

Macro note – Central Government Budget Balance

In May, the budget surplus is TL235.2 billion and the primary surplus is TL346.4 billion. We believe that the positive outlook for the budget, which has been bolstered by corporate tax collections, is temporary.

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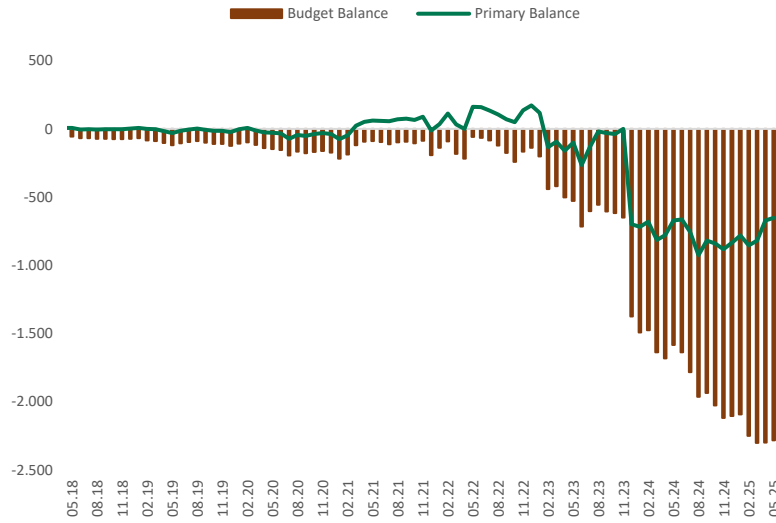
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According to the central government budget data for May published by the Ministry of Treasury and Finance, budget revenues amounted to TL1,324.9 billion and budget expenditures amounted to TL1,089.7 billion. During the same period, non-interest budget expenditures amounted to TL978.6 billion. With these figures, the budget surplus was TL235.2 billion, while the non-interest balance posted a surplus of TL 346.4 billion. We were expecting a seasonal recovery in the budget during the May period, led by corporate tax revenues. The decline in interest expenditures also eased pressure on the budget. While the average interest expense for the first four months of the year was 180 billion lira, it declined to 111 billion lira in May. Current transfers and personnel expenses remained relatively flat. In April, 18.8 billion lira and 34.4 billion lira in current transfers were made to Elektrik Üretim A.Ş. and BOTAŞ, respectively. While economic and financial transfers were withdrawn, this recovery was balanced by SGK transfers. Due to holiday bonuses, 57.6 billion lira was transferred from the budget in May. Despite a total of 110.9 billion lira in transfers to public enterprises and SGK, the budget outlook is positive. The main reason for this is the collection of approximately 470 billion lira in corporate taxes. When adjusted for seasonal effects, the budget continues to show a limited negative outlook. Following the additional tightening of monetary policy in April, the room for maneuver has narrowed considerably. Any further tightening at this stage could lead to sharper declines in the growth-employment-production cycle. This indicates that additional tasks will fall to public finances. In particular, the additional contribution that public spending will make to inflation is complicating the task of monetary policy. If budget revenues are not increased (assuming that spending is not cut to the targeted level), which means additional taxes, the budget deficit could spiral out of control. Inflation and changes in the pension system have caused permanent damage to the budget. It will take time for fiscal discipline in the budget to converge to its historical average. We remind readers that the desired level of tightness in fiscal policy has yet to be achieved and that the budget deficit may put additional pressure on inflation. Positive developments in the inflation outlook in May have strengthened the possibility of an interest rate cut. It would be appropriate to limit the upward pressure on inflation from monetary policy in the second half of the year through fiscal policy. The positive effect on long-term interest rates of a budget performance consistent with medium-term program targets will also ease monetary policy.

Budget expenditures increased by 38.3% compared to the same period of last year. The highest proportional increases were in borrowing expenditures (87.3%) and capital expenditures (61.6%), while the highest expenditure items were current transfers (TL456.6 billion) and personnel expenditures (TL275 billion). Budget revenues, on the other hand, have increased by an average of 31.6% annually. The highest increases were in income tax (88.4%) and bank and insurance transaction tax (76%). The sub-items that contributed the most to budget revenues were income tax and corporate tax (TL214 billion and TL471 billion, respectively). For the remainder of the year will see further coordination between fiscal and monetary policy. While it has been clearly stated that monetary policy will remain tight, fiscal policy will be adapted to this process, albeit with a delay. We expect the inflation-budget-growth performance to converge with the pre-2021 outlook in the 2026-2027 period.

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



In summary, the budget surplus in May was TL235.2 billion, and the non-interest balance surplus was TL346.4 billion. Strong corporate tax collections in May created a temporary positive atmosphere in the budget. However, the budget deficit, which has been hovering around 2 trillion lira over the past 12 months, corresponds to a budget balance/GDP ratio of around 4-5%. This deficit has remained within the 1.5-2.5% range in terms of fiscal discipline. Increased risks on global debt burdens and borrowing rates in recent periods have once again highlighted the importance of fiscal efficiency. We are experiencing a period in which past monetary policy choices have undermined fiscal discipline. A tightening of fiscal policy in coordination with monetary policy will contribute to fiscal discipline and price stability in the medium term. Policies aimed at increasing the effectiveness of tax revenues and restricting expenditures will also bring continuity to budget discipline. We continue to expect the budget outlook to gradually reach levels consistent with price stability starting in 2025. We emphasize here that the transition to normalization in economic policies may bring about additional shocks and prompt updates to our forecasts.

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