USD 1.6 billion. Direct investments and other investments, which are all listed under the "investment income" item and constitute the largest share in the said flows, posted net outflows of USD 352 million and USD 960 million, respectively.

Composition of Investment Income, net
(billion USD)

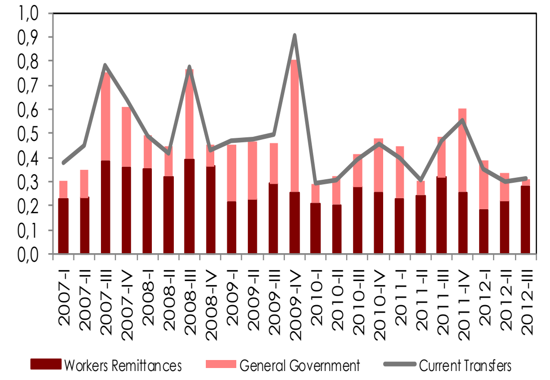


Source: CBT.

1.7 Current Transfers

26. In the third quarter of 2012, inflows through current transfers declined by 33.0 percent year-on-year and materialized as USD 0.3 billion. This development is mainly attributable to the 82.7 percent-decrease in the general government item. As was the case in the previous quarter, in this quarter as well, workers' remittances composed of non-resident Turkish citizens' transfers to their relatives in Turkey became the leading item in current transfers.

Current Transfers and Workers' Remittances
(billion USD)

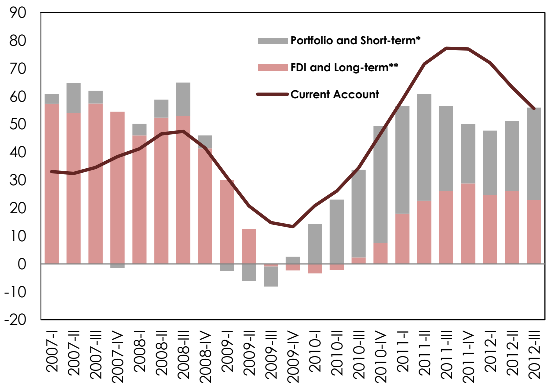


Source: CBT.

II. Capital and Financial Account

27. In the third quarter of 2012, capital inflows - excluding changes in reserves (CBT, banks and other sectors) and IMF loans - became USD 14.9 billion. In addition to portfolio investments through equity securities and debt securities (GDDS purchases, bond issues abroad by the Treasury and banks) and foreign direct investments (FDI), short-term borrowings of other sectors were instrumental in capital inflows. In this period, the shares of portfolio investments and short-term capital inflows increased, while those of FDI and long-term capital inflows decreased.

Current Account and Its Financing
(annualized, billion USD)

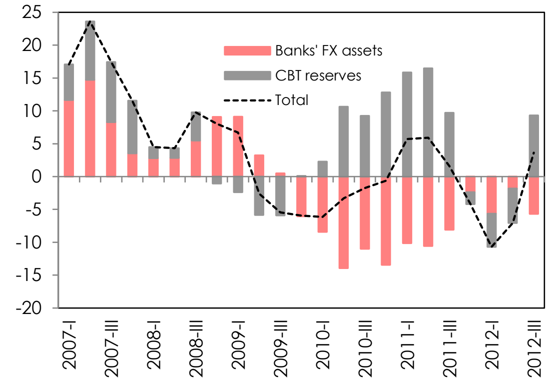


Source: CBT.

*Portfolio and short-term capital flows are composed of equities, Government Domestic Debt Securities, short-term loans of banks and other sectors and deposits at the banks.
**Long-term capital flows are composed of long-term net loans of banks and other sectors and bonds issued by banks and the Treasury abroad.

28. The USD 10.2 billion rise in CBT reserves in the third quarter of 2012 can mainly be attributed to the rise in deposits kept by banks at the Central Bank and the Treasury's lease certificate issue abroad. In this period, banks' FX assets decreased by USD 2.2 billion, and the total international reserves rose by USD 8.0 billion.

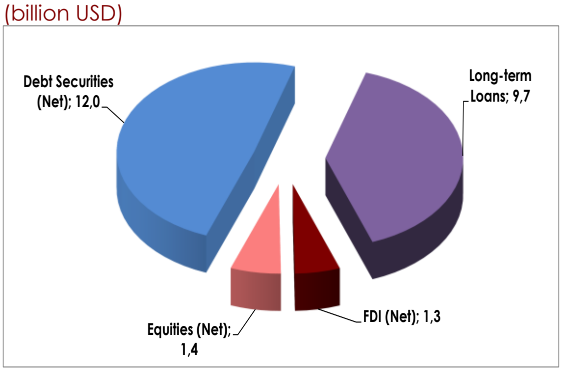
International Reserves
(annualized, billion USD)



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

29. In the third quarter of 2012, current account deficit excluding current transfers decreased by USD 7.8 billion compared to the same quarter of the previous year and thus, the financing requirement became USD 17.8 billion[5]. An analysis by financing sources suggests that besides inflows arising particularly from equity securities and debt securities (net purchases of debt securities and bond issues abroad by the Treasury and banks), the long-term borrowings of other sectors and banks along with FDI were the main drivers of this change.

Selected Items of Financing Sources*
(billion USD)



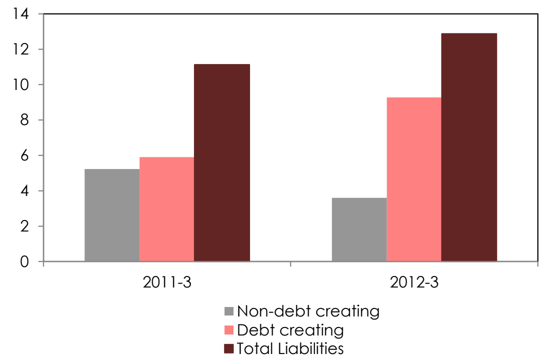
Source: CBT.
*Denotes 2012Q3 realizations.

30. In line with the mentioned developments in financing sources, debt-creating financing sources increased by USD 9.3 billion and non-debt-creating financing sources increased by USD 3.6 billion in the third quarter of 2012. Whereas, in the same quarter of 2011, the said

[5] See Annex Tables, "External Financing Requirements and Sources".

sources had increased by USD 5.9 billion and USD 5.2 billion, respectively.[6]

Debt Creating and Non-debt Creating Liabilities Under Financial Account
(billion USD)

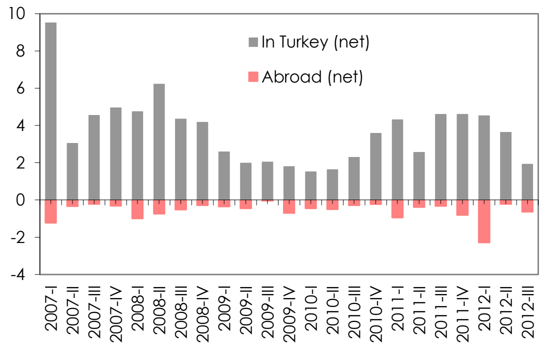


Source: CBT.

2.1 Direct Investment

31. In the third quarter of 2012, direct investments in Turkey and abroad materialized as USD 1.9 billion and USD 0.6 billion, respectively. As a result, net direct investments decreased by 69.9 percent compared to the same quarter of 2011 and became USD 1.3 billion.

Direct Investment
(billion USD)

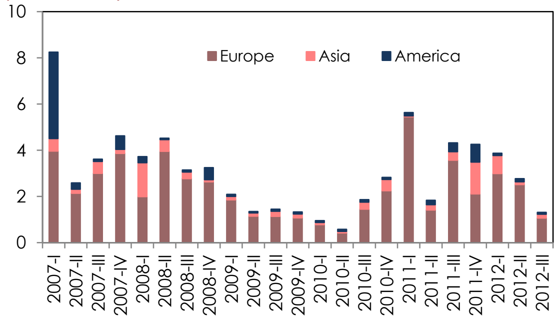


Source: CBT.

32. Regarding direct investments in Turkey, the leading investors have always been the European countries. This trend continued in the third quarter of 2012 and the total share of European countries became 80.9 percent.

[6] See Annex Tables, "Balance of Payments Debt-Creating and Non-Debt Creating Flows".

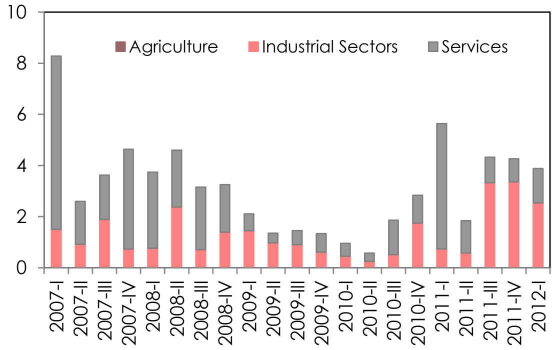
Direct Investment in Turkey- Geographical Distribution
(billion USD)



Source: CBT.

33. A breakdown of non-residents' direct investments in Turkey by sectors suggests that USD 0.5 billion was invested in services sector and USD 0.8 billion was invested in industrial sectors in the third quarter of 2012.

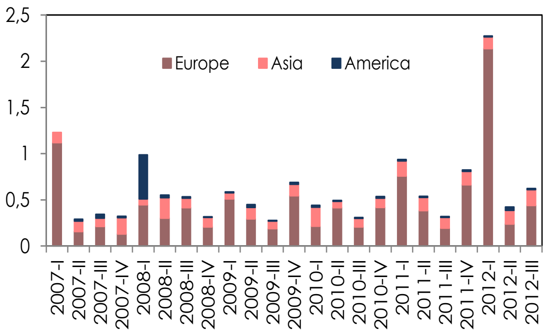
Direct Investment in Turkey-Sectoral Distribution
(billion USD)



Source: CBT.

34. A country-based analysis of the "Direct Investment/Abroad/Outflow" item suggests that the share of European countries, which receive the bulk of Turkey's direct investments abroad, decreased to 68.1 percent in the third quarter of 2012 from its 75.2 percent level in 2011.

