

Macro: Temporary impact of geopolitical developments led to deterioration in current account balance

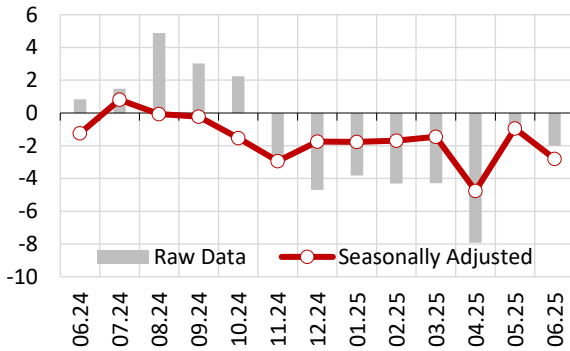
In June, the current account deficit was close to our forecast at \$2.0 billion. According to seasonally adjusted data, the current account balance deteriorated due to temporary factors related to geopolitical developments. However, the deterioration will not be permanent thanks to falling commodity prices following the end of the conflict. Indeed, preliminary data for July show a marked improvement in the trade deficit. As of July, we have entered a period where the current account balance will give a surplus thanks to the strong seasonality in services revenues. We estimate that the current account surplus will be around \$8 billion cumulatively in July-October period. This will be a positive development for the exchange rate and the balance of payments. In this context, we continue to maintain our forecast of a current account deficit of around \$20 billion (1.3% of GDP) for 2025.

Current Account Balance:

The current account balance recorded a deficit of \$2.0 billion in June, close to our forecast (-\$2.2 billion) but higher than the market forecast (-\$1.3 billion). As a result, the 12-month cumulative current account deficit rose from \$16.1 billion to \$18.9 billion (Table 1, Chart 2). The current account surplus excluding gold and energy decreased by \$2.4 billion to \$47.1 billion (Chart 4).

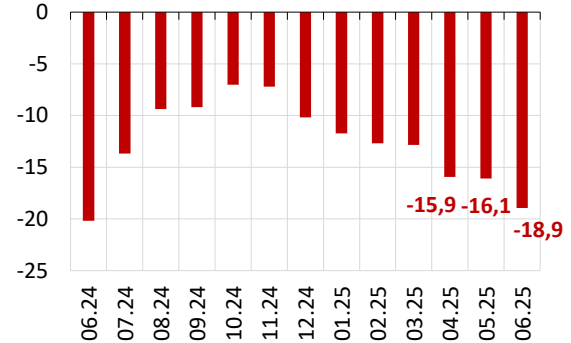
In seasonally adjusted (s.a.) terms, the current account balance deteriorated in June (Chart 1 and 3). The increase in energy imports due to geopolitical developments and the increase in core imports excluding gold and energy contributed to the monthly deterioration in the current account deficit.

Chart 1. Current Account Balance (bn \$)



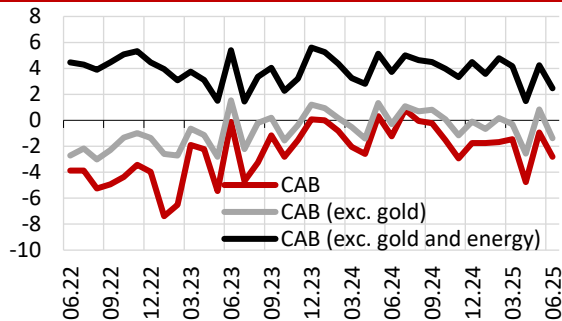
Source: CBRT, Akbank

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



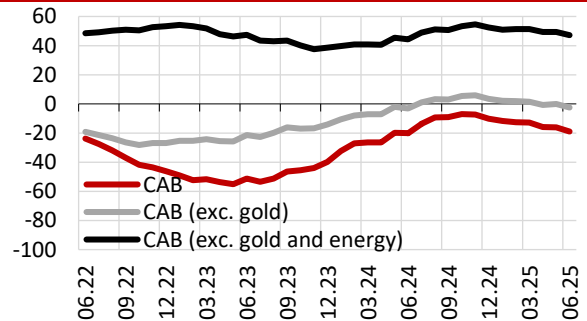
Source: CBRT

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



Source: CBRT, Akbank

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

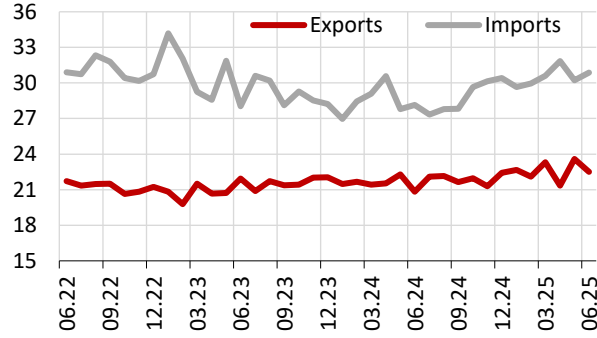


Source: CBRT

Trade Balance:

