

Macro note – Balance of Payments

The current account balance records a deficit of USD 7.5 billion in February, whilst the annualized current account deficit stood at USD 35.4 billion. As inflows from the services balance have slowed significantly, the trade deficit as defined by the balance of payments is rising.

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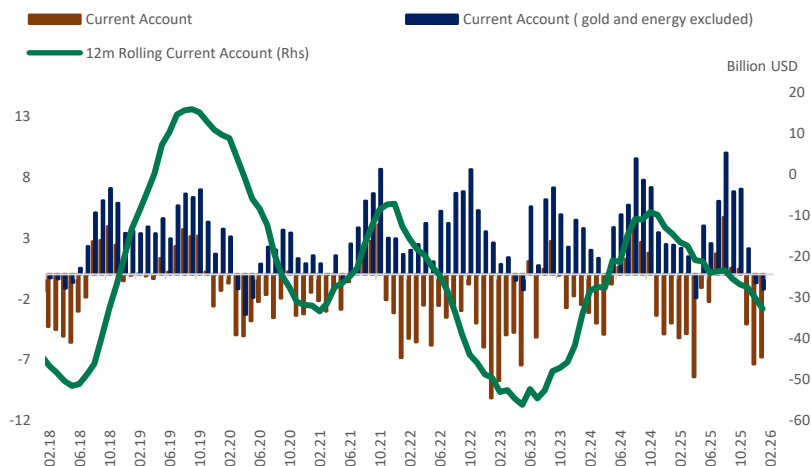
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According to balance of payments statistics, the current account deficit for February stood at USD 7,501 million. As a result, the 12-month rolling current account deficit reached USD 35,447 million. Our forecast for the current account deficit was 7.55 billion US dollars, which was above market expectations (a deficit of 7.3 billion US dollars). The actual outcome was in line with our forecast. The developments in the sub-components driving the upward trend in the current account deficit can be summarized as follows. The trade deficit increased by 500 million US dollars compared to the previous month, recording a deficit of 7.5 billion US dollars and maintaining its robust trend. We are clearly feeling the impact of the winter season on inflows from the services balance. In February, inflows from the services balance remained at around 2 billion USD. We had anticipated an upward trend in the trade deficit and a pullback in the services balance during the first quarter. However, recent geopolitical developments and rising commodity prices, led by energy, are increasing downward pressures. Whilst rising energy prices are triggering the trade deficit, geopolitical concerns are affecting tourism revenues in the services sector. The upward trend in the current account deficit could trigger macroeconomic vulnerabilities. This will have indirect implications for both inflation and monetary policy. The first noticeable impact is evident in the core inflation trend. The second impact will depend on how long these developments persist and the extent of any changes in the monetary policy stance. Looking at the details of the realised current account balance, the trade deficit as defined by the balance of payments stood at USD 7,478 million, whilst inflows from the services balance amounted to USD 2,014 million. The 12-month cumulative trade deficit, as defined by the balance of payments, stood at 73.2 billion USD, whilst inflows from the services balance amounted to 62.6 billion USD. The current account balance, excluding gold and energy, recorded a deficit of 1,462 million US dollars this month. There has been a slight deterioration in the core current account balance in recent months. A continuation of this trend could trigger risks of fragility.

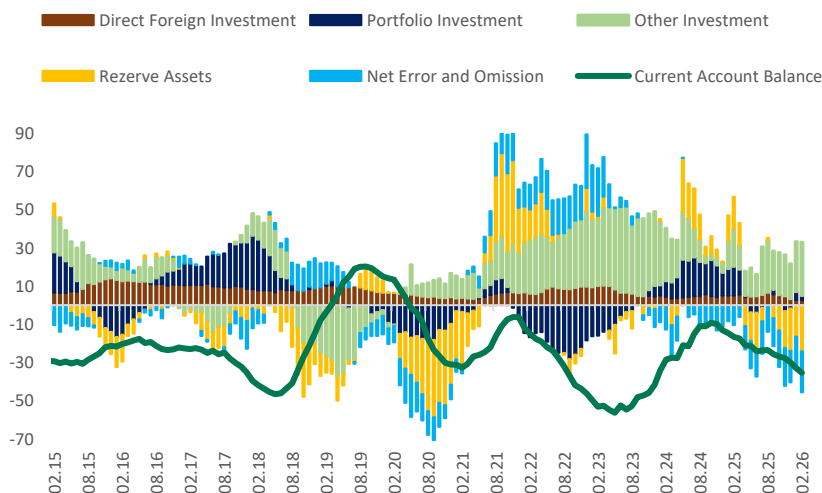
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA



An analysis of developments in the financial account reveals that net outflows from direct investment amounted to USD138 million. Meanwhile, net inflows of US\$780 million were recorded in portfolio investment. It is observed that non-residents made net purchases of USD932 million in the equity market and USD366 million in the government bond market. Regarding bond issues abroad, it is observed that non-residents made net purchases of USD 43 million in bank issues and USD674 million in General Government issues, whilst making net sales of USD81 million in issues by other sectors. In terms of credit utilisation from abroad this month, banks, the General Government and other sectors recorded net utilisation of USD 17 million USD 226 million US dollars and USD 1,478 million respectively.

Looking at how the current account deficit was financed, a net decrease of USD10,630 million was observed in official reserves this month. Over the twelve-month period, inflows amounted to USD2.4 billion in portfolio investments and USD 27.8 billion via the credit-deposit channel. Inflows of foreign direct investment, however, continued their downward trend in the cumulative data. As of February, the twelve-month cumulative foreign direct investment recorded a net inflow of USD 2.6 billion (previously USD 2.7 billion). Of the total inflows of USD 57 billion in the financial account, USD 35 billion were due to the current account deficit, whilst USD 21 billion were in the net errors and omissions item. The pause in interest rate cuts will somewhat limit import demand and demand-driven inflation. On the other hand, risks of a trade deficit and inflation stemming from the cost channel persist.

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



Source: CBRT

In summary, the current account balance recorded a deficit of USD 7.5 billion in February, bringing the 12-month total to USD 35.4 billion. Whilst inflows from the services balance showed a marked decline, the trade deficit remains high. Although recent geopolitical developments have had a negative impact on the balance of payments, uncertainty remains regarding how long this will last and what the net effect will be. Loans supporting exports 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. Macroeconomic policies that monitor economic activity through sector-specific support loans rather than the policy rate will continue to provide positive support for both inflation and the current account balance. We would like to emphasise that any new measures announced and the implementation of monetary and fiscal policies will necessitate further updates to our forecasts. Under current policies, we are raising our year-end 2026 current account deficit forecast to USD 45 billion.

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