Macro note – Balance of Payments

The current account balance records a surplus of USD 1.77 billion in July, while the 12-month cumulative current account deficit stood at USD 18.8 billion. The strong contribution from the services balance and the increase in reserves are remarkable.

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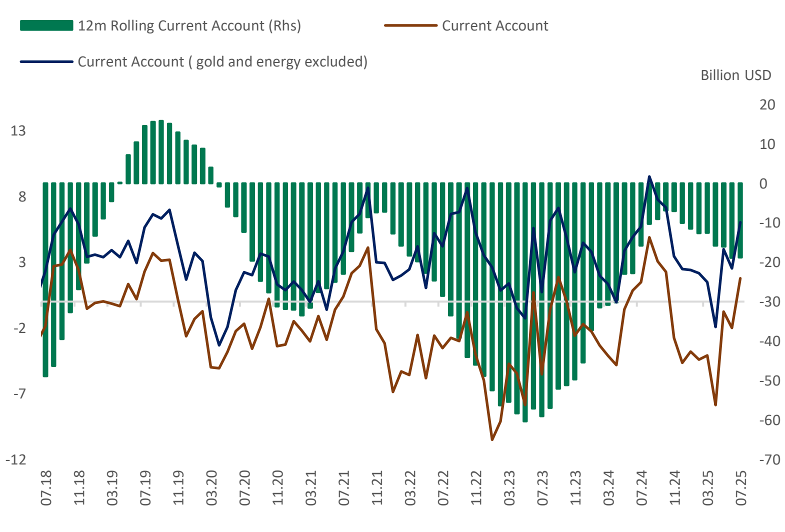
According to balance of payments statistics, the current account balance for July showed a surplus of USD 1.766 billion. As a result, the twelve-month current account deficit stood at USD 18.786 billion (previous: USD 19.160 billion). Our expectation was for a current account surplus of USD 1.3 billion, which was below market expectations (USD 1.5 billion surplus). There has been an improvement above both market and our expectations. Contributions from both main components of the current account balance were effective in this development. Despite an 11.8% decrease in the foreign trade deficit compared to the previous year, the services balance brought approximately USD 8 billion in the current account surplus. We expected a more negative outlook for the current account balance compared to 2024 and, in particular, a deterioration in the second half of 2025. Along with interest rate cuts, the recovery of domestic economic activity, led by import demand, formed our baseline scenario for the current account balance. Despite a revival in import demand, this will be offset by strong inflows in the services balance, especially in the third quarter. In the last quarter of the year, a relatively negative atmosphere will prevail in the balance of payments. The central bank, which continues interest rate cuts in a measured and cautious manner, is also closely monitoring developments in the balance of payments. Looking into the current account balance details, the balance of payments-defined trade deficit amounted to USD 4,635 million, while inflows from the services balance amounted to USD 8,024 million. The twelve-month cumulative trade deficit defined by the balance of payments was USD 62.7 billion, while inflows from the services balance amounted to USD 62 billion. We expect inflows from the services balance to gain momentum starting from the summer months. The current account balance, excluding gold and energy, showed a surplus of USD 6,029 million this month. This indicator, which can be referred to as the core current balance, shows that the balance of payments recorded a surplus when adjusted for volatile items. However, developments in monetary policy, the realization of deferred demand, and interest rate cuts keep the risks to the balance of payments alive.

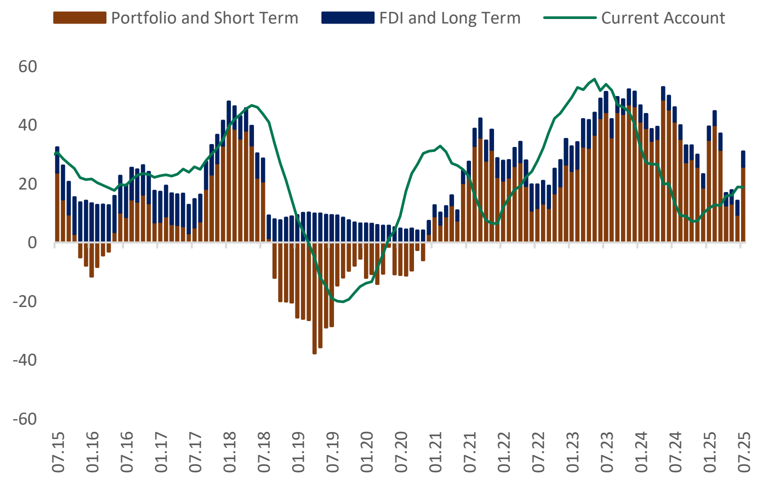
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA



When examining developments in the financial account, net inflows in direct investments amounted to USD 1,224 million. In portfolio investments, net inflows of USD 5,097 million were recorded. Non-residents made net purchases of USD 859 million in the stock market and USD 1,992 million in the government securities market. Regarding bond issues abroad, non-residents made net purchases of USD 891 million and USD 2,399 million in bank and General Government issues, respectively, and net sales of USD 34 million in other sector issues. Regarding credit usage from abroad, banks made repayments of USD 4 million this month, while the General Government and other sectors made net usage of USD 527 million and USD 1,361 million US, respectively.

Looking at how the current account deficit was financed, official reserves saw a net increase of USD 18,597 million this month. The sharp outflows in portfolio investments are more clearly reflected in the twelve-month figures. Due to the impact of recent hot money outflows, portfolio investments recorded a total outflow of USD 1.3 billion over twelve months, while the short-term credit-deposit channel recorded inflows of USD 27 billion. Direct foreign investment and long-term capital inflows remain low in the cumulative data. As of July, the twelve-month cumulative net inflow of direct investment and long-term financing stood at USD 5.2 billion (previous: USD 4.7 billion). Of the total USD 38 billion inflow in the financial account, USD 18.7 billion was covered by the current account deficit, while USD 19.3 billion was hidden in the net errors and omissions item. Considering recent developments, we estimate that the current account balance may perform more negatively than our year-end forecasts. This is due to the combined effect of commodity price volatility and interest rate cuts supporting domestic demand. Although both local and global concerns keep risks alive, we expect the tight monetary stance and macroprudential measures to offset these risks.

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



Source: CBRT

In summary, the current account balance for July showed a surplus of USD 1.77 billion, resulting in a total deficit of USD 18.8 billion for the year to date. Seasonal effects on inflows from the services balance are strong. The start of interest rate cuts may pressure the foreign trade balance in the last quarter. In particular, the decline in commodity prices may limit this contribution. Credits supporting exports through liquidity management and the slowdown in import demand will continue to contribute to price stability. The acceleration in the payments balance, which contributes to financial stability, will support price stability in the medium term. Macroeconomic policies that monitor economic activity through sectoral support loans rather than policy rates will continue to provide positive support for both inflation and the current account balance. We would like to emphasize that new measures to be announced and the implementation of monetary/fiscal policies will bring about new updates to our forecasts. Within the scope of current applications, we maintain our 2025 year-end current account deficit forecast at USD 24 billion.

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