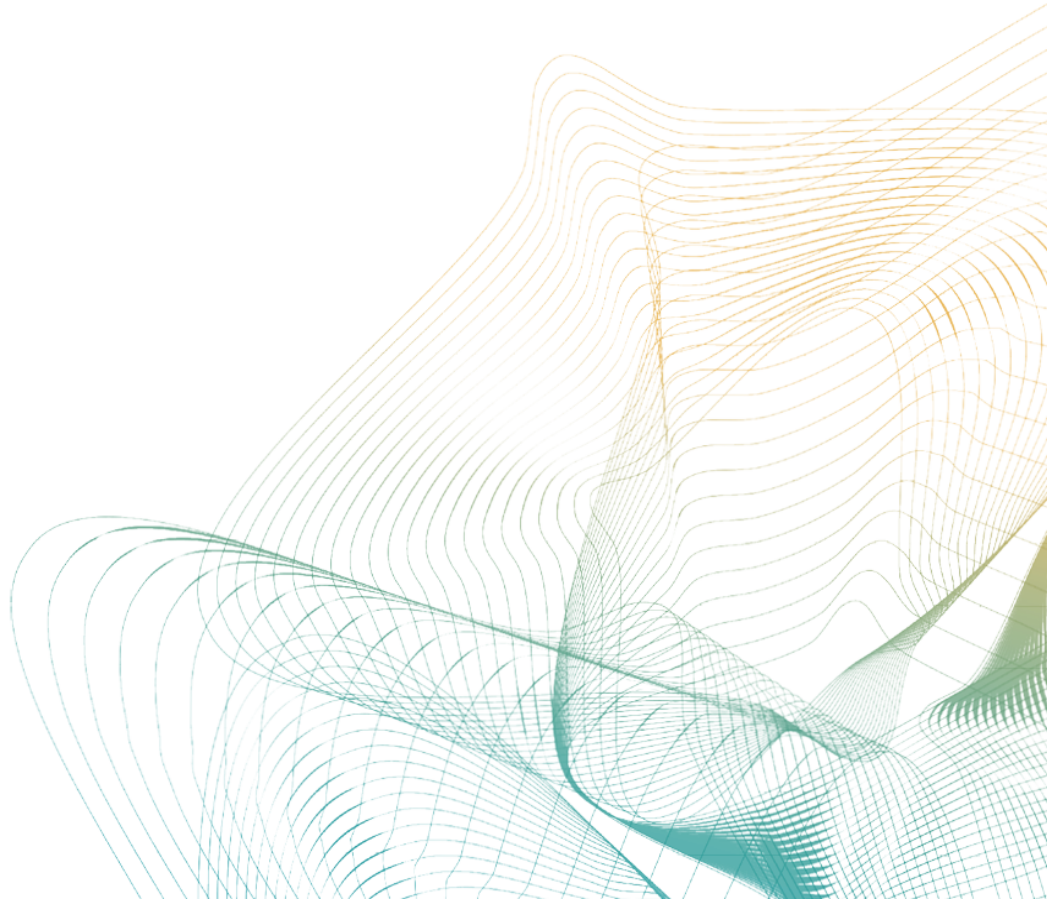


Financial Accounts Report

2018-III



Summary

Financial balance sheets of sectors indicate that total financial assets of the Turkish economy were TRY 12,798 billion, while its liabilities reached TRY 14,805 billion in 2018Q3. Net liabilities to the rest of the world increased by TRY 197 billion quarter-on-quarter to TRY 2,007 billion.

Financial flows between the second and third quarter of 2018 reveal that net transactions amounted to TRY 125 billion while a net valuation decrease worth TRY 322 billion was observed due to the change in exchange rates and market prices.

A cross-country comparison in terms of indebtedness ratios of households and non-financial corporations suggests that Turkey maintained its place among countries with low indebtedness levels in the third quarter.

Contents

1	EVALUATIONS	3
2	FROM WHOM-TO-WHOM (DEPOSITS AND LOANS)	6
3	HOUSEHOLDS	7
4	NON-FINANCIAL CORPORATIONS	9
5	TOTAL DEBT OF RESIDENT SECTORS	11

1. Evaluations

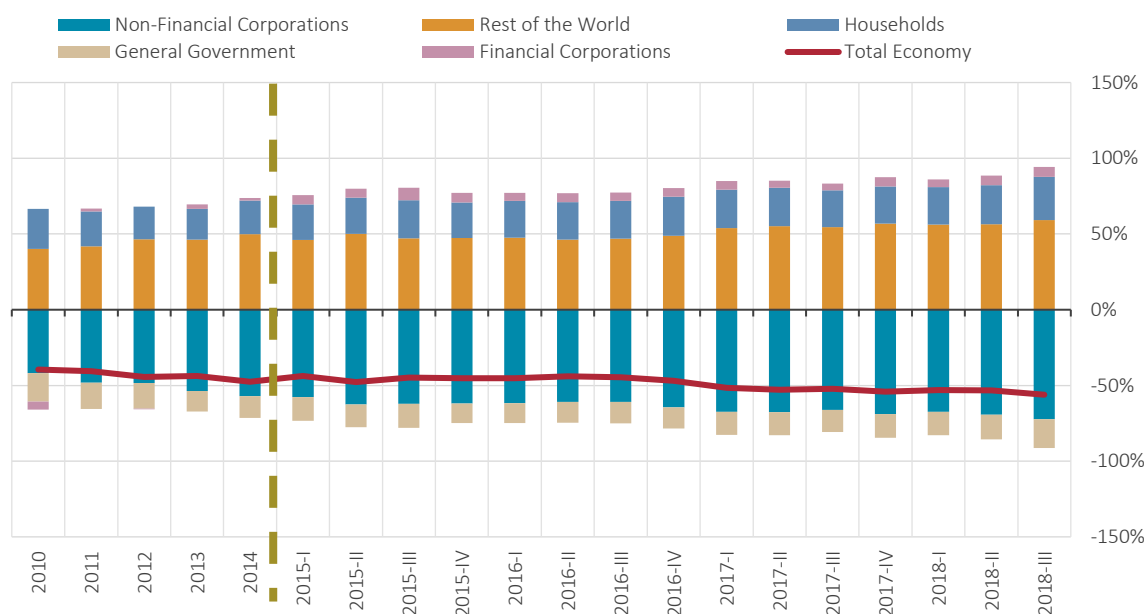
Table 1: Financial Net Worth by Sectors (2018Q3, TRY Billion)^{1,2}

