TÜRKİYE CUMHURİYET MERKEZ BANKASI

2016-II

Financial Accounts Report

Statistics Department
Monetary and Financial Data Division

I. Introduction[1]

In 2016Q2, the total financial assets of the Turkish economy were TRY 8,745 billion and the total financial liabilities were TRY 9,823 billion; thus, the net financial worth, which is the difference between financial assets and liabilities, reached TRY 1,078 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).

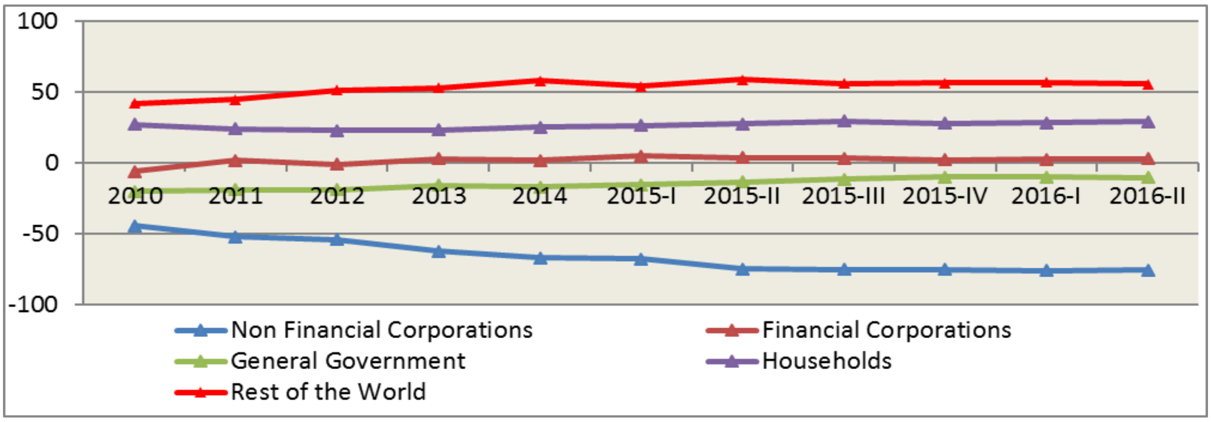
Table 1. Net Financial Worth by Sectors[2]
(2016Q2, TRY billion)

	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	**8.745**	3.468	492	2.826	109	185	352	83	160	1.045	25	**615**
Liabilities	**9.823**	5.009	480	2.776	109	172	721	67	16	445	30	**1.764**
Financial Net Worth	**-1.078**	-1.540	13	50	1	13	-369	17	143	600	-5	**1.149**

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 central 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 (Chart 1).

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



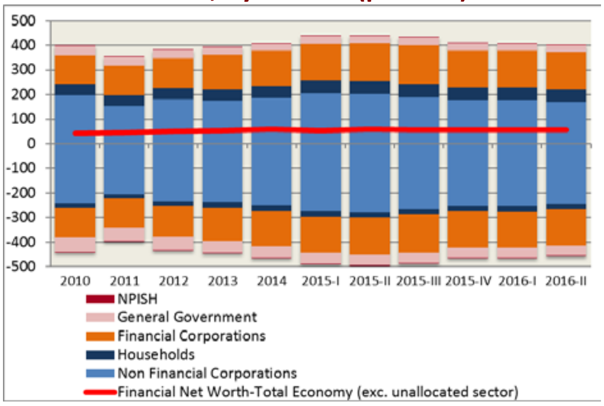
Source: CBRT
(*) Non-Profit Institutions Serving Households have not been included as their net financial worth is close to zero.

[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 world has been reported in a way to be compatible y with the International Investment Position Statistics and with a domestic economy approach.

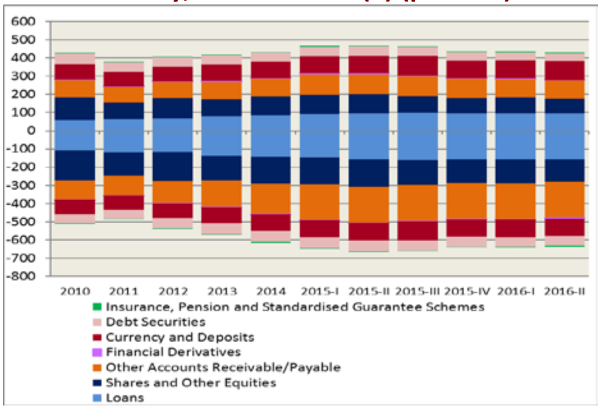
An analysis of financial assets and liabilities by sectors reveals that conventionally, the non-financial corporations sector was the biggest sector on the assets side as well as on the liabilities side (Chart 2). As for the financial instrument distribution, loans, other accounts receivable/payable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

