

Macro note – Central Government Budget Balance

The budget recorded a deficit of TRY 532.2 billion in September, whilst the non-interest balance showed a deficit of TRY 269.2 billion. Excluding year-end adjustments, the monthly budget deficit reached its highest level, whilst current transfers hit a record high.

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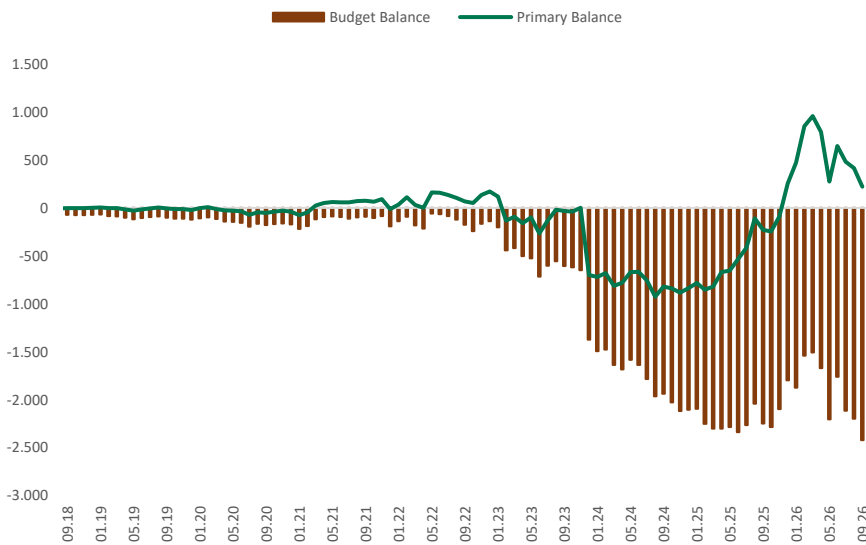
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According to the central government budget figures for September published by the Ministry of Treasury and Finance, budget revenue stood at TRY 1,253.2 billion, whilst budget expenditure amounted to TRY 1,785.4 billion. During the same period, non-interest budget expenditure totaled TRY 1,522.4 billion. Based on these figures, the budget recorded a deficit of TRY 532.2 billion and the non-interest balance a deficit of TRY 269.2 billion. Following a recovery in the previous month driven by corporation tax collections, the deficit rose significantly once this seasonal effect subsided. The sharp deterioration in the non-interest balance also indicates that the underlying trend in budget performance remains negative. In particular, the solidification of interest payments at TRY 200 billion and above can be viewed as a negative spillover effect on fiscal policy stemming from monetary policy and the inflation outlook. The current transfers item, meanwhile, rose markedly this month, reaching TRY 679 billion. Transfers to households, the individual pension scheme and funds increased by approximately TRY 50 billion. Unless a tax collection policy is implemented to finance the increases in personnel expenditure and current transfers, the budget deficit appears set to become entrenched at these levels. However, when interest expenditure is excluded for January and July, it has stabilized at an average of TRY 200 billion. There has been no significant increase in capital expenditure or transfers. When viewed on a twelve-month cumulative basis, the non-interest balance has entered a downward trend but remains positive. The key point to note here is that, despite the recent deterioration, core budget indicators remain above the break-even level. From this, we understand that improvements in inflation expectations and borrowing rates will alleviate the pressure on the budget. In this context, we can say that the anchoring of inflation expectations and the decline in interest expenditure have been a prerequisite for the performance of the budget balance. If we consider the macroeconomic balances as a whole, the deviation from equilibrium on the monetary policy side is having a negative impact on fiscal policy via the budget. Improvements during the disinflation process will contribute to fiscal discipline by restoring the balance of public finances. Revenue policy and collection continue to trend sideways. As there was no corporate tax collection this month, revenues have fallen to the TRY 1.2 trillion level (TRY 1.6 trillion the previous month and an annual average of TRY 1.3 trillion). In expenditure items, however, the impact of inflation is clearly being felt. Furthermore, seasonal payments or transfers are triggering a negative trend in the budget, albeit temporarily. A budget deficit of TRY 1.84 trillion has been recorded since the start of the year, with a 12-month cumulative deficit of TRY 2.4 trillion. In September 2025, these figures stood at TRY 1.2 trillion and TRY 2.3 trillion respectively. When viewed on an annual basis, a marked increase above the inflation rate is evident. This indicates that, even when adjusted for price effects, there are structural negative trends in the budget. The fact that the funding rate is expected to fluctuate within a range of 37–25 per cent over the next 12 months, coupled with inflation expectations remaining above 20 per cent, suggests that the target for fiscal discipline in the budget will not be achieved until the end of 2027. Any improvement in external shocks to monetary policy would bring this process forward.

Looking at the details in terms of the rates of change in the budget revenue/expenditure balance, budget expenditure in September increased by 34.1 per cent compared with the same period of the previous year. The highest proportional increases were observed in capital transfers (63.8 per cent) and expenditure on the purchase of goods and services (60.8 per cent), whilst the largest expenditure items were current transfers (TRY 679.4 billion) and staff costs (TRY 455 billion). As for budget revenue, the average annual increase stands at 22.7 per cent. The highest increases were seen in fees (48.6 per cent) and stamp duty (40.5 per cent). The sub-categories contributing most significantly to budget revenue were income tax and VAT on imports (TRY 324.5 billion and TRY 199 billion respectively).

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



In summary, the budget recorded a record deficit of TRY 532.2 billion in September, whilst the non-interest balance stood at TRY 269.2 billion. The persistently high level of borrowing costs is exerting significant downward pressure on budget performance beyond 2023. Any falls in nominal interest rates will have a markedly 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 surrounding 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 the transitions involved in the normalization process of economic policies may bring about additional shocks and necessitate updates to our forecasts.

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