	Total Economy	Non-Financial Corporations	Financial Corporations	General Government	Households	Rest of the World
Financial Assets	12,798	5,003	5,435	715	1,644	1,394
Liabilities	14,805	7,589	5,199	1,395	622	3,509
Financial Net Worth	-2,007	-2,585	235	-680	1,023	2,114

Source: CBRT

An analysis of the domestic economy's financial balance sheets by sectors as of 2018Q3 shows that households and the rest of the world generated a financial surplus and assumed a creditor role, whereas non-financial corporations and the general government ran a financial deficit and assumed a debtor role. Meanwhile, due to their financial intermediation activities, financial corporations maintained their balanced position with a financial net worth close to zero (Table 1, Chart 1).

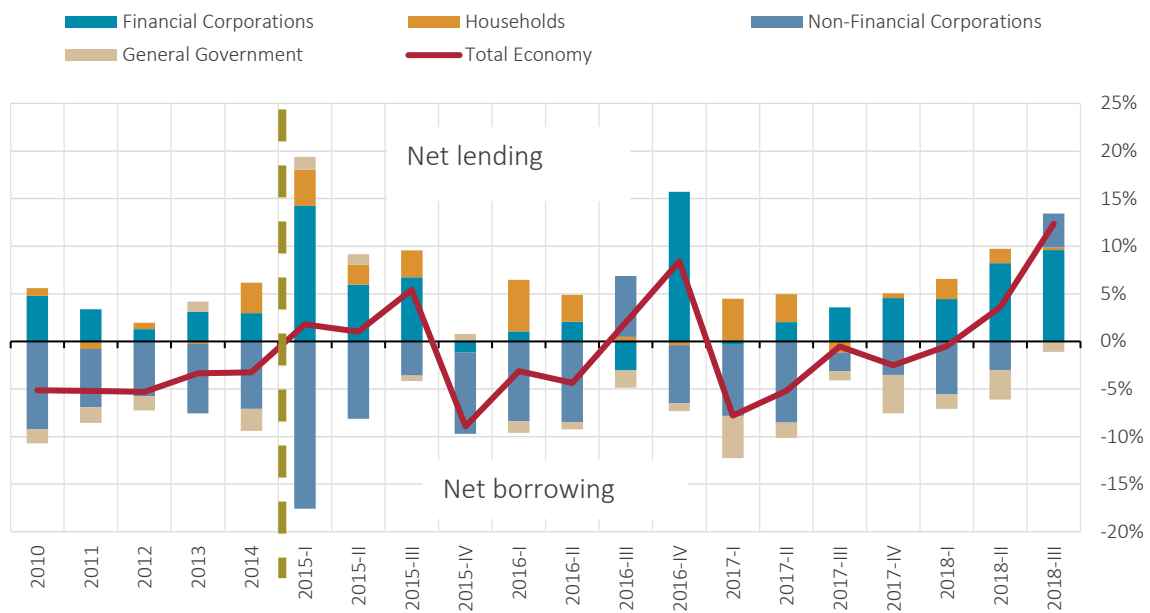
Chart 1: Ratio of Financial Net Worth to (Stock) GDP by Sectors (%)²



Source: CBRT, TURKSTAT

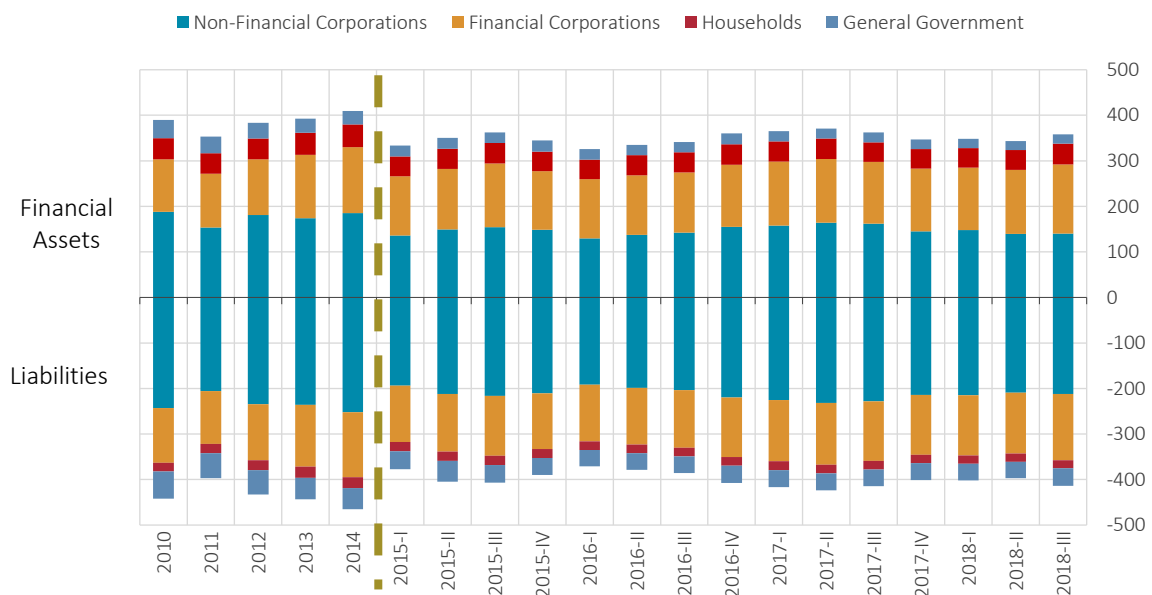
¹ Pursuant to the methodology, there is a difference between the financial net worth of the total domestic economy and the rest of the world since there is no counterpart sector for monetary gold. The rest of the world has been reported based on residency, so as to be compatible with the International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