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



Source: CBRT

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

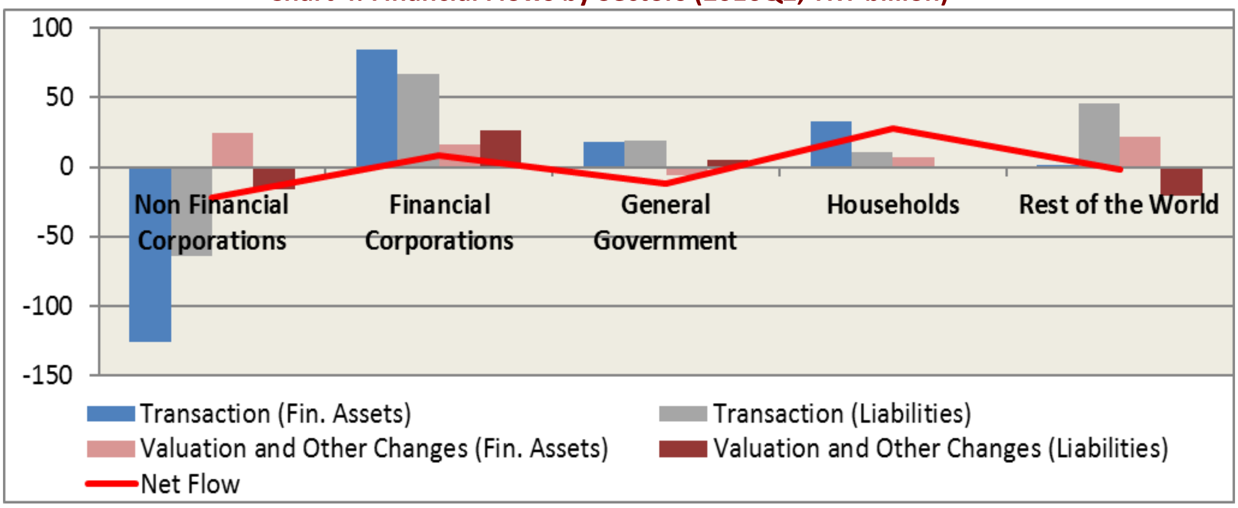


Source: CBRT

(*) Monetary gold and SDR have been excluded.

In 2016Q2, the highest net flow[3] was observed in non-financial corporations as a decrease in assets, most of which originated from the fall in transactions in assets. Financial flows in the rest of the world, which were in the form of rise in liabilities, were mainly driven by the increase in transactions in liabilities (Chart 4).

Chart 4. Financial Flows by Sectors (2016Q2, TRY billion)



Source: CBRT

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

II. Households

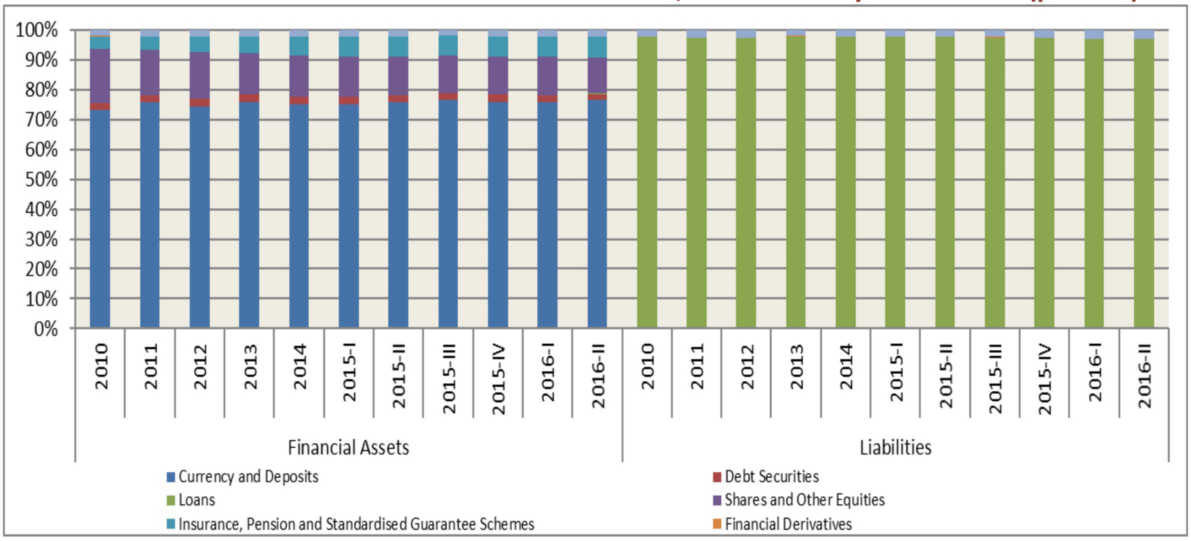
In the second quarter of 2016, household financial assets increased by TRY 40 billion quarter-on-quarter, most of which was driven by transactions in currency and deposits. Meanwhile, households' liabilities increased due to the transactions in loans (Table 2).

