TÜRKİYE CUMHURİYET MERKEZ BANKASI

2016-IV

Financial Accounts Report

Statistics Department

Monetary and Financial Data Division

I. Introduction[1]

In 2016Q4, total financial assets of the Turkish economy were TRY 9,286 billion and total financial liabilities were TRY 10,483 billion; thus, the net financial worth, which is the difference between financial assets and liabilities, reached TRY 1,197 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 Sectors[2]
(2016Q4, TRY billion)

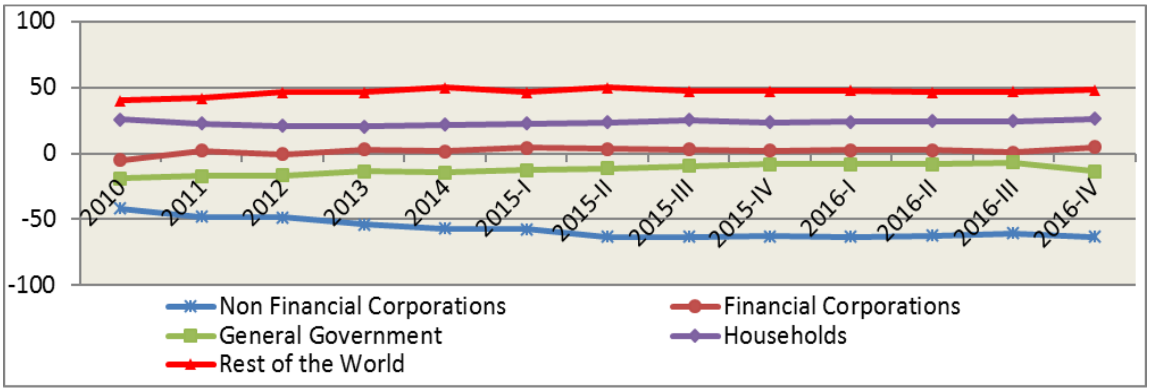
	Total Economy	Non Financial Corporations	CBRT	Other Monetary Financial Institutions	Insurance Corporations and Pension Funds	Financial Intermediaries and Auxiliaries	Central Government	Local Government	Social Security Institutions	Households	NPISH	Rest of the World(*)
Financial Assets	**9.286**	3.952	503	2.662	146	228	383	79	151	1.152	28	**750**
Liabilities	**10.483**	5.591	488	2.583	150	198	871	82	12	472	35	**1.996**
Financial Net Worth	**-1.197**	-1.639	15	79	-4	30	-488	-3	138	681	-6	**1.247**

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

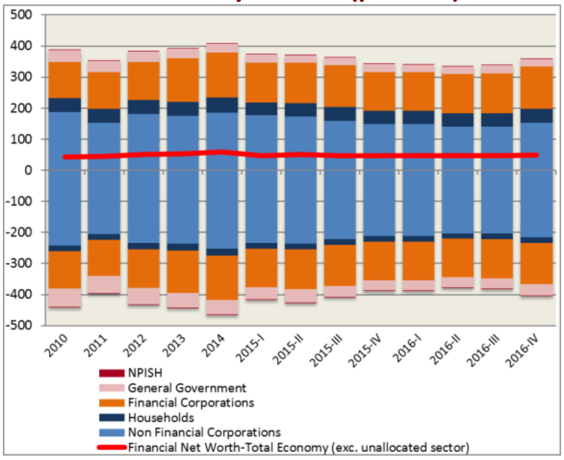
(*) Non-profit institutions serving households have not been included as their net financial worth is close to zero.

[1] Due to the revisions in the General Government's Financial Statistics compiled by the Ministry of Finance, the Financial Accounts data set has been updated as of 2015Q1.

[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.

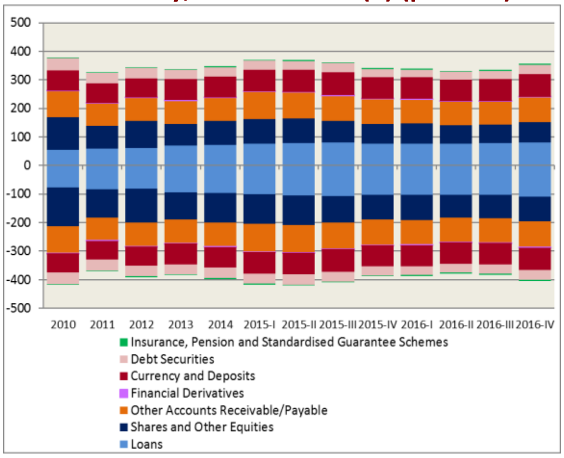
An analysis of financial assets and liabilities by sectors reveals that the non-financial corporations sector was the biggest sector on the assets side as well as on the liabilities side (Chart 2). As for the financial instrument distribution, other accounts receivable and loans had the largest weight 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 last quarter of 2016, flows originating from transactions increased in all sectors whereas valuation-based flows slightly decreased in the general government sector (Table 2). There was a positive net flow in households and a negative net flow in other sectors. The highest net flow[3] was recorded in non-financial corporations as a decrease in valuation. The negative net flow in non-financial corporations was due to the decline in valuation transactions (Chart 4).