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

Chart 2: Net Lending/Borrowing (Transaction), Ratio to GDP, by Sectors (%) ²

Source: CBRT, TURKSTAT

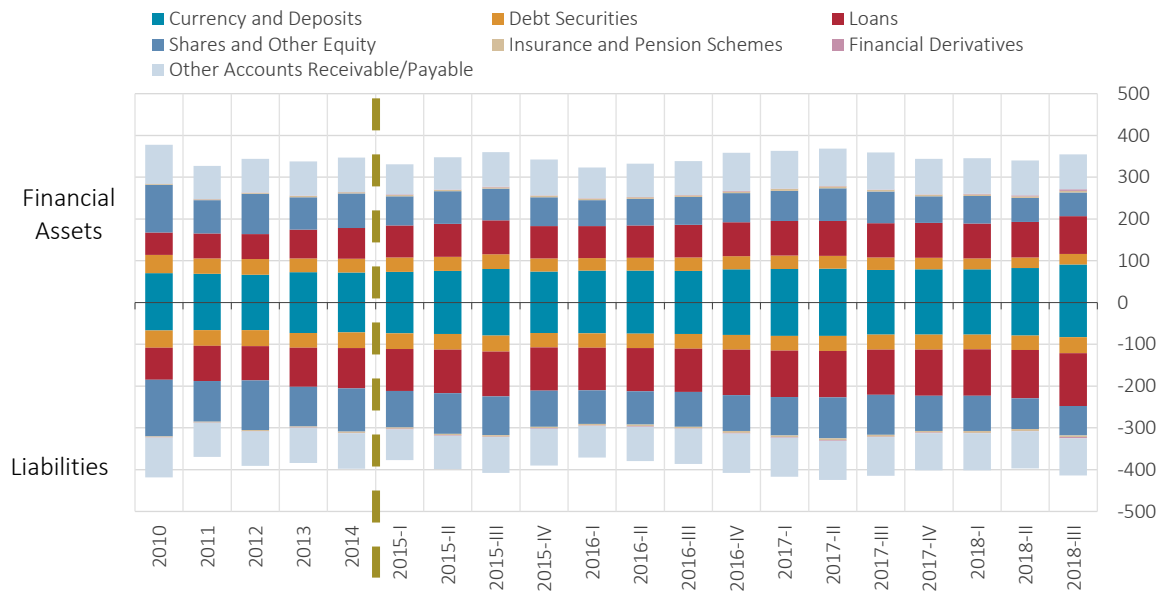
Net financial transactions conducted by sectors suggest that the total economy, which had net borrowing of 0.5% of GDP in the same period of the previous year, shifted to a position of net creditor at 12.4% in this period. Compared with the same period of the previous year, the net lending rate of financial corporations increased to 9.6% of GDP from 3.6% of GDP. Household and non-financial corporations sectors, which were net borrowers in the same period of the previous year, became net lenders with 0.3% and 3.6% of GDP, respectively. The general government sector maintained its position as net debtor, and had net borrowings at approximately 1.1% of GDP (Chart 2).

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

Source: CBRT, TURKSTAT.

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

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



Source: CBRT, TURKSTAT

(*) Monetary gold and SDR have been excluded.

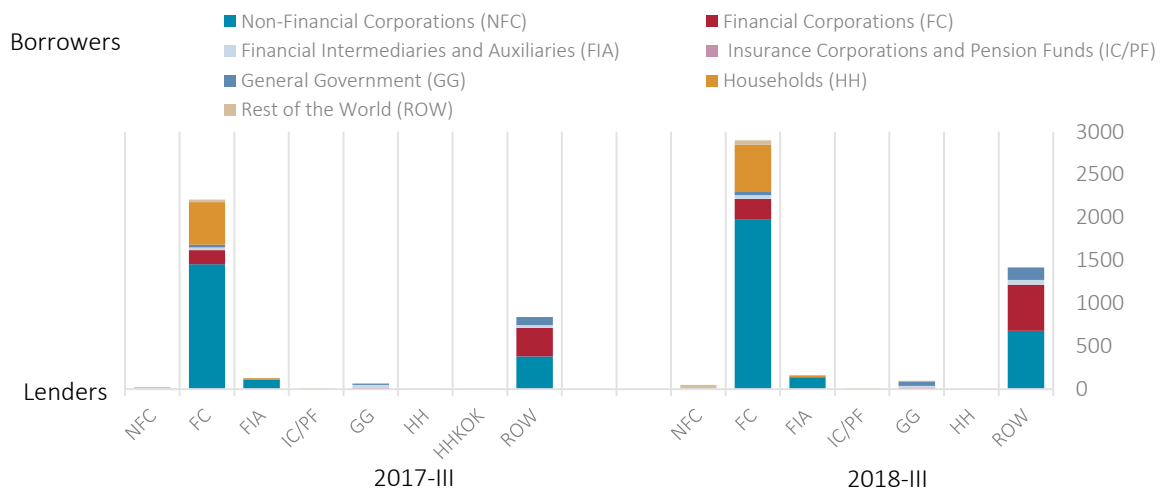
As for the financial instrument distribution in 2018Q3, the currency and deposits and the loans items had the largest weight in assets, while the loans and other accounts payable items had the largest weight in liabilities (Chart 4).

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

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

Analyzing the from-whom-to-whom matrices of loans, the most remarkable connection was observed between non-financial corporations and monetary and financial institutions in 2018Q3. Monetary and financial institutions extended a total of TRY 2,900 billion worth of loans, granting TRY 1,974 billion of it to non-financial corporations and TRY 539 billion to households. The rest of the world offered TRY 1,419 billion worth of loans, out of which non-financial corporations received TRY 682 billion and monetary and financial institutions received TRY 535 billion (Chart 5).