Table 2. Households' Financial Assets and Liabilities (stock, flow, TRY billion)

	2016-I	Trans.	Valuation	2016-II
Financial Assets	1.005	33	7	1.045
Currency and Deposits	762	30	6	798
Debt Securities	23	0	0	23
Loans	0	0	0	0
Shares and Other Equities	129	1	-3	127
Insurance, Pension and Standardised Guarantee Schemes	68	2	3	74
Financial Derivatives	0	0	0	0
Other Accounts Receivable	23	0	0	22
Liabilities	434	11	0	445
Currency and Deposits	0	0	0	0
Debt Securities	0	0	0	0
Loans	421	11	0	432
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	0	0	13

Source: CBRT

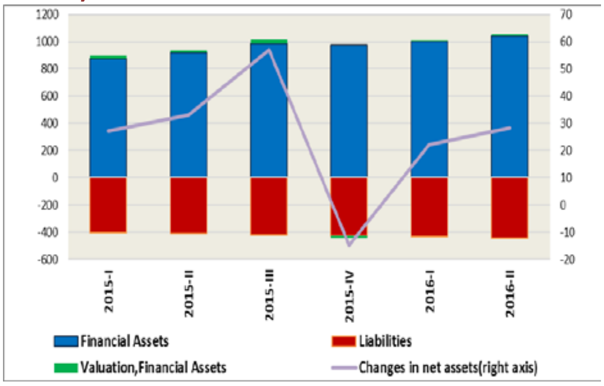
Chart 5. Households' Financial Assets and Liabilities, Breakdown by Instruments (percent)



Source: CBRT

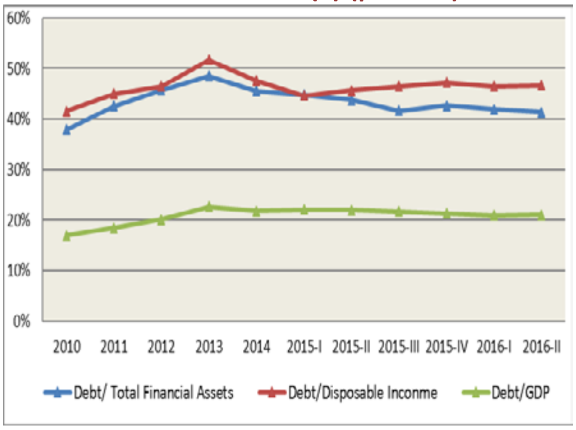
The primary instrument in household financial assets was deposits with a share of approximately 75 percent followed by shares and other equity. During the data period, the share of shares and other equity item in the total financial investments decreased while that of deposits increased. This change can be interpreted as households preferred investment instruments with shorter 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)

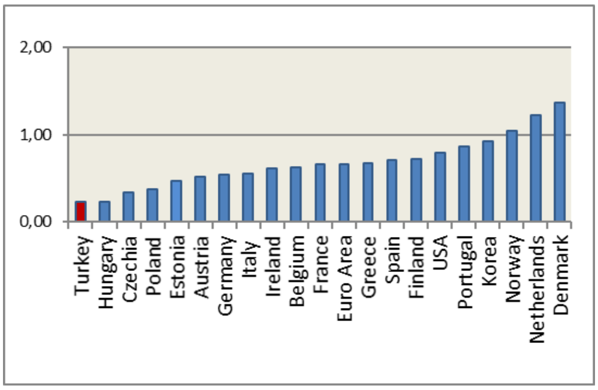


Source: CBRT, TURKSTAT

(*) Household debt is composed of loans.