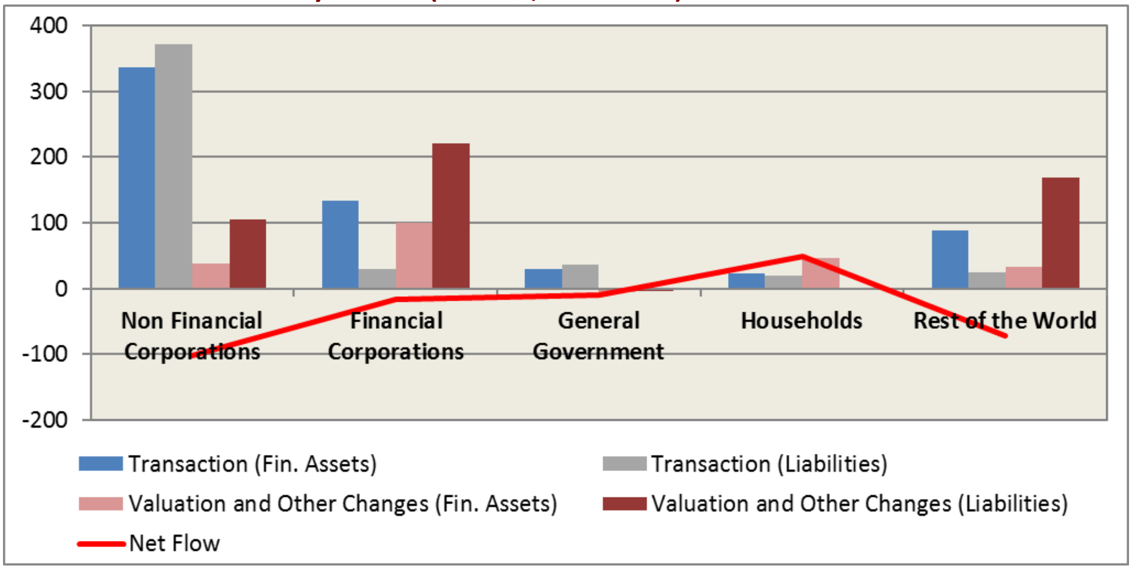
Table 2. Net Flow by Sectors (2016Q4, TRY billion)

	Transaction (Assets)	Transaction (Liabilities)	Valuation and Other Changes (Fin. Assets)	Valuation and Other Changes (Liabilities)	Net Flow
Non Financial Corporations	337	372	38	106	-102
Financial Corporations	133	29	100	221	-16
General Government	30	37	-6	-3	-10
Households	23	20	46	0	49
Rest of the World	88	24	33	169	-72

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 (2016Q4, TRY billion)



Source: CBRT

II. Households

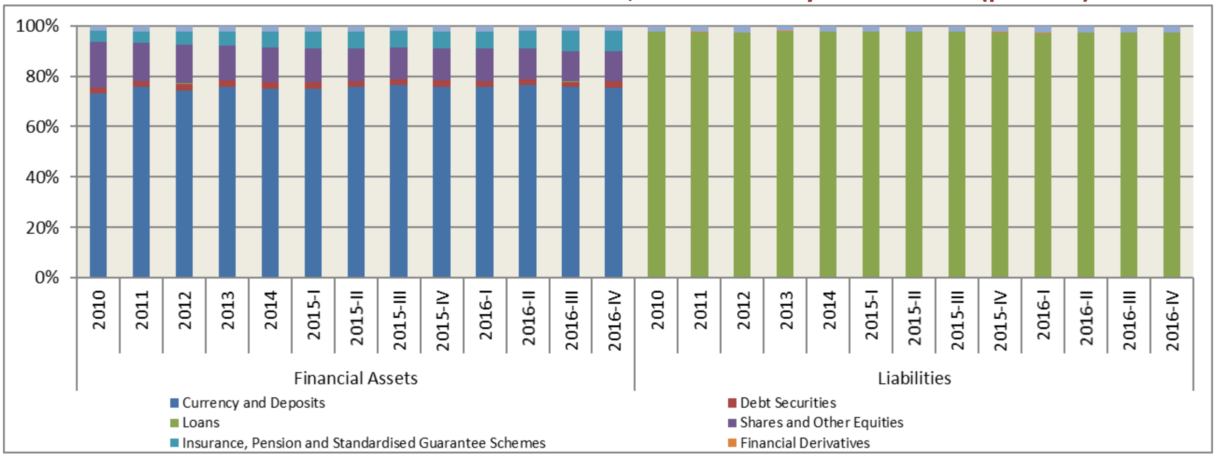
In the final quarter of 2016, households' financial assets increased by TRY 69 billion quarter-on-quarter, most of which was driven by the valuation increase in currency and deposits. Meanwhile, households' liabilities grew by TRY 20 billion on the back of loan transactions (Table 3).