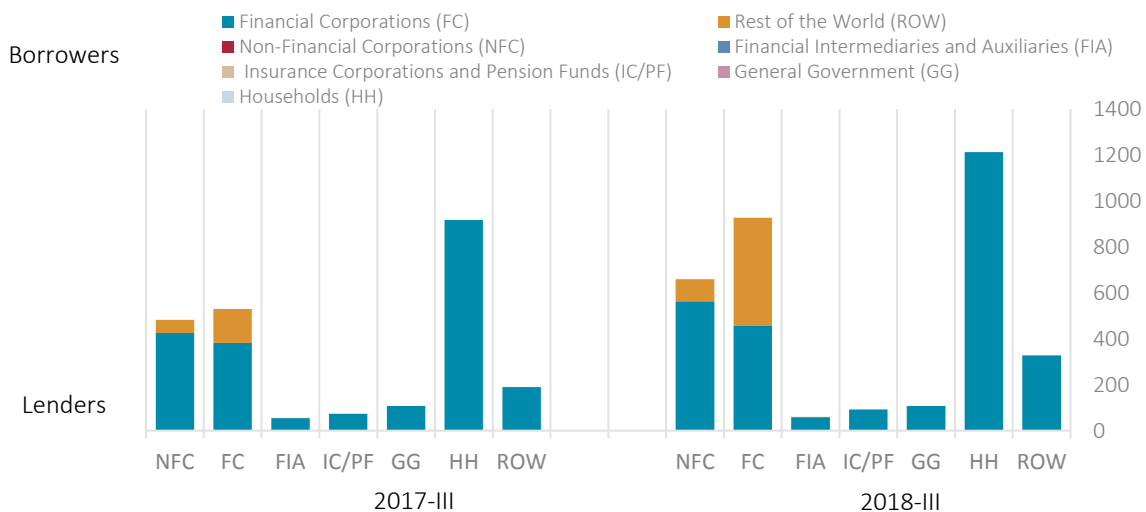
Chart 5: Loans, From-Whom-to-Whom (2018Q3, TRY Billion)²



Source: CBRT

In 2018Q3, of the total TRY 3,409 billion worth of deposits opened by domestic and foreign sectors, TRY 2,840 billion were taken by monetary and financial institutions and TRY 568 billion by the rest of the world. A large portion of deposits taken by monetary and financial institutions belongs to households (TRY 1,212 billion) and non-financial corporations (TRY 562 billion). On the other hand, the majority of deposits taken by the rest of the world (TRY 470 billion) were opened by monetary and financial institutions (Chart 6).

Chart 6: Deposits, From-Whom-to-Whom (2018Q3, TRY Billion)²

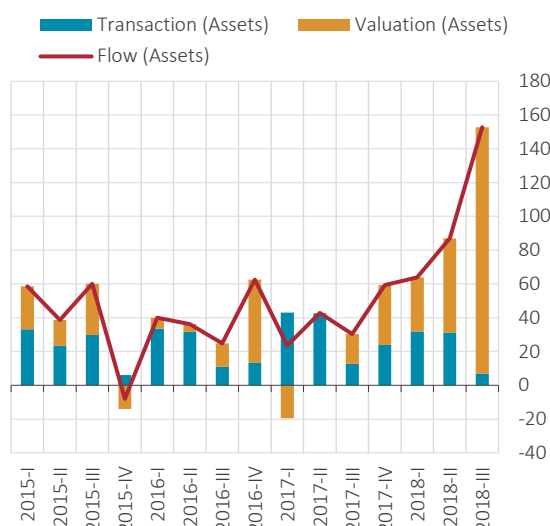


Source: CBRT

3. Households

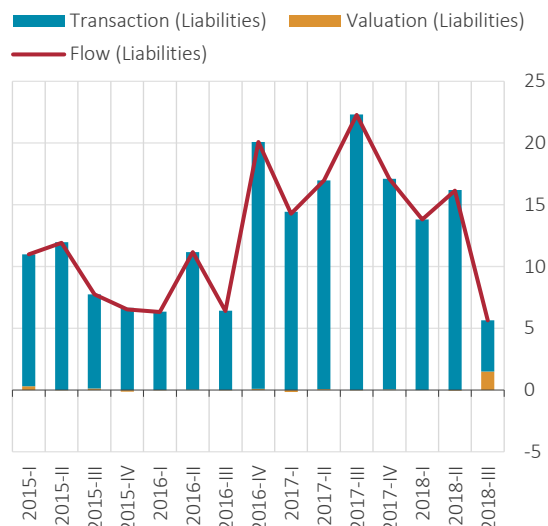
In 2018Q3, household financial assets increased by TRY 153 billion. This increase was mainly driven by the positive valuation of TRY 146 billion in the current financial assets due to exchange rates and market prices. Meanwhile, currency and deposits increased by TRY 6.3 billion, and insurance and pension schemes by TRY 5 billion. Among household assets, the shares and other equity item and debt securities posted a decline by TRY 3.8 billion and TRY 3.2 billion, respectively in this period (Chart 7). In 2018Q3, household liabilities increased by TRY 5.6 billion. Loans amounting to TRY 3.5 billion and positive valuation of current liabilities amounting to TRY 1.5 billion were the main drivers of this increase (Chart 8).