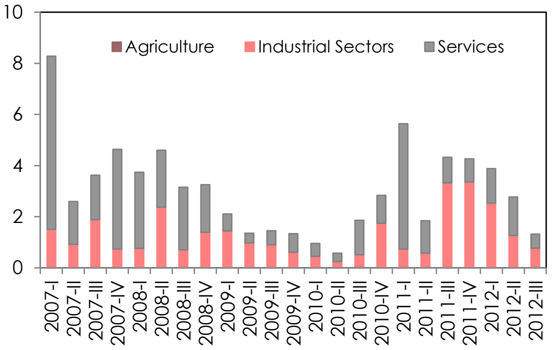
Direct Investments Abroad -Geographical Distribution
(billion USD)



Source: CBT.

35. In the third quarter of 2012, while 75.0 percent of residents' total direct investments abroad amounting to USD 0.6 billion were made in industrial sectors, 25.0 percent were made in services sector.

Direct Investment Abroad - Sectoral Distribution
(billion USD)

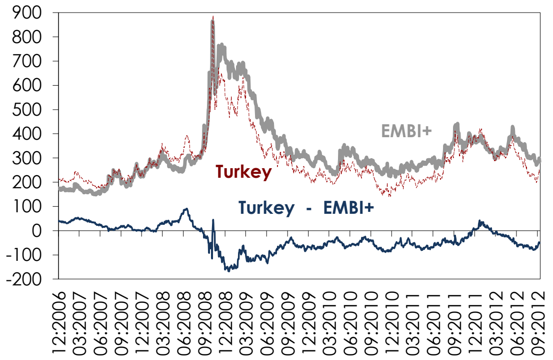


Source: CBT.

2.2 Portfolio Investment

36. In response to the ongoing Euro area sovereign debt problem and the slowdown in the global growth, central banks implemented monetary expansion policies and the liquidity in the market increased, which in turn, rose the global risk appetite in the third quarter of 2012. In line with increased global risk appetite, the macroeconomic data turned positive and Turkey's risk premium improved on the back of intensive purchases by non-residents at ISE and GDDS market in Turkey. In this 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 has increased in favor of Turkey.

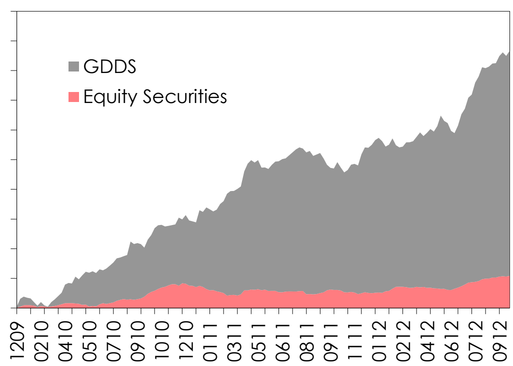
Secondary Market Spreads and Turkey's Relative Position
(basis point)



Source: JP Morgan.

37. Due to large purchases in July, net inflows from GDDS (Government Domestic Debt Securities) recorded a significant bounce to become USD 8.3 billion in the third quarter of 2012. Meanwhile, the equities market posted a net inflow of USD 1.4 billion in the third quarter on the back of net purchases by non-residents.

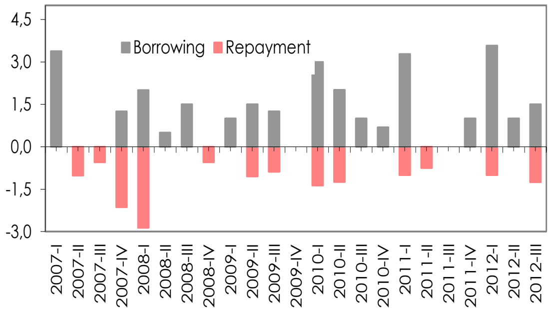
Non-residents' Security Purchases
(cumulative, billion USD)



Source: CBT.

38. The Treasury issued lease certificate in the amount of USD 1.5 billion in September and repaid 1 billion euro for bond issues in July. Thus, the net borrowing of the Treasury became USD 250 million in the third quarter of the 2012.

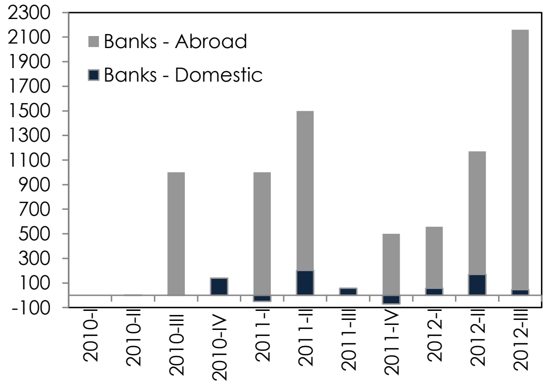
Bonds Issued by General Government Abroad
(billion USD)



Source: CBT.

39. Banks borrowed USD 2.1 billion in the third quarter through bond issues abroad, while other sectors did not issue any bonds abroad in this period. As for debt securities issued in the domestic market by the banks and other sectors, non-residents recorded net purchases of USD 46 million and USD 5 million, respectively in the third quarter of 2012.

Debt Securities Issued by Banks
(million USD)

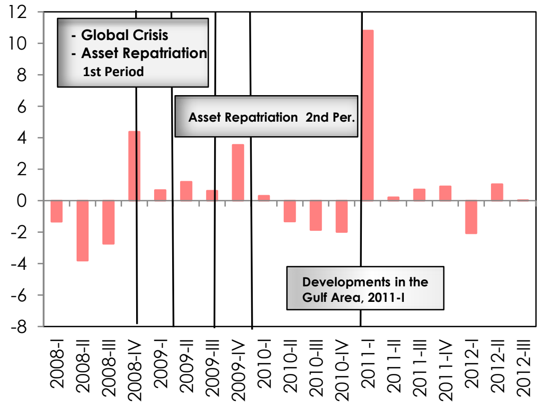


Source: CBT.

2.3 Loans and Deposits

40. With the inclusion of the final BIS data for the second quarter of 2012, while other sectors' deposits abroad posted an increase of approximately USD 1.0 billion in the first half of the year, the indicator data for the third quarter suggests a decline of USD 30 million.[7]

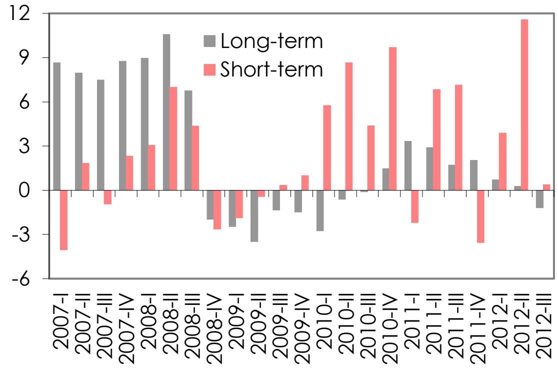
Other Sectors' Deposit Assets Abroad
(billion USD)



Source: CBT.
(+): Deposit decrease, (-): Deposit increase

41. An analysis of other investment account excluding IMF loans and banks' and other sectors' FX currency and deposits suggests that within long-term flows, net inflows that had been on a declining trend since the second half of 2011 posted an outflow of USD 1.2 billion in the third quarter of 2012. Meanwhile, short-term flows that recorded an inflow of USD 0.4 billion in the same period posted a notable decrease.

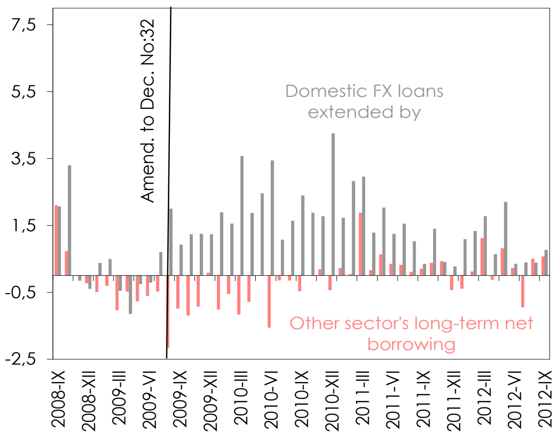
Other Investment
(billion USD, net)



Source: CBT.

42. Due to the contraction in international loan markets, other sectors, which were net repayers of debt in 2009 and 2010, became net borrowers in the third quarter, mainly due to the significant rise in their long and short-term loans from abroad. Other sectors were net borrowers of long-term loans (USD 0.1 billion) and short-term loans (USD 0.6 billion) in the third quarter of 2012.

Other Sector's Long-term Net Borrowing and Banks' Domestic FX Loans
(billion USD)



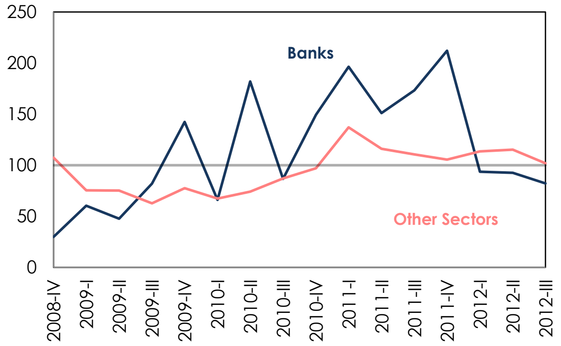
Source: CBT.

43. In the third half of 2012, banks were net repayers of long-term loans. Thus, banks' long-term debt roll-over ratio declined and became 82.1 percent in the third quarter. The decline in the said ratio is not attributed to the difficulty in providing

[7] The data source of "Financial Account / Other Investment / Assets / Currency and Deposits / Other Sectors" item, which shows changes in deposits of other sectors at foreign banks (including domestic banks' branches abroad), is the local banking statistics published by the Bank for International Settlements (BIS). The BIS issues these data on a quarterly basis with a time lag of about 4 months. Starting with the 2011 data, data pertaining to banks' branches abroad has started to be used as an indicator until the BIS announces the data.