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

	2016-III	Trans.	Valuation	2016-IV
Financial Assets	1.083	23	46	1.152
Currency and Deposits	820	8	40	868
Debt Securities	22	8	1	31
Loans	0	0	0	0
Shares and Other Equities	131	-1	4	135
Insurance, Pension and Standardised Guarantee Sch	87	6	1	94
Financial Derivatives	0	0	0	0
Other Accounts Receivable	22	2	0	24
Liabilities	451	20	0	472
Currency and Deposits	0	0	0	0
Debt Securities	0	0	0	0
Loans	439	19	0	458
Shares and Other Equities	0	0	0	0
Insurance, Pension and Standardised Guarantee Sch	0	0	0	0
Financial Derivatives	0	0	0	0
Other Accounts Payable	12	1	0	13

Source: CBRT

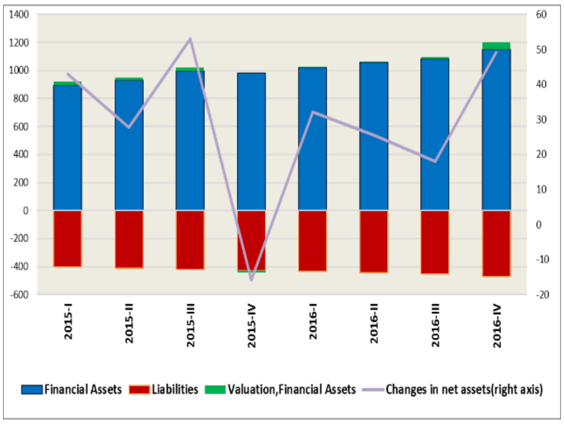
Chart 5. Households' Financial Assets and Liabilities, Breakdown by Instruments (percent)



Source: CBRT

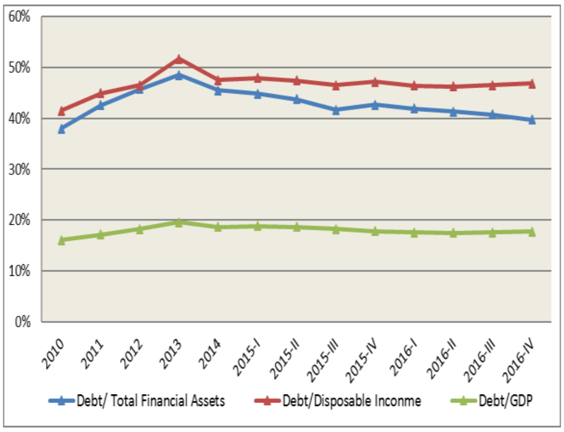
The primary instrument in household financial assets was the deposits with a share of approximately 76 percent, followed by shares and other equity. During the data period, the share of shares and other equity item in total financial investments decreased while that of deposits was flat. Meanwhile, almost 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)

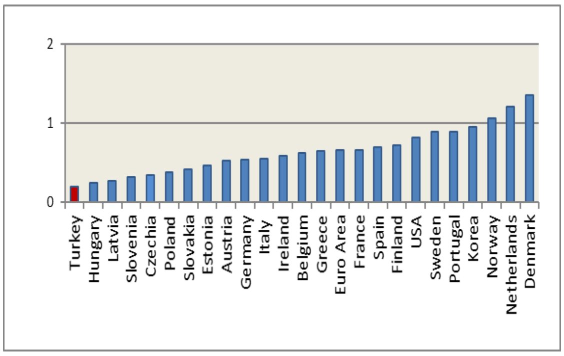


Source: CBRT, TURKSTAT

(*) Household debt is composed of loans.

In the last quarter of 2016, the household net financial worth increased by TRY 49 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 2016Q4 (Chart 7).

Chart 8. Household Liabilities/GDP, Comparison



Source: CBRT, TURKSTAT, OECD

The ratio of household liabilities to GDP indicates that among 24 countries compared, Turkey stood out as the country with the lowest level of indebtedness in 2016Q4 (Chart 8).