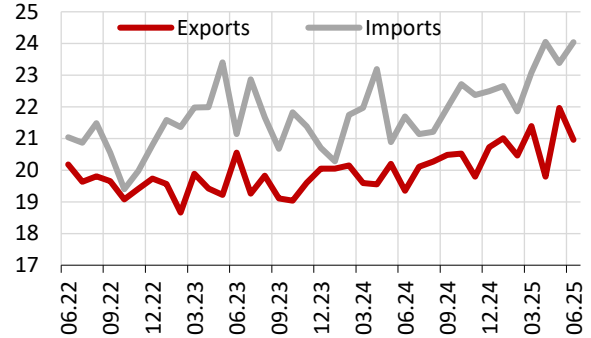
The foreign trade balance (s.a.) deteriorated in June due to increases in energy imports and core imports (Chart 6). Exports decreased by 2.0% on a monthly basis, while core imports excluding gold and energy increased by 2.8% (Chart 3, 5, and 6). Energy imports also rose in June due to the impact of rising oil prices caused by geopolitical developments. However, gold imports were below the average of the previous two months (\$2.3 billion) at \$1.55 billion, contributed to reducing the deficit.

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

Services Balance:

In seasonally adjusted terms, the balance of services posted a slight decrease on a monthly basis in June (Chart 7). While the travel balance increased, transportation item decreased (Chart 8). In 12-month cumulative terms, services revenues rose to \$ 117.7 billion in June (Chart 9). Travel revenues reached \$58.1 billion, an increase of \$0.4 billion.

Chart 7. Services Balance
(seasonally adjusted, billion \$)

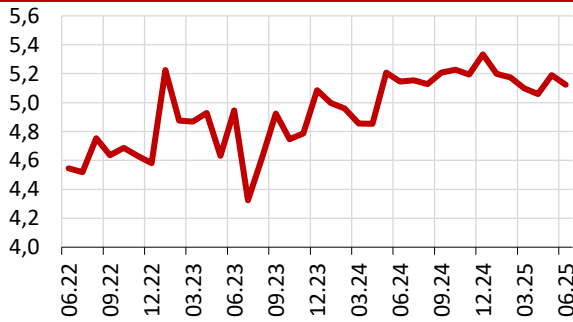


Chart 8. Services Balance
(seasonally adjusted, billion \$)

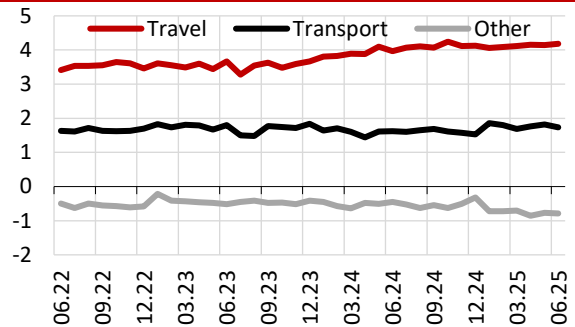
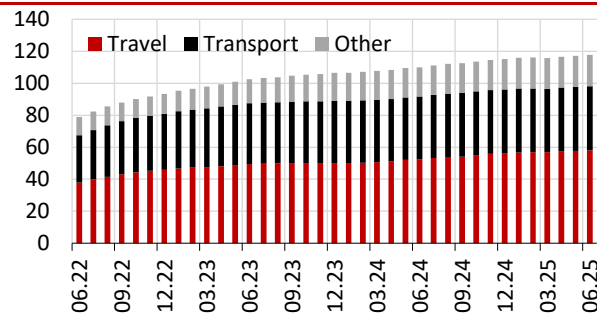
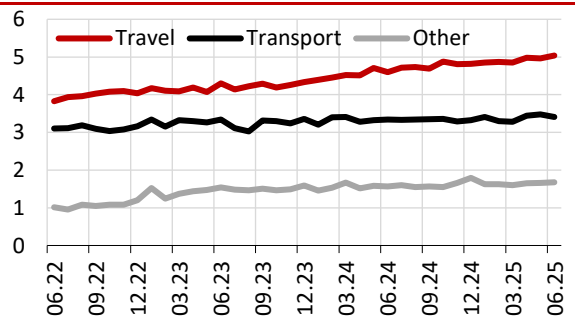