In the second quarter of 2016, the household net financial worth increased by TRY 28 billion quarter-on-quarter (Chart 6). Household indebtedness indicators suggest that the ratio of household debt to GDP preserved its course around 21 percent and the ratios of debt to disposable income and to total financial assets remained flat in the second quarter of 2016 (Chart 7).

Chart 8. Household Liabilities/GDP, Comparison



Source: CBRT, TURKSTAT

The ratio of household liabilities to GDP indicates that among 19 countries compared to Turkey in 2016 Q2, Turkey stood out as the country with the lowest level of indebtedness (Chart 8).

III. Non-Financial Corporations

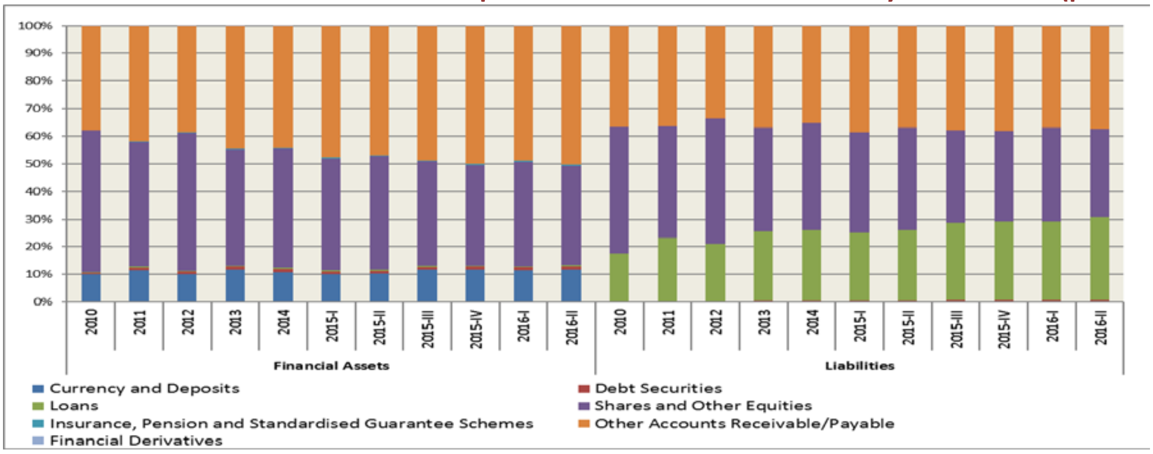
The decrease in financial assets and liabilities of non-financial corporations stemmed from matched transactions. Compared to the first quarter of 2016, the financial assets of non-financial corporations posted a decline by a total of TRY 126 billion driven by transactions in the second quarter. While the bulk of this decrease was recorded by shares and other equity, valuation posted a limited increase. In the same period, while the total liabilities posted a decrease by TRY 64 billion, mainly attributable to the TRY 121 billion decline in the shares and other equity issues, it recorded credit transactions of TL 58 billion (Table 3).

Table 3. Stock and Flows of Non-Financial Corporations (TRY billion)

	2016-I	Trans.	Valuation	2016-II
Financial Assets	3.570	-126	24	3.468
Currency and Deposits	412	-7	7	411
Debt Securities	40	0	0	39
Loans	11	0	0	12
Shares and Other Equities	1.350	-117	16	1.248
Insurance, Pension and Standardised Guarantee Schemes	14	1	0	15
Financial Derivatives	1	0	0	2
Other Accounts Receivable	1.743	-3	2	1.741
Liabilities	5.089	-64	-16	5.009
Currency and Deposits	0	0	0	0
Debt Securities	39	0	0	38
Loans	1.443	58	7	1.508
Shares and Other Equities	1.726	-121	-21	1.584
Insurance, Pension and Standardised Guarantee Schemes	0	0	0	0
Financial Derivatives	3	0	0	3
Other Accounts Payable	1.878	0	-3	1.875