III. Non-Financial Corporations

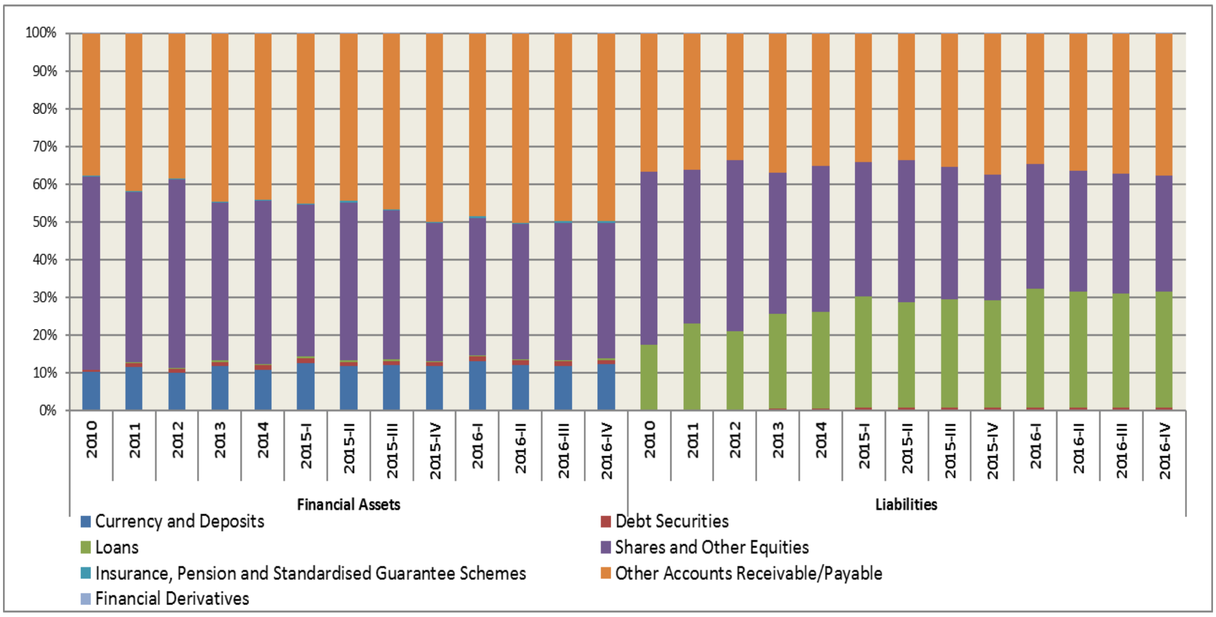
Table 4. Stock and Flows of Non-Financial Corporations (TRY billion)

	2016-III	Trans.	Valuation	2016-IV
Financial Assets	3.577	337	38	3.952
Currency and Deposits	425	34	31	491
Debt Securities	38	0	0	38
Loans	12	0	2	14
Shares and Other Equities	1.304	125	-4	1.424
Insurance, Pension and Standardised Guarantee Scher	15	1	0	16
Financial Derivatives	1	0	1	2
Other Accounts Receivable	1.782	177	8	1.967
Liabilities	5.114	372	106	5.591
Currency and Deposits	0	0	0	0
Debt Securities	39	1	5	46
Loans	1.551	64	97	1.712
Shares and Other Equities	1.624	113	-15	1.722
Insurance, Pension and Standardised Guarantee Scher	0	0	0	0
Financial Derivatives	2	1	0	3
Other Accounts Payable	1.898	191	19	2.108

Source: CBRT

In the last quarter of 2016, financial assets of non-financial corporations increased by TRY 375 billion quarter-on-quarter. This increase was mainly driven by the rise in transactions in other accounts receivable as well as in shares and other equity. The surge in total liabilities during the same period largely stemmed from the TRY 191-billion increase in the other accounts payable and the TRY 113-billion rise in the shares and other equity item. Meanwhile, loans registered a valuation increase of TRY 97 billion (Table 4).

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

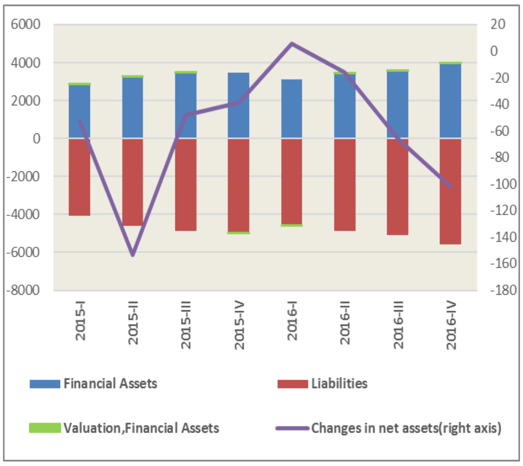


Source: CBRT

In the fourth quarter of 2016, the most influential item on the assets side of non-financial corporations was the other accounts receivable (50 percent) composed of the sum of corporate loans-advances and other items. The share of shares and other equity item was 36 percent, and that of currency and deposits item was 12 percent.[4] On the liabilities side, the share of financing through issues of shares and other equity in total liabilities was 31 percent, while the shares of other accounts payable and loans used were 38 percent and 31 percent, respectively (Chart 9).

