

Macro note – Balance of Payments

Current account balance posts a surplus of USD1.88 billion in October, while the 12-month cumulative current account deficit is realized as USD7.69 billion. The marked improvement in the balance of payments reflects demand disinflation and the strong momentum in capital flows...

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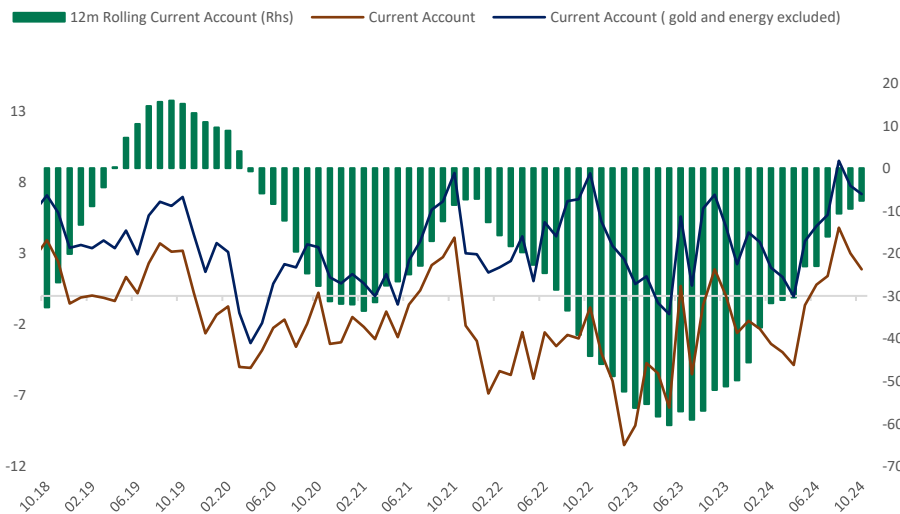
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According to the latest data, the current account balance posted a surplus of USD1,880 million in October. As a result, the twelve-month current account deficit was realized as USD7,685 million (previous USD9,546 million). The current account surplus, which was realized above the market expectations (USD1.3 billion surplus), pulled the twelve-month cumulative effect down to December 2021 levels. This was mainly driven by the balance of payments-defined foreign trade deficit of USD3,542 million and services inflows of USD6,450 million. The 12-month cumulative foreign trade deficit narrowed to USD77.9 billion (May 2023 peak was USD122 billion) with the tightening steps that started after June 2023. Travel revenues continued to improve, albeit at a slower pace, and were realized as USD 5,116 million. Regarding the last months of the year, we expect weaker inflows from the services balance. While interest rate cuts continue in global markets, external demand remains strong. Domestic demand, on the other hand, has slowed down due to the tight monetary policy. Considering all these developments together, the improvement in the current account balance has gained momentum above expectations. As of 2025, we continue to expect a revival in economic activity following the interest rate cuts and a decline in the current account balance through import demand. The current account excluding gold and energy posted a surplus of USD7,163 million this month. Gold imports remain strong, while downward pressures on energy prices are boosting demand. Current account deficit indicators, which peaked in 2023, continue to converge to core current account balance figures. Barring a sudden and aggressive easing in the monetary policy stance, we expect the balance of payments to continue contributing positively to the stability in both exchange rates and price dynamics.

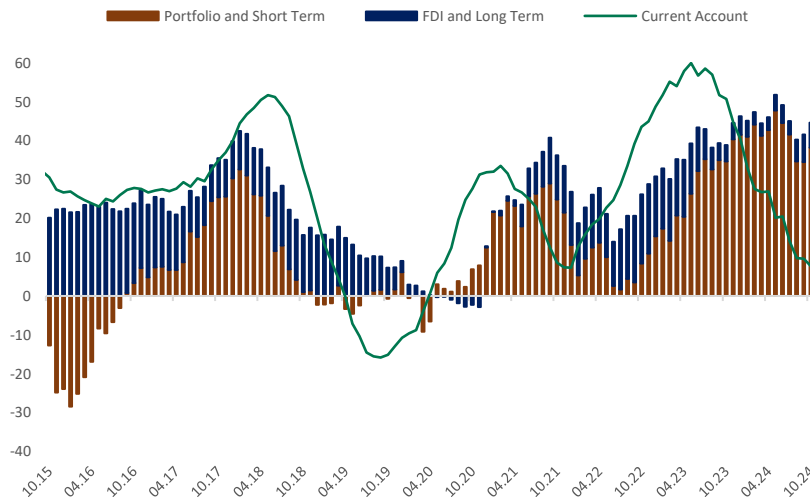
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA (Billion USD)



Analyzing the developments in the financial account, net outflows from direct investments were realized as USD204 million. Portfolio investments, on the other hand, recorded a net inflow of USD587 million. Non-residents realized net sales of USD642 million in the equity market and net purchases of USD978 million in the government domestic debt securities market. Regarding the loans obtained from abroad, banks, general government and other sectors realized a net utilization of USD3,877 million, USD45 million and USD312 million, respectively.

Regarding the financing of the current account deficit, official reserves posted a net increase of USD4,861 million. Due to the recent hot money inflows, portfolio investments and short-term inflows amounted to USD38.2 billion in twelve months (twelve-month average USD41 billion). Considering the general trend of portfolio investments, we observe that they lost momentum recently and fell below the twelve-month average. Foreign direct investment and long-term capital inflows, on the other hand, remain low in cumulative data. As of October, cumulative FDI and long-term financing recorded a net inflow of USD6.4 billion (previous USD7.1 billion). The transformation of the current account deficit's financing structure from portfolio and short-term instruments to long-term and direct investments will reduce the fragility of the macro outlook. If the tight monetary policy stance continues for a while, the low growth-inflation-current account deficit cycle will be gradually completed. The pricing of a rate cut in the near term has started to slow down intermediate earnings capital inflows and increase upward volatility in the USD/TL exchange rate. In the last quarter, global uncertainties and domestic concerns over the monetary policy stance keep risks alive.

Graph 2: Financing of the Current Account Deficit (Billion USD)



Source: CBRT

In sum, October's current account balance posted a surplus of USD1.9 billion, bringing the 12-month total down to USD7.7 billion. The long-term positive trend in the core current account balance continues. Loans supporting exports, especially through liquidity management, and the slowdown in import demand will continue to contribute to price stability. Both the rise in financing costs and the slowdown in production continue to contribute positively to the current account balance through import demand. The monetary policy in the new period, which is tight and prioritizes the current account balance, will reduce the vulnerabilities stemming from the balance of payments. The tight monetary stance, which we expect to continue until the end of the year, will bring price stability and reduce balance of payments-related vulnerabilities. We would like to underline that new measures and monetary/fiscal policy implementations to be announced will prompt updates to our forecasts. We revise our 2024 year-end current account deficit forecast to USD13 billion.

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