Source: CBRT

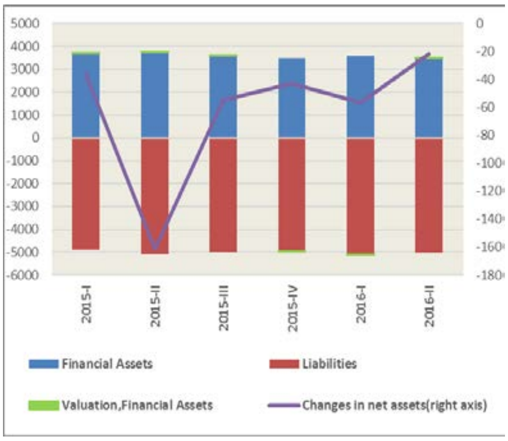
Chart 9. Breakdown of Non-Financial Corporations' Assets and Liabilities by Instruments (percent)



Source: CBRT

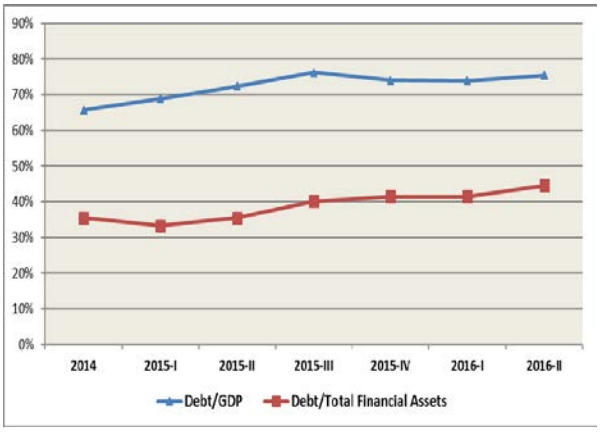
In the second quarter of 2016, the most influential item on the assets side of non-financial corporations was the other accounts receivables (50 percent), composed of the sum of corporate loans and advances and other items. The share of shares and other equity was 36 percent, and that of currency and deposits was 12 percent.[4] On the liabilities side, the share of financing through shares and other equity in total liabilities was 32 percent, while the shares of other accounts payable and loans were 37 percent and 30 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)



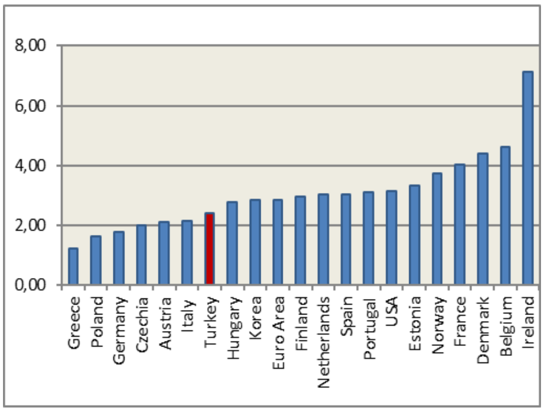
Source: CBRT

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

In the second quarter of 2016, net assets of non-financial corporations decreased by TRY 22 billion compared to the previous quarter (Chart 10). Although the ratio of non-financial corporations' debts to GDP remained flat in the second quarter of 2016, the ratio of debts to total financial assets continued to increase (Chart 11).

[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; since 2014 the TURKSTAT's consolidated non-financial company accounts data have been used.

Chart 12. Non-Financial Corporations Liabilities/GDP



Source: CBRT, OECD

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

IV. Conclusion

In the second 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. Non-financial corporations were the sector with the largest debt, followed by the central government, and all other sectors continued to be net creditors. In this period, while households' net financial worth increased, the net assets of non-financial corporations receded slightly. A comparison with a group of countries comprising the EU and the US highlights that Turkey, in terms of household indebtedness level, is quite below the euro area average, while in terms of non-financial corporation debt, it is among the countries with low debt levels, close to the euro area average.

BOX **TRANSITION PROCESS OF TURKISH FINANCIAL ACCOUNTS TO THE NEW SYSTEM OF ACCOUNTS**

International statistical standards are globally accepted recommendations on ways to measure domestic and external economic developments and constitute the basis for producing key economic indicators. These standards are the System of National Accounts (SNA)[1] and Balance of Payments and International Investment Position Manual (BPM)[2] and they are perfectly compatible with each other with respect to method and classifications. The European equivalent of the SNA is the European System of National and Regional Accounts (ESA) and has been prepared in line with these standards except for the presentation format and some concepts specific to the European Union.

