Macro: Improving trend suggests a narrower current account deficit for year-end

In July, the current account balance (CAB) recorded a surplus of $1.8 billion, which was slightly above forecasts. In seasonally adjusted terms, CAB improved markedly in July, recording a surplus for the first time in a year. CAB excluding gold and energy also improved significantly.

According to the provisional data, the improvement in the trade balance continued in August. With the support of seasonally high services revenues, we expect the surplus to increase to approximately $5.0 billion in August. Based on the July data and our August forecast, the underlying trend of CAB over the last three months implies a very limited annualized deficit. If this trend continues, we estimate that the current account deficit will approach $15 billion (1.0% of GDP) in 2025, which is significantly lower than our previous forecast of $20 billion. (MTP forecast: $22.6 billion)

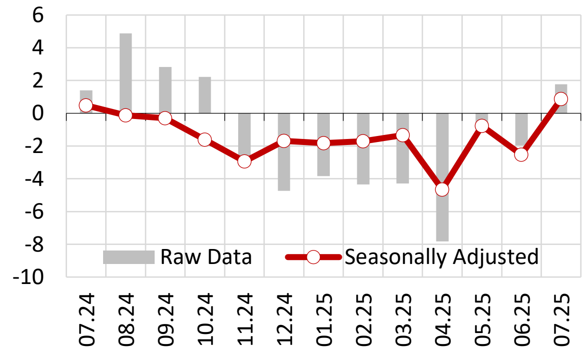
Current Account Balance:

The current account balance (CAB) recorded a surplus of $1.77 billion in July, slightly exceeding our forecast (+$1.2 billion) and market expectations (+$1.5 billion). The cumulative current account deficit (CAD) for the first 7 months of the year stood at $21.2 billion. The 12-month cumulative CAD declined from $19.2 billion to $18.8 billion (Table 1, Chart 2). The current account surplus excluding gold and energy increased by $0.3 billion to $47.2 billion (Chart 4).

The CBRT announced that the Services Balance has been revised since 2023, within the framework of the "International Trade in Services Statistics, 2024" bulletin published by TURKSTAT this week. Accordingly, services balance has been revised downward by $1.6 billion in 2023 and $623 million in 2024, and upward by $154 million in the January-June 2025.

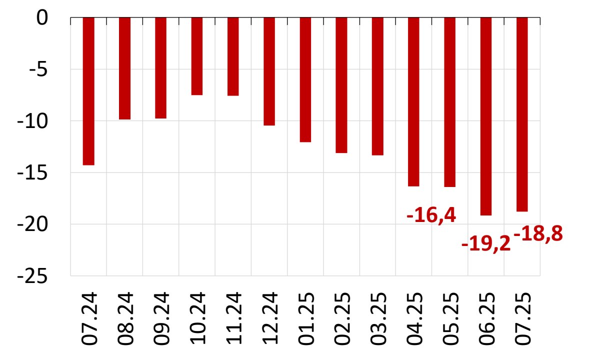
In seasonally adjusted (s.a.) terms, CAB recorded a significant improvement in July, recording a surplus for the first time in a year (Chart 1 and 3). CAB excluding gold and energy improved similarly.

Chart 1. Current Account Balance (bn $)



