Macro note – Balance of Payments

Current account balance posts a deficit of 4.4 billion USD in February, while 12-month cumulative current account deficit is realized as 12.8 billion USD. Foreign trade continues to stabilize while the recovery in CBRT reserves strengthens.

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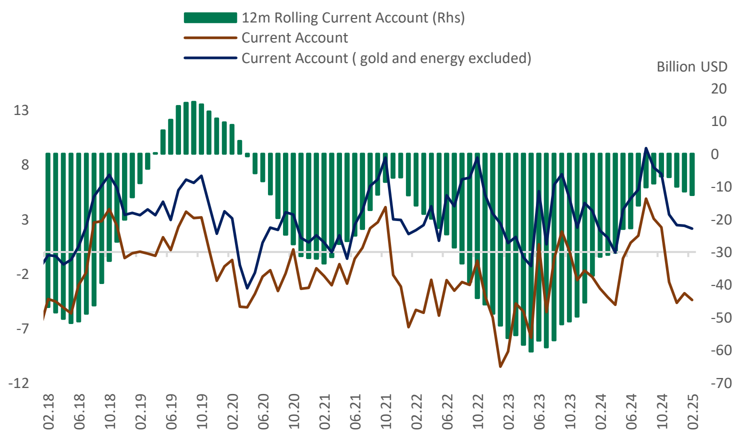
According to the latest balance of payments data, the current account balance posted a deficit of USD4,405 million in February. As a result, the twelve-month current account deficit was realized as USF12,837 million (previous USD11,762 million). We had expected a current account deficit of USD4.5 billion, above the market expectations (USD4.3 billion deficit). The current account balance, which was slightly below our expectation, recorded a limited increase considering the trend for 2024. The current outlook supports our upward expectations for the current account deficit throughout 2025. We think that the impact of the recent global and local developments will be temporary. Especially if the pricing behavior in energy and commodity products lasts longer, the current account deficit may remain below our expectations. 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 5,730 million and the inflows from the services balance as USD 2,453 million. The twelve-month cumulative balance of payments-defined foreign trade deficit was realized as USD58.8 billion, while inflows from the services balance were realized as USD62 billion. The improvement in travel revenues decreased slightly compared to January and was realized as USD2,006 million. Services-driven inflows will gain momentum starting from the second quarter. The current account excluding gold and energy posted a surplus of USD2,158 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 more pronounced in 2025. Compared to global developments, the impact of domestic developments on the current account balance will remain limited throughout 2025. In particular, tariffs and new measures regarding global trade bring protectionism to the forefront both on a country and regional basis. This new production and trade model may have a significant impact on both growth and the balance of payments. In this context, the likelihood of a more positive outlook than the current account balance forecasts we made in December has increased. As the new trade and production model attempts to stabilize, it will create volatility in both real and financial markets, albeit for a short period of time.

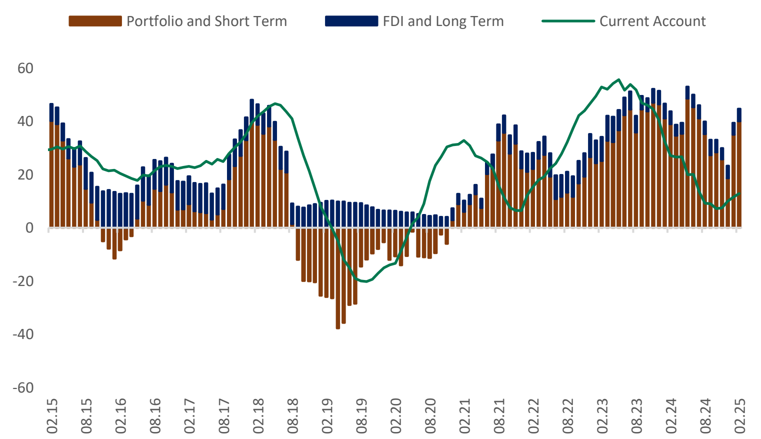
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA



Analyzing the developments in the financial account, net inflows in direct investments were realized as USD11 million. Portfolio investments recorded a net inflow of USD2,566 million. Non-residents made net purchases of USD25 million in the equity market and USD675 million in the government domestic debt securities market. Regarding bond issues abroad, non-residents made net purchases of USD1,471 million, USD296 million and USD282 million in General Government, banks and other sector issues, respectively. In terms of borrowings from abroad, banks and the General Government realized net repayments of USD900 million and USD120 million, while other sectors realized net utilization of USD969 million.

Regarding the financing of the current account deficit, official reserves posted a net decrease of USD2,899 million this month. Due to the recent hot money inflows, portfolio investments and short-term inflows amounted to USD40 billion in the twelve-month period. Meanwhile, foreign direct investment and long-term capital inflows remain low in cumulative figures. As of February, cumulative FDI and long-term financing recorded a net inflow of USD4.8 billion (previous USD4.6 billion). Of the total USD28.2 billion inflows in the financial account, USD12.8 billion came from the current account deficit while USD15.4 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 be gradually completed. Considering the recent developments, we expect the current account balance to perform better than our projections at the start of the year. Both the decline in commodity prices and the possibility of a pause in interest rate cuts play a significant role in this. Although both local and global concerns keep risks alive, we expect that the tight monetary stance and macroprudential measures will balance these risks.

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



Source: CBRT

In sum, February's current account balance posted a deficit of USD4.4 billion, bringing the 12-month total to USD12.84 billion. The mild course in the current account balance continues. The lengthy deterioration in the current account deficit/GDP ratio has entered a recovery trend as of 2024. 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 would like to underline that new measures and monetary and fiscal policy implementations to be announced will prompt updates to our forecasts. We revise our 2025 year-end current account deficit forecast to USD24 billion.

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