The manuals (SNA and ESA) on the national system of accounts, prepared to facilitate measurement of economic activities in a comprehensive and timely manner and allow comparison between countries, are also used by Turkey in compiling Financial Accounts of Turkey. In light of these developments, the SNA has been updated and the SNA 2008 was published in February 2009. Then, it became necessary to revise the ESA as well and the European Union member states started publishing their financial accounts according to the new classifications as from October 2014. The Financial Accounts of Turkey were issued in line with the new classifications as of 2016Q2 and historical data have been revised accordingly. This Box explains the new definitions and classifications introduced by the SNA 2008 and the ESA 2010 and the changes made in the Financial Accounts of Turkey in line with the novelties.

[1] *It has been prepared by the United Nations, IMF, OECD and Eurostat.*
[2] *Prepared by the IMF.*

Changes Introduced by International Standards:

Graph 1. Changes in Sector Classification

Sector	SNA 1993 / ESA 1995	Sector Code		Sector Code	SNA 2008 / ESA 2010	CBRT Implementation
Financial Corporations	Central Bank	S.121	→	S.121	Central Bank	√
	Other Monetary and Financial Institutions	S.122	→	S.122	Deposit-taking Corporations	√
	-		↘	S.123	Money Market Funds	√
	Other Financial Intermediaries	S.123	→	S.124	Non MMF Investment Funds	√
			↘	S.125	Other Financial Intermediaries	√
	Financial Auxiliaries	S.124	→	S.126	Financial Auxiliaries	√
			↘	S.127	Captive Financial Institutions	
	Insurance Corporations and Pension Funds	S.125	→	S.128	Insurance Corporations	√
			↘	S.129	Pension Funds	√
Non Financial Corporations		S.11	→	S.11	Non Financial Corporations	√
General Government	Central Government	S.1311	→	S.1311	Central Government	√
	Local Governments	S.1313	→	S.1313	Local Governments	√
	Social Security Institutions	S.1314	→	S.1314	Social Security Institutions	√
Households		S.14	→	S.14	Households	√
Non Profit Institutions Serving Households		S.15	→	S.15	Non Profit Institutions Serving Households	√
Rest of The World		S.2	→	S.2	Rest of The World	√

The financial sector has been classified in a more detailed way: The biggest change in sector classification was made in the financial corporations sector. The financial sector, which was formerly classified into five sub-sectors, has been classified into nine sub-sectors. The other monetary and financial institutions item has been divided into two sub-sectors as the deposit-taking corporations and money market funds. The investment funds, which was formerly classified within the other financial intermediaries sector other than the money market funds, has been classified as a distinct sub-sector under the financial intermediaries sector; insurance corporations and pension funds have also been classified as sub-sectors individually (Graph 1).

Classification of the holding companies and head offices has been changed as well: Holding companies, which were formerly classified under the institutional units they belonged to, have been reclassified under non-financial corporations as per the new standards; similarly, head offices were classified under either non-financial corporations or financial auxiliaries sub-sectors.

The point of view for the rest of the world account has changed: The accounts, which were formerly established from the point of view of the rest of the world, are now established from the point of view of the domestic economy in compliance with the International Investment Position Statistics.

Graph 2. Classification of Financial Instruments

SNA 1993 / ESA 1995	Instrument Code		Instrument Code	SNA 2008 / ESA 2010	CBRT Implementation
Monetary Gold and SDR	F.1		F.1	**Monetary Gold and SDR**	√
Monetary Gold	F.11		F.11	Monetary Gold	√
Special Drawing Rights(SDR)	F.12		F.12	Special Drawing Rights(SDR)	√
Currency and Deposits	F.2		F.2	**Currency and Deposits**	√
Currency	F.21		F.21	Currency	√
Transferable Deposits	F.22		F.22	Transferable Deposits	√
Other Deposits	F.23		F.29	Other Deposits	√
Debt Securities	F.3		F.3	**Debt Securities**	√
Short Term Debt Securities	F.331		F.31	Short Term Debt Securities	√
Long Term Debt Securities	F.332		F.32	Long Term Debt Securities	√
Financial Derivatives	F.34				√
Loans	F4.		F4.	**Loans**	√
Short Term Loans	F.41		F.41	Short Term Loans	√
Long Term Loans	F.42		F.42	Long Term Loans	√
Shares and Other Equity	F.5		F.5	**Shares and Other Equity**	√
Shares and Other Equity	F.51		F.51	**Shares and Other Equity**	√
Listed Shares	F.511		F.511	Listed Shares	√
Unlisted Shares	F.512		F.512	Unlisted Shares	√
Other Equity	F.513		F.519	Other Equity	√
Mutual Fund Shares	F.52		F.52	**Mutual Fund Shares**	√
			F.521	Money Market Funds	√
			F.522	Non-MMF Investment Funds	√
Insurance Technical Reserves	F.6		F.6	**Insurance, Pensions and Standardized Guarantee Schemes**	√
Net equity of households in life insurance & pension funds reserves	F.61		F.61	Non life insurance technical reserves	
Net equity of households in life insurance reserves	F.611		F.62	Life insurance and annuity entitlements	
Net equity of households in pension funds reserves	F.612		F.63	Pension entitlements	
Prepayment of insurance premiums and reserves for outstanding claims	F.62		F.64	Claims of pension funds on pension managers	
			F.65	Entitlements to non-pension benefits	
			F.66	Provisions for calls under standardised guarantees	
			F.7	**Financial Derivatives and Employee Stock Options**	√
			F.71	Financial derivatives	√
			F.72	Employee stock options	
Other Accounts Receivable/ Payable	F.7		F.8	**Other Accounts Receivable/ Payable**	√
Trade credits and advances	F.71		F.81	Trade credits and advances	√
Other	F.79		F.89	Other	√

