# Macro note – Central Government Budget Balance

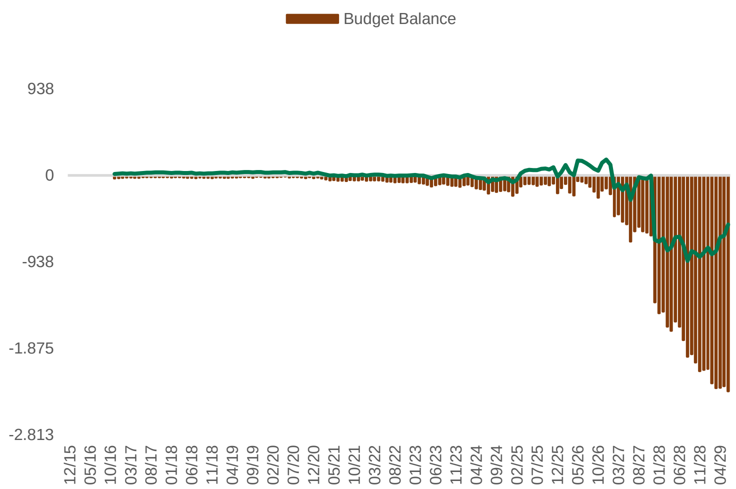
## In July, the budget showed a deficit of TRY 23.9 billion and a surplus of TRY 110.7 billion in the non-interest balance. In addition to the strong rise in income tax, the decline in current transfers and interest expenses accelerated the budget recover...

**Abdulkadir DOGAN**
Chief Economist
adogan@sekeryatirim.com.tr
(+90) 212 334 33 33/313

According to the central government budget data for June published by the Ministry of Treasury and Finance, budget revenues amounted to TRY 1,096.9 billion and budget expenditures amounted to TRY 1,120.8 billion. During the same period, non-interest budget expenditures amounted to TRY 986.2 billion. With these figures, the budget deficit was TR Y23.9 billion, while the non-interest balance showed a surplus of TRY 110.7 billion. In June, interest payments created an additional pressure of approximately TRY 300 billion on the budget. While these figures declined to TRY 130 billion, current transfers fell below TRY 400 billion for the first time in a long while. The budget deficit declined significantly as the strong recovery in income tax was added to the decline in expenditures. In July, TRY 16.3 billion and TRY 22 billion in current transfers were made to Electricity Generation Inc. and BOTAŞ, respectively. In the January-July period, a total of 221.7 billion TL in transfers were made to BOTAŞ and Electricity Generation Inc. If we calculate that total interest expenses amounted to TRY 1.25 trillion during the same period, it is clear that interest and transfers to public institutions constitute a serious burden on the budget. Excluding these, the budget performance is quite good in terms of core revenue-expenditure balance. We see the disruptive effect of inflation on both monetary and fiscal policy in the budget figures. The high level of borrowing interest rates is increasing the interest burden on the budget. Achieving fiscal discipline without price stability seems very difficult. A decline in funding and borrowing interest rates will ease the interest burden on the budget. Additionally, in line with the decline in inflation, personnel expenses and public expenditures will stabilize at a more moderate level. In the remainder of the year, the decline in borrowing rates and risk premiums will ease the interest burden on the budget. While these reductions will be reflected in the 2026-2027 fiscal outlook, they are of critical importance in terms of expectation management. We believe that public finances and monetary policy will have entered a more stable phase by the fourth quarter of 2025. Market players expecting improvements in indicators such as production and investment are focused on a low inflation-low interest rate cycle supported by economic and political stability. The latest inflation report and developments also underscore that monetary policy has reached the end of its range of action and that fiscal policy has serious responsibilities within the scope of coordination.

Budget expenditures increased by 35.4% compared to the same period last year. The highest proportional increases were in capital transfers (466.9%) and interest expenses (45.4%), while the highest expenditure items were current transfers (TRY 389 billion) and personnel expenses (TRY 322 billion). Budget revenues increased by an average of 50.1% annually. The highest increases were in income tax (91.9%) and fees (69.4%). The sub-items that contributed the most to budget revenues were income tax and special consumption tax (TRY 292 billion and TRY 181.4 billion, respectively). While the proportional increase in expenditure items is converging with the inflation rate, we believe that we can achieve fiscal discipline in the medium term if public finances do not create inflation. In particular, the state's effectiveness in collecting taxes is effectively felt in the income tax channel. If there are no temporary shocks in expenditure items, the budget will return to its pre-pandemic performance.