Chart 7: Financial Assets, Flow (TRY Billion)



Source: CBRT

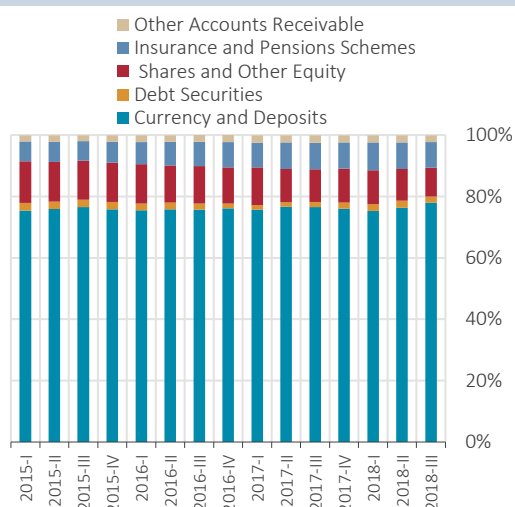
Chart 8: Liabilities, Flow (TRY Billion)



Source: CBRT

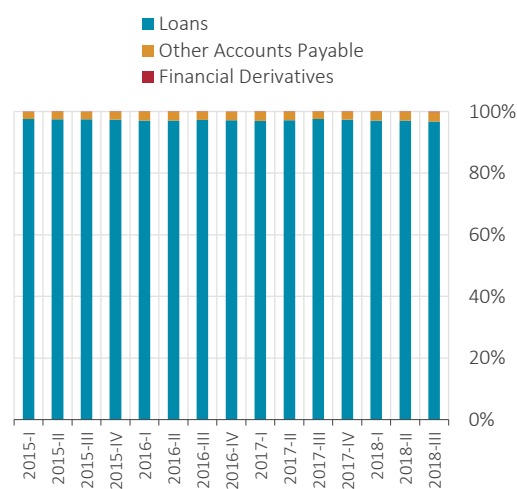
The leading instrument in household financial assets was deposits with a share of 78%, followed by shares and other equity. During the data period, the share of insurance and pension schemes in total financial investments increased while that of shares and other equity decreased. Meanwhile, the share of currency and deposits was flat (Chart 9). As for liabilities, almost all of them were composed of loans (Chart 10).

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



Source: CBRT

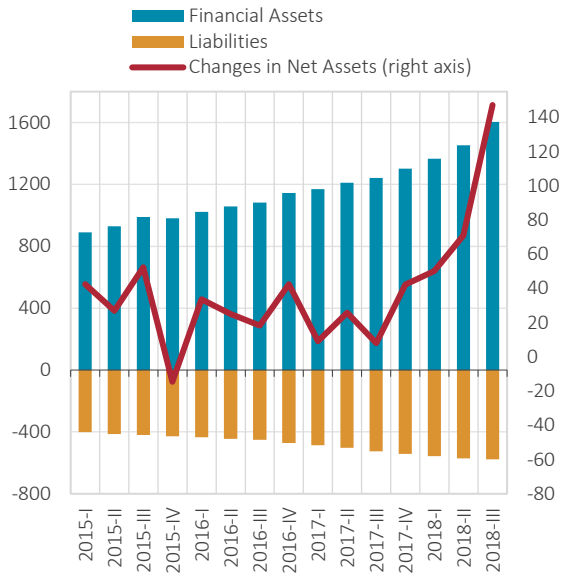
Chart 10: Breakdown of Liabilities by Instruments (%)



Source: CBRT

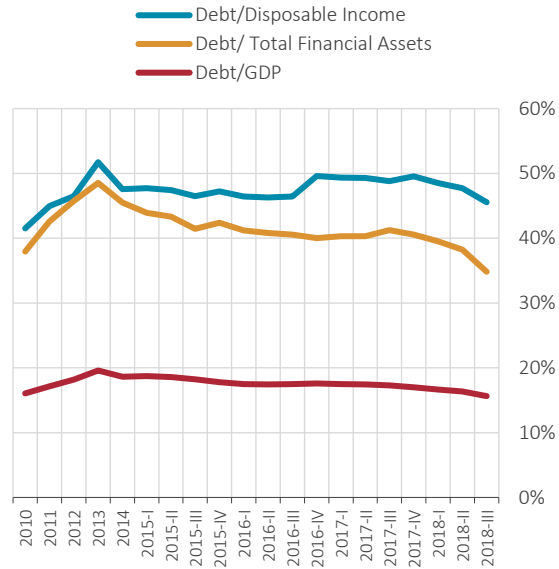
The household financial net worth increased by TRY 147 billion to TRY 1,027 billion in the third quarter of 2018 from TRY 880 billion in the second quarter (Chart 11). Household indebtedness indicators suggest that the ratio of household debt to GDP posted a slight decline to 15.6% in the third quarter while the ratio of debt to total financial assets dropped to 34.8% from 38.2% (Chart 2).

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



Source: CBRT

Chart 12: Household Debt* (%)

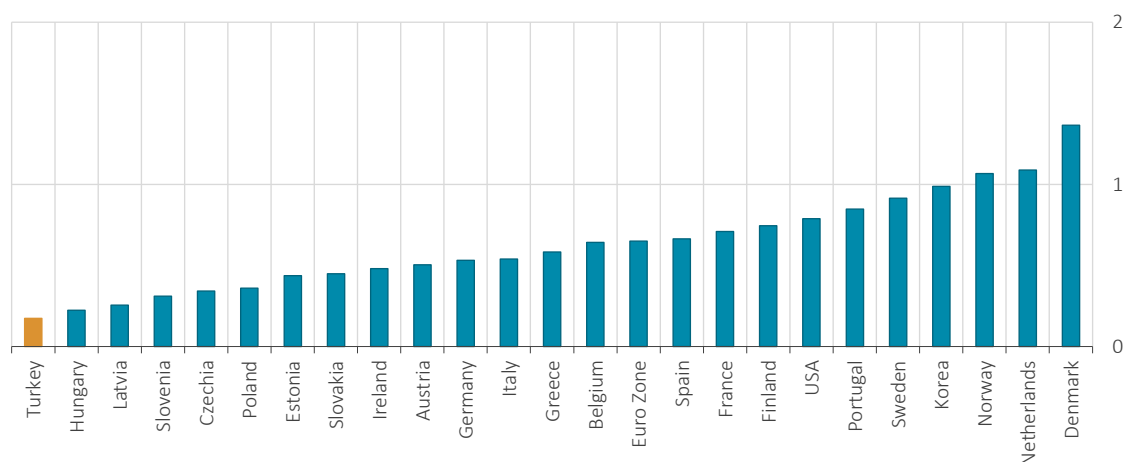


Source: CBRT, TURKSTAT

*Household debt is composed of loans.

The ratio of household liabilities to GDP indicates that in the third quarter of 2018, Turkey had the lowest level of indebtedness among countries compared (Chart 13).

