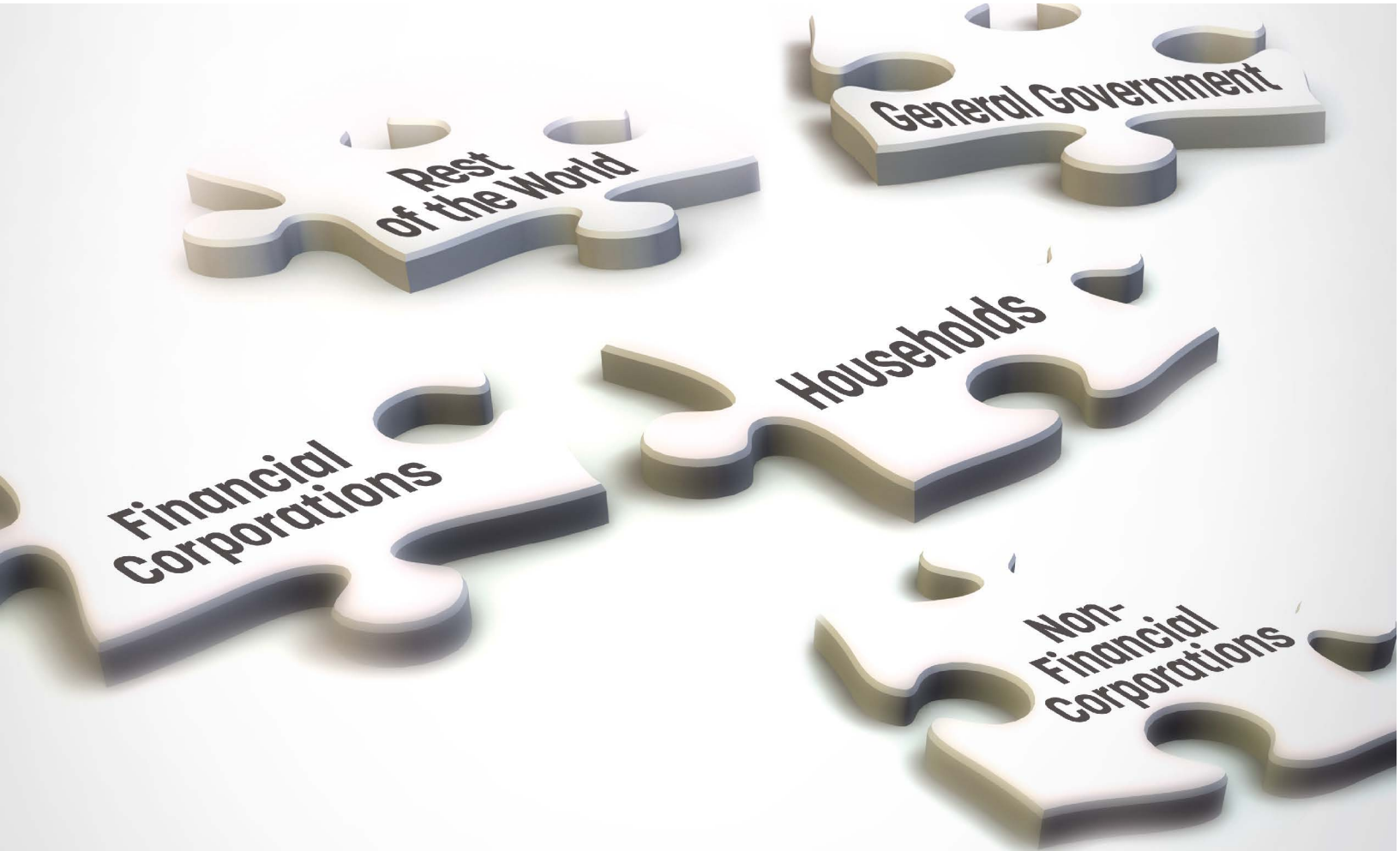




**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**



2016-III

Financial Accounts Report

Statistics Department
Monetary and Financial Data Division

I. Introduction¹

In 2016Q3, total financial assets of the Turkish economy were TRY 8,554 billion and total financial liabilities were TRY 9,488 billion; thus, the net financial worth, which is the difference between financial assets and liabilities, reached TRY 935 billion and the Turkish economy continued to be a net debtor. The total economy was mostly financed by the rest of the world and households (Table 1).