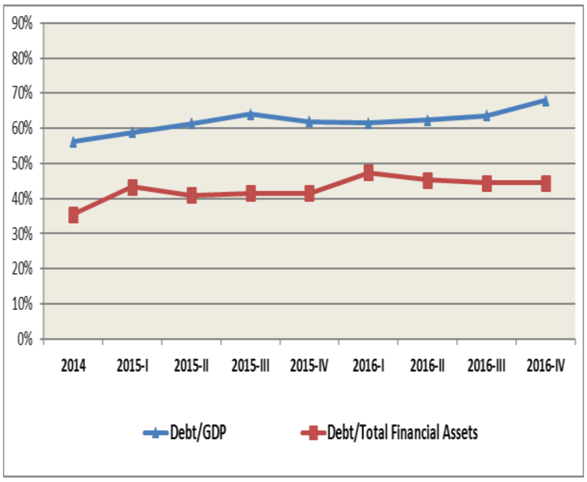
[4] To compile the financial accounts of non-financial corporations, the CBRT Company Accounts data were used for currency, other accounts receivable, other accounts payable, and shares and other equity items until 2014, whereas the TURKSTAT's consolidated non-financial company accounts data have been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

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)

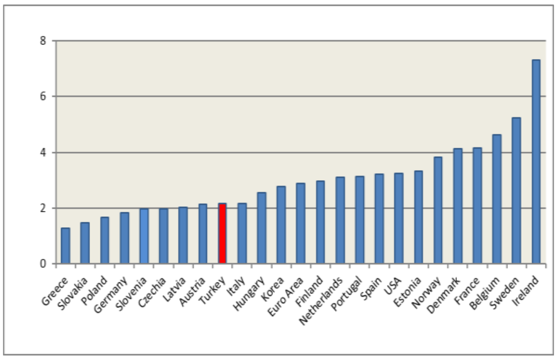


Source: CBRT, TURKSTAT

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

In 2016Q4, net assets of non-financial corporations decreased by TRY 102 billion compared to the previous quarter (Chart 10). While the ratio of non-financial corporations' debts to GDP was 68 percent in this period, the ratio of debts to total financial assets continued to increase (Chart 11).

Chart 12. Non-Financial Corporations' Liabilities/GDP



Source: CBRT, TURKSTAT, OECD

A comparison of the ratios of non-financial corporations' debts to GDP with those of several countries shows that in the final quarter of 2016, Turkey was among the countries with low indebtedness levels (Chart 12, Box).

BOX: RISK ASSESSMENT FOR THE CORPORATE SECTOR

This Box analyzes the financial structure of the corporate sector by using the Financial Accounts Statistics[5] (FAS) compiled by the Central Bank of the Republic of Turkey; examines strengths and weaknesses by exposing them to various generated financial risk indicators, and evaluates indebtedness structure by a comparison with the OECD countries.

The FAS presents sectors' financial assets and liabilities in the form of a compiled balance sheet and by financial instruments. In the framework of the balance sheet approach adopted for the FAS, the standard balance sheets of non-financial corporations that we call the corporate sector, have been converted to financial balance sheets and assets and liabilities have been classified by instruments (Table 1). As per the international statistics standards,[6] the remaining items after excluding the transactions that are classified as non-financial transactions by definition from the current accounting balance sheets are described in the FAS as: currency, deposits, debt securities, loans, shares and other equities, other accounts receivable/ payable. Accordingly, items like bank accounts and liquid assets under assets have been classified as deposits; and securities such as bond and bills under assets and liabilities have been classified as debt securities. Equity securities and participations and subsidiaries under assets, and paid-up capital under liabilities have been included in the shares and other equities item definition. The other accounts payable/receivable representing debts and claims stemming from the lag between the transaction and the payment includes trade credits, as well as transactions in the form of accruals and advance payments on the balance sheet. By description, fixed assets and provisions are not accepted as financial transactions. In the analysis below, the financial instruments described in the FAS have been used.