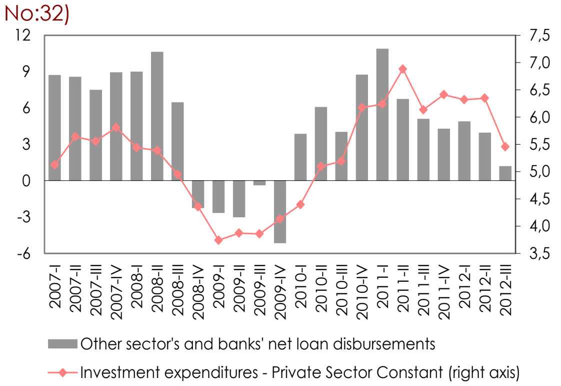
external financial resource but to the slowdown in the domestic credit growth and the increase in banks' bond issues abroad. The said ratio climbs to 157.7 percent with the inclusion of banks' bond issues abroad. In this quarter, the debt roll-over ratio of other sectors receded to 101.9 percent.

Banks' and Other Sectors' Long-term Rollover Ratios (percent)



Source: CBT.

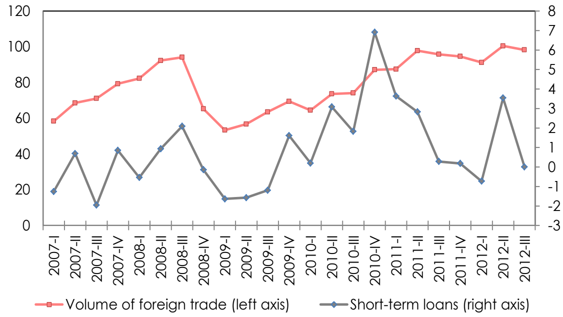
Net Long-term Loan Utilization and Investment Expenditures of Other Sectors
(billion TL, 1998=100, covering the effect of Decree No:32)



Source: CBT.
* Including FX-denominated loans extended by banks in the country.

44. In line with the decrease in foreign trade volume, banks' short-term net loan utilization from abroad declined to almost zero in the third quarter.

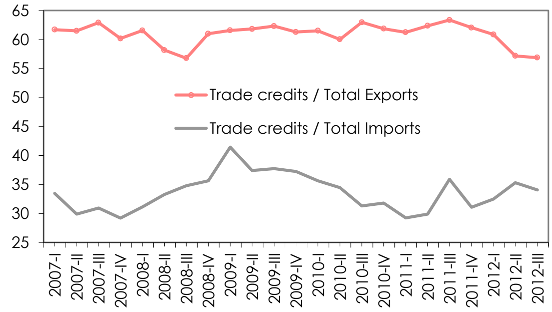
Short-term Bank Loans
(net, billion USD)



Source: CBT, TURKSTAT.

45. In the third quarter of 2012, the share of trade credits in exports declined to the lowest level since 2009; the share of the same item in imports also decreased compared to the previous period and the same period in 2011.

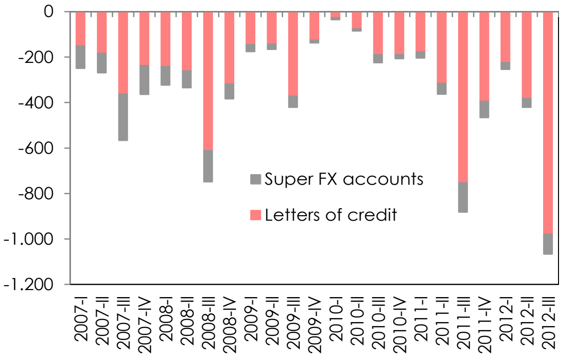
Ratio of Trade Credits to Exports and Imports
(percent)



Source: CBT, TURKSTAT.

46. Outflows – due to the interest rate cuts, the latest of which was made in October 2010 – from non-resident Turkish workers' long-term FX deposit accounts with letters of credit and super FX accounts at the Central Bank continued in the third quarter of 2012 as well (Box 2).

Deposits within the Central Bank
(million USD)

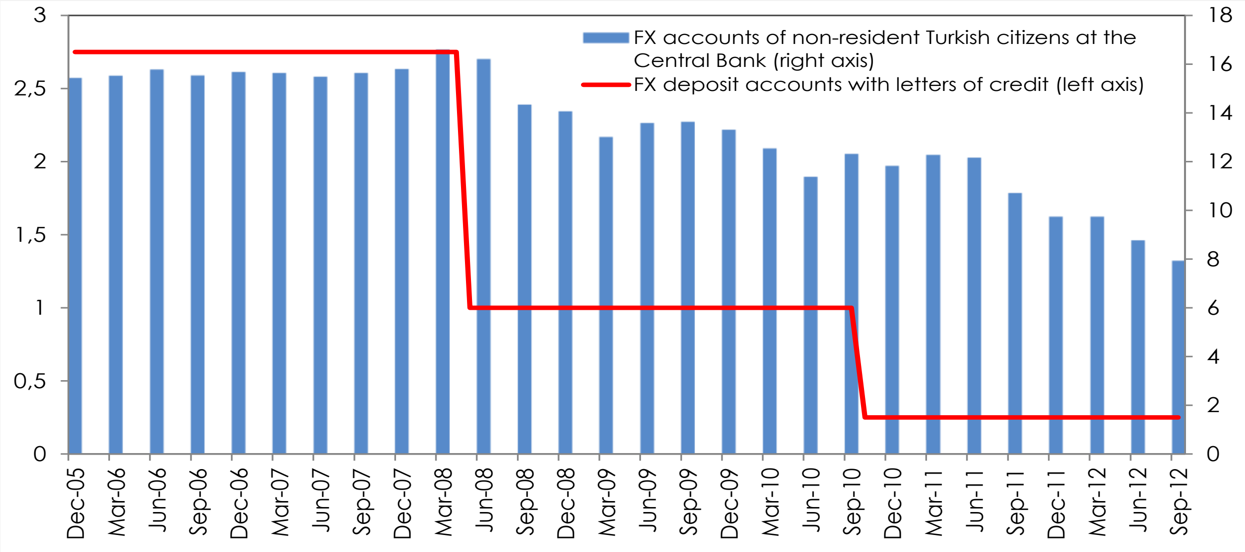


Source: CBT.

Box 2 — FX Deposit Accounts with Letters of Credit and Super FX Accounts Flows and Net Errors and Omissions

The FX accounts of non-resident Turkish citizens at the Central Bank of Turkey have recently posted a notable decline parallel to the decrease in the relatively high interests paid to these accounts. The account activities in the past five years indicate that the Foreign Exchange Deposits by Citizens Abroad declined to USD 7.9 billion in September 2012 from their level of USD 15.6 billion in March 2007, and the interest paid to US dollar and Euro denominated accounts with maturities of 2 years fell from 2.75 percent to 0.25 percent in the same period.

Foreign Exchange Deposits by Citizens Abroad Held at the Central Bank (billion USD) **and Interest Paid to These Accounts** (percent)



Source: CBT

The use of the FX withdrawn from these accounts, which are followed under "Financial Account / Other Investment / Liabilities / Currency and Deposits / Monetary Authority" in the Balance of Payments Statistics, by savers is an important issue that should be taken into consideration in the compilation of these statistics as well as in the evaluation of "Net Errors and Omissions" item.[8] Therefore, the CBT Workers' Remittances Department has started to hold a survey with savers. This box presents an evaluation of the results of the said survey within the scope of the Balance of Payments methodology, as well as the impacts thereof on "Net Errors and Omissions" item.

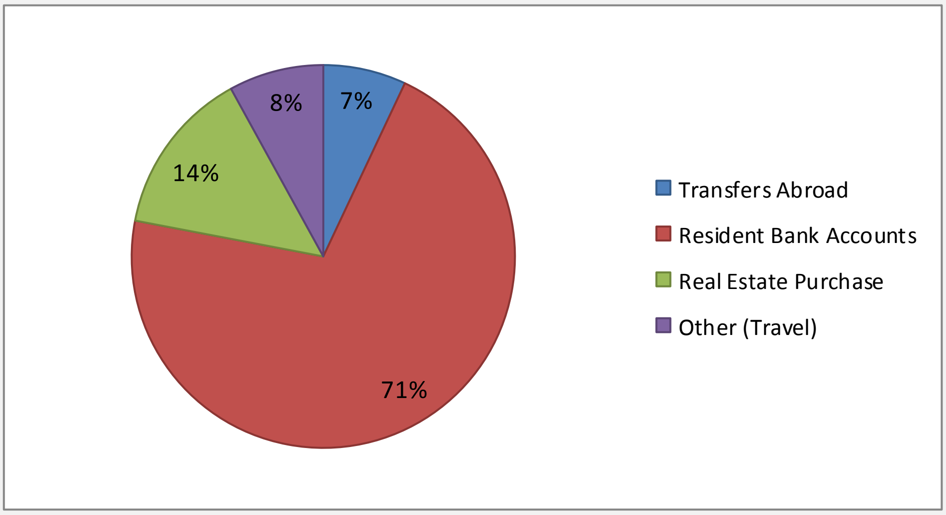
From March 2012, the "Survey on Investors Who Withdraw Money From Their FX Deposit Accounts With Letters of Credit and Super FX Accounts" (the Survey) started to be held face-to-face with depositors who withdraw money from their deposits at CBT branches. The Survey, the results of which are sent to the Statistics Department on a monthly basis, has been evaluated within the scope of the Balance of Payments methodology.

The Survey reveals that, of the withdrawals from the said accounts, approximately 7

[8] For an analysis of the factors affecting the Net Errors and Omissions item, see: "CBT Balance of Payments Report", 2011-II, Box 3: Analysis of the Net Errors and Omissions Item in the Context of Residents' Deposit Accounts Against Net Foreign Currency, Page 22 and "CBT Balance of Payments Report", 2012-I, Box 2: Turkish Residents' Deposits Abroad and Net Errors and Omissions, Page 19.

percent was transferred abroad, 71 percent was used to open FX accounts at domestic banks, 14 percent was used in real estate purchases and 8 percent was spent in Turkey.

