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Macro note – Balance of Payments

Current account balance posts surplus of USD4.3 billion in August, while 12-month cumulative current account deficit is 11.25 billion USD. The most visible reflection of the tight monetary policy remains on the balance of payments...

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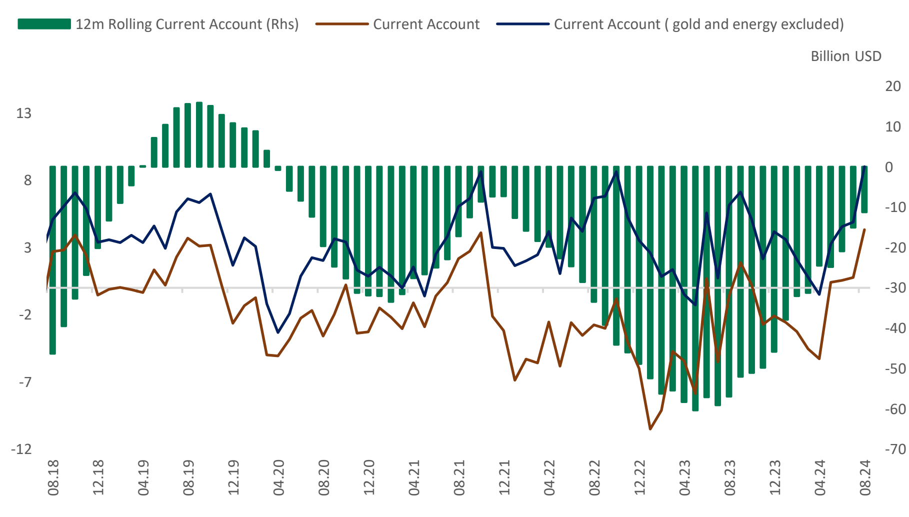
According to balance of payments statistics, the current account balance posted a surplus of USD 4,324 million in August. As a result, the twelve-month current account deficit was realized as USD11,250 million (previous USD15,085 million). Monthly current account balance figures, which were in line with market expectations (USD4.2 billion surplus), pushed the annual figure down to January 2022 levels. This was mainly driven by the balance of payments-defined foreign trade deficit of USD2,911 million and services inflows of USD8,696 million. The 12-month cumulative foreign trade deficit narrowed to USD78.7 billion (May 2023 peak was USD122 billion) due to the tightening steps that started after June 2023. We observe that inflows from the services balance improved significantly when seasonal effects are considered. On the other hand, the foreign trade balance continues to make a positive contribution to the current account balance due to the combined effect of tight monetary policy at home and interest rate cuts in the euro zone. We expect the positive trend in tourism and services balance to continue until October. We foresee improvement in the balance of payments continuing at a slower pace in the last quarter. The revival in domestic demand and economic activity will support import demand, especially starting from the end of 2024, when the expectation for an interest rate cut will strengthen. In this context, the improvement in foreign demand will contribute to the current account balance led by foreign trade. The current account excluding gold and energy posted a surplus of USD9,014 million this month. If the upward movement in oil prices as of end-September continues in the last quarter of the year, the divergence between the headline and core current account balances may become more pronounced. Despite the calm course of exchange rates, limiting import demand with monetary policy will make a relatively positive contribution to the current account balance with the easing in exchange rates.

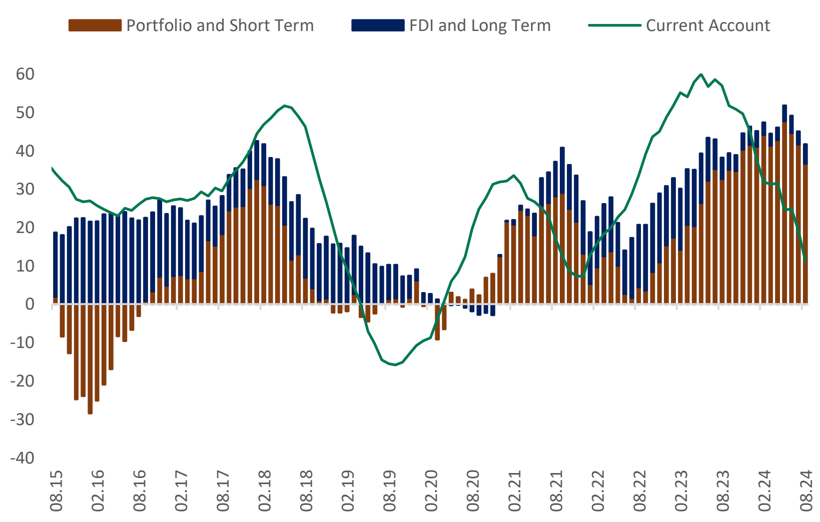
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA (Billion USD)



Analyzing the developments in the financial account, net outflows from direct investments were realized as USD62 million. Portfolio investments recorded a net outflow of USD881 million. Non-residents realized net sales of USD627 million in the equity market and net purchases of USD1,412 million in the government domestic debt securities market. Regarding loans obtained from abroad, banks and the General Government realized net repayments of USD626 million and USD133 million, respectively, while other sectors realized net utilization of USD561 million.

Regarding the financing of the current account deficit, official reserves posted a net decline of USD2,510 million. Due to recent hot money inflows, portfolio investments and short-term inflows amounted to USD36.530 billion in 12-month period (12-month average was USD40.9 billion). Foreign direct investment and long-term capital inflows, on the other hand, remained low in cumulative figures. As of August, cumulative FDI and long-term financing recorded a net inflow of USD5.1 billion (previous USD3.4 billion). We observe that hot money inflows have gradually weakened and realized below 12-month averages. However, the stable exchange rate environment and high interest rate yields still make portfolio investments attractive. In particular, capital flows seeking to benefit from the carry trade have triggered portfolio investment inflows instead of FDI. If the tight monetary policy stance continues for some time, the low growth-inflation and current account deficit cycle will be completed. Fears of an interest rate cut before the targeted improvement in inflation has begun have started to slow down intermediate earnings capital inflows and increase the upward volatility in the USD/TL exchange rate. Especially in the last quarter, risk appetite will be mixed due to the divergence in the monetary policies of global central banks.

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



Source: CBRT

In sum, August's current account balance posted a surplus of USD4.3 billion, bringing the 12-month total down to USD11.25 billion. Excluding April, the core current account balance maintained its long-term trend. Loans supporting exports, especially through liquidity management, and the slowdown in import demand will continue to contribute to price stability. Both the rise in financing costs and the slowdown in production continue to contribute positively to the current account balance through import demand. The monetary policy in the new period, which is tight and prioritizing the current account balance, will reduce vulnerabilities stemming from the balance of payments. The tight monetary stance, which we expect to continue until the end of the year, will bring price stability and reduce the risk of balance of payments-related vulnerabilities. We underline here that new measures and monetary/fiscal policy implementations to be announced will prompt new updates to our forecasts. We maintain our 2024 year-end current account deficit forecast at USD20 billion.

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