Macro note – Balance of Payments

Current account balance posts a deficit of USD3.8 billion in January, while the 12-month cumulative current account deficit is realized as USD 11.54 billion. Portfolio and short-term inflows increase significantly, while reserves continues to recover.

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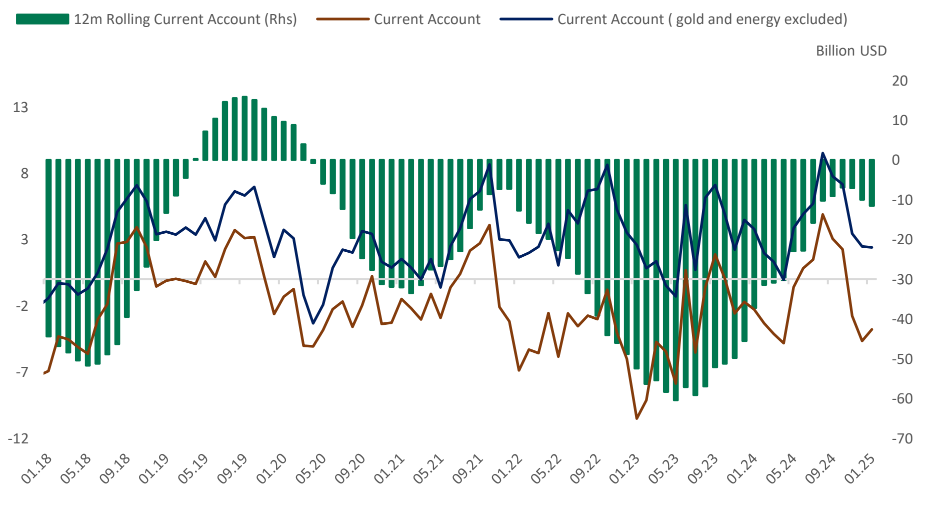
According to the balance of payments statistics, the current account balance posted a deficit of USD 3,795 million in January. As a result, the twelve-month current account deficit was realized as USD 11,541 million (previous USD 10,023 million). We had expected a current account deficit of USD 3.4 billion, above the market expectations (USD 3.25 billion deficit). The current account deficit, which exceeded our expectations, supports our expectation that economic activity will recover in 2025 led by import demand. When we look into the details of the realized current account balance, it was effective that the balance of payments-defined foreign trade deficit was realized as USD 5,558 million, and the inflows from the services balance at USD 3,082 million. The twelve-month cumulative balance of payments-defined foreign trade deficit was realized as USD 57.6 billion, while inflows from services balance came in at USD 61.9 billion. The improvement in travel revenues increased compared to December to USD 2,381 million. We expect the calm course in services and travel revenues to continue until April due to seasonal effects. The escalation of trade wars on a global scale keeps concerns over world trade volume alive. Nationalist and protectionist policies may trigger a global trade slowdown. In this context, the likelihood of a more positive outlook than the current account balance forecasts we made in December has increased. Although we expect a recovery in demand on the back of interest rate cuts in developed countries, it is worth noting that some risks remain alive. Although leading indicators for economic activity in Europe point to a gradual recovery, recent geopolitical risks are likely to slow this recovery. Concerns over the recovery in major trade markets are exacerbating downward pressure on both trade and growth figures in Turkey. The current account excluding gold and energy posted a surplus of USD 2,403 million this month. Gold imports remained strong, while downward pressure on energy prices boosted demand. Core current account indicators remain positive, and we expect the positive divergence from the headline current account balance to become even more pronounced in 2025.

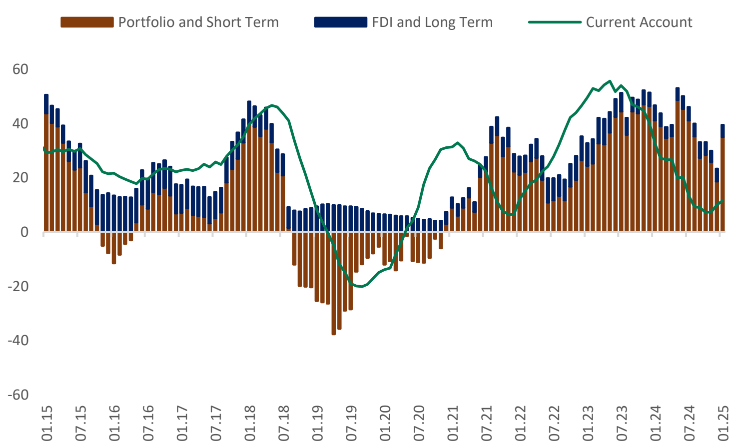
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA (Billion USD)



Analyzing the developments in the financial account, net inflows in direct investments were realized as USD 504 million. Portfolio investments recorded a net inflow of USD 2,182 million. Non-residents made net purchases of USD 12 million in the equity market and USD 1,650 million in the government domestic debt securities market. Regarding bond issues abroad, non-residents made net sales of USD 211 million and USD 336 million in General Government and banks issues, respectively, and net purchases of USD 880 million in other sector issues. This month, banks, other sectors and the General Government utilized net USD 9,732 million, USD 954 million and USD 147 million worth of credits from abroad, respectively.

Regarding the financing of the current account deficit, official reserves posted a net increase of USD 6,430 million this month. Due to the recent hot money inflows, portfolio investments and short-term inflows amounted to USD 13.7 billion over a twelve-month period. Meanwhile, foreign direct investment and long-term capital inflows remained low in cumulative figures. As of January, cumulative FDI and long-term financing recorded a net inflow of USD 4.55 billion (previous USD 4.65 billion). Of the total inflow of USD 26.3 billion in the financial account, USD 11.5 billion came out of the current account deficit, while USD 14.7 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 the inflows in the financial account to slow down and improvement in the current account balance to retreat. 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, January's current account balance posted a deficit of USD 3.8 billion, bringing the 12-month total to USD 11.54 billion. The mild course in the current account balance continues. A cautious stance in interest rate cuts in the second half of the year will also contribute positively to the foreign trade balance. Loans supporting exports, especially through liquidity management, and the slowdown in import demand will continue to contribute to price stability. The acceleration in the balance of payments, which contributes to financial stability, will support price stability in the medium term. Macro policies that monitor economic activity through sectoral support loans instead of policy rates will continue to provide positive support to both inflation and the current account balance. We stress here that new measures and monetary and fiscal policy implementations to be announced will prompt fresh updates to our forecasts. We maintain our 2025 year-end current account deficit forecast at USD 28 billion.

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