Utilization of Deposits Withdrawn From FX Accounts (percent distribution)



Source: TURKSTAT

Considering these ratios, for a withdrawal of 100 units, the following entries should be made on the balance of payments statistics. While 100 units withdrawn from FX deposit accounts with letters of credit and super FX accounts decrease the CBT's FX reserves, they also lead to a decrease in the CBT's liabilities to non-residents by the same amount (1). A spending in the amount of 8 units within the country will be recorded under travel revenues (2), whereas real-estate expenditure in the amount of 14 units will be recorded under the Direct Investments item (3). When the 71 units of the 100 units that have been withdrawn are deposited at resident banks, their FX holdings as well as deposit liabilities to non-residents increase (4).

Current Account		
Services		
Travel	8	(2)
Financial Account		
Direct Investment		
In Turkey		
Real Estate	10	(3)
Other Investment		
Assets		
Currency and Deposits		
Banks	-93	(1,2,3,4)
Liabilities		
Deposits		
Monetary Authority	-100	(1)
Long Term		
Banks		
Other Sectors	71	(4)
Reserve Assets		
Foreign Exchange		
Currency and Deposits	100	(1)
Net Errors and Omissions	0	

Taking into consideration the data sources used in compilation of the Balance of Payments Statistics, the results of the Survey on Investors Who Withdraw Money From Their FX Deposit Accounts With Letters of Credit and Super FX Accounts are evaluated as follows:

- The data regarding withdrawals from FX deposit accounts with letters of credit and from super FX accounts is derived from the CBT's foreign exchange reports. Therefore transactions with record no. (1) will not create an entry in the Net Errors and Omissions item.

- The Tourism Survey applied to visitors arriving in and departing from Turkey is conducted on both residents and non-resident Turkish citizens including those working abroad. This survey covers transaction no. (2) that is recorded under travel revenues. Moreover, the Survey compiles the data regarding donations granted by non-residents Turkish citizens to their resident families when they are in Turkey, and this figure, along with the amount reported by banks in their monthly foreign exchange stock report, is also recorded in workers' remittances. Therefore, it is expected that the said figure will not generate any Net Errors and Omissions to the extent estimated by the Tourism Survey.

- The data sources for the real estates traded in Turkey by non-residents, which is recorded with transaction no (3) under the "Financial Account / Direct Investment / In Turkey / Real Estate" item are the General Directorate of Land Registry and Cadastre records on the number of traded real estates by country breakdown and also the unit prices calculated based on the TURKSTAT's "Departing Visitors Survey". As the mentioned data sources generate specific figures for non-resident Turkish citizens as well, it is assumed that they will not create an entry in the Net Errors and Omissions items, either.

- All foreign exchange transactions related to the accounts opened by non-resident Turkish citizens are reported by the banks based in Turkey via monthly foreign exchange transactions report, which is one of the key data sources for Balance of Payments Statistics and prepared by resident banks. The data source for Turkish lira accounts opened by non-residents is banks' trial balances. Therefore the transactions indicated with record no. (4) are expected to be recorded with their corresponding entries and thus, not create an entry in the Net Errors and Omissions item. However:

    a. Various studies have revealed that the foreign exchange deposits, which were opened by non-resident Turkish citizens by submitting their Turkish Republic identities along with a permanent address in Turkey particularly in the past years, can be reported as "resident" deposits due to their address declarations.

    b. It is also observed that these citizens can have their accounts opened on behalf of their relatives living in Turkey.

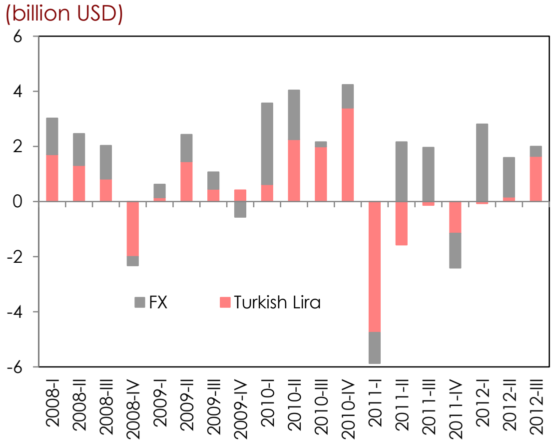
In cases where non-residents' deposits are reported as residents' deposits, corresponding entry is not applicable to explain the source of the increase in resident banks' currency and correspondent accounts. Therefore, the said amount is directly reflected under the Net Errors and Omissions item. Accounts that are opened by non-residents on behalf of their resident relatives will also lead to the same result.[9]

In conclusion, the majority of the accounts withdrawn due to the low interest rate policy implemented to reduce non-residents foreign exchange deposits held at the Central Bank of Turkey have been used within the country. An analysis of the records of the balance of payments data indicates that the portion of the foreign exchange deposits withdrawn from the Central Bank and deposited in resident banks leads to a rise in the Net Errors and Omissions item to the extent that resident banks report these accounts as deposits pertaining to residents. Meanwhile, this impact is considered to be more substantial before 2012 in the absence of an address registry system.

[9] The Regulation on the decision of enforcement of the "Regulation on Amendment to the Address Registry System and to Certain Regulations" of the Council of Ministers took effect upon publication in the Official Gazette of 30 December 2011 and No. 28158. This Regulation stipulated that institutions, along with banks operating subject to Banking Law 5411, which have access to residential information of individuals via Identity Sharing System, shall not request individuals to provide dwelling place and other residence document or another type of document regarding dwelling and residential addresses. Therefore, it is considered that from the date on which the residential information of savers started to be derived from the Address Registry System, the erroneous reporting indicated above in bullet point (a) will be prevented. However, the problem will continue to exist with respect to accounts opened before the mentioned date and those opened on behalf of resident citizens as indicated in bullet point (b).

47. As was the case in the second quarter, non-resident real person's and banks' deposit accounts in domestic banks displayed a significant rise in the third quarter as well and became USD 0.6 billion. The said increase was driven by USD 2 billion-rise in non-resident banks' FX and TL deposits against the USD 1.4 billion-fall in non-resident persons' deposits.

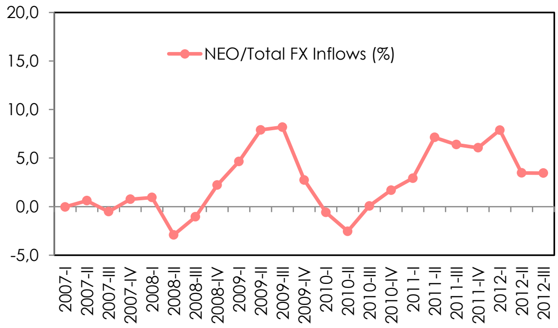
Deposits of Non-resident Banks within the Domestic Banks - Composition of FX and TL
(billion USD)



Source: CBT.

48. In the third quarter of 2012, the ratio of the net errors and omissions item to total FX inflows – which is the sum of total exports of goods, services balance/credit, income balance/credit and current transfers items remained the same compared to the previous quarter and stayed at 3.5 percent.

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



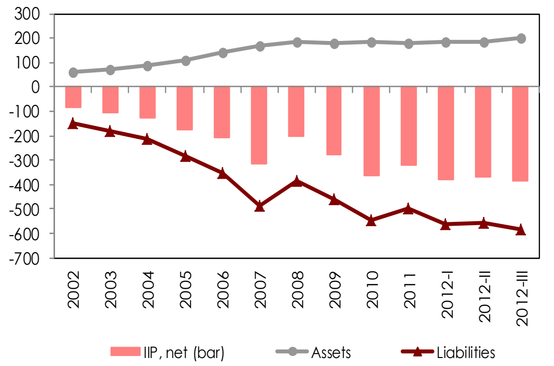
Source: CBT.

III. International Investment Position

49. According to the International Investment Position (IIP), which shows the value of financial claims of Turkish residents from non-residents as well as their reserve assets, and that of financial liabilities of Turkish residents to non-residents at a particular point in time, Turkey's external assets became USD 201.5 billion while liabilities to non-residents became USD 584.6 billion by the end of the third quarter of 2012.

50. The net IIP, defined as the difference between Turkey's external assets and liabilities, which was USD –369.7 billion at the end of the second quarter of 2012, reached USD –383.1 billion by the end of the third quarter of 2012. The net decline of USD 13.4 billion in the net IIP was driven by a USD 29.7 billion-decrease in liabilities against USD 16.3 billion-rise in assets.

International Investment Position-IIP
(billion USD)



Source: CBT.

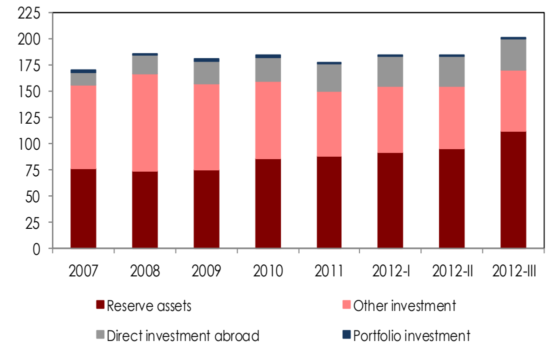
51. Compared to the end of the second quarter, equity liabilities reached USD 57.1 billion by the end of the third quarter that is attributed to the appreciation of Turkish lira against US dollar by 1.8 percent in nominal terms, the 6.2 percent-rise in the Istanbul Stock Exchange National 100 index and purchase of equities worth net USD 2.7 billion arising from balance of payments.

52. By the end of the third quarter, inward direct investment stock rose to USD 170.7 billion owing to USD 10.1 billion worth of balance of payments-generated inflow.

3.1 Assets

53. In the third quarter of 2012, as a result of the increase in reserve assets and outward direct investments, asset stock rose by USD 16.3 billion compared to the end of the second quarter. The composition of asset stock worth USD 201.5 billion remained almost unchanged compared to the end of the second quarter, composed of 56 percent of reserve assets, 28 percent other investments, 15 percent outward direct investments and 1 percent portfolio investments.