Chart 9. Services Credit
(12-month cumulative, bn \$)



Source: CBRT

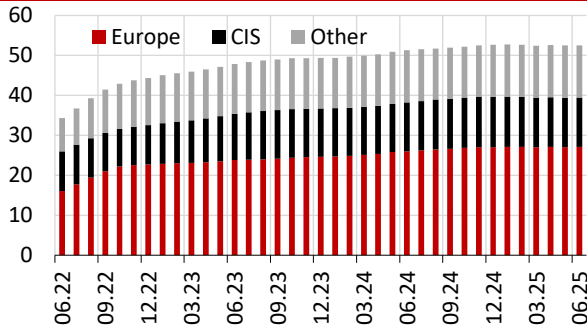
Chart 10. Services Credit
(seasonally adjusted, bn \$)



Source: CBRT, Akbank

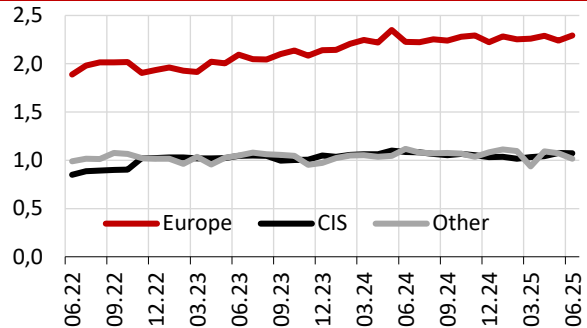
The number of foreign visitors (s.a) has been declining over the past two months; following a 0.8% decline in May, the number of visitors fell by 0.2% in June. The decline in June was due to a decrease in the number of visitors from regions outside Europe (Graphs 11 and 12).

Chart 11. Foreign Visitors
(12-month cumulative, million people)



Source: CBRT

Chart 12. Foreign Visitors
(seasonally adjusted, million people)



Source: CBRT, Akbank

Table 1. Current Account Balance (Million \$)

	Monthly		Year-to-date Cumulative		12-month Cumulative	
	June.25	June.24	June.25	June.24	June.25	June.24
Current Account Balance	-2,006	829	-23,092	-14,359	-18,926	-20,163
Foreign Trade Balance	-6,476	-4,136	-37,058	-30,110	-63,330	-65,683
Export*	20,381	18,654	131,066	123,599	264,943	253,140
Gold	128	133	1,774	1,211	4,044	4,247
Export (exc. gold)	20,253	18,521	129,292	122,388	260,899	248,893
Import*	26,857	22,790	168,124	153,709	328,273	318,823
Gold	1,552	1,063	11,244	7,784	20,561	21,249
Energy	4,593	4,556	32,258	32,747	65,101	66,022
Import (exc. gold and energy)	20,712	17,171	124,622	113,178	242,611	231,552
Service Balance	5,989	6,066	23,548	23,438	62,102	58,256
Services Credit	11,146	10,543	51,493	48,998	117,744	109,946
Transport	3,508	3,445	18,651	18,356	40,170	39,149
Travel	5,953	5,528	23,767	22,028	58,050	52,542
Other	1,685	1,570	9,075	8,614	19,524	18,255
Services Debit	5,157	4,477	27,945	25,560	55,642	51,690
Transport	1,633	1,612	9,358	10,255	19,897	19,554
Travel	938	689	4,919	3,515	8,762	8,040
Other	2,586	2,176	13,668	11,790	26,983	24,096
Primary Income**	-1,519	-1,101	-9,582	-7,687	-17,698	-12,736
Current Account Balance (exc. gold)	-582	1,759	-13,622	-7,786	-2,409	-3,161
Current Account Balance (exc. energy)	1,155	4,031	984	9,262	30,567	27,211
Current Account Balance (exc. gold and energy)	2,579	4,961	10,454	15,835	47,084	44,213

* Balance of payments-defined values

** The sum of primary and secondary income

Source: CBRT

The provisional data for July released by the Ministry of Trade indicated that the deterioration in the foreign trade balance in June was temporary ([Macro: Significant improvement in foreign trade deficit](#)). In July, exports increased by 11.0% year-on-year to \$25.0 billion, while imports increased by 5.4% year-on-year to \$31.4 billion. As a result, the foreign trade deficit in July decreased by \$0.9 billion compared to the previous year, reaching \$6.4 billion.