The recording method for the Special Drawing Right (SDR) has been changed: The SDR is a reserve asset created by the International Monetary Fund and no counterpart liability was recorded for the SDR in the previous implementation; however, in line with the new standards, a counterpart liability is now recorded for the SDR in the rest of the world.

Definitions of deposit and loan have changed: Only the deposit accounts at the deposit-taking corporations have been included; therefore, deposits of money market funds have been excluded and added to money market funds. Moreover, interbank loan and repo transactions have been removed from the loan definition and classified in the deposit definition.

Classification of financial instruments have been changed: Financial derivatives, which were formerly recorded under debt securities, are now classified as a distinct financial instrument called "financial derivatives and employee stock options" and investment fund shares have been subdivided into two: money market fund (MMF) shares or units and non-MMF investment fund shares /units (Graph 2).

Sub-items of insurance technical reserves have been detailed: New sub-categories have been added, which allow tracking life and non-life insurance transactions in particular, and asset and liability items related to pension funds have been detailed (Scheme 2).

Revisions on the Financial Accounts of Turkey

Following detailed studies on data sources to allow international comparison of financial activities and to adapt to the international statistical standards, financial accounts complying with SNA 2008 and ESA 2010 were first produced in Turkey in November 2016. The harmonized standards have been revised retrospectively starting from 2010 in order to secure continuity in time series.

Scheme 1 above has been adjusted according to new sectoral classifications[3], comprising all changes and breakdowns envisaged in the classifications of financial instruments[4].

[3] *The captive financial institutions and money lenders sub-sector, which is not yet operational in Turkish financial markets, has not been defined. Changes to the classification of head offices and holding companies can only be made after the Turkish Statistical Institute's update on the database of the Statistical Business Registers System of Turkey.*
4 Classifications that are not yet existent in the Turkish insurance sector reporting standards are not included.

Chart 1. Comparison of Old and New Classifications (Billion TRY)