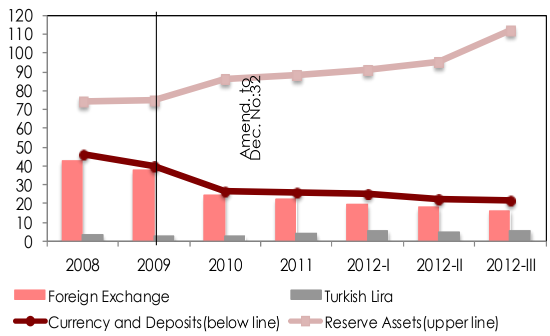
Composition of Assets
(billion USD)



Source: CBT.

54. Deposits and foreign currency held by banks, which are among the sub-items of other investments, fell to USD 21.8 billion on the back of a USD 732 million-decline compared to the end of the second quarter. Meanwhile, other sectors' assets abroad have not displayed a significant change and were recorded as USD 19.8 billion in the third quarter of 2012.

FX and TL Composition of the Currency and Deposits abroad of Banks Resident in Turkey
(billion USD)

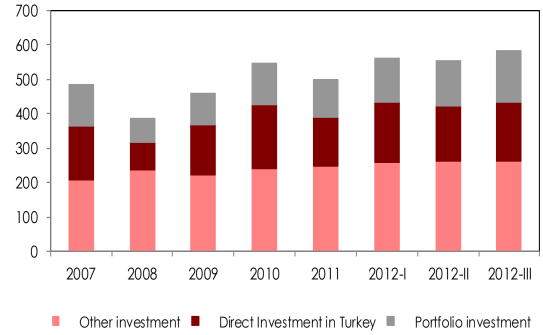


Source: CBT.

3.2 Liabilities

55. In the third quarter of 2012, liabilities items increased by USD 29.7 billion compared to the end of the second quarter. While direct investments increased by USD 7.9 billion, portfolio investments and other investments increased by USD 20.2 billion and USD 1.6 billion, respectively. By the end of the third quarter, 37 percent of the total liabilities stock worth USD 584.6 billion, came from trade loans and other loans (sub-items of other investment), 29 percent from inward direct investments, 26 percent from portfolio investments and 8 percent from deposits (sub-item of other investment).

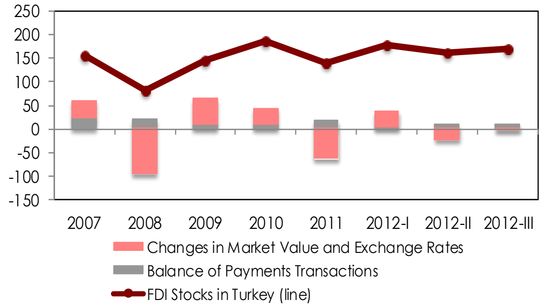
Composition of Liabilities
(billion USD)



Source: CBT

56. By the end of the third quarter of 2012, inward direct investment stock increased by 4.9 percent (by USD 7.9 billion) compared to the second quarter-end and became USD 170.7 billion. The mentioned rise was driven by USD 10.1 billion worth of net inward direct investments as a balance of payments-generated inflow, 6.2 percent rise in the Istanbul Stock Exchange National 100 Index and 1.8 percent appreciation of the Turkish lira against US dollar in nominal terms.

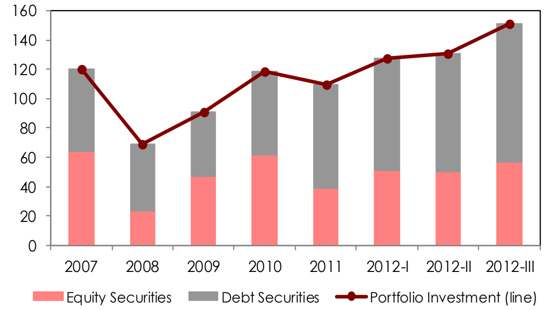
Composition of the Changes in FDI Stocks in Turkey
(billion USD)



Source: CBT.

57. At the end of the third quarter of 2012, non-residents' equity holdings, which account for 37.8 percent of portfolio investments stock, became USD 57.1 billion with a 13.3 percent-rise compared to the end of the second quarter. Meanwhile, an analysis of debt securities that count for 62.2 percent of portfolio investments stock reveals that the stock of bonds issued abroad by the Treasury and held by non-residents was up 4.2 percent to become USD 30.3 billion (after deducting residents' bond purchases). In the same period, non-residents' holdings of GDDS rose by 22.1 percent to reach USD 55.5 billion, USD 8.7 billion of this amount came from repo transactions (Box 3).

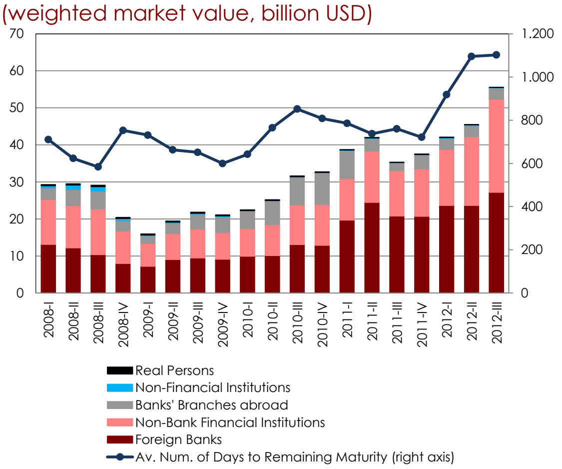
Composition of Portfolio Investment
(billion USD)



Source: CBT.

58. The breakdown of non-residents' GDDS stock by holder compared to the end of the second quarter suggests that while GDDS held by foreign branches of domestic banks remained unchanged, those held by foreign banks and non-bank financial corporations increased by USD 3 billion and 7 billion, respectively in the third quarter. In the same quarter, the average number of days to maturity of GDDS held by non-residents, increased compared to the second quarter to become 1,102 days.

Composition of Non-residents' Holdings of GDDS by Creditors and Average Number of Days to Remaining Maturity of GDDS
(weighted market value, billion USD)



Source: CBT.

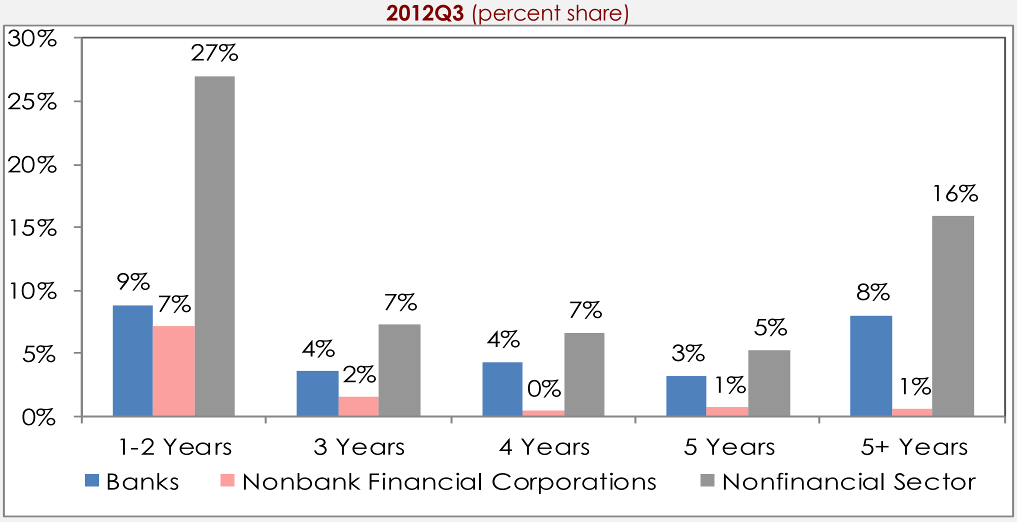
59. By the end of the third quarter of 2012, private sector's long-term external debt stock increased by USD 2.1 billion quarter-on-quarter and reached USD 128.7 billion, while short-term external debt stock increased by USD 1.1 billion and reached USD 31.8 billion (Box 3)

Box 3 Outstanding Loans Received From Abroad by Private Sector

Paragraph (a) of Article 17 of the "Decree No. 32 on the Protection of the Value of Turkish Currency" has been amended with the "Decree Amending the Decree No. 32 on the Protection of the Value of Turkish Currency" that was promulgated in Official Gazette No: 24507 dated 28 August 2001 and accordingly, statistical follow-up of the loans with a maturity of more than one year (365 days) received from abroad by residents in Turkey, excluding public institutions and establishments mentioned in the second and third sub-paragraphs of the mentioned paragraph, has been transferred to the CBT by the Undersecretariat of Treasury as of 1 October 2011. As of the mentioned date, private sector's outstanding long-term external loans monitored by the CBT include long-term cash credits received from abroad by private banks excluding public banks, non-bank financial institutions and non-financial institutions (excluding State Economic Enterprises) and real persons; bond issues abroad, long-term trade credits with maturities longer than one year (365 days) under the scope of deferred payment types other than cash against goods and cash against goods with acceptance credit that are two of the import financing types. Meanwhile, private sector's outstanding short-term loans received from abroad include short-term external cash credits received by private banks excluding public banks, non-bank financial institutions, non-financial institutions (excluding State Economic Enterprises) and real persons. Details of the long and short-term loans such as the borrower, the lender, type of currency, utilization, capital/interest payments and payment schedule are compiled from the information logged in the notification forms sent to the CBT by the intermediating banks on a monthly basis.

In September, private sector's outstanding long-term external loans increased by USD 2.3 billion and reached USD 128.7 billion compared to end-2011. Of this total amount, 35.0 billion belongs to banks, USD 13.4 billion to non-bank financial institutions and USD 80.4 billion to non-financial sectors. An analysis of the maturity structure of the said item reveals that 43.0 percent of these debts are composed of debts to mature in 1-2 years, and that of the non-financial private sector has the largest share with 27 percent.

