

Macro: Current account balance posted a deficit of \$5.5 billion in July

In July, the current account posted a deficit of \$5.5 billion, due to foreign trade deficit despite the increasing contribution of services revenues. The cumulative current account deficit (CAD) in the first seven months amounted to \$42.3 billion. The 12-month cumulative CAD increased from \$56.5 billion to \$58.5 billion. Capital inflows, together with inflows in the net errors and omissions item, led to an increase in reserves. The MTP's "pro-growth" macro framework implies a policy approach that will depend on external financing opportunities instead of restricting CAD. Nevertheless, the recent rise in oil prices, the robust demand for gold and the slowdown in our main export markets suggest that pressures on reserves and the exchange rate due to external balance will persist. To handle these pressures, it appears necessary to tighten monetary policy further and increase both public external borrowing and private sector external debt rollover ratios.

Current Account Balance:

- In July, current account balance recorded a deficit of \$5.47 billion (Akbank: \$4.4 billion, Bloomberg: \$4.50 billion). In the first seven months of the year, current account deficit amounted to \$42.3 billion, cumulatively. The 12-month cumulative current account deficit widened from \$56.5 billion to \$58.5 billion (Table 1, Chart 2).
- According to seasonally adjusted data, the improvement in current account deficit in June was temporary (Chart 1). Both headline and core (excluding gold and energy) indicators deteriorated. In this period, energy imports remained flat, while gold imports remained high (Chart 3).

Chart 1. Current Account Balance (bn \$)

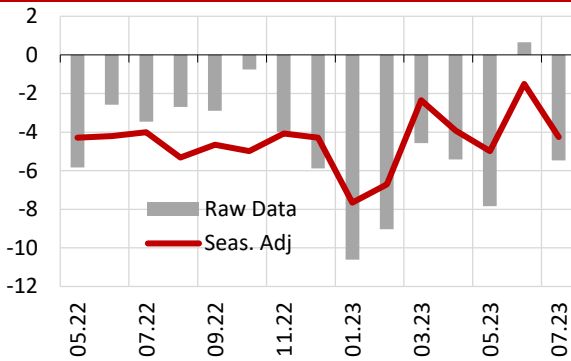


Chart 2. Current Account Balance (12-month cumulative, bn \$)

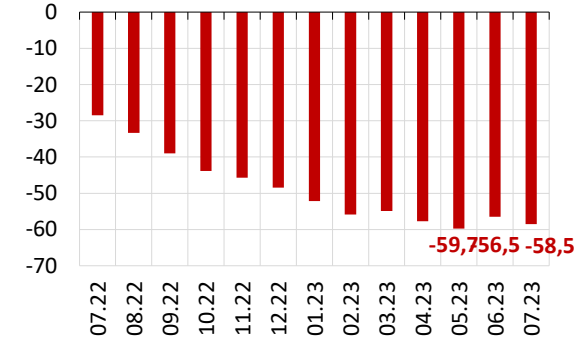
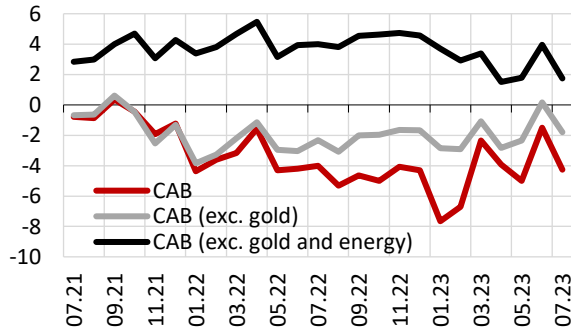
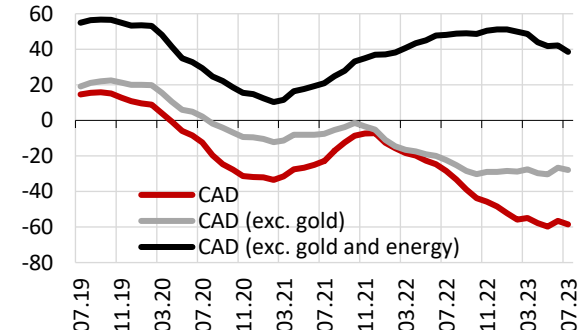


Chart 3. Current Account Balance (seasonally adjusted, bn \$)