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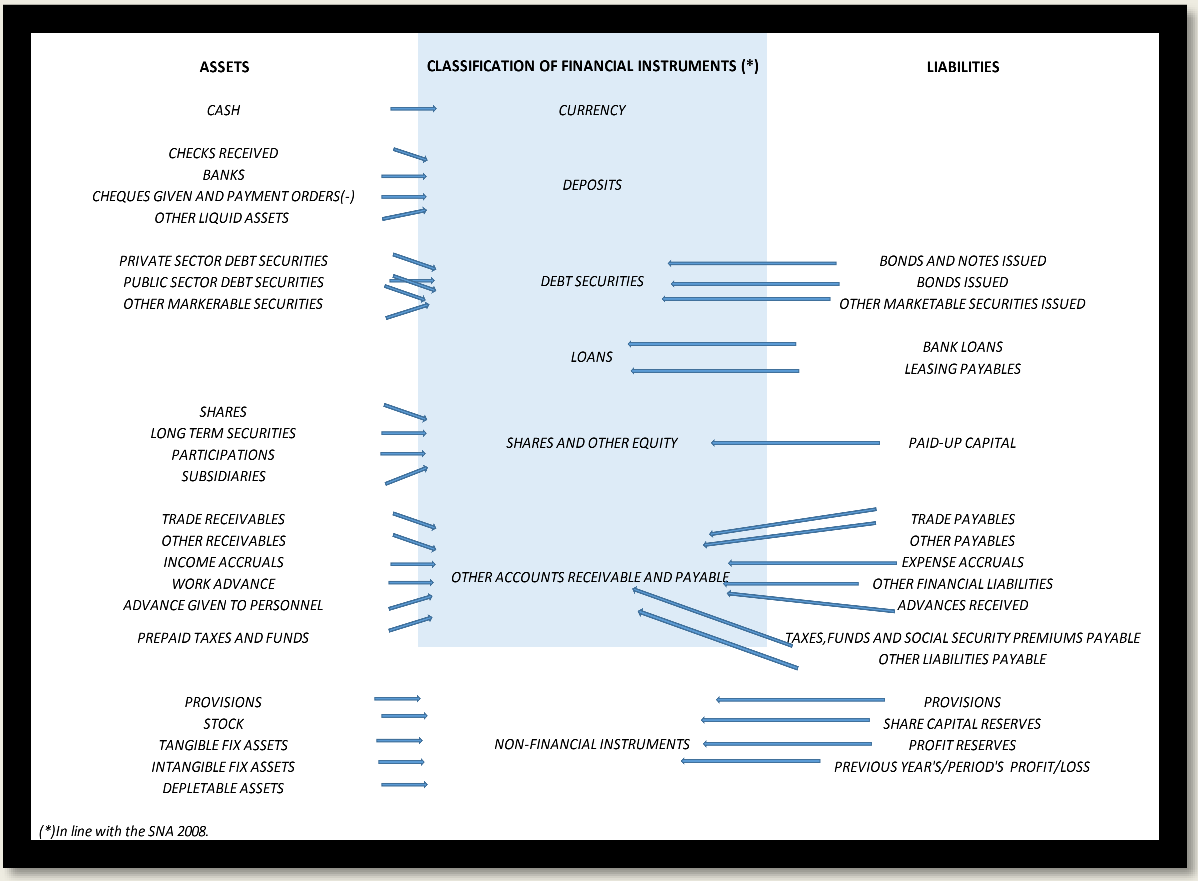
[5] http://www.tcmb.gov.tr/wps/wcm/connect/TCMB+EN/TCMB+EN/Main+Menu/STATISTICS/Monetary+and+Financial+Statistics/Financial+Accounts/

[6] The System of National Accounts 2008 (SNA 2008) and the European System of National and Regional Accounts (ESA 2010)

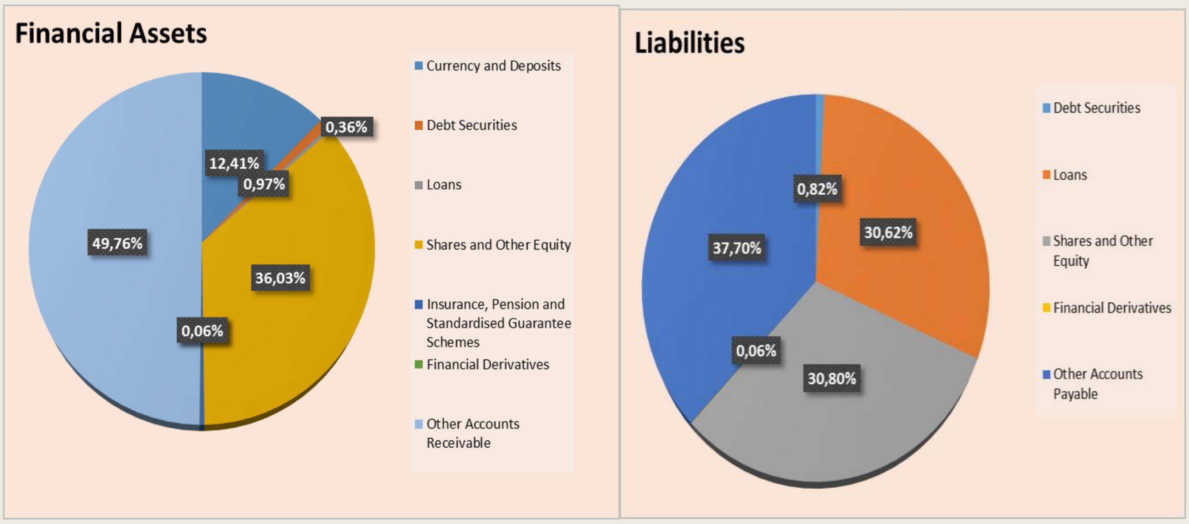
Table 1. Classification of Corporate Sector Balance Sheets by Financial Instruments (*)



Source: CBRT, ESA 2010

An analysis of the breakdown of the corporate sector's financial instruments by 2016Q4 reveals that almost half of the financial assets are composed of other accounts receivable. Most of these receivables are trade credits from non-financial corporations, in other words they are receivables within the sector among corporate sector firms. The second biggest item in financial assets is the shares and other equity item. As for the financial liabilities of the corporate sector, the biggest items are shares and other equity - other accounts payable weighing-, and loans (Chart 1).

