

Macro note – Central Government Budget Balance

The budget records a deficit of TRY230 billion in March, whilst the primary balance shows a surplus of TRY6 billion. Despite contributions from income tax and value-added tax, interest payments continue to pressure the budget balance.

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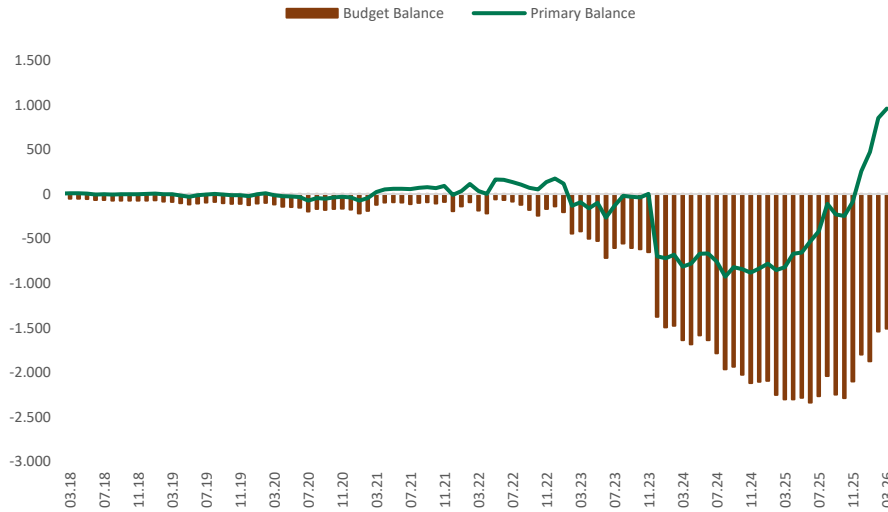
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According to the central government budget data for March published by the Ministry of Treasury and Finance, budget revenues stood at TRY 1,230.5 billion, whilst budget expenditures amounted to TRY 1,460.4 billion. During the same period, non-interest budget expenditures totaled TRY 1,224.4 billion. With these figures, the budget deficit stood at TRY 229.9 billion, whilst the non-interest balance recorded a surplus of TRY 6 billion. The interest burden on the budget accounts for approximately 18% of expenditure, which is a very high level. Interest expenditure, which averaged TRY 170 billion monthly in 2025, rose to an average of TRY 290 billion per month in the first quarter of 2026. The performance of the core budget balance is in line with monetary policy. Revenues are at a level sufficient to cover budget expenditure. However, the public interest burden created by inflation and borrowing rates is putting pressure on the budget balance. A decline in inflation expectations and borrowing rates is of critical importance for ensuring fiscal discipline in the budget. Upon examining the budget details, all expenditure items—excluding capital transfers—are trending above inflation. In this sense, we can say that we are not pursuing austerity policies. Personnel costs remain high due to the impact of inflation. Current transfers, meanwhile, have solidified at a monthly level of TRY 500 billion. This month, additional pressure on current transfers stems from TRY 58 billion in holiday bonuses. Furthermore, TRY 16 billion has been transferred to Electricity Generation Inc. and TRY 26 billion to public banks. Whilst no significant change is apparent in capital expenditure and lending items, capital transfers have increased by TRY 30 billion. Although fiscal policy is not at the targeted levels, its tight conditions are noteworthy. When adjusted for interest expenditure, the primary budget balance is at a level that ensures fiscal discipline. Interest pressure, however, is reflected in fiscal policy as a result of the inflation generated by monetary policy. In this context, the primary priority is to ensure price stability, thereby reducing inflation expectations and, in turn, lowering long-term borrowing costs. Furthermore, this development, which curbs inflation generated by the public sector, will provide full support to monetary policy in achieving the long-term inflation target. Although recent price hikes for electricity and natural gas have strengthened budgetary discipline, their inflationary impact will have more negative repercussions on the budget in the long term. In this context, the upward pressure on inflation stemming from administered/guided prices needs to be deferred for a period. Whilst the energy burden on households was transferred to the public sector through the escalator mechanism, we can say that the latest electricity and natural gas price hike has transferred this burden back to households.

Looking at the details of the changes in the budget revenue/expenditure balance, budget expenditure in March increased by 42.1% compared to the same period last year. The highest proportional increases were observed in capital transfers (436.4%) and personnel expenses (128.9%), whilst the largest expenditure items were current transfers (TRY 542 billion) and personnel expenses (TRY 406 billion). As for budget revenues, the average annual increase stands at 60.6%. The highest increases were observed in corporate tax (360%) and income tax (81%). The sub-categories contributing most significantly to budget revenue were domestic income tax and

domestic VAT (TRY 312 billion and TRY 209 billion, respectively). The increases exceeding the inflation rate actually reflect the lagged effects of monetary policy on both the expenditure and revenue balances.

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



In summary, the budget recorded a deficit of TRY 230 billion in March, whilst the primary balance showed a surplus of TRY 6 billion. The main factor driving the budget deficit is the high level of interest payments. The positive performance of the primary budget balance continues. Any falls in nominal interest rates will have a distinctly positive impact on the fiscal discipline benchmark for the 2027–2028 period. As monetary policy works to achieve disinflation, falling interest rates will also contribute to fiscal discipline. The increased risks regarding the global debt burden and borrowing costs in recent times have once again highlighted the importance of fiscal efficiency. A shift in fiscal policy towards a tightening stance, in coordination with monetary policy, will contribute to fiscal discipline and price stability in the medium term. Policies aimed at enhancing the efficiency of tax revenues and restricting expenditure will also ensure the continuity of budgetary discipline. We emphasize here that transitions during the normalization process in economic policies may bring about additional shocks and necessitate updates to our forecasts.

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