Chart 13: Household Liabilities/GDP, Comparison*²



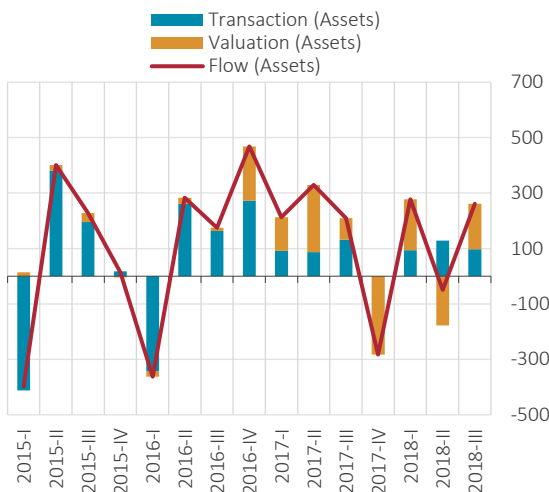
Source: CBRT, TURKSTAT, OECD

(*) Other country data is as of 2018Q2.

4. Non-Financial Corporations

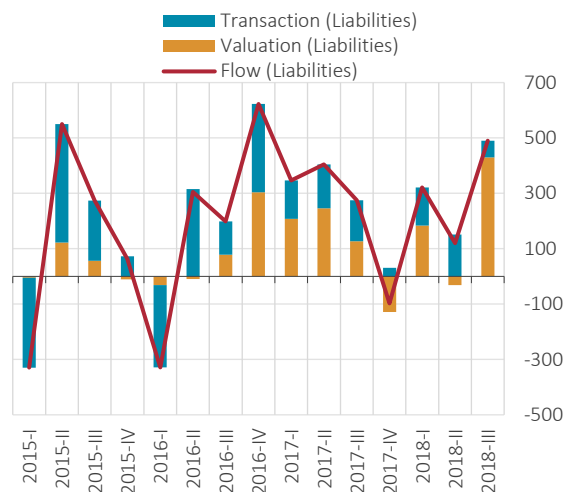
In 2018Q3, financial assets of non-financial corporations increased by TRY 262 billion. This increase was mainly driven by the positive valuation of TRY 165 billion in financial assets, which was negatively valued in 2018Q2, due to exchange rates and market prices. Meanwhile, the other accounts receivable amounting to TRY 69 billion and shares and other equity items amounting to TRY 52 billion were the main drivers of the increase in transactions. On the other hand, the currency and deposits of non-financial corporations decreased by TRY 18 billion in this period (Chart 14). In the third quarter of 2018, liabilities of non-financial corporations increased by TRY 490 billion. The most significant driver of this increase was the positive valuation of TRY 429 billion in financial liabilities due to exchange rates and market prices while the other accounts payable item also posted an increase of TRY 71 billion (Chart 15).

Chart 14: Financial Assets, Flow (TRY Billion)



Source: CBRT

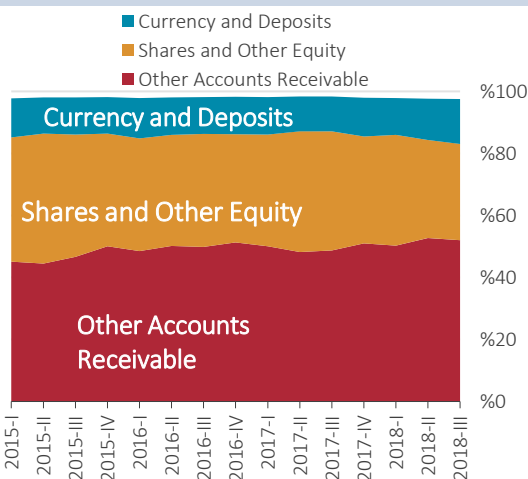
Chart 15: Liabilities, Flow (TRY Billion)



Source: CBRT

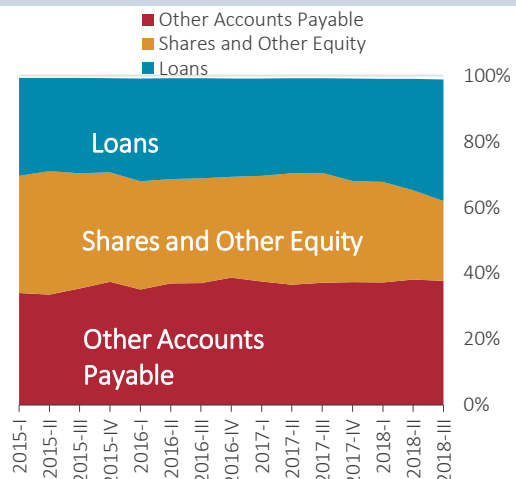
In the third quarter of 2018, the most significant item on the assets side of non-financial corporations was the other accounts receivable item (52%) composed of the sum of trade credits and advances and other items. The share of the shares and other equity item was 31%, and that of currency and deposits was 15% (Chart 16). On the liabilities side, the share of other accounts payable remained flat at 38%. While the share of loans used rose to 37% from 34% quarter-on-quarter, the share of financing through issues of shares and other equity dropped to 24% from 27% (Chart 17).