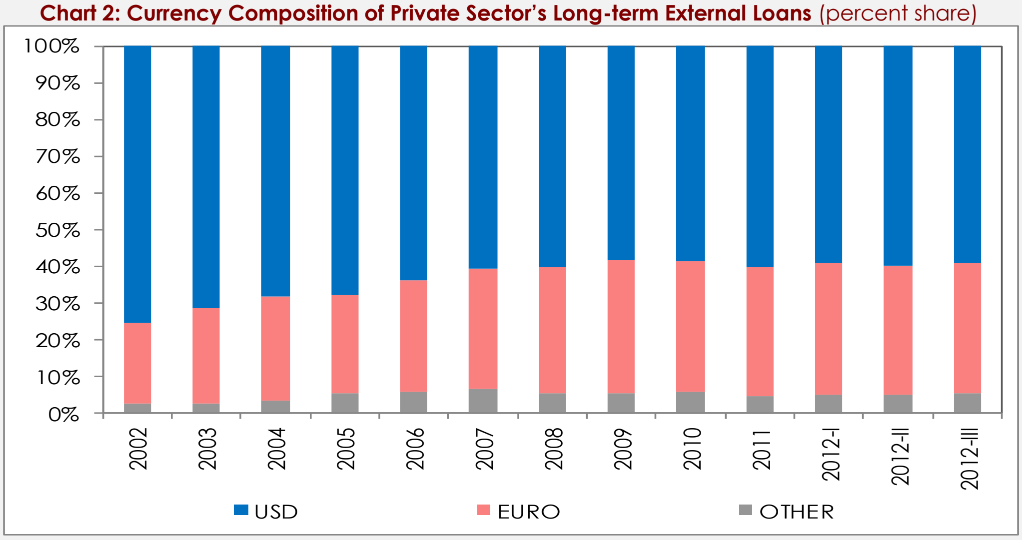
Chart 1: Maturity Structure of Private Sector's Long-term External Loans as of 2012Q3 (percent share)



Source: CBT.

Private sector's outstanding long-term external loans are mostly composed of loans in US dollar and Euro, nevertheless the share of loans in US dollars has been decreasing since 2002 and that in Euro has been on the rise.

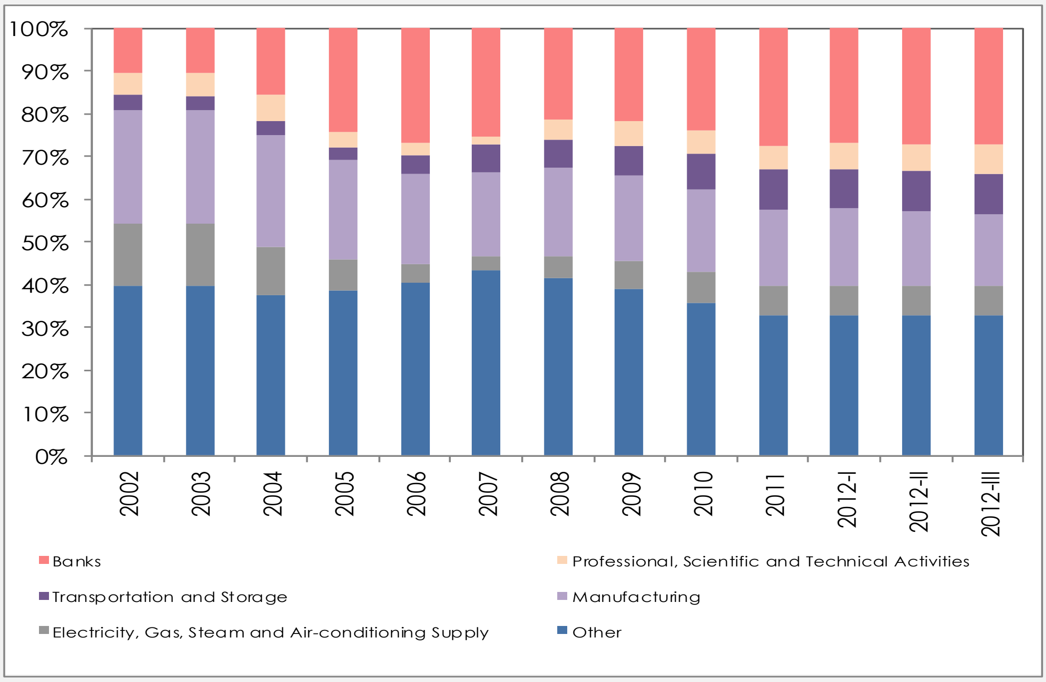
Chart 2: Currency Composition of Private Sector's Long-term External Loans (percent share)



Source: CBT.

The chart below displays the breakdown of private sector's long-term external borrowing by sectors. Data pertaining to the top 5 sectors that have the largest share in external borrowing and the ones following them by 2012Q3 are displayed starting from 2002. While the sector that received the highest amount of external loans in 2002 was the manufacturing sector, the share of banks in long-term loans have grown over time; meanwhile, the shares of professional, scientific and technical activities; electricity, gas, steam and air-conditioning supply; transportation and storage sector have remained flat.

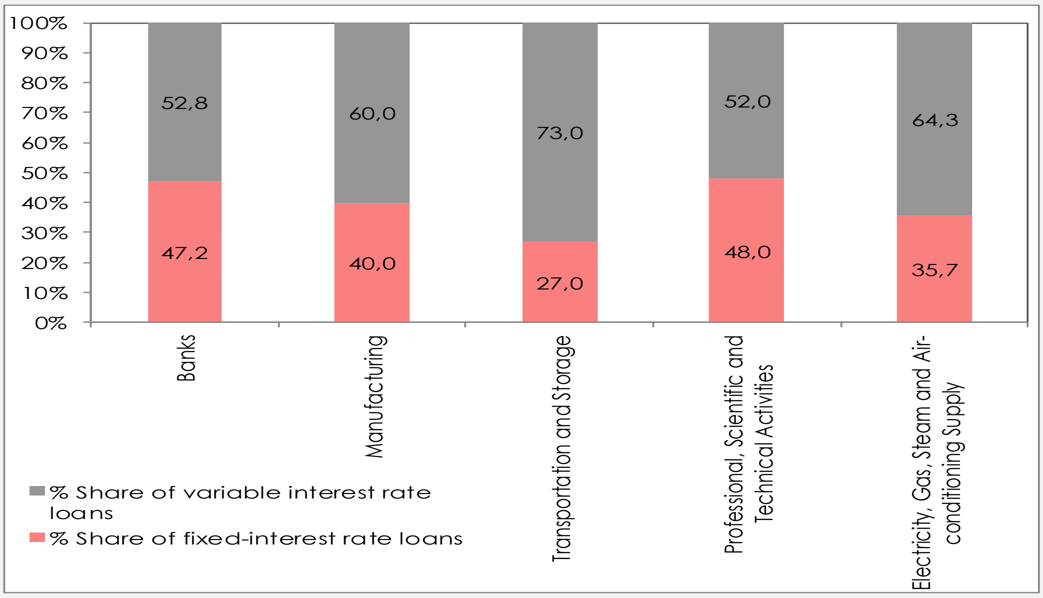
Chart 3: Breakdown of Private Sector's Long-term External Loans by Sectors (percent share)



Source: CBT.

It is observed that the leading 5 sectors using long-term external loans have opted for flexible rate loans.

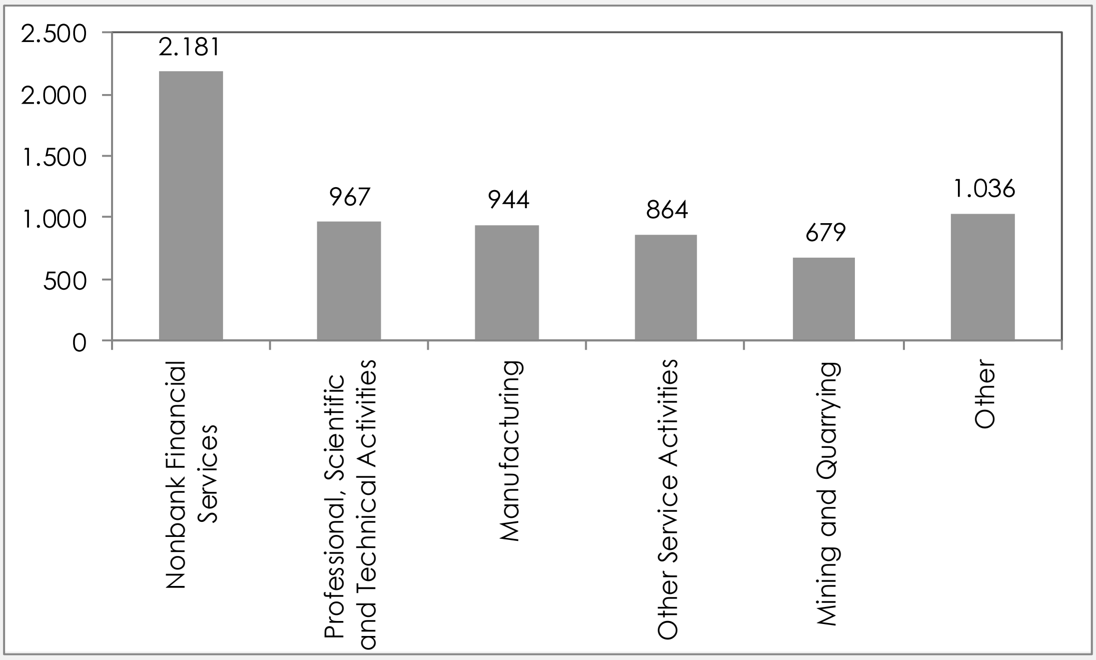
Chart 4: Interest Rate Composition of Private Sector's Long-term External Loans 2012Q3 (percent share)



Source: CBT.

Compared to end-2011, private sector's short-term external loans increased by USD 5.5 billion in September 2012 and reached USD 31.8 billion. In terms of borrowing sectors, banks have the largest share with a total credit amount of USD 25 billion to be followed by non-bank financial services; professional, scientific and technical activities; manufacturing industry; other service sectors and mining and quarrying sector.

