Macro note – Central Government Budget Balance

In August, the budget records a surplus of TL 96.7 billion and the primary balance records a surplus of TL 276.4 billion. While corporate tax collection brings seasonal momentum to the budget, the recovery in the core balance excluding interest continues...

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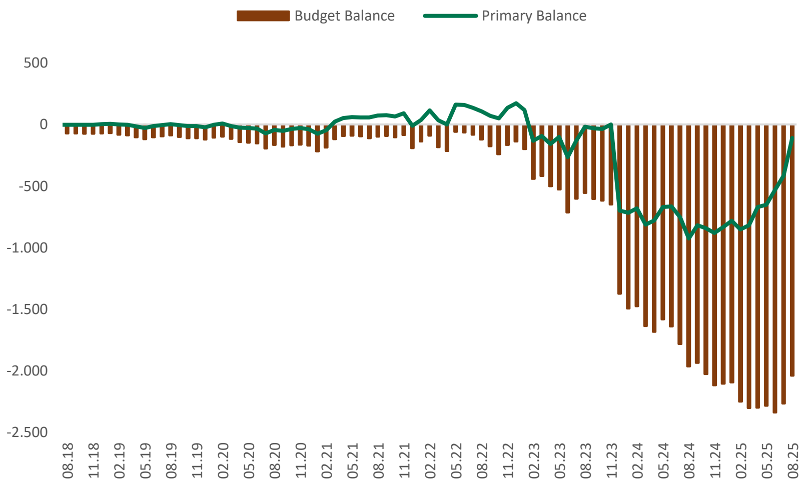
According to the August central government budget data published by the Ministry of Treasury and Finance, budget revenues amounted to TL 1.288 trillion, while budget expenditures reached TL 1.1913 trillion. During the same period, non-interest budget expenditures amounted to TL 1.0116 trillion. With these figures, the budget surplus was TL 96.7 billion, while the non-interest balance showed a surplus of TL 276.4 billion. The main driver behind this month's momentum was corporate tax collection, which reached TL 293 billion. When adjusted for seasonal effects, the budget continues to show a flat and open trend. On the other hand, current transfers rose again to TL 450 billion. In August, TL 27 billion and TL 18 billion in current transfers were made to Elektrik Üretim AŞ and BOTAŞ, respectively, from this item. A total of TL 266.7 billion in transfers were made to BOTAŞ and Elektrik Üretim AŞ in the January-August period. Calculating total interest expenses at TL 1.42 trillion for the same period, the total burden on the budget from public borrowing interest and transfers to public institutions for the first eight months was approximately TL 1.7 trillion. Excluding these, the budget performance is quite good in terms of the core revenue-expenditure balance. Considering the recovery in income tax and the year-round performance in corporate tax collection, the core balance is converging towards the Medium-Term Program targets. We see the disruptive effect of inflation on both monetary and fiscal policy in the budget figures. High borrowing rates increase the interest burden on the budget. We see that price stability is a prerequisite for achieving fiscal discipline targets. However, in this period when inflation is well above the average of the Past 10 years, causality has shifted from public finances to price stability. In summary, the slowdown in inflation caused by fiscal policy will lead to price stability and, subsequently, fiscal discipline. In the remainder of the year, following the CBRT's interest rate cuts, the interest pressure on the budget will ease after the decline in borrowing rates and risk premiums. Although these cuts will be reflected in the 2026-2027 fiscal outlook, they are critical in terms of expectation management. We believe that both public finances and monetary policy will enter a more stable phase by the fourth quarter of 2025. Market players, who expect 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 actual figures also underscore that monetary policy has reached the end of its range of action and that fiscal policy has serious tasks ahead in terms of coordination.

Budget expenditures increased by 42.2% compared to the same period last year. The highest proportional increases were in goods and services procurement expenditures (49.9%) and interest expenditures (85.2%), while the highest expenditure items were current transfers (TL 449.3 billion) and personnel expenditures (TL 303 billion). Budget revenues, on the other hand, increased by an average of 86.5% annually. The highest increases were in income tax (80.7%) and corporate tax (1,333.3%). The sub-items contributing most to budget revenues were again income tax and corporate tax (TL 245.9 billion and TL 292.9 billion, respectively). Even excluding the seasonal effect on corporate tax, there is a tax revenue policy that has improved significantly above inflation. Expenditure items continue to converge towards the inflation rate. In particular, the state's effectiveness in tax collection is effectively felt in the income tax channel. If there are no unexpected 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 recorded a surplus of TL 96.7 billion in August, and the primary balance recorded a surplus of TL 276.4 billion. Corporate tax collection created a quarterly budget surplus. We can say that interest expenses are still putting serious pressure on the budget. Even if budget revenues recover and expenditures are reduced, interest payments alone will create an annual budget deficit of approximately 4.1%. Achieving fiscal discipline without price stability seems quite difficult. This deficit has remained in the 1.5-2.5% range in terms of fiscal discipline. Increased risks on global debt burdens and borrowing rates in recent times have once again highlighted the importance of efficiency in public finances. We are experiencing a period where past monetary policy choices have undermined fiscal discipline. A shift toward a tightening fiscal policy, coordinated 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 budget discipline. We continue to expect the budget outlook to gradually reach levels consistent with price stability starting in 2025. We would like to emphasize that transitions in the normalization process of economic policies may bring additional shocks and prompt updates to our forecasts.

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