Macro note – Central Government Budget Balance

In January, the budget records a deficit of TRY 214.5 billion and the primary balance a surplus of TRY 241.9 billion. Interest expenses hit a record high in January due to the redemption of CPI-indexed bonds...

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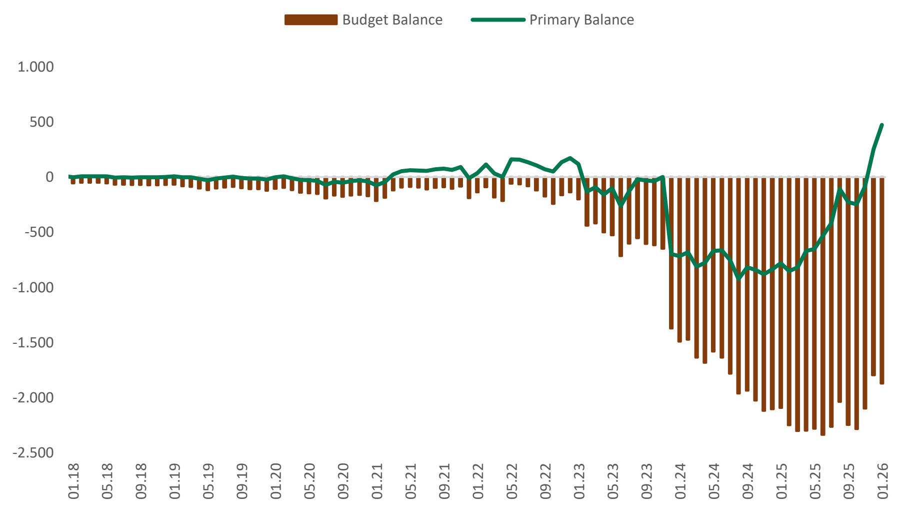
According to the January central government budget data published by the Ministry of Treasury and Finance, budget revenues amounted to TRY 1,421 billion, while budget expenditures reached TRY 1,636 billion. During the same period, non-interest budget expenditures amounted to TRY 1,179 billion. With these figures, the budget deficit stood at TRY 214.5 billion, while the non-interest balance showed a surplus of TRY 241.9 billion. The redemption of the CPI-indexed bond issued in 2016, which sharply widened the gap between the core budget balance and the overall balance, was the main factor. Interest expenditure, which averaged TRY 171 billion last year, amounted to TRY 456.4 billion in January 2026. With the reflection of inflation differences in expenditure items, there was an increase in all expenditure accounts. Personnel expenses broke a record at TRY 502 billion due to the impact of raises and compensation. Current transfers continued their uptrend, reaching TRY 513.6 billion. In January, TRY 15 billion was transferred to BOTAŞ, while TRY 5.6 billion was transferred to Halkbank. Total treasury aid stands at TRY 165 billion. There is no noticeable change in capital expenditures, transfers, and lending items. We can say that the primary budget balance gave a relatively positive performance in the first month of the year. In particular, fiscal policies that increase tax revenues and reduce expenditures reinforce coordination with monetary policy. The 2025 fiscal policy closed better than expected. We may see further steps from policymakers in 2026 towards full coordination, along with fiscal policy measures supporting the disinflation process. Measures from monetary policy to ease fiscal policy are also important. Decreases in the policy rate will alleviate interest rate pressure on short-term borrowing instruments. The balancing of the budget deficit and the re-establishment of fiscal discipline will reduce macroeconomic vulnerabilities and bring about a more resilient public finance outlook in the face of external shocks. Furthermore, this development, which curbs inflation created by the public sector, will fully support monetary policy in achieving the long-term inflation target.

Looking at the details of the budget revenue/expenditure balance change rates, budget expenditures increased by 54.9 per cent in January compared to the same period of last year. The highest proportional increases were in interest expenses (180%) and goods/services purchase expenses (46.5%), while the highest expense items were current transfers (TRY 513.6 billion) and personnel expenses (TRY 502.2 billion). The average annual increase in budget revenues was 55%. The highest increases were in non-tax revenues (99.9 per cent) and VAT collected domestically (80.6 per cent). The sub-items contributing most to budget revenues were VAT collected domestically and income tax (TRY 298.7 billion and TRY 338.2 billion, respectively). Although the increases in revenues and expenditures above inflation raise questions about the path to disinflation, increases at the same rate indicate that there will be no compromise on fiscal discipline. Considering the increase in VAT expenditures and the main trend, we see vitality in domestic demand. The increase in the share of direct taxes in budget revenues will both accelerate disinflation and contribute to the coordination between monetary and fiscal policies.

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



In summary, the budget recorded a deficit of TRY 214.5 billion and a primary surplus of TRY 241.9 billion in January. The month saw record interest pressure on the budget, albeit of a temporary nature. We expect interest payments to return to their average trend over the coming months. Declines in nominal interest rates will have a clearly positive impact on fiscal discipline in the 2027-2028 period. Looking at the cumulative figures for the non-interest balance, there is a clear budget surplus. From this perspective, we conclude that there is no deterioration in the core indicators. As monetary policy builds disinflation, declining interest rates will also contribute to 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. The fiscal policy's shift towards a tightening stance 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. We emphasize here that the transition to the normalization of economic policies may bring additional shocks that necessitate updates to our forecasts.

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