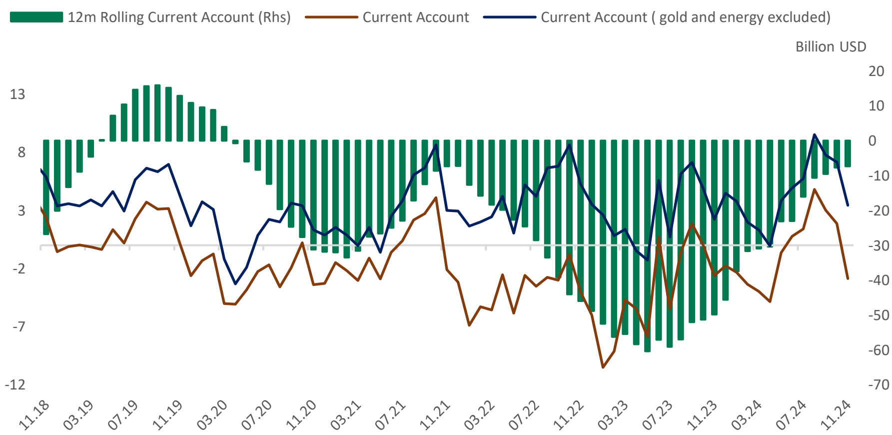
Macro note – Balance of Payments

Current account balance posts a deficit of USD2.87 billion in November, while the 12-month cumulative current account deficit is realized as USD 7.37 billion. Having performed better than expectations throughout 2024, the outlook for the balance of payments may experience a limited decline with interest rate cuts...

Abdulkadir DOGAN
Chief Economist
adogan@sekeryatirim.com.tr
(+90) 212 334 33 33/313

According to balance of payments statistics, the current account balance posted a surplus of USD 2,871 million in November. As a result, the twelve-month current account deficit was realized as USD 7,372 million (previous USD 7,125 million). We had expected a current account deficit of USD 2.85 billion, below the market expectations (USD 3 billion deficit). The current account balance data, which was in line with our expectations, also broke the monthly surplus streak that had continued between May-November. Nevertheless, when the monthly and cumulative effect is evaluated, there is a significant improvement in the deteriorated balance of payments outlook since the pandemic. This was mainly driven by the realization of the balance of payments-defined foreign trade deficit of USD 5,235 million and services inflows of USD 3,725 million. Twelve-month cumulative balance of payments-defined foreign trade deficit was realized as USD 54.6 billion, while inflows from services balance were at USD 60.9 billion. Travel revenues continued to improve, albeit at a slower pace, and were realized as USD 2,630 million. Services inflows have entered the period when seasonal effects will be felt significantly and this effect will continue until the first quarter of the year. Although global interest rate cuts have been interrupted by the FED, they continue in Europe. For external demand, we are closely monitoring the interest rate cuts and the vitality in economic activity here. Domestic demand, on the other hand, is likely to slow down as a result of the tight monetary policy until November. When all these developments are evaluated 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 USD 3,443 million for the month. Gold imports remained strong, while downward pressure on energy prices boosted demand. The current account deficit, which tested historic highs due to the change in the monetary policy stance, fell below the target values throughout 2024. Barring a sudden and aggressive easing in the monetary policy stance, we expect the balance of payments to continue to contribute positively to the stability of both exchange rates and price dynamics.

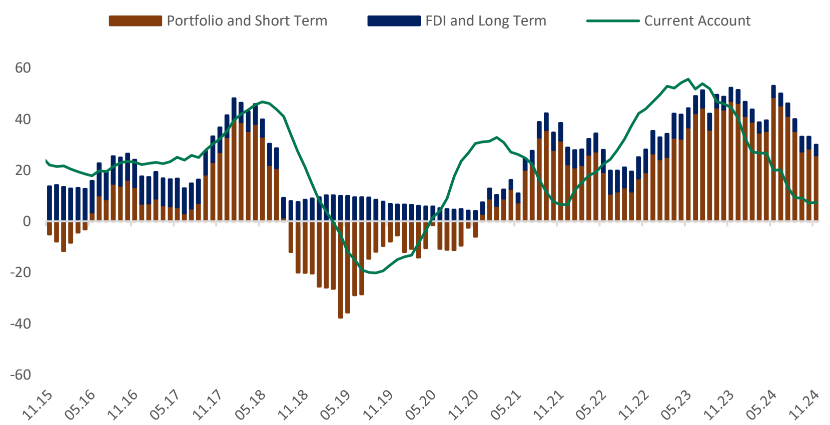
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA (Billion USD)