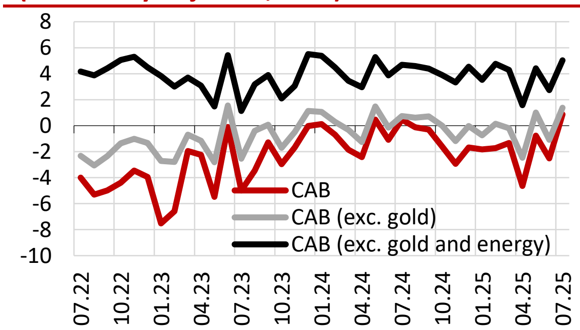
Source: CBRT, Akbank

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



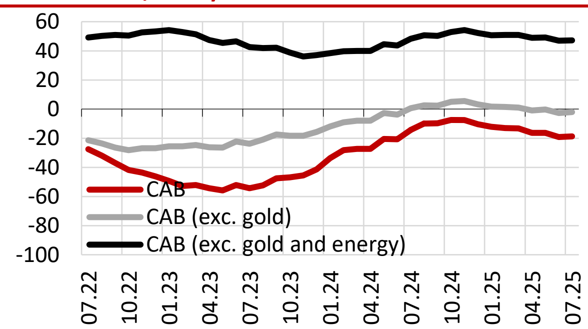
Source: CBRT

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



Source: CBRT, Akbank

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

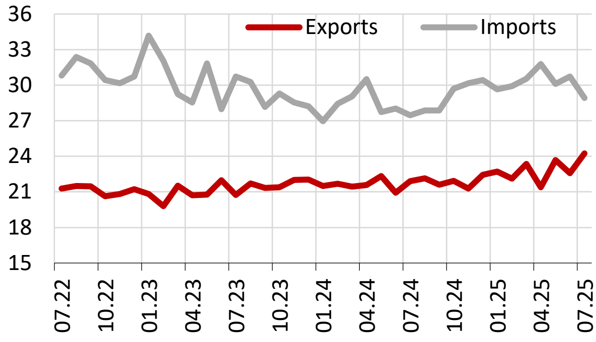


Source: CBRT

Trade Balance:

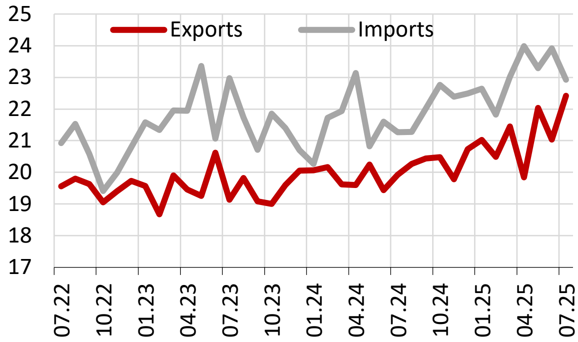
The foreign trade balance (s.a.) recorded a significant improvement in July due to an increase in exports and a decrease in imports (Chart 6). Exports rose by 7.4% on a monthly basis, while imports excluding gold and energy fell by 4.2% (Chart 3, 5, and 6). Energy imports, which had increased in June due to geopolitical developments, declined again in July. The decline in gold imports also continued.

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:

The balance of services (s.a) posted a modest increase on a monthly basis in July (Chart 7 and 8). On a 12-month cumulative basis, services revenue rose to $119.5 billion in July (Chart 9). Travel revenues declined slightly to $58.0 billion.

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

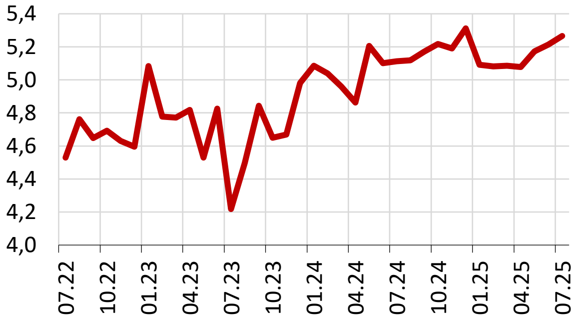


Chart 8. Services Balance (seasonally adjusted, billion $)

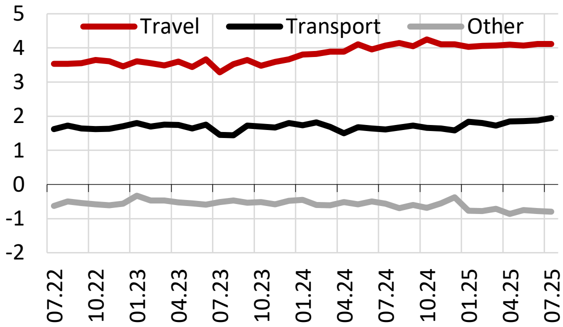
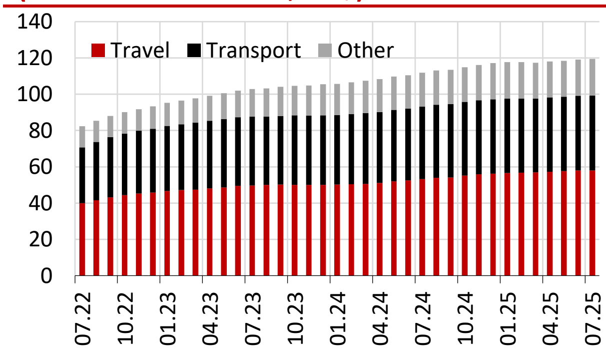
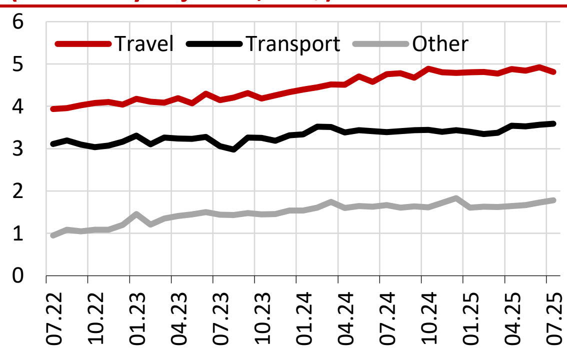