Source: CBRT, Akbank

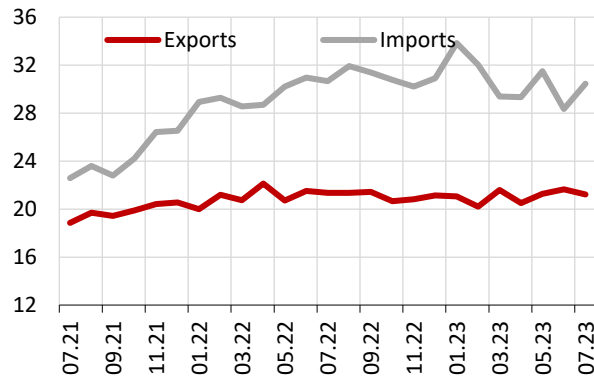
Chart 4. Current Account Balance (12-month cumulative, bn \$)



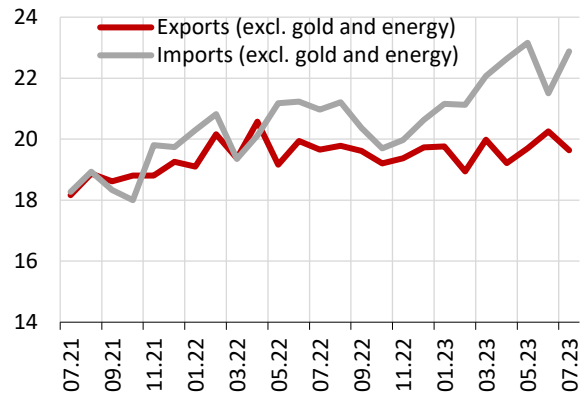
Source: CBRT

Trade Balance:

- According to seasonally adjusted data, **exports declined moderately, while imports increased significantly** (Chart 5). Gold imports amounted to \$2.8 billion in July, while energy imports increased (\$5.0 billion). The core foreign trade deficit widened again (Chart 6).

Chart 5. Exports and Imports (seasonally adjusted, bn \$)

Source: CBRT, Akbank

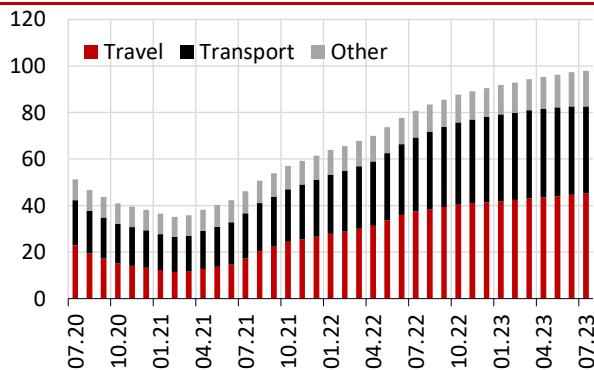
Chart 6. Foreign Trade excluding Gold and Energy (seasonally adjusted, bn \$)

Source: CBRT, Akbank

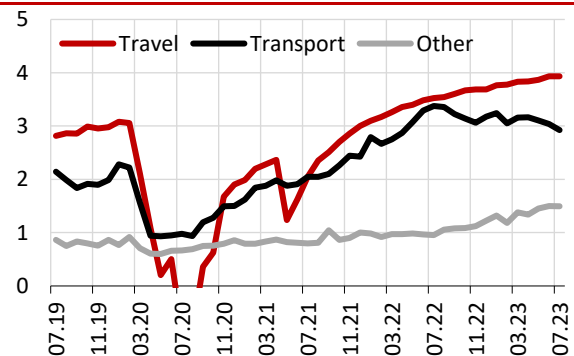
- According to the provisional data of the Ministry of Trade, the foreign trade deficit improved slightly in August. Exports increased by 1.6% yoy to \$21.6 billion, imports decreased by 6.3% yoy to \$30.5 billion, while foreign trade balance posted a deficit of \$8.9 billion. Thus, 12-month cumulative foreign trade deficit reduced to \$118.4 billion. This reduction was mainly due to a stronger decline in core imports than the rise in energy and gold imports. In August, we expect a current account deficit of around \$500 million owing to the strong course of the services balance.

Services Balance:

- The services balance continued to increase with \$6 billion (Charts 7 and 8). On the back of the favorable tourism outlook, travel revenues stood at \$5.3 billion (s.a. \$3.9 billion) in July. On the other hand, transportation revenues (s.a.) declined slightly due to freight.