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



Source: CBRT

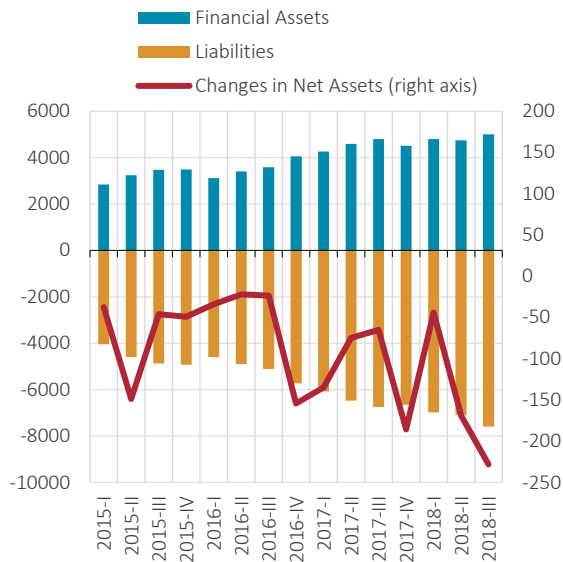
Chart 17: Breakdown of Liabilities by Instruments (%)



Source: CBRT

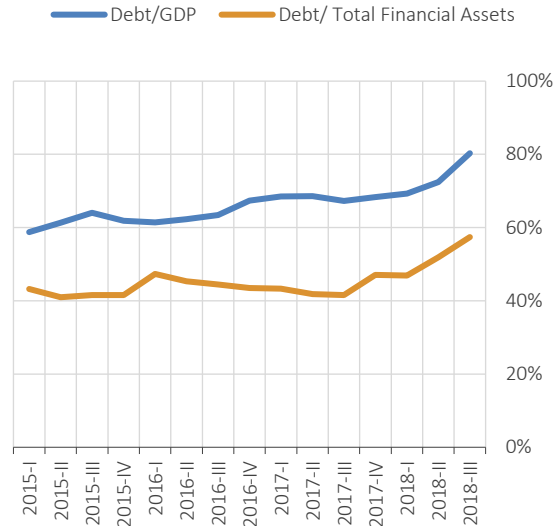
Net assets of non-financial corporations decreased by TRY 228 billion quarter-on-quarter to TRY -2,585 billion from TRY -2,357 (Chart 18). The ratio of non-financial corporations' debts to GDP increased quarter-on-quarter to 80% from 72%. Meanwhile, the ratio of debts to total financial assets rose to 57% from 52% (Chart 19).

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



Source: CBRT

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

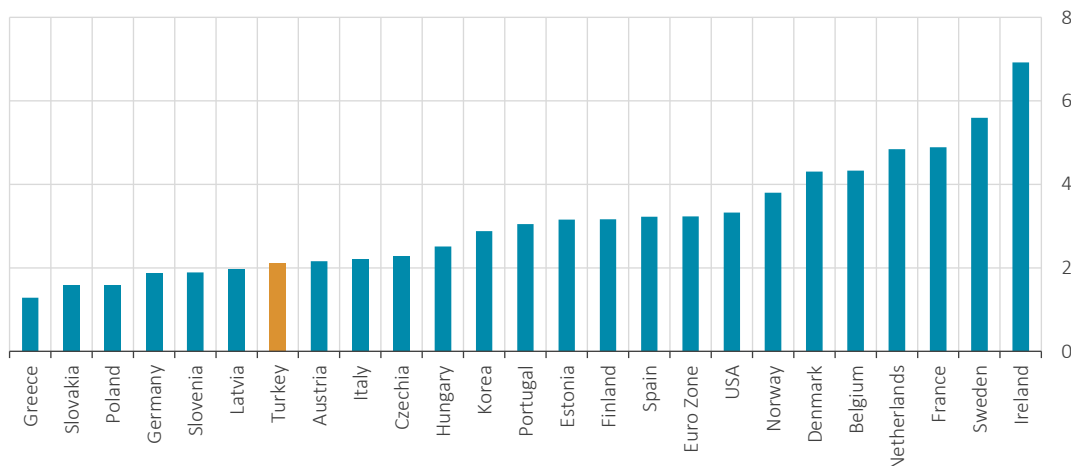


Source: CBRT, TURKSTAT.

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

A comparison of the ratios of non-financial corporations' liabilities to GDP with those of several countries shows that Turkey was among the countries that had low indebtedness levels in 2018Q3 (Chart 20).

Chart 20: Non-Financial Corporations' Liabilities / GDP, Comparison *



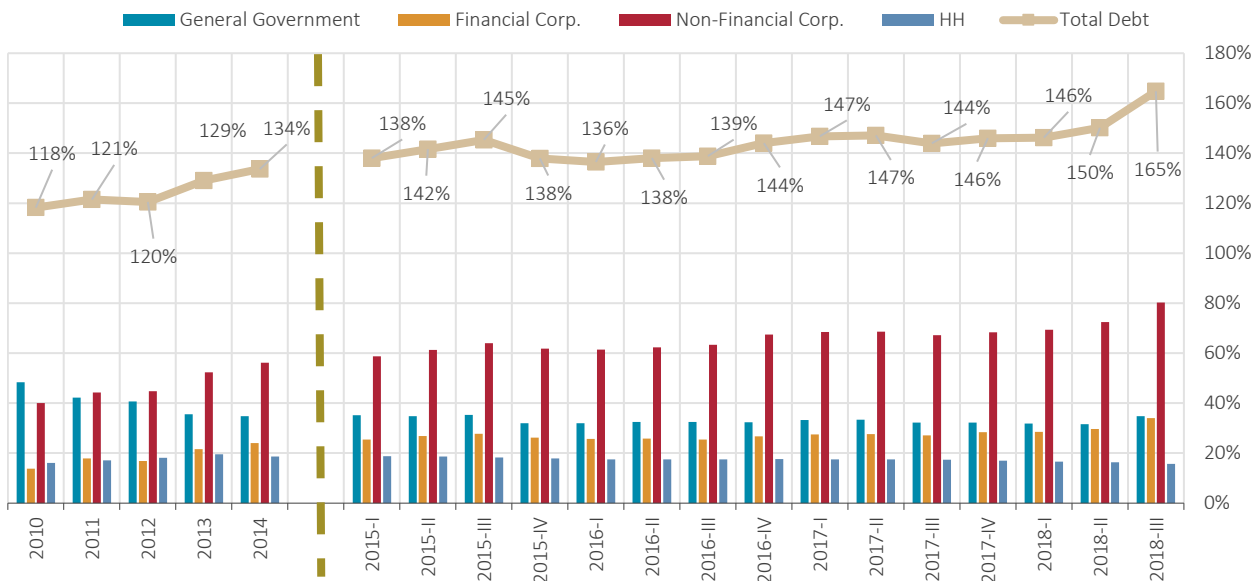
Source: CBRT, TURKSTAT, OECD.

