Macro note – Balance of Payments

The current account balance recorded a deficit of 4.2 billion US dollars in June, whilst the annualized current account deficit stood at 38.9 billion US dollars. Revisions to the net errors and omissions and the financial account have improved the quality of the current account deficit's financing, whilst inflows driven by the balance of services remain strong. In June, reserves rose by 1 billion US dollars, whilst there was a net inflow of 2.5 billion US dollars in portfolio investments.

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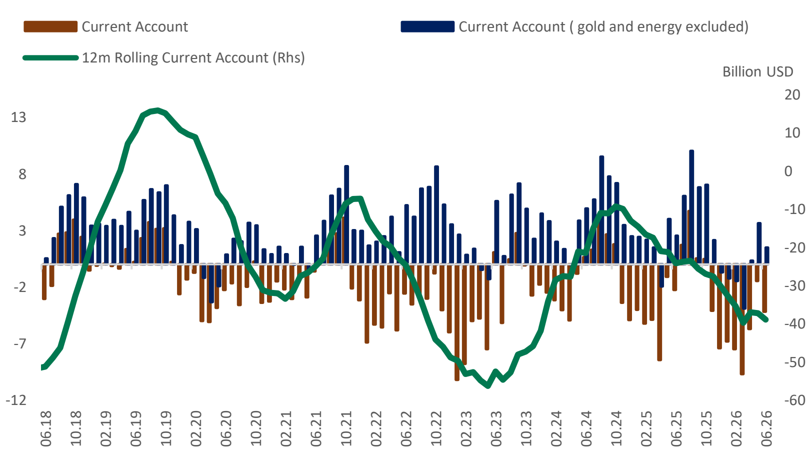
According to balance of payments statistics, the current account balance for June recorded a deficit of 4,194 million US dollars. As a result, the twelve-month current account deficit stood at 38,888 million US dollars. Our forecast for the current account deficit was 4.8 billion US dollars, which was below market expectations (a deficit of 4.95 billion US dollars). The current account deficit, which came in below our own forecasts, indicates that the impact of rising energy prices on the balance of payments was not as high as had been feared. Furthermore, revisions to the net errors and omissions and the financial account, introduced with the June data, highlight the improvement in the quality of current account financing. When examining the components of the balance of payments, the trade deficit has risen to 8.5 billion US dollars. Here, we see the pressure exerted by rising oil prices on imports. Seasonal effects in the services balance remain strong, with inflows in June standing at 6.9 billion US dollars. Looking at the 12-month cumulative figures, the trade deficit stands at 76.5 billion US dollars, whilst inflows from the services balance amount to 63.7 billion US dollars. The current account balance, excluding gold and energy, recorded a surplus of 1,462 million US dollars this month. The continued positive trend in the core balance, when adjusted for volatility in gold and energy prices, points to the resilience of the balance of payments. In particular, a reduction in volatility in the items causing vulnerability will ensure the continuation of this trend. However, persistently high import prices are increasing the pressure on the trade deficit. We expect this effect to be offset, albeit to a limited extent, by a weakening in domestic demand. Assuming that the worst of the geopolitical developments is behind us, the lagged effects on the trade deficit will continue to diminish.

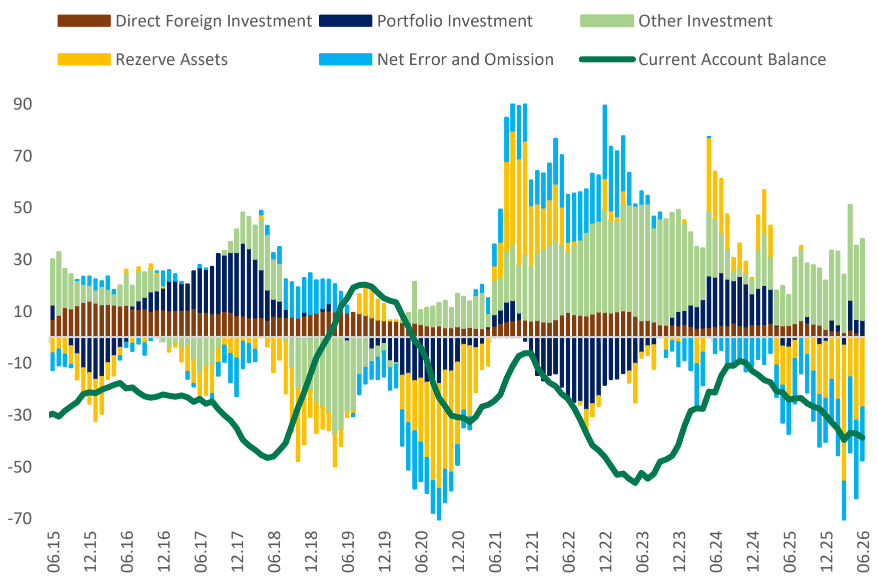
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA



An analysis of developments in the financial account reveals that net outflows from direct investment amounted to USD899 million. Meanwhile, net inflows of USD2,537 million were recorded in portfolio investment. It is observed that non-residents made net purchases of USD2,920 million in the equity and investment fund markets and USD1,185 million in the government bonds market. With regard to bond issues abroad, it is observed that non-residents made net purchases of USD462 million and USD375 million in issues by banks and other sectors respectively, whilst they made net sales of USD896 million in General Government issues. In terms of borrowing from abroad this month, banks, the General Government and other sectors recorded net borrowing of USD3,495 million, USD3 million and USD1,800 million respectively.

Looking at how the current account deficit was financed, a net increase of USD1,039 million was observed in official reserves this month. Over the twelve-month period, inflows amounted to USD6.4 billion in portfolio investments and USD31 billion via the credit and deposit channel. Inflow of foreign direct investment, however, continues to remain at a low level in the cumulative data. As of June, the twelve-month cumulative foreign direct investment recorded a net inflow of USD312 million. Of the total inflows of USD59.6 billion in the financial account, USD28.9 billion was accounted for by the current account deficit, whilst USD20.4 billion was recorded under the net error and omission item. Furthermore, following a revision implemented this month, there has been a significant decline in the net error and omission item, and the inclusion of financial derivatives in the financial account has eliminated uncertainty in certain items.

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



Source: CBRT

In summary, the current account balance for June recorded a deficit of USD4.2 billion, bringing the 12-month total to USD38.9 billion. Whilst the services balance has maintained its strong performance, price rises driven by energy and commodities continue to widen the trade deficit. 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. The acceleration in the balance of payments, which contributes to financial stability, will support price stability in the medium term. Macroeconomic policies that focus on 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 emphasize that any new measures announced, along with the implementation of monetary and fiscal policy, will necessitate further updates to our forecasts. Under the current framework, we maintain our year-end 2026 current account deficit forecast at USD45 billion.

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