

## Macro note – Central Government Budget Balance

**The budget recorded a deficit of TRY 298.2 billion in May, while the primary balance showed a deficit of TRY 169.3 billion. Despite strong corporate tax revenue, a significant drop in income tax revenue triggered the budget deficit.**

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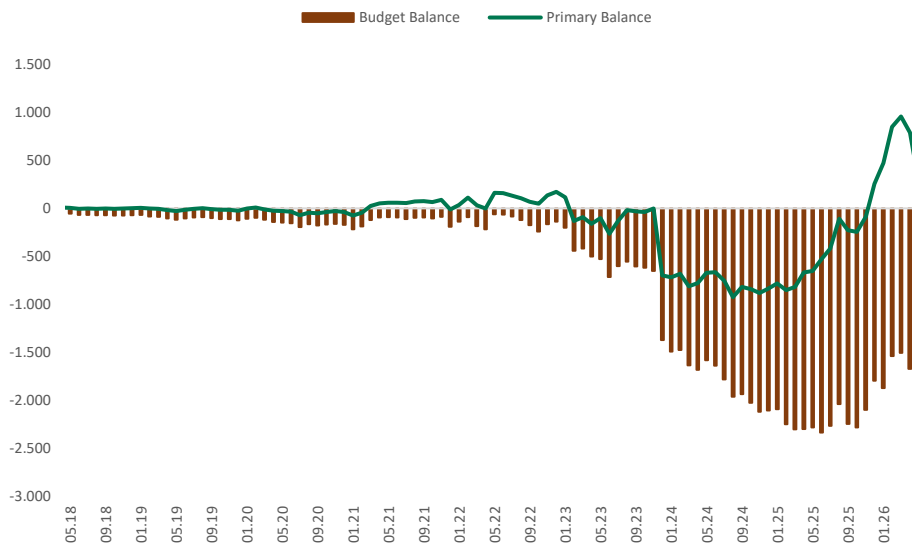
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According to the central government budget data for May published by the Ministry of Treasury and Finance, budget revenue stood at TRY 1,086.2 billion, while budget expenditure amounted to TRY 1,384.4 billion. During the same period, non-interest budget expenditure stood at TRY 1,255.5 billion. Against this backdrop, the budget deficit amounted to TRY 298.2 billion, while the non-interest balance recorded a deficit of TRY 169.3 billion. On the fiscal policy front, measures taken to alleviate the pressure on household energy costs caused by geopolitical developments are increasing the pressure on the budget. In our base scenario, we had anticipated a seasonal positive trend in May, led by corporation tax, the collections of which in February and May are creating a seasonal positive trend. When adjusted for this effect, corporation tax, which typically falls within the TRY 15–20 billion range, stood at TRY 367 billion this month. However, income tax performance is even lower than the 2025 monthly average. Income tax, which averaged at TRY 298 billion in the first four months of the year, has fallen to TRY 91 billion this month. When adjusted for this effect, we can say that budget performance is holding steady. Interest expenditure has also fallen to TRY 128 billion this month. However, when viewed as the total for the first five months, interest payments from the budget amount to TRY 1.26 trillion, which is a very high level. Almost the entirety of the budget deficit forecast consists of interest expenditure, and the primary budget balance remains positive. When we examine the details of expenditure items, personnel costs stand at TRY 407 billion, a level comparable to that of April. As these items reflect the impact of inflation, the level of volatility is very low. Interest expenses recorded a sharp fall to TRY 128 billion in May, but when viewed at the aggregate level, they remain at a very high level. Current transfers are at a level close to TRY 524 billion, remaining largely flat. This item has stabilized at around TRY 500 billion. This month, TRY 25 billion was transferred to BOTAŞ and TRY 24 billion to public banks. Additionally, TRY 58 billion was transferred to pensioners this month as part of the holiday bonus. There is no noticeable change in capital transfers, lending and capital expenditure. Although the tight stance keeps the primary budget balance under control, the high trajectory of borrowing costs is dragging down the overall budget balance. The main reason for this is the high trajectory of inflation and the fact that disinflation has not yet fallen to the targeted levels. As noted in the latest inflation report, inflation, which is now following a path consistent with forecasts, will contribute to both fiscal discipline and price stability. When adjusting the monetary policy stance, policymakers acted 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 fueling inflationary rigidity. The secondary impact of this is negative for public finances. While the initial effect creates 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. It is clear that the positive sentiment arising from geopolitical developments will create fresh momentum in excise duty revenues. Furthermore, interest rate cuts to be implemented in the remainder of the year will also have a more positive impact on budget performance in 2027–2028. The primary priority to be addressed on the fiscal policy front is the pressure exerted by interest expenditure on the budget and fiscal discipline. This is due to the highly restrictive monetary policy and persistently high interest rates. In summary,

positive developments on the inflation front will first lead to a loosening of monetary policy and subsequently have a positive impact on budget performance through fiscal policy.

Looking at the details of the changes in the budget revenue/expenditure balance, budget expenditure in May increased by 27% compared to the same period last year. The highest proportional increases were observed in capital transfers (443%) and SGK state contribution expenditure (52.6%), while the largest expenditure items were current transfers (TRY 524 billion) and personnel costs (TRY 407 billion). As for budget revenue, the average annual contraction stands at 18%. The highest increases were observed in fees (31.4%) and the tax on banking and insurance transactions (25.6%). On the other hand, income tax fell by 57%, corporation tax by 22% and VAT collected domestically by 66%. The sub-categories contributing most significantly to budget revenue were corporation tax and VAT on imports (TRY 367 billion and TRY 162 billion respectively). Despite high inflation in revenue, the sharp contraction compared to the previous year has dragged down budget performance.

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



In summary, the budget recorded a deficit of TRY 298.2 billion in May, while the primary balance showed a deficit of TRY 169.3 billion. The sharp decline in revenue collection triggered the budget deficit. We believe this to be a temporary phenomenon. On the other hand, the high level of borrowing costs is exerting significant negative pressure on budget performance beyond 2023. Any decline in nominal interest rates will have a clearly positive impact on fiscal discipline in 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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