Chart 5: Breakdown of Non-Bank Private Sector's Short-term External Loans by Sectors 2012Q3 (million USD)

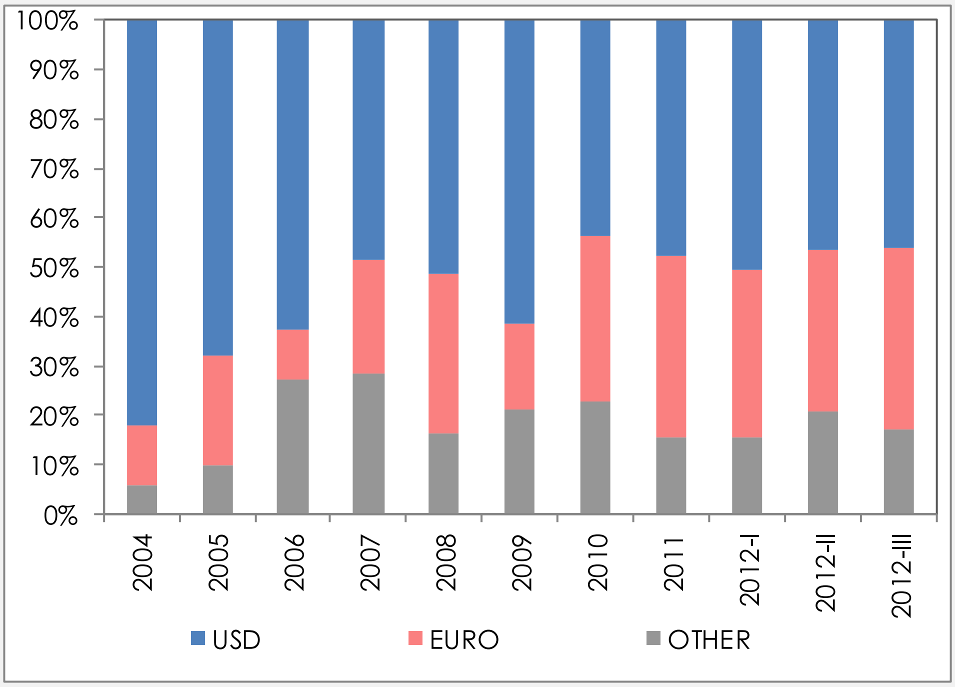


Source: CBT.

Chart 6 shows the currency composition of private sector's short-term external borrowing. Between 2004 – 2012Q3, private sector's short-term external borrowing was overwhelmingly composed of loans in US dollar and Euro, however, it is observed that while the share of loans in Euro have been increasing since 2004, loans in US dollar has had the largest share.

Chart 6: Currency Composition of Private Sector's Short-term External Debt Stock

(percent share)

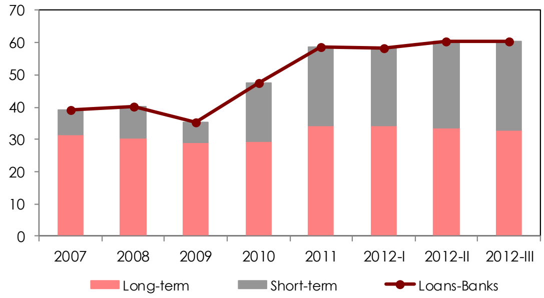


Source: CBT.

Consequently, it is observed that outstanding long-term external loans, 62 percent of which is comprised of corporate sector firms and 28 percent of banks, are overwhelmingly composed of loans to mature in 1 to 2 years or loans with maturities longer than 5 years and loans with flexible rates. While average borrowing maturity of banks and non-financial sector is 4 years; that of non-bank financial sector is slightly longer than 2.5 years. By the third quarter of 2012, long-term borrowings of banks and other sector have a larger share in total loans. Meanwhile, while long-term loans are mostly in US dollars, the share of loans in Euro has been rising in the last few years.

60. By the end of the third quarter of 2012, total external loan stock of banks became USD 60.4 billion. The USD 85 billion-fall compared to the end of the second quarter was mainly driven by a surge of USD 489 million in short-term loan stock as opposed to a decrease in long-term loans by USD 574 million.

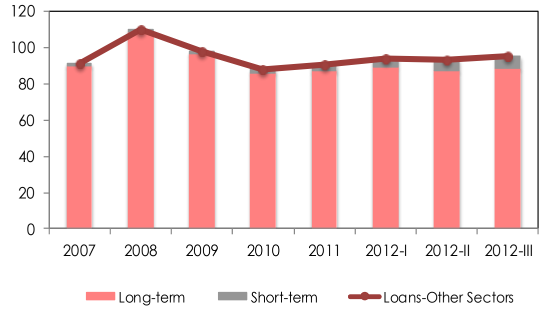
Long-term and Short-term Composition of Banks' Loan Stocks
(billion USD)



Source: CBT.

61. Total external loan stock of the other sectors, which had been on an upward track for the last two years, was up 1.8 billion to become USD 95 billion by the end of the third quarter. The said increase was mainly driven by a USD 1.2 billion-rise in long-term loan stock.

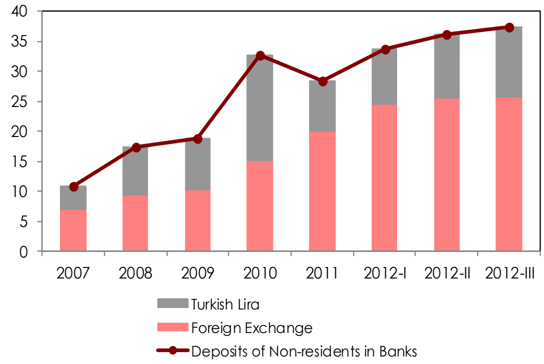
Long-term and Short-term Composition of Other Sectors' Loan Stocks
(billion USD)



Source: CBT.

62. Compared to the end of the second quarter, non-residents' deposits in Turkey increased by USD 311 million in the third quarter of 2012. The said increase was mainly driven by the USD 934 million-rise in non-residents' TL deposits at domestic banks. Meanwhile, non-resident Turkish citizens' deposits at the Central Bank decreased by USD 841 million and came down to USD 7.9 billion in the same period.

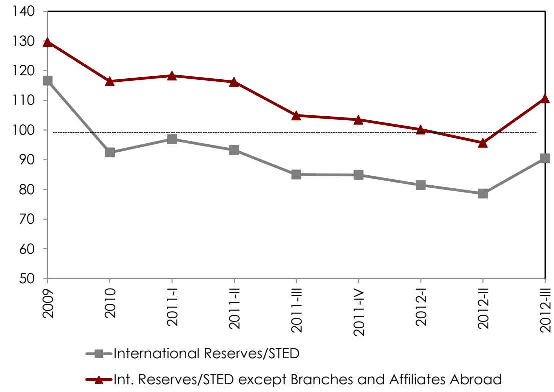
FX and TL Composition of the Deposits of Non-residents within Turkish Banks
(billion USD)



Source: CBT.

63. Compared to the end of the second 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, decreased by 1.6 percent and came down to USD 141.8 billion by September 2012. In the same period, while the ratio of CBT's net international reserves to STED was 90 percent, the said ratio becomes 111 percent when branches and affiliates abroad are excluded.

The Ratio of International Reserves to STED on A Remaining Maturity Basis (percent)

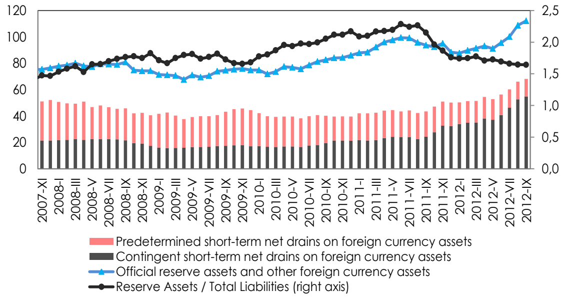


Source: CBT.

64. Compared to end-2011, reserve assets, which is composed of CBT's Official Reserve Assets and other FX assets, increased by 26.9 percent and reached USD 112.1 billion by the end of September. In the same period, while the "predetermined liabilities in foreign currency" with a residual maturity of 1 year or less and calculated regardless of the original maturity became USD 13.4 billion on the back of a 25.0 percent-decline

compared to end-2011. Meanwhile, "contingent liabilities in foreign currency", composed mostly of banks' reserve requirements in foreign currency and gold held with the CBT increased by 69.0 percent and became USD 54.9 billion. Consequently, the ratio of reserve assets to total liabilities (predetermined and contingent liabilities in foreign currency) became 1.64 in September 2012.

Reserve Assets and Short-Term Net Drains On Foreign Currency Assets
(billion USD)



Source: CBT.

IV.
Annex Tables

Financing Requirements and Sources
(billion USD)