Chart 1.a Other Financial Intermediaries, Financial Assets

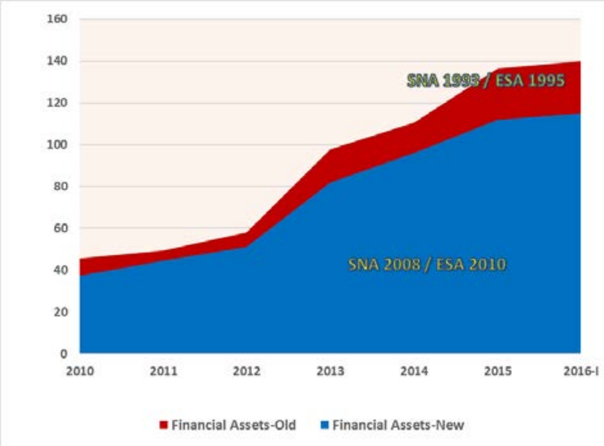


Chart 1.b. Insurance Corporations and Pension Funds

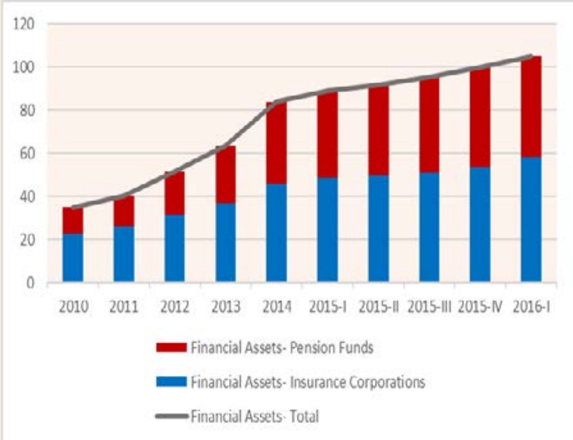
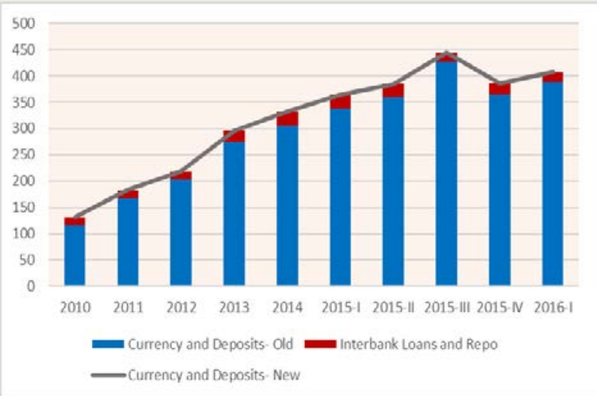
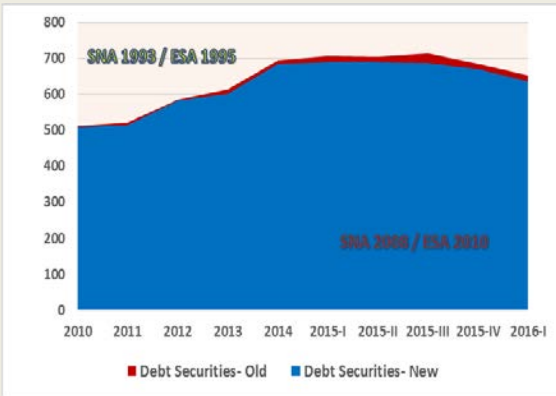


Chart 1.c. Currency and Deposits, Other Monetary and Financial Institutions

Chart 1.d. Debt Securities, Total Economy





Source: CBRT

- With the breakdown of mutual funds other than money market funds, financial assets of the financial intermediaries sector decreased by 15 percent on average. This decrease was added to the mutual funds other than money market funds (Chart 1.a).

- Pension funds that have an average share of 42 percent in the main sector of insurance corporations and pension funds are classified as a separate sub-sector (Chart 1.b).

- In the period reviewed, the currency and deposits of other monetary and financial institutions posted an increase by 4 percent on average due to the addition of interbank loan and repo transactions, which had previously been under the loans item (Chart 1.c).

- With the exclusion of financial derivative transactions from debt securities, the debt securities category decreased by 2 percent on average according to the new classification.

- Debt securities of the total domestic economy posted a slight increase in assets according to previous classifications; the average increase remained below 1 percent (Chart 1.d).

Conclusion

The revisions made to international statistical standards have necessitated the revision of statistics related to financial accounts; hence, countries are gradually revising their relevant standards in line with SNA 2008 and ESA 2010.

New standards that provide a more detailed classification of sectors and instruments have brought significant changes to the financial sector. In brief, money market funds have been excluded from the definition of deposit-taking corporations and are being tracked as a separate sub-sector, and mutual funds other than the money market funds are classified as a separate heading as financial intermediaries. In line with the increasing importance of pension funds in the financial sector, insurance corporations and pension funds have been evaluated as separate sub-sectors. Regarding financial instruments, the changes have mostly affected the financial sector and interbank transactions have been excluded from the definition of loans and classified as deposits. In order to allow a more detailed track of financial derivative transactions, these transactions, which had previously been tracked under debt securities, are now classified as a separate financial instrument. In order to trace the developed insurance and pension systems, instrument definitions for these sectors have been detailed.

In light of the revisions in accounting standards, the Turkish Financial Accounts were also revised to allow international comparisons and were published by the second quarter of 2016. An analysis of the effects of the revisions by sectors and instruments reveals that the most significant change has been the differentiation of deposit-taking corporations from money market funds and the effects of the associated accounts on loans and deposit items. Other revisions have not had a significant effect.