Chart 7. Services Credit (12-month cumulative, bn \$)

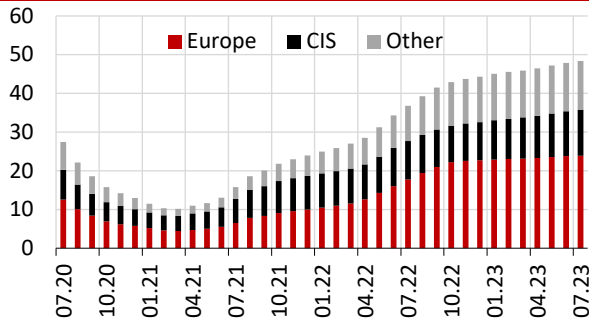
Source: CBRT

Chart 8. Services Credit (seasonally adjusted, bn \$)

Source: CBRT, Akbank

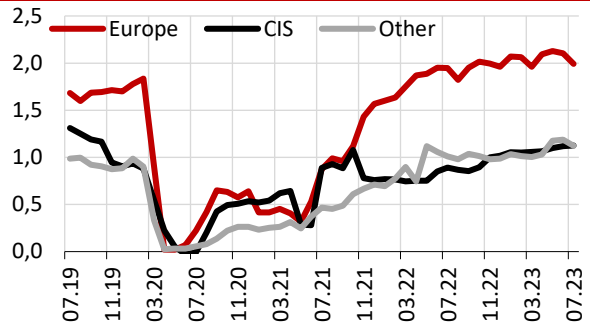
- The annual increase in the **number of foreign visitors continued with 9.4%**. In seasonally adjusted terms; it decreased by 3.8%, mainly due to the decline in the number of visitors from Europe (Charts 9 and 10).

**Chart 9. Foreign Visitors
(12-month cumulative, million people)**



Source: CBRT

**Chart 10. Foreign Visitors
(seasonally adjusted, million people)**



Source: CBRT, Akbank

Financing:

- With a deficit of \$5.47 billion in the current account balance, capital inflows of \$3.86 billion and net errors and omissions of \$4.4 billion, **reserves increased by \$2.8 billion** in July (Table 1). On the financing side, net inflows of \$392 million were realized in direct investments, \$1.16 billion in portfolio investments and \$2.3 billion in other investments.
- Thus, the decline in reserves in the first seven months of the year amounted to \$23.8 billion (Table 1) and approximately 56% of the current account deficit was financed by reserves. Outflows from the net errors and omissions item declined to \$711 million. Financing inflows amounted to \$19.4 billion, led by deposits at the central bank.
- The details of the financing side are as follows:
 - **FDI inflows (gross)** amounted to \$827 million in July, of which \$206 million was in real estate (\$5.6 billion inflow in January-July period; \$2.4 billion in real estate).
 - **Portfolio investments** have recorded inflows in the last two months; net inflows amounted to \$1.16 billion in July, following the \$1.8 billion inflow in June.
 - In July, inflows into equities and government securities amounted to \$734 million and \$18 million, respectively. Thus, in the first seven months of the year, inflows to equities and GDDS amounted to \$229 million and \$40 million, respectively.
 - Regarding bond issues abroad, banks borrowed net \$353 million.
 - **In loans obtained from abroad**, while banks repaid \$483 million net debt in July, total borrowing in the first seven months of the year was \$307 million. The real sector, on the other hand, repaid net \$181 million in July and borrowed \$87 million in January-July period.
 - External debt rollover ratios, including loans+bonds (6-month moving total): 102.17% for banks, 83.02% for other sectors.

Table 1. Financing (Million \$)

	Monthly		7-Month Cum.		12-Month Cum.	
	July.23	July.22	July.23	July.22	July.23	July.22
Foreign Direct Investment (FDI, net)	392	294	2,514	4,771	6,180	8,102
Real estate	206	301	2,387	3,771	4,889	6,734
FDI (exc, real estate)	186	-7	127	1,000	1,291	1,368
Portfolio investment (net)	1,160	-631	49	-12,169	-1,310	-15,259
Equity	734	-222	229	-3,580	-229	-3,113
Bond	18	-173	40	-1,894	-255	-2,390
Government Eurobond	0	0	3,659	1,524	7,159	2,328
Banks	347	-21	-47	-4,072	-3,930	-5,173
Other Sectors	3	-8	-2,120	274	-2,269	135
Other investment (net)	2,304	4,080	16,789	15,503	41,644	27,174
Effective and Deposits	2,699	1,300	12,895	11,571	37,222	13,332
Loans	-931	2,382	-141	2,348	1,329	2,125
Banks (foreign borrowing)	-483	-831	307	-2,845	-2,601	-5,661
Other Sectors	-181	3,479	87	5,744	2,456	8,924
Trade credit	520	390	3,998	1,543	3,044	5,342
Reserve	2,778	4,423	-23,755	-7,925	-3,519	1,441
Net Errors and Omissions	4,413	4,153	-711	16,178	8,599	9,946

Source: CBRT

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