Chart 9. Services Credit (12-month cumulative, bn $)



Source: CBRT

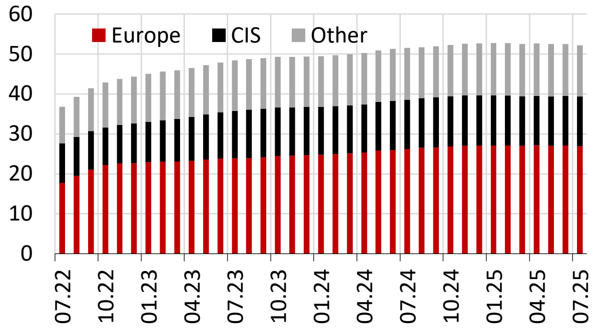
Chart 10. Services Credit (seasonally adjusted, bn $)



Source: CBRT, Akbank

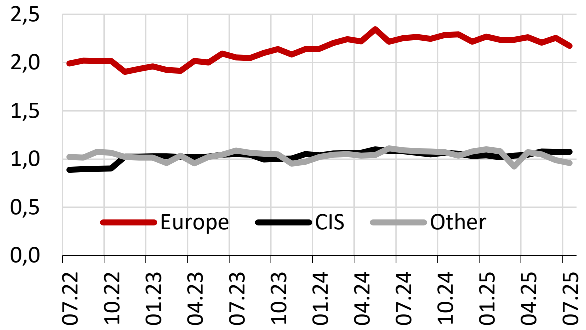
The number of foreign visitors (s.a.) has been declining since the beginning of the year (excluding January and April); the number of visitors fell by 2.6% mom in July. The number of visitors from all regions except the CIS and Africa decreased in July. The monthly increase in the CIS remained limited (Chart 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	
	Jul.25	Jul.24	Jul.25	Jul.24	Jul.25	Jul.24
Current Account Balance	**1,766**	**1,392**	**-21,224**	**-12,895**	**-18,786**	**-14,298**
Foreign Trade Balance	**-4,635**	**-5,068**	**-41,695**	**-35,037**	**-62,680**	**-59,872**
Export*	24,607	21,956	155,642	145,526	267,531	255,676
Gold	443	731	2,217	1,942	3,756	4,678
Export (exc. gold)	24,164	21,225	153,425	143,584	263,775	250,998
Import*	29,242	27,024	197,337	180,563	330,211	315,548
Gold	943	998	12,187	8,782	20,506	19,489
Energy	5,151	5,301	37,410	38,048	64,952	66,306
Import (exc. gold and energy)	23,148	20,725	147,740	133,733	244,753	229,753
Service Balance	**8,024**	**7,709**	**31,726**	**31,077**	**62,018**	**58,555**
Services Credit	12,782	12,426	64,700	62,439	119,450	111,781
Transport	4,144	3,929	23,250	22,927	41,314	39,849
Travel	6,826	6,883	30,593	28,911	57,960	53,276
Other	1,812	1,614	10,857	10,601	20,176	18,656
Services Debit	4,758	4,717	32,974	31,362	57,432	53,226
Transport	1,727	1,910	11,264	12,452	20,200	19,964
Travel	617	665	5,536	4,180	8,714	7,806
Other	2,414	2,142	16,174	14,730	28,518	25,456
Primary Income**	**-1,623**	**-1,249**	**-11,255**	**-8,935**	**-18,124**	**-12,981**
Current Account Balance (exc. gold)	**2,266**	**1,659**	**-11,254**	**-6,055**	**-2,036**	**513**
Current Account Balance (exc. energy)	**5,529**	**5,440**	**6,605**	**14,774**	**30,412**	**33,430**
Current Account Balance (exc. gold and energy)	**6,029**	**5,707**	**16,575**	**21,614**	**47,162**	**48,241**

* Balance of payments-defined values

** The sum of primary and secondary income

Source: CBRT

The provisional data for August pointed to a marked improvement in the foreign trade balance. In August, exports decreased by 0.9% year-on-year (yoy) to $21.8 billion, while imports fell by 3.9% yoy to $26.0 billion. Thus, the foreign trade deficit in August decreased by $0.8 billion yoy, reaching $4.2 billion (Macro: Significant improvement in the trade balance in August).

