Macro note – Balance of Payments

Current account balance posts a deficit of USD4.1 billion in March, while the 12-month cumulative current account deficit is USD 12.61 billion. Fragility in current account deficit financing persists.

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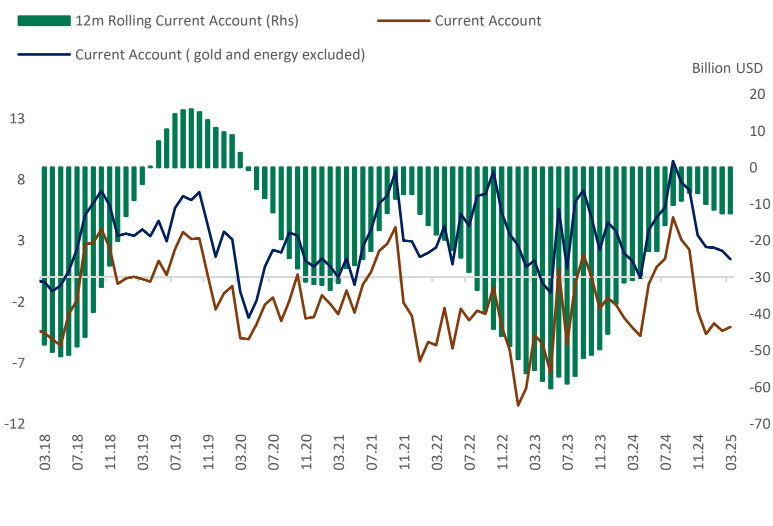
According to balance of payments data, the current account balance posted a deficit of USD4,087 million in March. As a result, the twelve-month current account deficit was USD12,610 million (previous USD12,646 million). We had expected a current account deficit of USD4.2 billion, above the market expectation (USD3.95 billion deficit). We may therefore say that the data was close to our expectations. The course of the current account balance may evolve to a more positive momentum than the year-end outlook for 2024. We had anticipated that cuts in the policy rate from the second half of the year onwards, depending on the course of inflation, would negatively impact on the current account balance. In the current situation, recent global and domestic developments have led to additional tightening in the monetary policy stance. This outlook may delay our projection made at the start of the year by one quarter. The CBRT is closely monitoring the softening global outlook and the increase in risk appetite. If the easing in inflation is coupled with global momentum, we may see steeper rate cuts by June. In this context, developments in the May-June period will be critical. When we look into the details of the realized current account balance, the balance of payments-defined foreign trade deficit being realized as USD5,038 million and the inflows from the services balance of USD2,749 million were effective. The twelve-month cumulative balance of payments-defined foreign trade deficit was realized as USD58.1 billion, while inflows from the balance of services were realized as USD61.8 billion. Inflows from the services balance will gain momentum starting from the second quarter. The current account excluding gold and energy posted a surplus of USD1,471 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. Tariffs and new measures regarding global trade bring protectionism to the forefront both on a country and regional basis. In this context, the likelihood of a more positive outlook than the current account balance forecasts we made in December has increased. The tight monetary policy stance also supports these expectations.

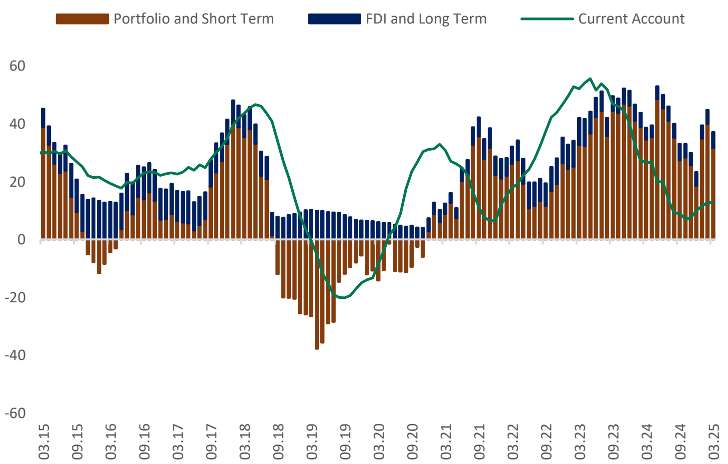
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA



Analyzing the developments in the financial account, net inflows in direct investments were realized as USD338 million. Portfolio investments recorded net outflows of USD3,551 million. Non-residents made net sales of USD399 million in the equity market and USD1,522 million in the government securities market. Regarding bond issues abroad, non-residents made net purchases of USD782 million in banks' issues and net sales of USD1,194 million and USD428 million in General Government and other sectors' issues, respectively. In terms of external borrowings, banks and other sectors realized net utilization of USD2,830 million and USD581 million, respectively, while the General Government realized net repayment of USD58 million.

Regarding the financing of the current account deficit, official reserves posted a net decline of USD15,126 million this month. Due to the recent hot money inflows, portfolio investments and short-term inflows amounted to USD31.5 billion in the twelve-month period. Meanwhile, foreign direct investment and long-term capital inflows remained low in cumulative figures. As of February, cumulative FDI and long-term financing recorded a net inflow of USD5.5 billion (previous USD5 billion). Of the total USD25.3 billion inflows in the financial account, USD12.6 billion came out of the current account deficit while USD12.6 billion was hidden in the net errors and omissions item. If the tight monetary policy stance continues for some time yet, 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 made at the beginning of the year. Both the decline in commodity prices and the possibility of a pause in interest rate cuts have a high share in this. Although both local and global concerns keep risks alive, we expect the tight monetary stance and macro-prudential measures to balance these risks.

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



Source: CBRT

In sum, the current account balance posted a deficit of USD4.1 billion in March, bringing the 12-month total to USD12.6 billion. The mild course in the current account balance continues. Lengthy deterioration in the current account deficit/GDP ratio has entered a recovery trend as of 2024. A pause in interest rate cuts 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. 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 inflation and the current account balance. We note here that new measures and monetary and fiscal policy implementations to be announced will prompt updates to our forecasts. We maintain our 2025 year-end current account deficit forecast at USD24 billion.

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