**Table 1. Net Financial Worth by Sectors²
(2016-Q3, TRY billion)**

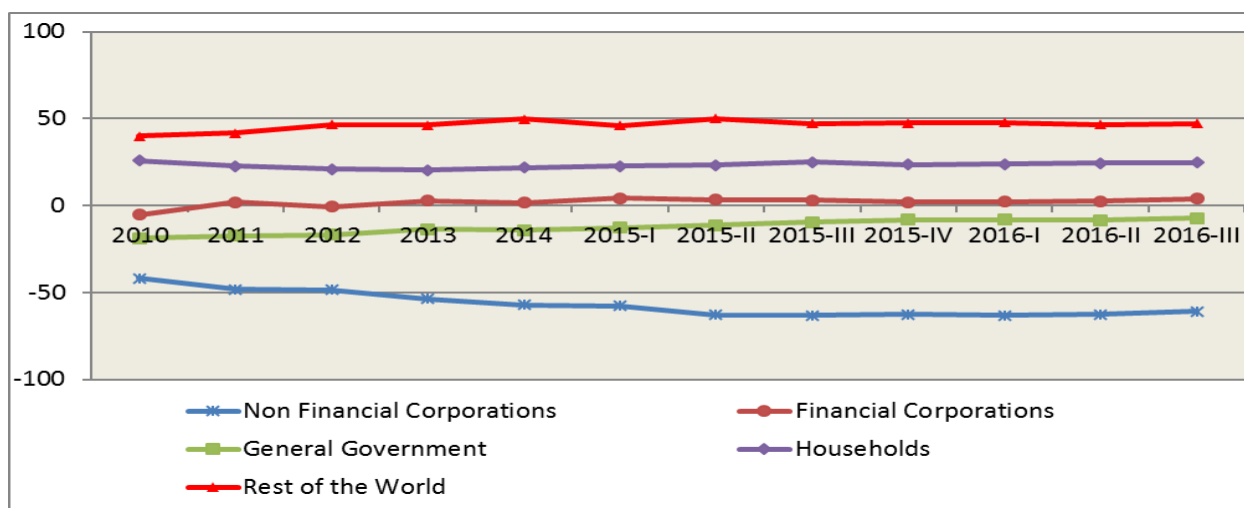
	Total Economy	Non Financial Corporations	CBRT	Other Monetary Financial Institutions	Insurance Corporations and Pension Funds	Financial Intermediaries and Auxiliaries	Central Government	Local Government	Social Security Institutions	Households	NPISH	Rest of the World(*)
Financial Assets	8,554	3,494	487	2,497	142	206	361	83	192	1,066	25	630
Liabilities	9,488	5,011	472	2,380	146	183	730	69	15	451	30	1,802
Financial Net Worth	-935	-1,517	15	116	-4	24	-369	14	177	614	-5	1,172

Source: CBRT

(*) Other Monetary Financial Institutions are composed of deposit-taking corporations (banks) and money market funds.

Throughout the data period, while households and the rest of the world generated a financial surplus, non-financial corporations and the general government ran a financial deficit. Meanwhile, the net financial worth of financial corporations, insurance companies and pension funds remained balanced and followed a flat trend due to their financial intermediation activities (Chart 1).

Chart 1. Ratio of Net Financial Worth to GDP, by Sectors (*) (percent)



Source: CBRT, TURKSTAT

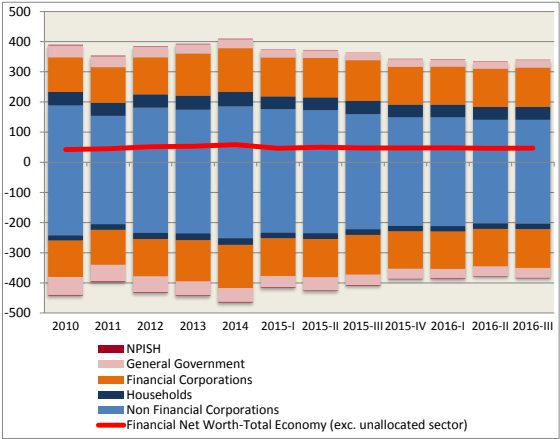
(*) Non-profit institutions serving households have not been included as their net financial worth is close to zero.