Chart 1. Breakdown of Financial Instruments in Corporate Sector (2016 Q4, percent share)



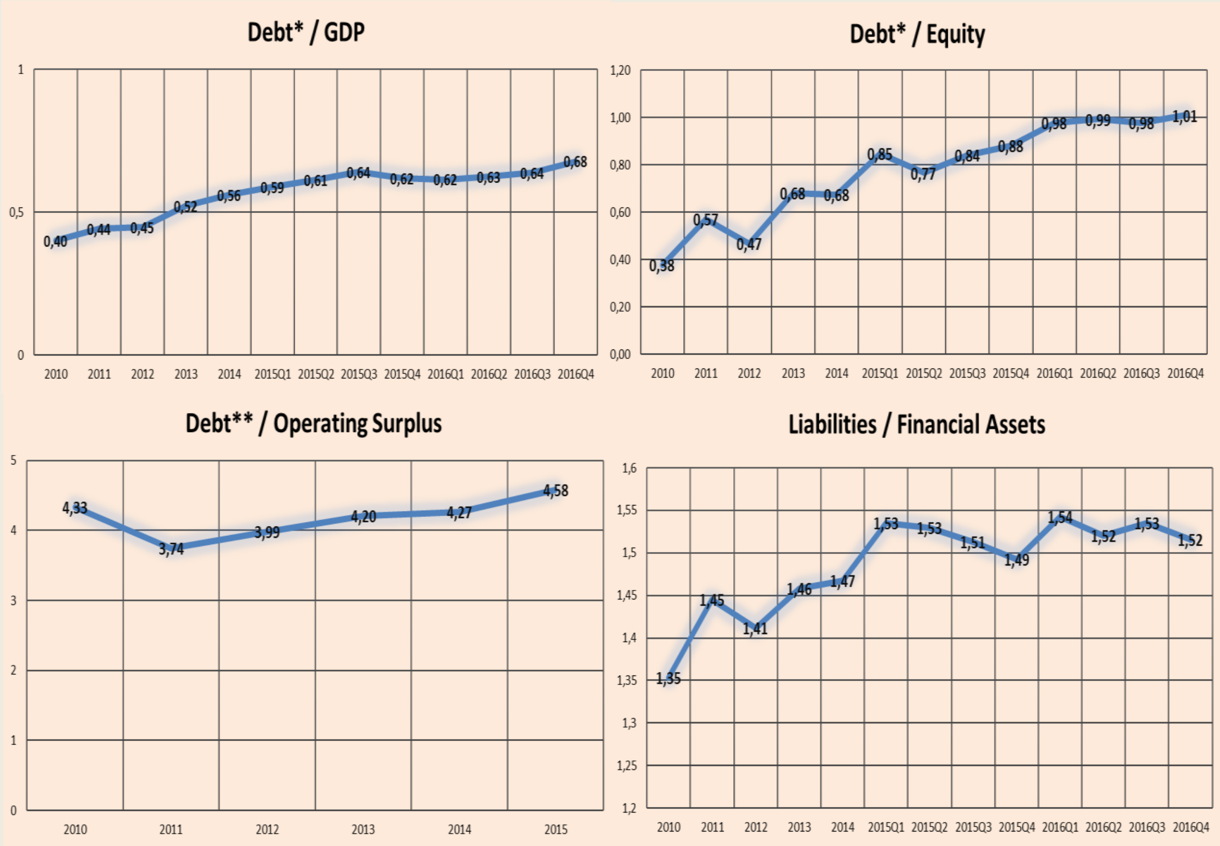
Source: CBRT Financial Accounts

Financial Risk Indicators

In this section, the corporate sector's strengths and weaknesses have been assessed by using four ratios, which were produced utilizing the financial assets and liabilities items, representing the corporate sector's indebtedness ratio and solvency capacity These indicators are: ratio of debt to GDP; debt to operating surplus7 and debt to equity and ratio of liabilities to financial assets.

[7] Operating surplus is the balancing item of the income account in the system of national accounts and is rendered by subtracting uses from sources. Denotes the residue that remains after paying wages and salaries at the end of production.

Chart 2. Risk Indicators for the Corporate Sector (2010-2016Q4)