We estimate that the current account balance will show a surplus of \$1.2 billion in July, driven by the improvement in the foreign trade deficit and the positive contribution of service revenues due to seasonal effects. Within this framework, the 12-month cumulative current account deficit will increase from \$18.9 billion to \$19.2 billion (Chart 11). We forecast a cumulative current account surplus of around \$8 billion for the July-October period. Within this framework, we continue to maintain our current account deficit forecast of around \$20 billion for 2025.

Financing:

While the current account balance posted a deficit of \$2.0 billion in June, there was a capital outflow of \$2.7 billion from the economy. There was an inflow of \$0.6 billion into the net error and omission item. Within this framework, reserves decreased by \$4.05 billion on a monthly basis (Table 2). On the financing side, there was a net inflow of \$616 million to direct investments, an inflow of \$1.05 billion to portfolio investments, and an outflow of \$4.3 billion from other investments (Table 2).

Thus, in the first half of the year, the current account balance recorded a deficit of \$23.1 billion, with a capital outflow of \$370 million and an outflow of \$3.7 billion from the net error and omission item. As a result, reserves decreased by \$27.2 billion.

Details on the financing side are as follows:

- **Gross FDI inflows** amounted to \$1.57 billion in June, of which \$133 million was in real estate. In the first half of the year, total inflows were \$6.3 billion (real estate: \$859 million).
 - Real estate acquisition of residents from abroad amounted to \$214 million in June and \$1,245 million in the first half of the year.
- **Portfolio investments** posted a net inflow of \$1.05 billion in June and a total outflow of \$5.9 billion in January-June period.
 - Inflows into equities continued. In May and June, inflows into equities amounted to \$396 million and \$641 million, respectively. Thus, total inflows for the first half of the year amounted to \$528 million.
 - In May and June, inflows into government securities amounted to \$2.6 billion and \$114 million, respectively, while total outflows for the first half of the year amounted to \$2.9 billion. According to the CBRT's weekly securities statistics, inflows into the stock and government securities continued in July.
 - Regarding bond issuances abroad, the general government paid off \$179 million in debt in June, other sectors paid off \$37 million, and banks borrowed \$743 million.
- **In loans obtained from abroad**, banks borrowed a net total of \$2.1 billion in June, while the real sector borrowed a net total of \$445 million. In the first half of the year, total borrowing reached \$3.8 billion for banks and \$5.3 billion for the real sector.
- **External debt rollover ratios** including loans+bonds (6-month moving total) remained high at 113.6% for banks and 141.9 % for other sectors.

Table 2. Financing (Million \$)

	Monthly		Year-to-date Cumulative		12-month Cumulative	
	June.25	June.24	June.25	June.24	June.25	June.24
Foreign Direct Investment (FDI, net)	616	491	1,874	2,251	4,754	4,483
Real estate	-81	-67	-386	507	-224	922
FDI (exc. real estate)	697	558	2,260	1,744	4,978	3,561
Portfolio Investment (net)	1,049	1,349	-5,887	10,067	-3,977	19,147
Equity	641	-1,367	528	-1,250	-703	642
Bond	114	688	-2,937	8,127	4,960	10,108
Government Eurobond	-179	1,052	-1,500	1,732	-2,734	4,977
Banks	746	1,468	868	4,752	-329	6,772
Other Sectors	247	-277	1,382	997	4,298	1,688
Other Investment (net)	-4,331	-766	3,643	2,121	13,340	24,356
Effective and Deposits	-5,715	-5,203	-3,231	-4,800	-12,329	6,644
Loans	748	4,139	5,904	10,883	21,124	21,164
Banks (foreign borrowing)	2,098	4,662	3,839	11,521	17,384	18,071
Other Sectors	445	-309	5,279	-501	8,399	718
Trade credit	630	292	965	-3,965	4,477	-3,380
Reserve	-4,050	1,242	-27,167	-6,275	-20,334	18,231
Net Errors and Omissions	628	-655	-3,700	-6,327	-15,422	-9,444

Source: CBRT

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