¹ It has been revised since 2010 in line with the changes in international statistics standards and the improvements in data.

² Pursuant to the methodology, there is a difference between the net financial 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 from a domestic economy perspective, in a way to be compatible with the International Investment Position Statistics.

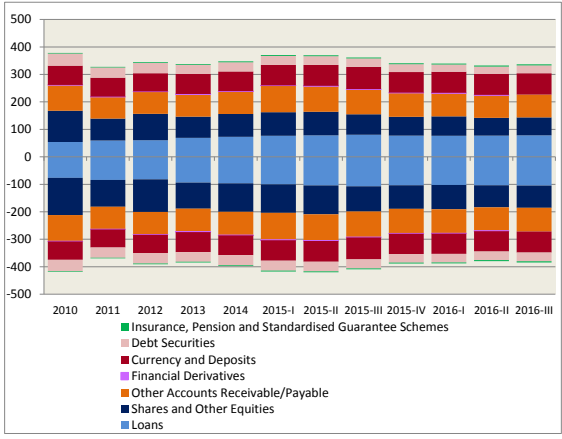
An analysis of financial assets and liabilities by sectors reveals that conventionally, the non-financial corporations sector was the biggest sector on the assets side as well as on the liabilities side (Chart 2). As for the financial instrument distribution, other accounts receivable and loans had the largest weight in both assets and liabilities (Chart 3).

Chart 2. Ratio of Financial Assets and Liabilities to GDP by Sectors (percent)



Source: CBRT, TURKSTAT

Chart 3. Distribution of Financial Instruments-Total Economy, Ratio to GDP (*) (percent)



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

An analysis of flow data suggests that in the third quarter of 2016, flows originating from transactions increased in all sectors whereas flows originating from valuation decreased in the rest of the world, the general government, the non-financial corporations (Table 2). As flows originating from transactions were higher than flows originating from valuation, all sectors except for the rest of the world registered positive net flows. The highest net flow³ was recorded in financial corporations as a rise in assets, most of which resulted from the increase in asset valuations. On the other hand, the negative net flow in the rest of the world was due to the decline in net transactions in valuations (Chart 4).

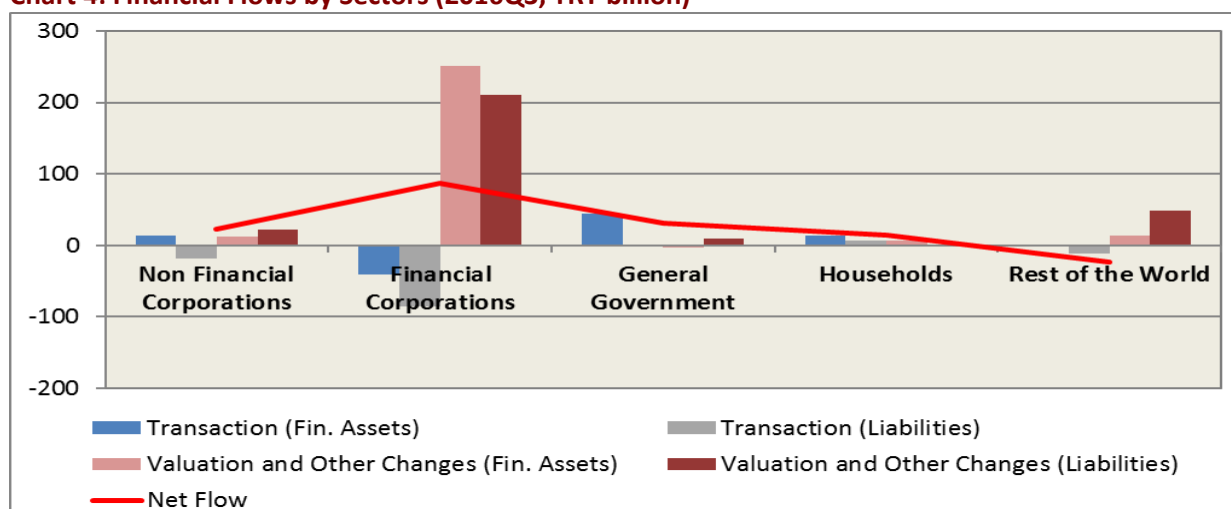
Table 2. Net Flow by Sectors (2016Q3, TRY billion)

