Macro note – Balance of Payments

The current account balance recorded a deficit of USD9.7 billion in March, whilst the annualized current account deficit stood at USD39.7 billion. Whilst the trade deficit rose significantly, inflows from the services balance remained weak. In March, reserves fell by USD43.4 billion, while there was an outflow of USD14.8 billion in portfolio investments.

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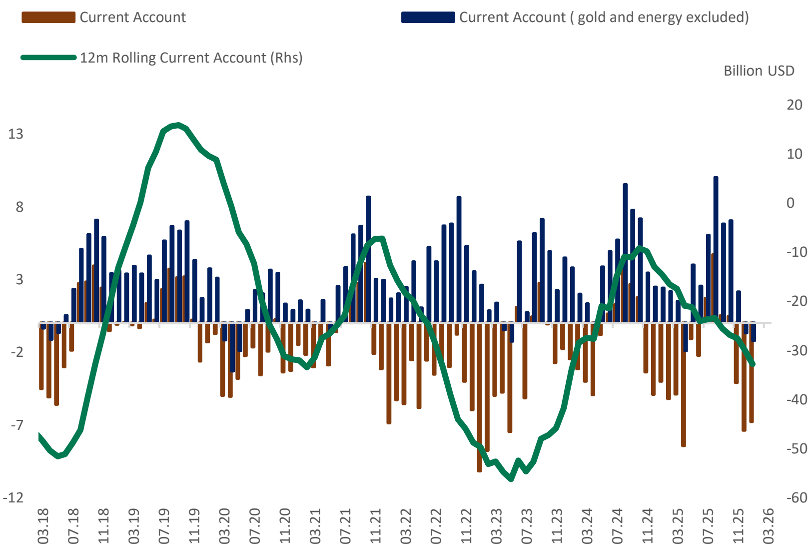
According to balance of payments statistics, the current account balance for March recorded a deficit of USD 9,672 million. As a result, the twelve-month current account deficit stood at USD 39,724 million. Our forecast for the current account deficit was USD 10.1 billion, which was above market expectations (a deficit of USD 9.7 billion). The actual current account deficit was slightly below our forecast, but in line with market expectations. The uptrend in energy prices, triggered by geopolitical developments, had a significant impact on the current account deficit in March. The net effect of this development—which could be described as the price impact of energy imports—on the current account balance depends on the level at which commodity prices stabilise. When examining the components of the balance of payments, the trade deficit increased by approximately USD 2 billion compared to the previous month, reaching a deficit of USD 9.5 billion. Seasonal effects in the services balance continue. In March, inflows from the services balance remained at USD 2.6 billion. We had anticipated pressure on the trade deficit due to the robust pace of economic activity. With the added pressure from energy prices, the current account deficit approached USD 40 billion. This is the point highlighted by credit rating agencies that have recently published assessments regarding macroeconomic vulnerabilities. There is the concern that the depletion of reserves may continue to a certain extent, and that the vulnerability created by the current account deficit could trigger upward movements in the core inflation trend in particular. In the 12-month cumulative current account deficit, the trade deficit stood at USD 78.7 billion and inflows from the services balance amounted to USD 63 billion. Excluding gold and energy, the current account recorded a deficit of USD 3,886 million this month. Even when adjusted for energy and commodity effects, there is a deterioration in the current account deficit.

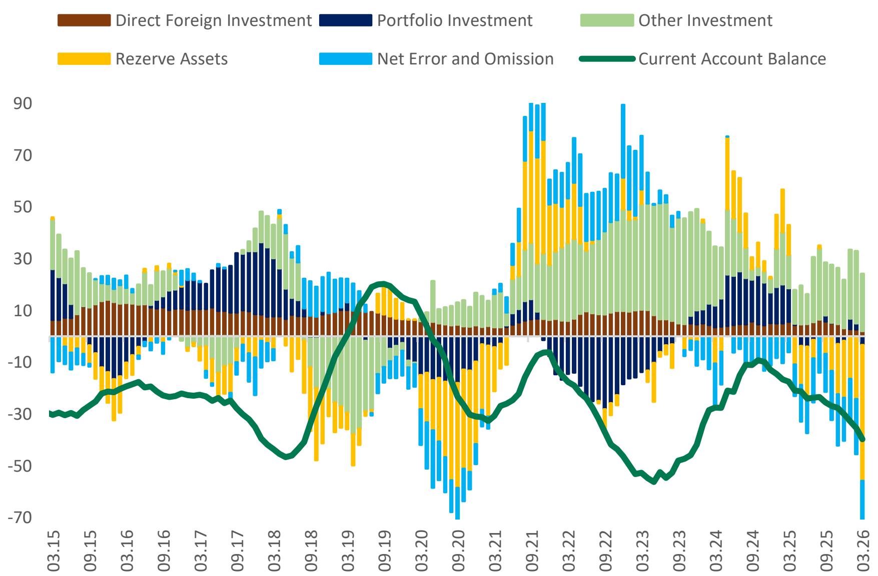
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA



An analysis of developments in the financial account reveals that net outflows from direct investment amounted to USD 212 million. Meanwhile, net inflows of US$14,800 million were recorded in portfolio investment. It is observed that non-residents made net sales of USD 1,079 million in the equity market and USD 6,399 million in the government bond market. Regarding bond issues abroad, non-residents made net purchases of USD 870 millioN in issues by other sectors, while making net sales of USD 897 million and USD 1,213 million in issues by banks and the General Government, respectively. In terms of credit utilisation from abroad this month, banks and other sectors recorded net utilisation of USD 1,026 million and USD 1,190 million, respectively, whilst the General Government made a net repayment of USD22 million.

Looking at how the current account deficit was financed, a net decrease of USD43,420 milllion was observed in official reserves this month. Over the twelve-month period, there was an outflow of USD 3.3 billion in portfolio investments and an inflow of USD21.9 billion USD via the credit-deposit channel. Inflows of foreign direct investment, however, continued their downward trend in the cumulative data. As of March, the twelve-month cumulative foreign direct investment recorded a net inflow of 2.1 billion USD (previously 2.6 billion). Of the total 73 billion USD inflow in the financial account, 40 billion USD was due to the current account deficit, whilst USD 33 billion was attributed to the net error and omission item. The continued deterioration in the balance of payments, despite tight monetary policy, is an indication of robust domestic demand. Until this cycle is broken, we will see a cautious Central Bank of the Republic of Türkiye (TCMB) regarding interest rate cuts.

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



Source: CBRT

In summary, the current account balance recorded a deficit of USD 9.7 billion in March, bringing the 12-month total to USD 39.7 billion. Whilst inflows from the services balance showed a marked decline, the trade deficit remained 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 sectoral 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 revising our year-end 2026 current account deficit forecast upwards to USD 45 billion.

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