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Discussion Paper No. 9

A BRIEF SUMMARY OF THE STATUS OF
FLOW-OF-FUNDS
ACCOUNTING IN TURKEY

By

Betty Slade Yaşer

Economic Analysis Staff
Agency for International
Development
Vali Dr. Reşit Caddesi No. 16
Ankara, Turkey

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Introduction

The March 1972 feature article by Jacob Cohen of the Journal of Economic Literature entitled "Copeland's Moneyflows After Twenty-Five Years: A Survey,"^{1/} is the inspiration for this summary paper on the status of flow-of-funds accounting in Turkey. This article traces the developments in financial accounting and their impact on economic model-building as well as their implications for monetary theory.

It appears that there is still considerable concern that the flow-of-funds accounts lack an "organizing" theory, although it is accepted that the accounts at least provide an "accounting basis" for an acceptable monetary theory.^{2/} To date, these accounts in all countries, as for Turkey, have served as sources of financial data and as bases for financial model-building, rather than for complete economic model-building. However, the future of flow-of-funds model-building is promising as summed up by Jacob Cohen:

"The move towards more comprehensive flow-of-funds models and pressure for additional nonfinancial data in the accounts may come from recognition of the usefulness of the 'equilibrium conditions' imposed on flow-of-funds sectors in a comprehensive framework. Since the flow-of-funds embrace both the income statement and balance sheet changes of a sector the sectoral identities go beyond the 'income' or 'wealth' constraints of contemporary models. As such they provide the basis for a generalized discussion of 'equilibrium' and 'optimality' conditions."^{3/}

^{1/} Jacob Cohen, "Copeland's Moneyflows After Twenty-Five Years: A Survey," Journal of Economic Literature, March 1972, X, (1), pp. 1-25. A very complete bibliography is also given in this article.

^{2/} Idem, pp. 13-14.

^{3/} Idem, p. 17.

This paper as a supplement to Cohen's article is intended as a survey of the published and unpublished research on financial accounts, flow-of-funds and financial model-building for Turkey. Short summaries of the research, names of researchers and advisers and relevant reference documents are given to facilitate any further investigation by interested parties.

Financial Flows and Flow-of-Funds in Turkey

This section surveys the relevant research undertaken by various individuals and government agencies in Turkey. These efforts have been coordinated only superficially and all suffer from data limitations.

Although the Central Bank had been commissioned to set up complete flow-of-funds accounts for Turkey in the 1965 Annual Program of the State Planning Organization, this task has not yet been undertaken by the Bank. Two central bankers have been trained at the flow-of-funds section of the U.S. Federal Reserve System to date and the new Central Bank Law has upgraded staff positions. It is hoped that with these added capabilities the Central Bank, in cooperation with other agencies and individuals and benefitting from their research, will set up flow-of-funds accounts for the entire Turkish economy in the near future.

Probably the first attempt to set up an integrated system of financial accounts for Turkey was made by Oktay Yenal in a paper he presented at Princeton University in May, 1964. ^{1/}

^{1/} Oktay Yenal, The Development of the Financial System in Turkey, A Paper for the Conference on Planning and Development Policy in Turkey and the U.A.R., for Princeton, May 14-16, 1964 (mimeographed). Later revised and published in Four Studies on the Economic Development of Turkey, edited by F. C. Shorte (London: Frank Cass and Co. Ltd., 1967), pp 89-145.

Sectors were allocated as households, business, central government, local government, state economic enterprises, rest of the world, banks and "undistributable." Transaction items were in broad categories of: resources and fiscal transfers and monetary transfers + direct transfers + errors and omissions = uses. Transactions were allocated to sectors as much as data permitted. For example, the business sector paid the corporation and production tax, received all commercial credit, made all private investments except those in private building, and received capital directly from households for investment. Resources were defined as Gross Domestic Product plus import surplus; transfers were defined as financial transactions not involving the production or final use of real product. Yenal's accounts covered 1950-1960.