	Transaction (Assets)	Transaction (Liabilities)	Valuation and Other Changes (Fin. Assets)	Valuation and Other Changes (Liabilities)	Net Flow
Non Financial Corporations	13	-19	12	21	23
Financial Corporations	-40	-86	252	210	87
General Government	45	1	-3	10	31
Households	14	6	7	0	15
Rest of the World	1	-11	14	49	-24

Source: CBRT

³ Net flow denotes the difference between assets and liabilities between two periods with respect to transactions, valuation and other changes.

Chart 4: Financial Flows by Sectors (2016Q3, TRY billion)



Source: CBRT

II. Households

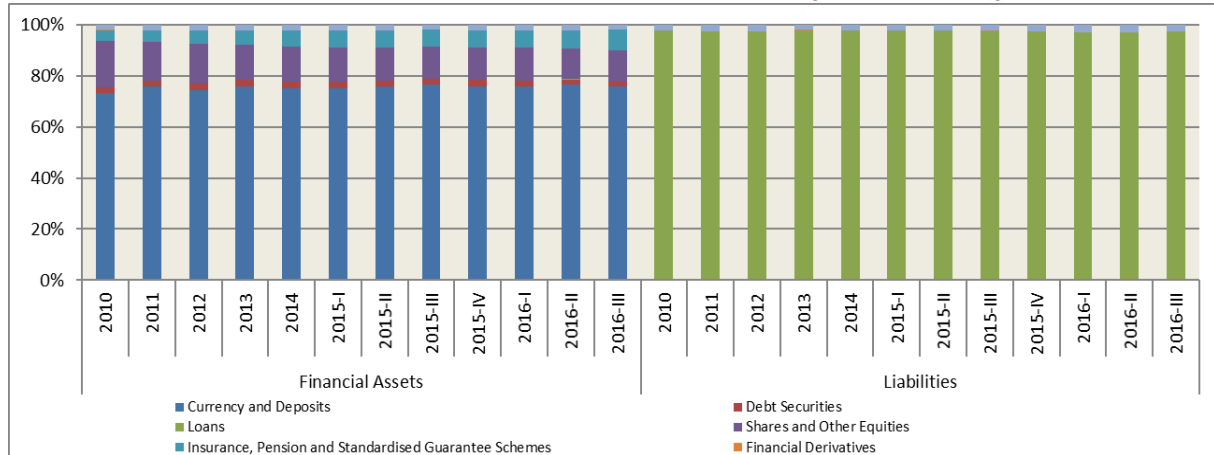
In the third quarter of 2016, households' financial assets increased by TRY 21 billion quarter-on-quarter, most of which was driven by transactions in currency and deposits. Meanwhile, households' liabilities grew by TRY 6 billion on the back of transactions in loans (Table 3).

