Macro note – Balance of Payments

The current account balance recorded a deficit of USD 6.8 billion in January, while the annualized current account deficit stood at USD 32.9 billion. The recovery in reserves continued, driven by gold prices, while portfolio inflows rose significantly.

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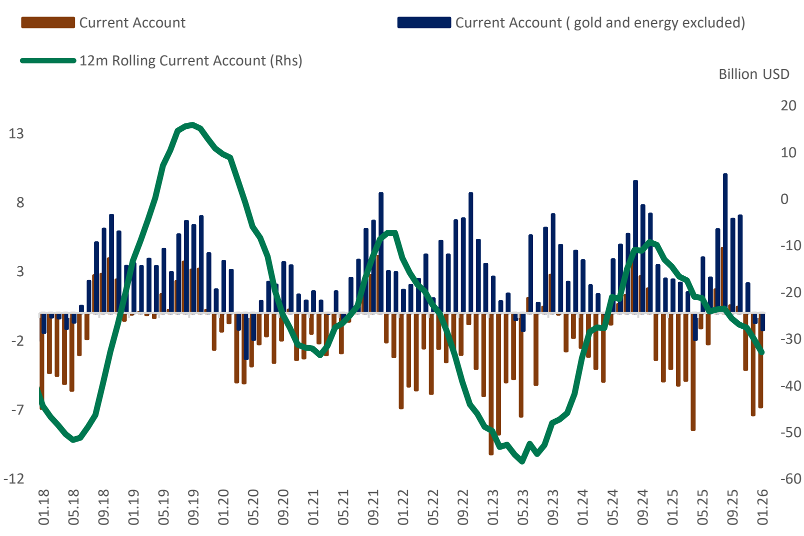
According to balance of payments statistics, the current account balance for January recorded a deficit of 6,807 million US dollars. As a result, the twelve-month current account deficit stood at 32,880 million US dollars. Our current account deficit forecast of 5.7 billion US dollars was above market expectations (5.4 billion US dollar deficit). The current account deficit, which exceeded our expectations, points to buoyant economic activity. Developments in the sub-items triggering the uptrend in the current account deficit can be summarized as follows. The foreign trade deficit remained buoyant at USD6.9 billion. We are clearly feeling the impact of the winter season on inflows in the services balance. In January, inflows from the services balance remained at USD2.6 billion. We had expected a more subdued atmosphere in the first half of the year, with more limited inflows from the services balance and stronger pressures on the trade deficit. However, recent geopolitical developments and volatility in commodity prices point to an atmosphere that is even more negative than our baseline scenario. Although the severity of the shock may be mitigated by coordinated monetary and fiscal policies, its long-term impact will be negative if tensions persist. Global market uncertainty and geopolitical risks may increase the severity of future pressures on the current account and inflation. Looking at the details of the actual current account balance, the trade deficit defined by the balance of payments was USD6,967 million, and inflows from the services balance amounted to USD2,639 million. The twelve-month cumulative trade deficit defined by the balance of payments was USD71.2 billion, while inflows from the services balance amounted to USD63.1 billion. The current account balance excluding gold and energy recorded a deficit of USD1,228 million this month. The deterioration in the core current account balance in recent months is striking. If this trend continues, the current account deficit may deteriorate beyond expectations.

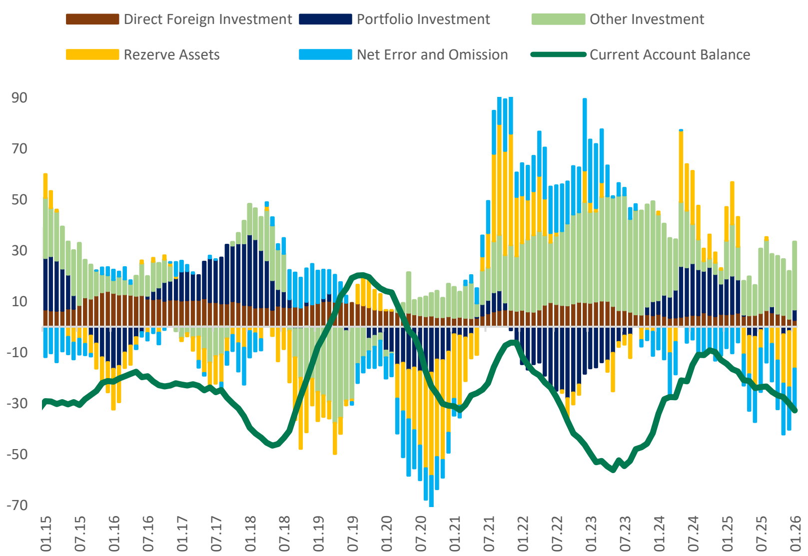
Graph 1: Current Account (CA), Energy and Gold Excluded (CA), 12M Rolling CA



When examining developments in the financial account, net inflows in direct investments amounted to USD22 million. In portfolio investments, net inflows of US$D8,392 million were recorded. Non-residents made net purchases of USD1,463 million in the stock market and USD4,010 million in the government securities market. Regarding bond issues abroad, non-residents made net purchases of USD586 million, USD2,407 million and USD469 million in issues by banks, the General Government and other sectors, respectively. In terms of credit usage from abroad, banks and other sectors made net usage of USD1,410 million and USD1,740 million respectively this month, while the General Government made a net repayment of USD69 million.

Looking at how the current account deficit was financed, official reserves saw a net increase of USD11,996 million this month. Portfolio investments have begun to recover modestly. Due to the impact of recent hot money inflows, portfolio investments recorded a net inflow of USD4.2 billion over the twelve-month period, while the credit-deposit channel recorded a net inflow of USD26.4 billion. Direct foreign investment inflows, however, remain low in cumulative data. As of January, the twelve-month cumulative direct investment recorded a net inflow of USD2.7 billion (previous: USD 3.2 billion). Of the total USD49.7 billion inflow in the financial account, USD33 billion was covered by the current account deficit, while USD16.7 billion was hidden in the net error and omission item. The pause in interest rate cuts will somewhat limit import demand and demand-driven inflation. On the other hand, trade deficit and inflation risks from the cost channel persist.

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



Source: CBRT

In summary, the current account balance for January recorded a deficit of USD6.8 billion, bringing the 12-month total to USD32.9 billion. While inflows from the services balance recorded a significant decline, the trade deficit continued at a high level. 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. Credits 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 policy rates will continue to provide positive support for both inflation and the current account balance. We would like to emphasise that the new measures to be announced and the implementation of monetary/fiscal policies will prompt updates to our forecasts. Within the scope of current practices, we maintain our current account deficit forecast for the end of 2026 at USD35 billion.

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