Analyzing the developments in the financial account, net inflows in direct investments were realized as USD 582 million. Portfolio investments recorded a net inflow of USD 1,229 million. Non-residents made net purchases of USD 39 million in the equity market and net purchases of USD 1,645 million in the government domestic debt securities market. Regarding bond issues abroad, the General Government realized a net repayment of USD 402 million, while banks and other sectors realized net borrowings of USD 585 million and USD 430 million, respectively.

Regarding the financing of the current account deficit, official reserves posted a net increase of USD 1,327 million. Due to the recent hot money inflows, portfolio investments and short-term inflows amounted to USD 25.7 billion in a twelve-month period. Meanwhile, foreign direct investment and long-term capital inflows remained low in cumulative figures. As of November, cumulative FDI and long-term financing recorded a net inflow of USD 4.2 billion (previous USD 4.6 billion). Of the total USD 25 billion inflows in the financial account, USD 7 billion came out of the current account deficit, while USD 18 billion was hidden in the net errors and omissions item. If the tight monetary policy stance continues for a while, the low growth-inflation-current account deficit cycle will gradually be completed. If interest rate cuts continue gradually, we expect a slowdown in financial account inflows and a retraction in the improvement in the current account balance. In this context, 2025 will be a year of rebalancing. 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, November's current account balance posted a deficit of USD 2.87 billion, bringing the 12-month total down to USD 7.37 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 both tight and prioritizes the current account balance, will reduce vulnerabilities stemming from the balance of payments. The ongoing tight monetary stance despite interest rate cuts will bring price stability and reduce the risk of balance of payments-related vulnerabilities. We would like to underline that new measures and monetary and fiscal policy implementations to be announced will prompt fresh updates to our forecasts. We maintain our year-end current account deficit forecast for 2025 at USD 28 billion.

ŞEKER INVEST RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
Buyukdere Cad. No: 171 Metrocity
A Blok Kat 4-5 34330 SİSLİ /IST
TURKEY

TEL: +90 (212) 334 33 33
Fax: +90 (212) 334 33 34
E-mail: research@sekeryatirim.com
Web: http://www.sekeryatirim.com/english/index.aspx

For additional information, please contact:

Research

Kadir Tezeller	**Head**	**+90 (212) 334 33 81**	ktezeller@sekeryatirim.com
Burak Demirbilek	**Utilities, Defense Industry**	**+90 (212) 334 33 33-128**	bdemirbilek@sekeryatirim.com
Sevgi Onur	**Banks**	**+90 (212) 334 33 33-150**	sonur@sekeryatirim.com
Engin Değirmenci	**Cement**	**+90 (212) 334 33 33-201**	edegirmenci@sekeryatirim.com
A. Can Tuğlu	**Food & Bev., Retail, Auto, Aviation, Oil&Gas**	**+90 (212) 334 33 33-334**	atuglu@sekeryatirim.com
Esra Uzun Özbaskın	**Telcos, Iron & Steel, Cons. Dur.**	**+90 (212) 334 33 33-245**	euzun@sekeryatirim.com
Başak Kamber	**Glass**	**+90 (212) 334 33 33-251**	bkamber@sekeryatirim.com

Economy & Politics

Abdulkadir Doğan	**Chief Economist**	**+90 (212) 334 91 04**	adogan@sekeryatirim.com

Institutional Sales

Batuhan Alpman	**Head**	**+90 (212) 334 91 01**	balpman@sekeryatirim.com
Deniz Keskin	**Trader**	**+90 (212) 334 33 36**	dkeskin@sekeryatirim.com
Soner Bayram	**Trader**	**+90 (212) 334 33 38**	sbayram@sekeryatirim.com

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