Table 3. Households' Financial Assets and Liabilities (stock, flow, TRY billion)

	2016-II	Trans.	Valuation	2016-III
Financial Assets	1,045	14	7	1,066
Currency and Deposits	798	12	2	812
Debt Securities	23	-1	-1	22
Loans	0	0	0	0
Shares and Other Equities	127	0	4	131
Insurance, Pension and Standardised Guarantee Schemes	74	3	1	78
Financial Derivatives	0	0	0	0
Other Accounts Receivable	22	0	0	22
Liabilities	445	6	0	451
Currency and Deposits	0	0	0	0
Debt Securities	0	0	0	0
Loans	432	7	0	439
Shares and Other Equities	0	0	0	0
Insurance, Pension and Standardised Guarantee Schemes	0	0	0	0
Financial Derivatives	0	0	0	0
Other Accounts Payable	13	-1	0	12

Source: CBRT

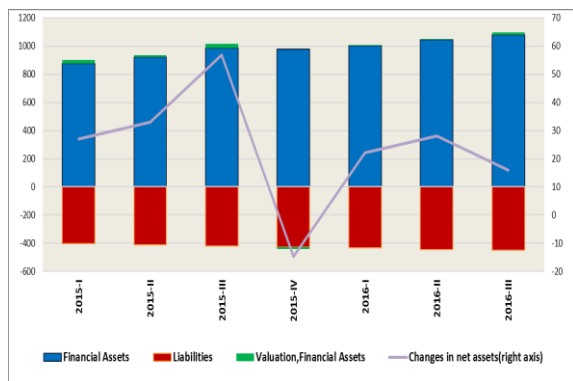
Chart 5. Households' Financial Assets and Liabilities, Breakdown by Instruments (percent)



Source: CBRT

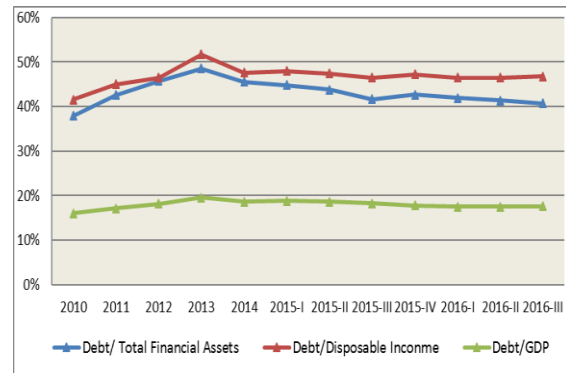
The primary instrument in household financial assets was deposits with a share of approximately 75 percent, followed by shares and other equity. During the data period, the share of shares and other equity item in total financial investments increased while that of deposits decreased. This change is seen as a sign that households preferred investment instruments with longer maturities. Meanwhile, almost all of the liabilities were composed of loans (Chart 5).

Chart 6. Change in Net Assets of Households (TRY billion)



Source: CBRT

Chart 7. Household Debt (*) (percent)

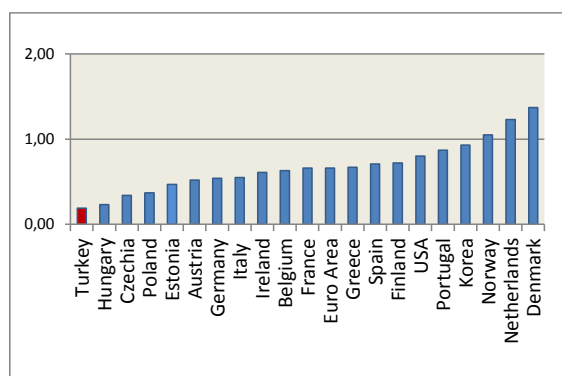


Source: CBRT, TURKSTAT

(*) Household debt is composed of loans.

In the third quarter of 2016, the household net financial worth increased by TRY 15 billion quarter-on-quarter (Chart 6). Household indebtedness indicators suggest that the ratio of household debt to GDP preserved its course around 18 percent and the ratios of debt to disposable income and to total financial assets remained flat in the third quarter of 2016 (Chart 7).

Chart 8. Household Liabilities/GDP, Comparison



Source: CBRT, TURKSTAT, OECD

(*) Other country data is as of 2016 Q2.

The ratio of household liabilities to GDP indicates that among 19 countries(*) compared to Turkey in 2016 Q3, Turkey stood out as the country with the lowest level of indebtedness (Chart 8).

