

## Macro note – Central Government Budget Balance

**In September, the budget posts a deficit of TRY 309.6 billion, and the primary balance shows a deficit of TRY 73 billion. As the impact of seasonal tax collections subsidies and interest payments return to their average trend, budget performance enters a slightly negative outlook.**

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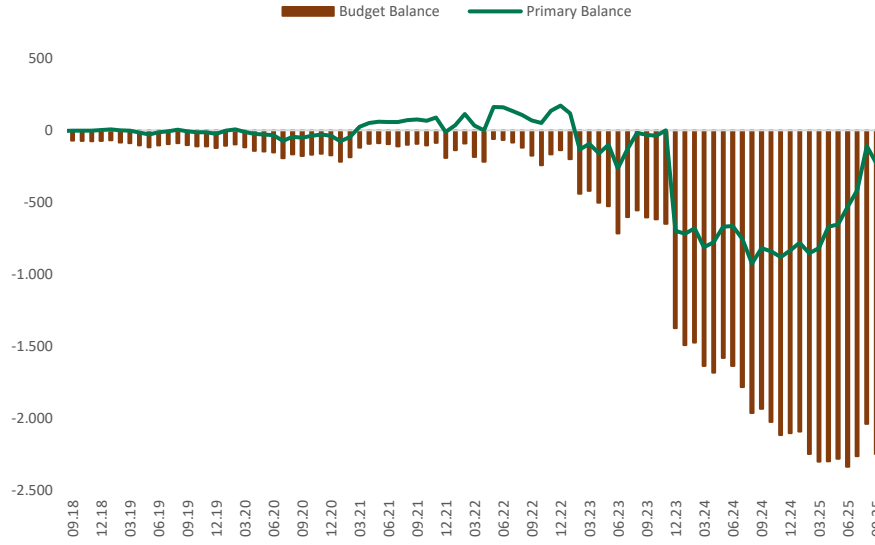
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According to the September central government budget data published by the Ministry of Treasury and Finance, budget revenues were TRY 1.021 billion and budget expenditures were TRY 1.331 billion. During the same period, non-interest budget expenditures amounted to TRY 1.094.4 billion. Based on these data, the budget deficit was TRY 309.6 billion, while the non-interest balance showed a deficit of TRY 73 billion. In August, we saw a positive budget performance led by corporate tax collections. Interest payments also saw a limited decline the previous month. In September, budget performance exhibited a negative trend due to both the decline in corporate tax collections and substantial interest payments. Despite the limited increase in personnel expenses, current transfers remained flat. No transfers were made this month to Elektrik Üretim AŞ (Electricity Generation Inc.), which receives regular payments from this item, and a current transfer of TRY 15 billion was made to BOTAŞ (BOTAŞ). A total of TRY 283.8 billion was transferred to BOTAŞ and Elektrik Üretim AŞ between January and September. If we calculate total interest expenditures at TRY 1.66 trillion in the same period, the total burden on the budget from public borrowing interest and transfers to state-owned enterprises (SOEs) in the first nine months was approximately 1.95 trillion. When the 12-month totals are considered together, the budget deficit is TRY 2.2 trillion, while the core balance, excluding interest, has a deficit of TRY 230 billion. The main reason for this difference is the reflection of monetary policy on fiscal policy. High borrowing interest rates increase interest rate pressure on the budget. Fiscal discipline can be achieved in the budget when inflation and interest rates decline to pre-COVID levels. In this context, we see that price stability is a prerequisite for achieving fiscal discipline targets. However, in this period, where inflation is running well above the 10-year average, the direction of causality has shifted from public finance to price stability. In short, a slowdown in inflation driven by fiscal policy will lead to price stability, and subsequently, fiscal discipline. The current macroeconomic outlook suggests that inflation inertia may persist for some time, and that the pace of interest rate cuts may slow. Therefore, we estimate that the process of achieving the fiscal discipline anchor will be delayed by at least one quarter. These estimates are based on the assumption that the current outlook is not impacted by negative monetary or fiscal policy.

Budget expenditures increased by 42.8% compared to the same period of the previous year. The highest proportional increases were in SSI state premium expenses (62.2%) and lending expenses (59.7%), while the largest expenditure items were current transfers (TRY 457 billion) and personnel expenses (TRY 365.8 billion). The average annual increase in budget revenues was 22.8%. The highest increases were in income tax (81.2%) and revenues from special budget administrations (76.4%). The sub-items contributing the most to budget revenues were income tax and special consumption tax (TRY 255 billion and TRY 180.4 billion, respectively). The increase in tax revenues remained below both inflation and expenditures. As we've noted in previous reports, inflation stemming from public finances creates consequences such as tax avoidance. While there has been a significant improvement in tax collection recently, the rigidity of expenditures is clearly evident. While expenditures are nearly constant and trending upward, the cyclical nature and volatility of revenues are another factor driving the budget deficit.

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



In summary, the budget posted a deficit of TRY 309.6 billion in September, with a primary balance of TRY 73 billion. Once seasonal effects are eliminated, the budget remains negative. Interest expenditures continue to exert significant 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 achieving price stability appears extremely difficult. Based on the fiscal discipline anchor, this deficit has remained in the 1.5-2.5% range. Recent rising risks to the global debt burden and borrowing interest rates have further highlighted the importance of efficiency in public finances. We are experiencing a period where past monetary policy choices are undermining public fiscal discipline. A tightening fiscal policy structure, coordinated with monetary policy, will contribute to fiscal discipline and price stability in the medium term. Policies aimed at increasing the efficiency of tax revenues and restricting expenditures will also ensure continued budget discipline. We continue to expect the budget outlook to gradually reach levels compatible with price stability starting in 2025. We would like to emphasize that transitions in the normalization process in economic policies may bring additional shocks and updates to our forecasts.

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