We estimate that CAB will record a surplus of around $5.0 billion in August, thanks to the improvement in the foreign trade deficit and the seasonally rising services revenue. In this regard, the 12-month cumulative CAD will remain flat at around $18.8 billion. We expect the current account to give surplus in September and October as well. Thus, the cumulative surplus will be around $11 billion in the July-October period. The fact that the CAB will continue to give a surplus due to seasonal effects is a positive development for the exchange rate and the balance of payments.

Based on the July data and our August forecast, the underlying trend of CAB over the last three months implies a very limited annualized deficit. If this trend continues, we estimate that the current account deficit will approach $15 billion (1.0% of GDP) in 2025, which is significantly lower than our previous forecast of $20 billion (MTP forecast: $22.6 billion)

Financing:

While the CAB recorded a surplus of $1.77 billion in July, there was a capital inflow of $17.5 billion and an outflow of $0.6 billion from the net error and omission item. Within this framework, reserves increased by $18.6 billion on a monthly basis (Table 2). On the financing side, there was a net inflow of $1.2 billion to direct investments, an inflow of $5.1 billion to portfolio investments, and an inflow of $11.2 billion from other investments (Table 2).

Thus, in the first seven months of the year, the CAD was $21.2 billion, with a capital inflow of $17.7 billion and an outflow of $4.9 billion from the net error and omission item. As a result, reserves decreased by $8.6 billion.

Details on the financing side are as follows:

- **Gross FDI inflows** amounted to $2.0 billion in July, of which $358 million was in real estate. In the first seven months of the year, total inflows were $8.35 billion (real estate: $1.2 billion).
    - Real estate acquisition of residents from abroad amounted to $253 million in July and $1,5 billion in the first 7 months of the year.
- **Portfolio investments** posted a net inflow of $5.1 billion in July and a total inflow of $790 million in January-July period.
    - There has been a steady inflow into equities over the past three months. In July, the inflow was $859 million, and in the first seven months of the year, the total inflow was $1.4 billion.
    - There has also been inflows into government securities over the last three months. While inflows of $2.0 billion were recorded in July, total outflows for the first 7 months of the year declined to $945 million. According to the CBRT's weekly securities statistics, inflows into the equities and into government securities continued in August.
    - Regarding bond issuances abroad in July, the general government borrowed a net $2.4 billion, banks borrowed a net $891 million, and other sectors paid off a net $34 million.

- **In loans obtained from abroad**, banks paid off a net total of $4 million in July, while the real sector borrowed $1.36 billion in net debt. In the first 7 months of the year, total borrowing reached $3.9 billion for banks and $7.25 billion for the real sector.
- **External debt rollover ratios** including loans+bonds (6-month moving total) remained high at 105.4% for banks and 144.5 % for other sectors.

Table 2. Financing (Million $)

	Monthly		Year-to-date Cumulative		12-month Cumulative	
	Jul.25	**Jul.24**	**Jul.25**	**Jul.24**	**Jul.25**	**Jul.24**
Foreign Direct Investment (FDI, net)	**1,224**	**784**	**3,098**	**3,035**	**5,194**	**4,785**
Real estate	105	113	-281	620	-232	1,011
FDI (exc. real estate)	1,119	671	3,379	2,415	5,426	3,774
Portfolio Investment (net)	**5,097**	**2,483**	**-790**	**12,550**	**-1,363**	**20,439**
Equity	859	-21	1,387	-1,271	177	-113
Bond	1,992	2,479	-945	10,606	4,473	12,569
Government Eurobond	2,399	278	899	2,010	-613	4,855
Banks	970	-843	1,838	3,909	1,484	5,631
Other Sectors	-32	1,421	1,350	2,418	2,845	3,158
Other Investment (net)	**11,212**	**-1,950**	**15,371**	**145**	**27,089**	**18,105**
Effective and Deposits	8,816	-3,756	5,416	-8,556	74	399
Loans	3,056	1,717	9,651	12,559	23,206	22,261
Banks (foreign borrowing)	-4	1,685	3,914	13,206	15,774	20,336
Other Sectors	1,361	121	7,252	-421	10,303	-616
Trade credit	-668	78	291	-3,872	3,744	-4,475
Reserve	**18,597**	**5,366**	**-8,570**	**-909**	**-7,103**	**20,819**
Net Errors and Omissions	**-582**	**2,727**	**-4,900**	**-3,646**	**-19,084**	**-8,019**

Source: CBRT

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