Non-Financial Corporations

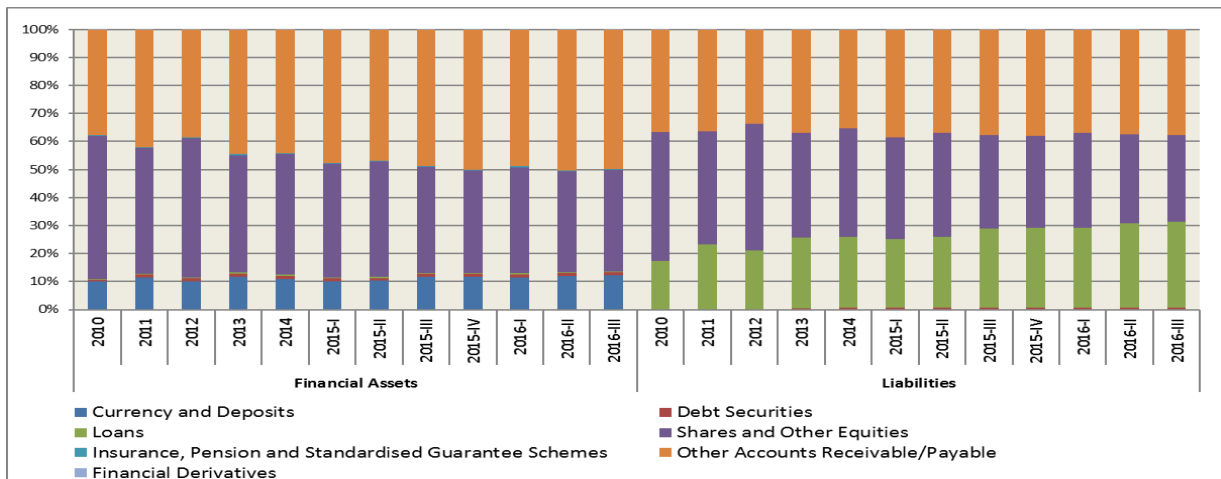
In the third quarter of 2016, financial assets of non-financial corporations increased by TRY 26 billion quarter-on-quarter. Transactions and valuations contributed to this increase at an equal rate. In the same period, despite a flat trend in total liabilities, it is noteworthy that transaction and valuation movements point to an increase by TRY 77 billion in loans as opposed to a decrease by TRY 86 billion in the other accounts payable item (Table 4).

Table 4. Stock and Flows of Non-Financial Corporations (TRY billion)

	2016-II	Trans.	Valuation	2016-III
Financial Assets	3,468	13	12	3,494
Currency and Deposits	411	6	8	425
Debt Securities	39	-1	0	38
Loans	12	0	0	12
Shares and Other Equities	1,248	19	-1	1,265
Insurance, Pension and Standardised Guarantee Schemes	15	0	0	15
Financial Derivatives	2	-1	0	1
Other Accounts Receivable	1,741	-9	5	1,737
Liabilities	5,009	-19	21	5,011
Currency and Deposits	0	0	0	0
Debt Securities	38	0	1	39
Loans	1,508	-30	77	1,555
Shares and Other Equities	1,584	16	29	1,630
Insurance, Pension and Standardised Guarantee Schemes	0	0	0	0
Financial Derivatives	3	0	0	2
Other Accounts Payable	1,875	-4	-86	1,784

Source: CBRT

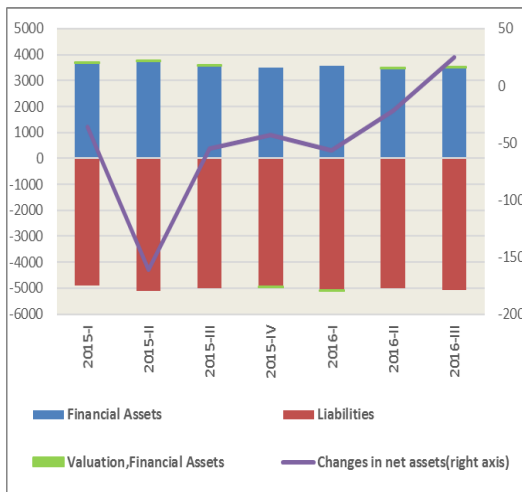
Chart 9. Breakdown of Non-Financial Corporations' Assets and Liabilities by Instruments (percent)