(*) Other country data is as of 2018Q2.

5. Total Debt of Resident Sectors

The ratio of resident sectors' financial accounts-defined total debt, which is the sum of the loans they use and the debt securities they issue, to GDP was 165% in 2018Q3 (Chart 21).

Chart 21: Total Debt of Sectors/GDP, (%) ^{2 *}

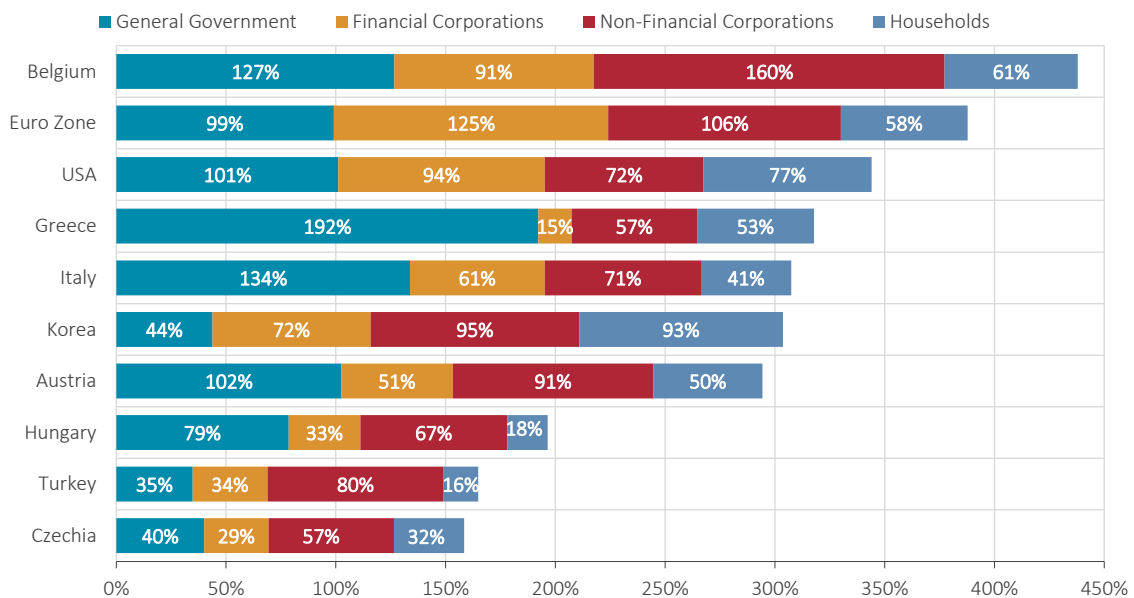


(*) Debts are composed of loans and government debt securities.

Source: CBRT, TURKSTAT.

A cross-country comparison of this indebtedness ratio reveals that the total debt of resident sectors in Turkey was low in 2018Q3 (Chart 22).

Chart 22: Cross-Country Comparison of Debt/GDP Ratio by Sectors (%) (2018Q3) ^{2 **}



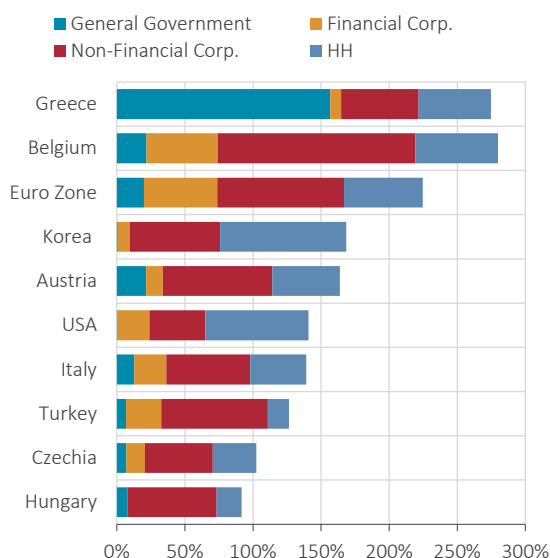
Source: CBRT, TURKSTAT, OECD.

(*) Other country data is as of 2018Q2.

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

A cross-country comparison of indebtedness ratios by financial instruments shows that Turkey had low levels of loan/GDP and debt securities/GDP ratios in the third quarter of 2018. While non-financial corporations constituted the largest sector in terms of loan indebtedness with a ratio of 78% of GDP, the general government stood as the leading sector in debt securities with a ratio of 28% (Charts 23 and 24).

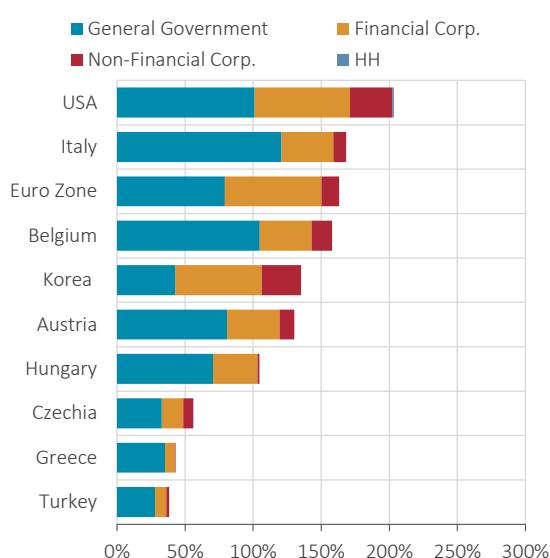
Chart 23: Cross-Country Comparison of Loan/GDP Ratio by Sectors (%) (2018Q3)²



Source: CBRT, TURKSTAT, OECD.

(*) Other country data is as of 2018Q2.

Chart 24: Cross-Country Comparison of Debt Sec./GDP Ratio by Sectors (%) (2018Q3)²



Source: CBRT, TURKSTAT, OECD.

(*) Other country data is as of 2018Q2.