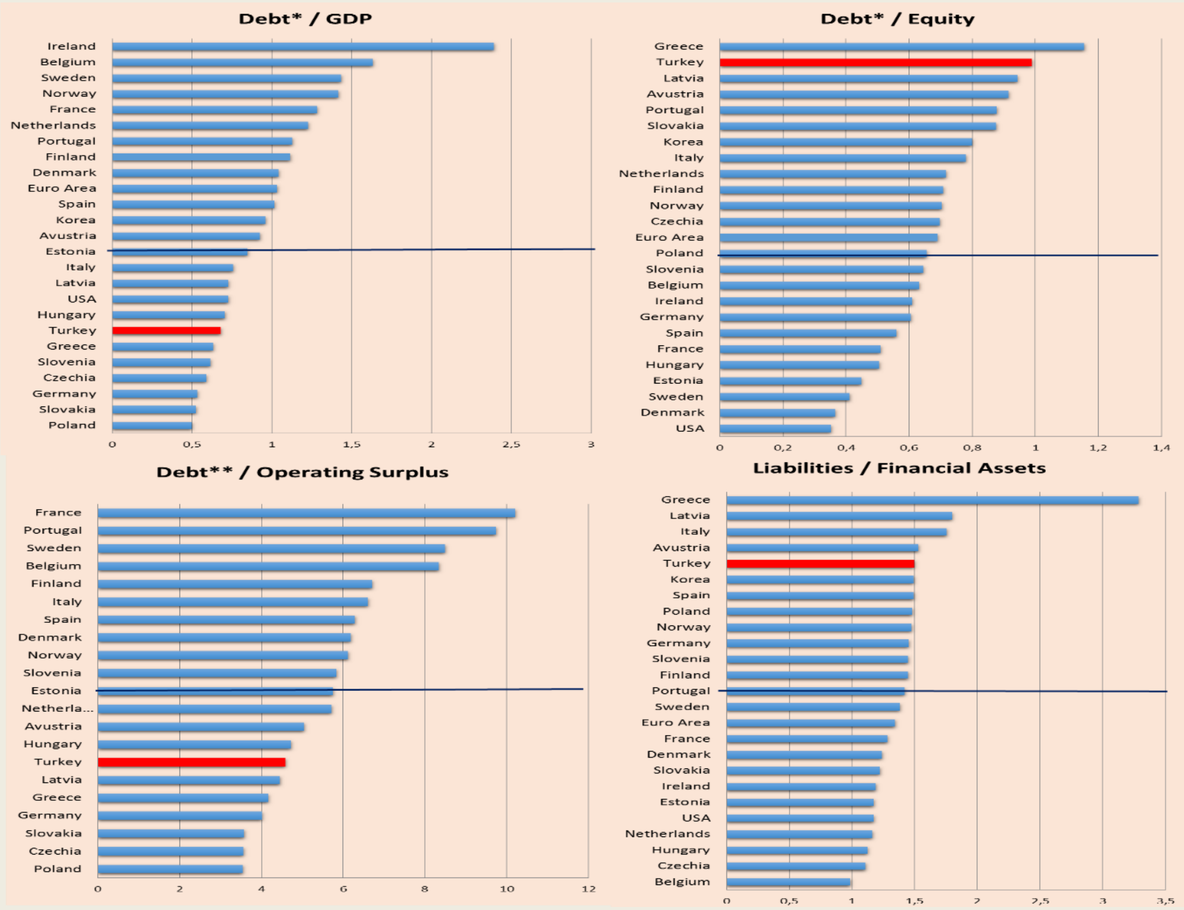


Source: CBRT Financial Accounts, TURKSTAT

(*) Debt item is composed of loans and debt securities.
(**) In this indicator, the debt item has been rendered by subtracting equity from liabilities as per the OECD definition.

In the analyzed period, the ratio of the corporate sector's total debt to GDP displayed an uptrend until 2015 as global liquidity headed for emerging economies after the financial crisis and these countries enjoyed favorable financing facilities, then remained flat and lastly was recorded at 0.68 percent in the final quarter of 2016. Similarly, the ratio of debt to equity displayed an uptrend through the same period. This ratio stayed at 1.02 percent in 2016Q4. The ratio of debt to operating surplus shows if the business profits of non-financial corporations are able to cover debt repayments. In a sense, it reflects the leverage effect in corporate sector firms and a higher ratio denotes a higher risk. This ratio followed a limited uptrend and was recorded at 4.5 by the end of 2015. Meanwhile, the ratio of the sector's liabilities to assets, which is another leverage indicator, have been on an uptrend throughout the period and was 1.5 in the final quarter of 2016 (Chart 2).

Chart 3. Corporate Sector Risk Indicators, Comparisons



Source: CBRT Financial Accounts, TURKSTAT, OECD

(*) Debt item is composed of loans and debt securities.
(**) In this indicator, the debt item has been rendered by subtracting equity securities from liabilities as per the OECD definition.

The four indicators produced have been compared by using the countries in the OECD database. With respect to Debt/GDP and Debt/Operating Surplus indicators, the Turkish corporate sector is below the OECD average and Turkey is among countries with lower indebtedness. As for the ratio of debt to equity, Turkey is above the average. This shows that the equities of the Turkish corporate sector is low with respect to balance sheet components /size (Chart 3).

To sum up, it is observed that corporate sector firms tend to use mainly the other accounts receivable/ payable mostly composed of trade credits representing transactions within the sector; and meet their financing needs by issuing shares and other equity and utilization of loans. A comparison with OECD countries suggest that corporate sector firms in Turkey have one of the lowest indebtedness levels and bear low risk with respect to solvency. The total indebtedness level is not high and, combined with the low leverage level of the sector, indicates that the sector has a strong structure. The sector's equity/ balance sheet components ratio, which is lower compared to other countries, is a weak side that needs to be improved.

IV. Conclusion

In the fourth 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 improved slightly mainly owing to the transactions as well as valuation movements -an indication of exchange rate and price movements. A comparison with EU countries and the USA reveals that Turkey's household and non-financial corporations' indebtedness levels are lower than the euro area average and Turkey is among the countries with low indebtedness levels.