Source: CBRT

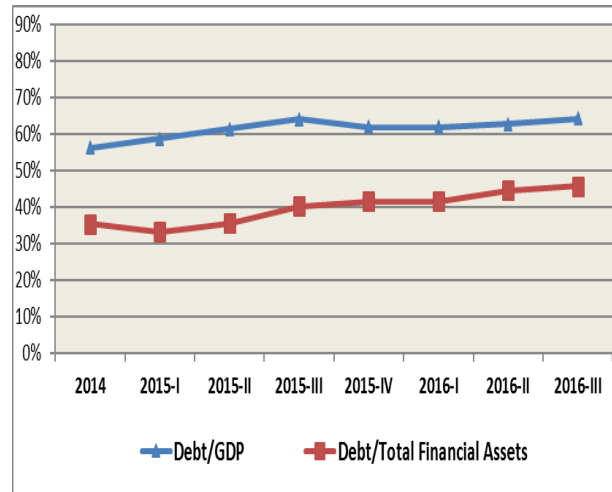
In the third quarter of 2016, the most influential item on the assets side of non-financial corporations was the other accounts receivables (50 percent), composed of the sum of corporate loans and advances and other items. The share of shares and other equity was 36 percent, and that of currency and deposits was 12 percent.⁴ On the liabilities side, the share of financing through shares and other equity in total liabilities was 33 percent, while the shares of other accounts payable and loans used were 36 percent and 31 percent, respectively (Chart 9).

Chart 10. Change in Net Assets of Non-Financial Corporations (TRY billion)



Source: CBRT

Chart 11. Ratio of Non-Financial Corporations' Debts (*) to GDP (percent)



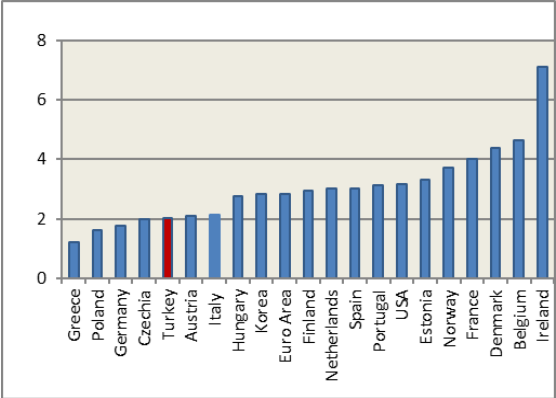
Source: CBRT, TURKSTAT

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

⁴ To compile the financial accounts of non-financial corporations, the CBRT Company Accounts data were used until 2014 for currency, other accounts receivable, other accounts payable, shares and other equity items, whereas the TURKSTAT's consolidated non-financial company accounts data have been used since 2014.

In the third quarter of 2016, net assets of non-financial corporations increased by TRY 12 billion compared to the previous quarter (Chart 10). While the ratio of non-financial corporations' debts to GDP was 64 percent in the third quarter of 2016, the ratio of debts to total financial assets continued to increase (Chart 11).

Chart 12. Non-Financial Corporations Liabilities/GDP, Comparison



A comparison of the ratios of non-financial corporations' debts to GDP with those of several countries shows that in the third quarter of 2016, Turkey was among the countries with low indebtedness levels* (Chart12).

Source: CBRT, TURKSTAT, OECD
 (*)Other country data is as of 2016 Q2.

IV. Conclusion

In the third quarter of 2016, the Turkish economy maintained its position as a net debtor, with households and the rest of the world being the two major financing sectors. The most indebted sector was the non-financial corporations sector followed by the central government. In this period, the net financial worth of households and non-financial corporations improved slightly. Transactions as well as valuation movements -an indication of exchange rate and price movements- were influential in this improvement. A comparison with a group of countries comprising the EU and the USA highlights that Turkey, in terms of household and non-financial corporations' indebtedness levels, is among the countries with low debt levels, below the euro area average.