An adviser to the State Planning Organization, Bent Hansen, in a series of unpublished reports, also attempted to apply a special scheme of monetary analysis in combination with his Keynesian gap-analysis. To do so, he set up "net flow-of-funds" accounts for 1964-1965 in the form of a square matrix with the sectors classified as Central Bank, commercial banks, public sector, private sector, foreign countries and residual. By making certain assumptions made necessary by data limitations, he was able to balance the matrix accounts. However no transaction items were distinguished.

Betty Yaşer published financial transactions tables for Turkey for the period 1949-1963. ^{1/} Fourteen sectors were distinguished and transaction items

^{1/} Betty Slade Yaşer, An Analysis of the Financial System in Turkey 1949-1963, (mimeo), Thesis submitted to Vanderbilt University, August, 1967. Also in Turkish Türk Mali Sistemi Üzerine Bir İnceleme, Devlet İstatistik Enstitüsü, Ankara, 1969.

were shown in detail for each sector. Data for ten sectors were derived from balance sheets, and other sectors were constructed with data from various sources. 1/ Although only flow data of the transaction items are published the author notes the existence of stock data on a "from-whom-to-whom" basis in her files. 2/

The State Institute of Statistics (SIS), benefitting from the work of OECD expert, Jean Couraud, and with the advice of Betty Yaşer, published "An Approach to a Flow-of-Funds Accounting System for Turkey" in 1968. 3/ This work covered seven sectors with detailed transaction items for 1963-1965 as well as a distribution of government bonded debt by holding sector. The classification of sectors and transaction items by SIS is comparable with that of the Yaşer study and has served as the basis for further work by the SIS national income division, as discussed below.

Özer Ertuna did a special study for the Industrial Development Bank in 1970 called "An Examination of Flow of Funds in Turkey." 4/ Its purpose was to

1/ Yaşer, Ibid, Appendix 5.

2/ Lack of capital stock data for four sectors (general government, non-financial and non-agricultural private enterprise, agricultural household and enterprise, and non-agricultural households) prevented the completion of National Balance Sheets for the period.

3/ State Institute of Statistics, An Approach to a Flow-of-Funds Accounting System for Turkey (Türkiyede Fon Akımı Sistemi Çalışmalarına Bir Başlangıç) Pub. 45, Ankara.

4/ Özer Ertuna, Türkiye'de Fon Akımları Üzerine Bir İnceleme, T.S.K.B. Istanbul, 1970. (An English translation by Betty Yaşer and Filiz Başkut is available in the author's files.)

ascertain financial flows with special emphasis on financial intermediary activity. He set up four "financial intermediary" sectors and five "fund-creating and using" sectors for the period 1963-1968. Appendix I of his study shows net flows in a square matrix. Appendix 2 presents balance sheet data for each sector.

Maxwell Fry is the pioneer in the application of a model to the Turkish data made available in the above studies. 1/ His aim was to check the consistency of the "real plans with the availability of finance." 2/ He traces the way additional savings flow through financial channels to finance the extra investment. He states that "the value of this approach lies in the fact that the scope for controlling sectoral savings and/or investment may be gauged." 3/

The United Nations' publication A System of National Accounts 4/ opened up new horizons for financial accounting. This new system called for the integration of balance sheet accounts into the national income accounts. Although work had already begun along these lines at the State Institute of Statistics

1/ Maxwell Fry, An Application of the Stone Model to Financial Planning in Turkey. (mimeo) Nathanya: Israel, 1969; also see Chapter 7 of his Finance and Development Planning in Turkey (Ankara: U.S. Agency for International Development, 1970).

2/ Idem., p. 372.

3/ Idem., p. 373.