	2011				2011	2012			2012
	I	II	III	IV		I	II	III	
Financing Requirements	-20,0	-33,7	-25,7	-26,3	-105,7	-29,4	-25,0	-17,8	-72,1
Current Account Balance (Excluding Current Transfers)	-21,9	-23,5	-16,3	-17,1	-78,7	-16,8	-14,8	-8,4	-40,1
Debt Security and Credit Repayments	-9,2	-11,5	-9,7	-10,3	-40,6	-10,9	-9,9	-11,5	-32,4
Debt Securities (Abroad)	-1,0	-0,8	0,0	0,0	-1,8	-1,0	0,0	-1,3	-2,3
Long Term Credits	-8,2	-10,7	-9,7	-10,3	-38,9	-9,9	-9,9	-10,3	-30,1
Trade Credits	-0,1	-0,1	-0,2	0,0	-0,4	0,0	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
(IMF)	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	-3,4
(IMF)	-0,5	-0,6	-1,0	-0,7	-2,8	-0,6	-0,6	-0,4	-1,6
Banks	-1,3	-2,0	-2,1	-1,6	-6,9	-2,6	-2,3	-2,8	-7,6
Other Sectors	-5,8	-7,1	-5,9	-6,9	-25,8	-6,3	-6,0	-6,6	-18,9
Other Assets (- indicates to an increase) 1/	11,1	1,3	0,2	1,0	13,6	-1,6	-0,2	2,2	0,4
Financing Sources	20,0	33,7	25,7	26,3	105,7	29,4	25,0	17,8	72,1
Current Transfers	0,4	0,3	0,5	0,6	1,7	0,4	0,3	0,3	1,0
Capital Account	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Direct Investment (Net)	3,4	2,2	4,3	3,8	13,6	2,2	3,4	1,3	6,9
Equity Securities (Net)	-1,3	0,5	0,4	-0,6	-1,0	0,9	0,3	1,4	2,7
Debt Securities and Credits	25,8	25,4	12,5	18,1	81,8	15,0	23,2	21,3	59,5
Debt Securities	10,9	6,4	-1,9	6,7	22,0	4,5	5,7	12,0	22,1
In Turkey (Net)	6,6	5,1	-1,9	5,2	15,0	0,4	3,7	8,3	12,5
Abroad	4,3	1,3	0,0	1,5	7,1	4,1	2,0	3,6	9,7
Long Term Credits	11,1	13,4	11,1	11,9	47,6	10,2	10,0	9,7	29,9
Trade Credits	0,0	0,0	0,0	0,0	0,1	0,1	0,1	0,1	0,2
Monetary Authority	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
General Government	0,7	2,1	1,0	1,2	4,9	0,6	0,9	0,6	2,0
(IMF)	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	3,4	12,5	2,4	2,1	2,3	6,8
Other Sectors	7,9	8,3	6,6	7,3	30,1	7,1	6,9	6,7	20,8
Short Term Credits (Net)	3,8	5,6	3,3	-0,6	12,1	0,3	7,5	-0,3	7,4
Trade Credits	-0,4	1,8	2,6	-1,7	2,3	-0,2	2,6	-0,9	1,6
Monetary Authority	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
Banks	3,6	2,8	0,3	0,2	6,9	-0,7	3,5	0,0	2,8
Other Sectors	0,6	1,0	0,3	1,0	2,9	1,2	1,3	0,6	3,0
Deposits (Net)	-5,8	1,2	3,1	-2,9	-4,3	3,7	4,0	-0,5	7,2
Other Liabilities	0,0	0,2	0,3	0,0	0,5	0,0	0,2	0,3	0,5
Net Errors and Omissions	2,6	5,3	2,3	1,2	11,4	6,3	-2,9	2,4	5,9
Banks' Currency and Deposits 2/	-1,2	4,3	-1,9	-1,0	0,2	1,5	2,1	1,4	5,0
Reserve Assets 2/	-3,9	-5,8	4,4	7,2	1,8	-0,7	-5,6	-10,2	-16,5

Source: CBT.

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	
A) Current Account Balance	-21,5	-23,2	-15,8	-16,5	-77,0	-16,5	-14,5	-8,1	-39,1
B) Capital and Financial Acount	18,9	17,8	13,5	15,4	65,6	10,2	17,4	5,7	33,2
Capital Account	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial Account	18,9	17,8	13,5	15,4	65,6	10,2	17,4	5,7	33,2
Assets	8,9	5,2	-2,0	-0,8	11,3	-2,4	1,7	3,0	2,2
Direct Investment	-0,9	-0,4	-0,3	-0,8	-2,5	-2,3	-0,2	-0,6	-3,1
Portfolio Investment	0,7	1,6	-0,3	0,6	2,7	0,8	-0,8	2,2	2,2
Other Investment	9,1	4,0	-1,4	-0,6	11,1	-0,9	2,7	1,4	3,2
Liabilities	13,9	18,5	11,1	9,0	52,5	13,3	21,4	12,9	47,5
Non-Debt Creating Flows	3,1	3,2	5,2	4,1	15,6	5,3	3,9	3,6	12,8
Direct Investment 1/	4,3	2,5	4,6	4,7	16,1	4,4	3,4	1,9	9,7
Portfolio Investment/Equity Securities	-1,3	0,5	0,4	-0,6	-1,0	0,9	0,3	1,4	2,7
Other Investment/Other Liabilities 2/	0,0	0,2	0,3	0,0	0,5	0,0	0,2	0,3	0,5
Debt Creating Flows	10,9	15,3	5,9	4,8	36,9	8,0	17,5	9,3	34,7
Portfolio Investment/Debt Securities	9,9	5,7	-1,9	6,7	20,3	3,5	5,7	10,7	19,9
Trade Credits	-0,5	1,8	2,4	-1,7	2,0	-0,1	2,7	-0,8	1,7
Loans	7,3	6,6	2,3	2,7	18,9	0,8	5,1	-0,1	5,9
Deposits	-5,8	1,2	3,1	-2,9	-4,3	3,7	4,0	-0,5	7,2
Other Investment/Other Liabilities 2/	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	-16,5
C) Net Errors and Omissions	2,6	5,3	2,3	1,2	11,4	6,3	-2,9	2,4	5,9

Source: CBT.

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".

International Investment Position
(billion USD)

	2007	2008	2009	2010	2011	2012 I	2012 II	2012 III
International Investment Position, net	-314,1	-200,3	-276,8	-361,9	-321,0	-378,3	-369,7	-383,1
Assets	170,1	186,4	181,0	184,5	178,0	184,5	185,2	201,5
Direct investment abroad	12,2	17,8	22,3	22,5	26,4	28,7	28,9	29,5
Portfolio investment	2,0	2,0	1,9	2,3	1,8	1,4	1,2	1,0
Equity securities	0,1	0,1	0,2	0,4	0,3	0,2	0,3	0,2
Debt securities	1,9	1,9	1,7	1,9	1,5	1,2	1,0	0,7
Other investment	79,5	92,4	82,0	73,7	61,5	63,1	59,5	58,9
Trade credits	10,3	8,6	9,3	10,5	11,1	11,7	11,5	11,5
Loans	1,9	2,4	2,6	2,6	2,8	2,6	3,2	3,2
Currency and deposits	65,1	79,2	67,7	58,2	45,1	46,3	42,4	41,6
Banks	34,6	46,0	40,1	26,6	26,1	25,0	22,5	21,8
Foreign exchange	34,6	42,7	37,4	24,1	22,2	19,5	17,8	16,2
Turkish Lira	n.a.	3,4	2,7	2,5	3,9	5,4	4,7	5,6
Other sectors	30,5	33,2	27,5	31,6	19,0	21,3	19,9	19,8
Other assets	2,3	2,3	2,4	2,5	2,5	2,5	2,5	2,6
Monetary authorities	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5
General government	0,8	0,8	0,9	1,0	1,0	1,0	1,0	1,0
Reserve assets	76,4	74,2	74,8	86,0	88,3	91,3	95,5	112,1
Monetary gold	3,1	3,2	4,1	5,3	9,9	11,2	12,4	17,3
Special drawing rights	0,1	0,0	1,5	1,5	1,5	1,5	1,5	1,5
Reserve position in the Fund	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Foreign exchange	73,1	70,8	69,0	79,1	76,8	78,5	81,4	93,1
Currency and deposits	5,4	4,1	5,1	7,8	10,8	5,9	7,3	5,4
Securities	67,7	66,8	63,9	71,3	66,0	72,5	74,2	87,7
Liabilities	484,2	386,7	457,8	546,4	499,1	562,9	554,9	584,6
Direct investment in reporting economy	155,1	80,4	143,7	187,0	140,0	177,3	162,8	170,7
Portfolio investment	120,6	68,8	91,2	118,4	109,4	127,5	130,7	150,9
Equity securities	64,2	23,2	47,2	61,5	39,1	51,0	50,4	57,1
Debt securities	56,4	45,6	43,9	56,9	70,3	76,6	80,3	93,8
Bonds and notes	56,4	45,6	43,9	56,9	70,3	76,6	80,3	93,8
General government	56,4	45,6	43,9	55,5	66,1	71,9	74,5	85,8
In Turkey	32,2	20,4	21,1	32,7	37,5	42,1	45,5	55,5
Abroad	24,3	25,2	22,9	22,8	28,5	29,8	29,0	30,3
Banks	0,0	0,0	0,0	1,1	4,0	4,5	5,6	7,8
Other sectors	0,0	0,0	0,0	0,2	0,2	0,2	0,2	0,2
Other investment	208,5	237,5	222,9	241,1	249,6	258,1	261,4	262,9
Trade credits	21,5	22,6	21,6	23,4	25,7	25,7	28,0	27,4
Other sectors	21,5	22,6	21,6	23,4	25,7	25,7	28,0	27,4
Long-term	0,4	0,6	0,5	0,6	0,3	0,4	0,4	0,5
Short-term	21,1	22,0	21,1	22,8	25,4	25,3	27,6	27,0
Loans	160,3	183,5	167,6	171,6	184,4	187,5	187,0	188,8
Monetary authorities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Use of Fund credit & loans from the Fund	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other long-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Short-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
General government	30,1	33,5	34,7	36,1	35,0	34,9	33,3	33,4
Long-term	30,1	33,5	34,7	36,1	35,0	34,9	33,3	33,4
Short-term	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Banks	39,1	40,1	35,4	47,4	58,6	58,5	60,5	60,4
Long-term	31,5	30,6	29,1	29,3	34,3	34,5	33,6	33,0
Short-term	7,5	9,5	6,3	18,1	24,3	24,0	26,9	27,4
Other sectors	91,2	109,9	97,5	88,2	90,8	94,2	93,2	95,0
Long-term	89,8	108,1	96,5	85,9	87,0	89,0	87,1	88,3
Short-term	1,4	1,8	1,0	2,3	3,8	5,2	6,1	6,7
Currency and deposits	26,6	31,4	32,2	44,6	38,0	43,3	44,9	45,2
Monetary authorities	15,8	14,1	13,3	11,8	9,7	9,7	8,8	7,9
Banks	10,8	17,3	18,9	32,8	28,3	33,6	36,1	37,3
Foreign Exchange	7,0	9,4	10,1	15,2	19,9	24,4	25,5	25,7
Turkish Lira	3,8	7,9	8,8	17,6	8,4	9,2	10,6	11,6
Other liabilites (**)	0,0	0,0	1,5	1,5	1,5	1,5	1,5	1,5

Source: CBT.

(*) Monthly inward FDI stocks disseminated as an indicator are calculated by adding inward FDI flow figures to the preceeding year-end stocks and by rev aluating the preceeding year-end FDI stocks based on FX rate and market v alue changes of foreign direct inv estment enterprises.

(**) Special Drawing Rights (SDR) allocation made by International Monetary Fund (IMF) to Turkey is recorded under this item.