Macro note – Central Government Budget Balance

In March, budget and primary balance posts a deficit of 261.5 billion and 100.2 billion TRY, respectively. While there is a limited recovery compared to the previous month, procurement of goods and services and Eid bonus payments put additional pressure on the budget.

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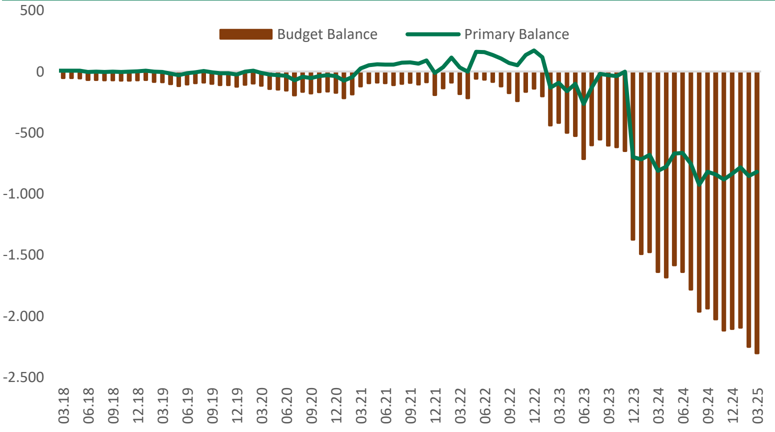
According to the March central government budget data released by the Ministry of Treasury and Finance, budget revenues and budget expenditures were realized as 766.3 billion TRY and 1,027.7 billion TRY, respectively. In the same period, non-interest budget expenditures were realized as 866.5 billion TRY. Accordingly, the budget deficit was realized as 261.5 billion TRY while the primary balance posted a deficit of 100.2 billion TRY. We had shared our expectations of a limited recovery in the budget in our previous analyses. Although the realizations in March supported our expectations, some seasonal effects hampered the budget performance. The most important of these are ongoing expenditures for the purchase of goods and services despite the austerity measures. This item rose to 187 billion TRY in the first three months of the year (224 Q1 118 billion TRY). Transfers to the Electricity Generation Co. and BOTAŞ during the winter months were not made in March. On the other hand, 43 billion TRY of current transfers were made for the Eid bonus for pensioners. We are evolving towards a path where fiscal policy will become more important en route to price stability through 2025. Although monetary policy is tight enough, disinflation is not on target. This implies that public finance has an additional role to play. In particular, the additional contribution to inflation from public expenditures makes the job of monetary policy more difficult. Regulations coming from administered prices (such as the recent electricity hike) have a more permanent impact on price dynamics. If budget revenues are not increased (assuming expenditures are not cut at the targeted level), which means additional taxes, the budget deficit could spiral out of control. The changes in the pension system, the earthquake disaster and continued high inflation are the key factors limiting the budget recovery. We would like to remind readers that fiscal policy has not yet reached the desired level of tightness, and additional pressure on inflation may come from the budget deficit. We believe that it will take time for monetary policy alone to bring price stability in the current conjuncture and that fiscal policy should be emphasized. Global developments and the rising debt burden also trigger new risks both in terms of interest rates on borrowing instruments and the sustainability of public debt. The anchor of fiscal discipline will become even more important.

Budget expenditures increased by 48.3% yoy. The highest proportional increases were recorded in capital transfers (106.4%) and interest expenditures (116.3%), while the highest increases were recorded in current transfers (115 billion TRY) and interest expenditures (87 billion TRY). The average annual increase in budget revenues was 58.4%. The highest increases were recorded in income tax (102.7%) and non-tax revenues (97.1%). The sub-items that contributed the most to budget revenues were income tax and SCT (87 billion TRY and 36 billion TRY, respectively). The main and chronic problem in the budget deficit is that revenues have not increased at the same level despite rising, and constant expenditures due to inflation. The structural solution is to cut expenditures, or to implement more efficient methods of tax collection.

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



In sum, the budget posted a deficit of 261.5 billion TRY and the primary balance a deficit of 100.2 billion TRY in March. While the monthly budget balance improved, the purchase of goods and services and the Eid bonus for pensioners limited this improvement. When the expenditures item is analyzed as a whole, we see that the austerity policies in the public sector did not reach the targeted level. The recent increase in the global debt burden and the risks to borrowing rates have once again underscored the importance of effective public finances. We are going through a period in which past preferences in monetary policy have hindered the discipline in public finance. Considering current realizations, we estimate that the budget deficit/GDP ratio will be realized at around 4.8%. Under the fiscal discipline anchor, this deficit has hovered around 1.5-2.5%. 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 about sustainability in budget discipline. We continue to expect that the budget outlook will gradually reach levels consistent with price stability starting from 2025. We stress here that transitions in the normalization process in economic policies may bring additional shocks and prompt updates to our forecasts.

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