4/ United Nations, A System of National Accounts, Studies in Methods, Series F, No. 2, Rev., 3, New York, 1968.

national income division, the need to adapt Turkish data to the new reporting system provided as impetus to further development. Four major projects 1/ were undertaken: (1) capital finance accounts of non-financial public enterprises; (2) capital finance accounts of financial institutions with six sectors distinguished: Central Bank, special-law banks, private commercial banks, investment banks, insurance companies, pension and social security funds; (3) rest-of-world capital accounts and (4) general government capital accounts. A related project was an attempt to apply the new system of national accounts (SNA) as a whole to a specific sector. That is, production, income and outlay and capital finance accounts were set up according to the SNA definitions for the "financial institutions" sector for 1965-1968. 2/

As a result of these studies plus related work on production and income and outlay accounts of the public sector, very useful, detailed and complete accounts for the entire public sector, the rest-of-the-world and financial institutions sectors are available for years after 1965. These accounts have facilitated the work of combining the separate SIS and SPO series on national income by industrial origin.

1/ These projects have been completed by the N.I. division but are not published. Erdogan Özütlün is the projects' technical director.

2/ This study was completed by Feride Altan with aid from Nora Dollymore (national income expert in U.S. Department of Commerce) and Betty Yaşer. The main purpose of this study was to point out the conceptual and statistical difficulties of application of the new SNA system. Other than this, however, it contains useful data with sources and methodology carefully explained. It has not been published.

The Treasury Department of the Ministry of Finance has begun to construct detailed flow-of-funds accounts for the General Government sector. 1/ Income and outlay accounts follow the pattern set up by the SIS national income division, but the capital finance accounts are in the detail necessary for Treasury use. There are also sources and uses of funds accounts available for the state economic enterprises and other semi-public firms which have close financial relationships with the Treasury. These latter accounts are prepared in the Research Section of the Treasury. 2/

- 1/ This work was initiated by Riza Kandiller. Nimla Heplevent and Betty Yaşer advised on this project. See their Comments on the Reliability of Turkish Budgetary and Treasury Accounts for Economic Analysis, February 1971. Data for 1969 and 1970 are complete and are reconcilable with SIS accounts discussed above.
- 2/ This excellent work has, to a large extent, been carried out by Tunç Bilget. Since it was prepared specifically to identify Treasury-public firm financial relationships, its coverage is not as extensive as that of the SIS non-financial public enterprise sector.

ECONOMIC ANALYSIS STAFF
DISCUSSION PAPERS

<u>PAPER No.</u>	<u>SUBJECT / AUTHOR / DATE OF PAPER</u>	<u>CODE No.</u>
1	<u>MIGRATION AND URBAN SOCIAL STRUCTURES</u> Iris Kapil and Hasan Gençağa November 1971	214
2	<u>AGRICULTURAL PRICE POLICY IN TURKEY - VOLUME ONE</u> Olan D. Forker January 1972	210
3	<u>AGRICULTURAL PRICE POLICY IN TURKEY - VOLUME TWO</u> Olan D. Forker January 1972	210
4	<u>GOVERNMENT OF TURKEY'S POLICIES RELATIVE TO ON-FARM LAND DEVELOPMENT</u> Charles K. Mann February 1972	224
5	<u>ECONOMIC ASPECTS OF THE DEVALUATION OF THE TURKISH LIRA OF AUGUST 10, 1970</u> Betty S. Yaşer April 1972	226
6	<u>COMMENTS ON THE RELIABILITY OF TURKISH BUDGETARY AND TREASURY ACCOUNTS FOR ECONOMIC ANALYSIS</u> Nimale Heplevent and Betty S. Yaşer May 1972 (Available in Turkish)	196
7	<u>DIŞARDAKİ TÜRK İŞÇİLERİNİN GELİR SARFIYAT ŞEKLİ</u> Duncan R. Miller May 1972	227
8	<u>FORMULATING A CONSISTENT STRATEGY TOWARD ON-FARM LAND DEVELOPMENT IN TURKEY</u> Charles K. Mann May 1972	228

ECONOMIC ANALYSIS STAFF
DISCUSSION PAPERS (continued)

<u>PAPER</u> <u>No.</u>	<u>SUBJECT / AUTHOR / DATE OF PAPER</u>	<u>Code</u> <u>No.</u>
9	<u>A BRIEF SUMMARY OF THE STATUS OF FLOW-OF-FUNDS</u> <u>ACCOUNTING IN TURKEY</u> Betty Slade Yaşer June 1972	229