

Macro note – Central Government Budget Balance

In April, the budget recorded a deficit of 338.7 billion Turkish lira, whilst the primary balance showed a deficit of 81 billion Turkish lira. Despite a marked decline in Special Consumption Tax revenues, the pressure on the budget from interest expenditure continues.

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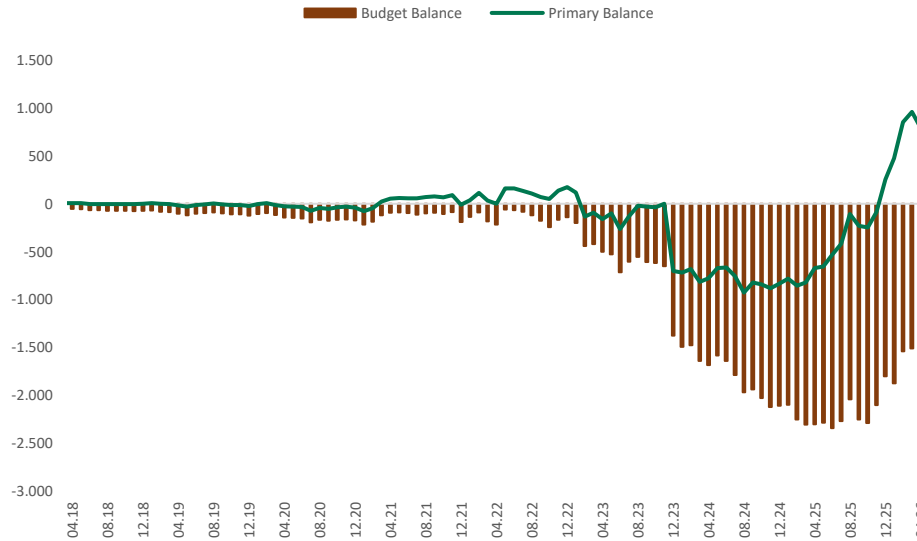
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According to the central government budget data for April published by the Ministry of Treasury and Finance, budget revenue stood at 1,186.2 billion TL, whilst budget expenditure amounted to 1,524.9 billion TL. During the same period, non-interest budget expenditure stood at 1,267.2 billion TL. With these figures, the budget deficit stood at 338.7 billion TL, whilst the non-interest balance recorded a deficit of 81 billion TL. We had anticipated that pressure on the budget would continue due to the decline in excise duty revenues and the rise in interest expenditure. Measures taken to offset household inflation caused by rising energy costs resulting from geopolitical tension are also triggering the budget deficit. In other words, energy costs have effectively been transferred from the private to the public sector; interest expenditure, which averaged 170 billion TL monthly in 2025, rose to an average of 290 billion TL per month in the first quarter of 2026. When the budget performance is adjusted for interest expenditure, the picture is not pessimistic. The core balance is following a trend that we might describe as almost break-even. Looking at the 12-month cumulative figure, however, we can say there is a clear surplus in the non-interest balance. When we examine the details of expenditure items, personnel costs have stabilized at around 400 billion lira. As these items reflect the impact of inflation, the level of volatility is very low. Interest expenditure stands at 257 billion lira, which is close to flat, but at a fairly high level. Of this, 192 billion lira relates to domestic debt repayments. On the positive side, external borrowing and its associated interest costs are low. Consequently, the risk of fragility remains limited. Meanwhile, current transfers are close to flat at 521 billion TL. This item has stabilized at around 500 billion TL. This month, transfers of 14.6 billion TL to Electricity Generation Inc., 10 billion TL to BOTAŞ and 25.5 billion TL to public banks were made. Whilst no significant change is apparent in capital transfers and lending items, capital expenditure has risen to 125 billion TL. Rent and property production costs appear to have created significant pressure this month. Coordination between monetary and fiscal policy has continued consistently in core indicators for some time. However, inflation pushing borrowing costs upwards, and consequently the rise in interest expenditure on the budget, is having a negative impact on the general budget balance. As noted in the latest inflation report, inflation, which is converging towards a path consistent with forecasts, will contribute to both fiscal discipline and price stability. When adjusting the monetary policy stance, policymakers had operated on the assumption that pressures from administered/guided prices would remain limited. In the current situation, however, the price hike on electricity and natural gas—intended to alleviate the pressure on the budget from rising energy costs—is fuelling inflationary rigidity. The secondary impact of this on public finances is negative. Although the initial effect is creating a limited improvement in budget revenues, the medium-to-long-term impact is that borrowing costs remain high due to inflation. This, in turn, increases the interest burden on the budget. Taking into account the Treasury’s borrowing schedule for the second quarter, we expect the negative performance of the budget deficit to continue for the remainder of the year.

Looking at the details of the rates of change in the budget revenue/expenditure balance, budget expenditure in April increased by 34.7% compared to the same period last year. The highest proportional increases were observed in capital transfers (749.8%) and lending expenses (396.2%), whilst the largest expenditure items were

current transfers (521.5 billion TL) and personnel expenses (397.6 billion TL). The average annual increase in budget revenues stands at 23.9%. The highest increases were observed in fees (95.4%) and the tax on banking and insurance transactions (76.5%). The sub-categories contributing most significantly to budget revenue were income tax and VAT on imports (321 billion and 189 billion TL respectively). The fact that revenue growth lagged inflation was another key factor increasing pressure on the budget.

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



In summary, the budget recorded a deficit of 338.7 billion TL in April, whilst the primary balance showed a deficit of 81 billion TL. Interest rate pressures continue to drag down the general budget balance. The positive outlook for core indicators excluding interest payments remains intact. Any falls in nominal interest rates will have a distinctly positive impact on the fiscal discipline anchor 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 would like to emphasize that transitions during the normalization process in economic policies may bring about additional shocks and necessitate updates to our forecasts.

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