Macro note – Central Government Budget Balance

In April, the budget posts a deficit of TRY174.7 billion and primary balance a surplus of TRY 86 billion. Convergence to a budget balance in line with the fiscal discipline anchor is not yet at the targeted level...

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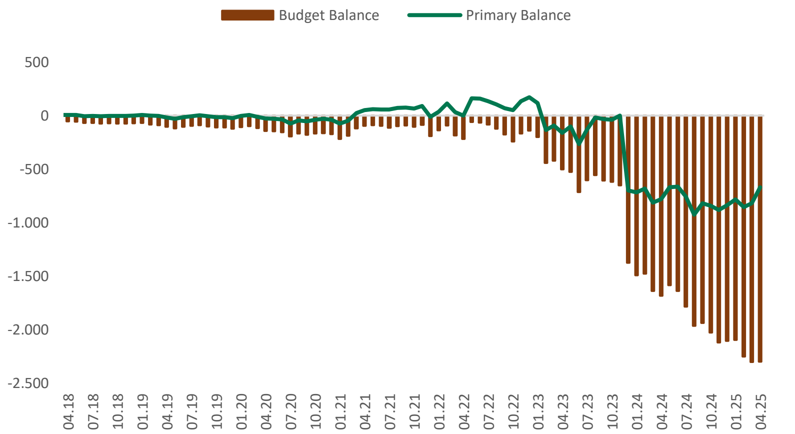
According to the April central government budget data released by the Ministry of Treasury and Finance, budget revenues and budget expenditures were realized as TRY957.4 billion and TRY1,132.1 billion, respectively. In the same period, non-interest budget expenditures were realized as TRY871.5 billion. Accordingly, the budget deficit was realized as TRY174.7 billion while the primary balance posted a surplus of TRY86 billion. We had shared our expectation of a limited recovery in the budget in our previous analyses. The rise in interest expenditures to TRY260 billion (2025 first quarter average TRY160 billion) helped the primary balance to diverge positively. Personnel expenses and current transfers remained almost flat compared to the previous month. In April, current transfers to Electricity Generation Co. and BOTAŞ amounted to TRY29.7 billion and TRY10 billion, respectively. Other transfers for economic and financial purposes amounted to TRY23.7 billion. Feast holiday bonuses and other seasonal items were replaced by energy payments and transfers for economic purposes in April. These developments prevent the budget from achieving the desired level of tightness, even if some expenditure items are eliminated. Although monetary policy is adequately tight, disinflation is not on target. This implies that public finance has additional tasks to perform. In particular, the additional contribution to inflation from public expenditures makes the job of monetary policy more difficult. 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 most important factors limiting the budget recovery. We remind our readers that fiscal policy has not yet reached the desired level of tightness and that additional pressure on inflation may come from the budget deficit. The recent interest rate hike shows that actual inflation has remained beyond the forecasts. 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 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 46.3% yoy. The highest proportional increases were recorded in expenditures for the purchase of goods and services (44.8%) and interest expenditures (128.6%), while the highest increases were recorded in current transfers (TRY100 billion) and interest expenditures (TRY146 billion). The average annual increase in budget revenues was 60.7%. The highest increases were recorded in the revenues of regulatory and supervisory agencies (334.1%) and the special budget administrations' own revenues (124.1%). Income tax and SCT made the largest contribution to budget revenues (TRY125 billion and TRY44 billion, respectively). The main and chronic problem with the budget deficit is that revenues have not increased at the same level as expenditures, which have increased and remained constant due to inflation. In particular, the budget deficit/GDP level remains far from the fiscal discipline anchor.

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



In summary, the budget posted a deficit of TRY174.7 billion and the primary balance a surplus of TRY86 billion in April. A revenue policy that balances the inflation- and earthquake-driven increase in current transfer and personnel expenditures, which have become structural in the budget, is not yet in place. When the expenditure item is analyzed as a whole, we see that austerity policies in the public sector are not at the targeted level. The recent increase in the global debt burden and the risks on borrowing rates have once again demonstrated the importance of the effectiveness of public finance. 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 level will be realized at around 4.8%. Under the anchor of fiscal discipline, 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 underline here that transitions in the normalization process in economic policies may bring additional shocks and prompt updates to our forecasts.

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