

Macro note – Central Government Budget Balance

In September, budget posts a deficit of 100.5 billion and primary balance a surplus of 48.2 billion TRY. Despite the strong course of tax collections, the significant increase in interest expenditures continues to put pressure on the budget...

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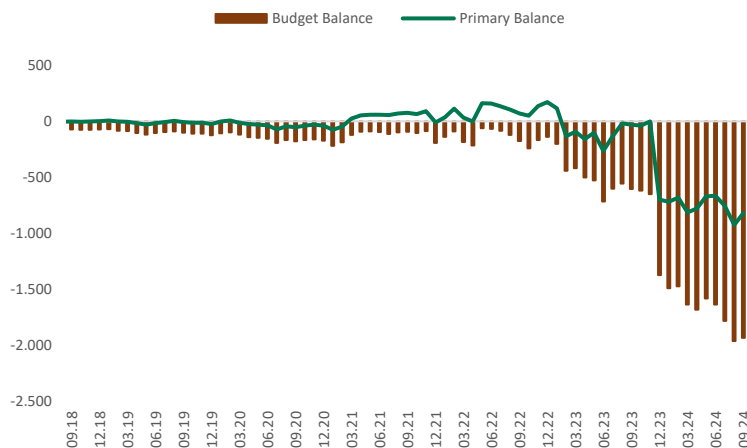
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According to the September central government budget data released by the Ministry of Treasury and Finance, budget revenues and budget expenditures were realized as 831.6 billion TRY and 932.1 billion TRY, respectively. In the same period, non-interest budget expenditures were realized as 783.4 billion TRY. Accordingly, budget deficit was realized as 100.5 billion TRY while primary balance posted a surplus of 48.2 billion TRY. When the average of three quarters of the year is analyzed, we see that the increase in expenditures for the purchase of goods and services continued. With the current figures, it is difficult to say that austerity measures are being implemented effectively in the public sector. In addition, the ongoing increase in current transfers and payments to social security institutions put high pressure on the budget. When personnel expenses, which have increased significantly due to inflation, are added to this, the 12-month budget deficit has reached approximately 2 trillion Turkish Liras. Transfers to the Electricity Generation Co. amounted to 25.9 billion TL and 164.8 billion was transferred during 2024. Despite the strong course of tax collection, the rigidity in budget expenditures and increasing expenditures despite the measures taken have evolved into a chronic budget deficit. We would like to remind that fiscal policy has not yet reached the desired level of tightness and additional pressure on inflation may come from the budget deficit. While the economic administration is implementing monetary and fiscal policies in coordination, the budget performance on the fiscal side is far from the targeted levels. We believe that monetary policy alone will take time to bring price stability in the current conjuncture and fiscal policy should be emphasized. Budget expenditures increased by 63.4% yoy. The highest proportional increases were recorded in interest (110%) and capital expenditures (127%), while the highest items were current transfers (332 billion TRY) and personnel expenditures (245 billion TRY). The average annual increase in budget revenues was 88.5%. The highest increases were recorded in corporate tax (1,056%) and bank and insurance transaction tax (136.4%). The highest contribution to budget revenues came from corporate and income taxes (171 billion and 140 billion TL, respectively).

Graph 1: Budget and Primary Balance (12m rolling, Billion TL)



The most noteworthy aspect of September realizations was the pressure on interest expenditures that triggered a deficit in the overall budget balance. Despite the improvement in tax collection, current transfers and personnel expenditures solidified, indicating the negative impact of inflation on the budget. In this sense, we find the recent fiscal measures limitedly positive. Personnel expenditures, which have increased especially due to inflation, cannot be compensated without cuts in other budget items. Another alternative is to generate additional tax revenues, and these measures have increased recently. In our previous reports, we have stated that fiscal policy has additional duties in an environment where monetary policy has been tight for a long time. It was inevitable that the deteriorating inflation outlook, especially as a result of monetary policy, would eventually spill over into other macro indicators. In the period following the deterioration in price stability, inflation also had a significant negative impact on public finances. Fiscal discipline has had a negative outlook for a long time due to both inflation and high expenditures... Although tax collections have improved due to seasonal effects, the overall trend continues to deteriorate. In this context, the decisive implementation of the recent austerity measures is critical for the stability of fiscal policy. Although the inflation level has been brought down to 30% thanks to monetary policy, the structural breaks after this point will need additional measures beyond monetary policy. In this context, fiscal policy has a serious role to play. If revenue collection remains weak, the year-end budget deficit may exceed forecasts. Although monetary policy-induced pressures on the budget have eased, the impact of inflation will persist for some time. We anticipate that the budget performance and fiscal discipline outlook of the pre-Covid period can be achieved by 2025-2026.

In sum, the budget posts a deficit of 100.5 billion TRY in September. Despite the improvement in tax collection, the jump in interest expenditures triggered the budget deficit. We are living through a period in which monetary policy preferences undermine the discipline in public finance. The year-end budget deficit will deviate significantly from the 2013-2023 averages. In the last quarter of the year and especially in December, we may see a very high budget deficit due to the closure of accounting periods. A tightening of fiscal policy in coordination with monetary policy will contribute to fiscal discipline and price stability in the medium term. Policies to increase the efficiency of tax revenues and to restrict expenditures will bring continuity in budget discipline. We continue to expect that the budget outlook will gradually reach levels consistent with price stability starting from 2025. We would like to underline that transitions in the normalization process in economic policies may bring additional shocks and updates to our forecasts.

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