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




In summary, the budget showed a deficit of TRY 23.9 billion in July and a surplus of TRY 110.7 billion in the non-interest balance. The pressure exerted by monetary policy on the budget, particularly through the interest rate channel, continues despite some easing. Achieving fiscal discipline without price stability appears to be quite challenging. Even if budget revenues recover and expenditures are reduced, interest payments alone will create an annual budget deficit of approximately 4.1%. This deficit has remained within the 1.5-2.5% range in terms of fiscal discipline. The recent increase in risks related to global debt burdens and borrowing rates has once again highlighted the importance of fiscal discipline. We are currently experiencing a period in which past monetary policy choices have undermined fiscal discipline. A return to a tight 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 ensure continuity in budgetary discipline. Our expectation that the budget outlook will gradually reach levels consistent with price stability starting in 2025 remains valid. We would like to emphasize that the transition to normalization in economic policies may bring additional shocks and prompt updates to our forecasts.

# ŞEKER INVEST RESEARCH


| | | | |
|---|---|---|---|
| **Şeker Yatırım Menkul Değerler A.Ş.** | | TEL: | +90 (212) 334 33 33 |
| **Buyukdere Cad. No: 171 Metrocity** | | Fax: | +90 (212) 334 33 34 |
| **A Blok Kat 4-5 34330 SİSLİ /IST** | | E-mail: | research@sekeryatirim.com |
| **TURKEY** | | Web: | http://www.sekeryatirim.com/english/index.aspx |

**For additional information, please contact:**

Research

| | | | |
|---|---|---|---|
| **Kadir Tezeller** | **Head** | **+90 (212) 334 33 81** | ktezeller@sekeryatirim.com |
| **Burak Demirbilek** | **Utilities, Defense Industry** | **+90 (212) 334 33 33-128** | bdemirbilek@sekeryatirim.com |
| **Engin Değirmenci** | **Cement** | **+90 (212) 334 33 33-201** | edegirmenci@sekeryatirim.com |
| **A. Can Tuğlu** | **Food & Bev., Retail, Auto, Aviation, Oil&Gas** | **+90 (212) 334 33 33-334** | atuglu@sekeryatirim.com |
| **Başak Kamber** | **Glass** | **+90 (212) 334 33 33-251** | bkamber@sekeryatirim.com |

Economy & Politics

| | | | |
|---|---|---|---|
| **Abdulkadir Doğan** | **Chief Economist** | **+90 (212) 334 91 04** | adogan@sekeryatirim.com |

Institutional Sales

| | | | |
|---|---|---|---|
| **Batuhan Alpman** | **Head** | **+90 (212) 334 33 70** | balpman@sekeryatirim.com |
| **Deniz Keskin** | **Trader** | **+90 (212) 334 33 36** | dkeskin@sekeryatirim.com |
| **M.Kerim Culum** | **Trader** | **+90 (212) 334 33 33-316** | kculum@sekeryatirim.com.tr |


## DISCLAIMER

*I, Abdulkadir Dogan, hereby certify that the views expressed in this research accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.*

*This report has been prepared by Şeker Yatırım Menkul Değerler A.Ş. (Şeker Invest, Inc.). The information and opinions contained herein have been obtained from and are based upon public sources that Şeker Invest considers to be reliable. No representation or warranty, express or implied, is made that such information is accurate or complete and should not be relied upon, as such. All estimates and opinions included in this report constitute our judgments as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors as they believe necessary. Şeker Invest may, from time to time, have a long or short position in the securities mentioned in this report and may solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) for any company referred to in this report and may, to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis upon which it is based, before its publication. This report is for the use of intended recipients and may not be reproduced in whole or in part or delivered or transmitted to any other person without the prior written consent of Şeker Invest. By accepting this document you agree to be bound by the foregoing limitations.*