Macro note – Central Government Budget Balance

The budget posts a deficit of TRY481 billion in October, and the primary balance shows a deficit of TRY179.8 billion. While interest rate pressures persist, current transfers decline slightly, and the corporate income tax balance turns negative due to refunds.

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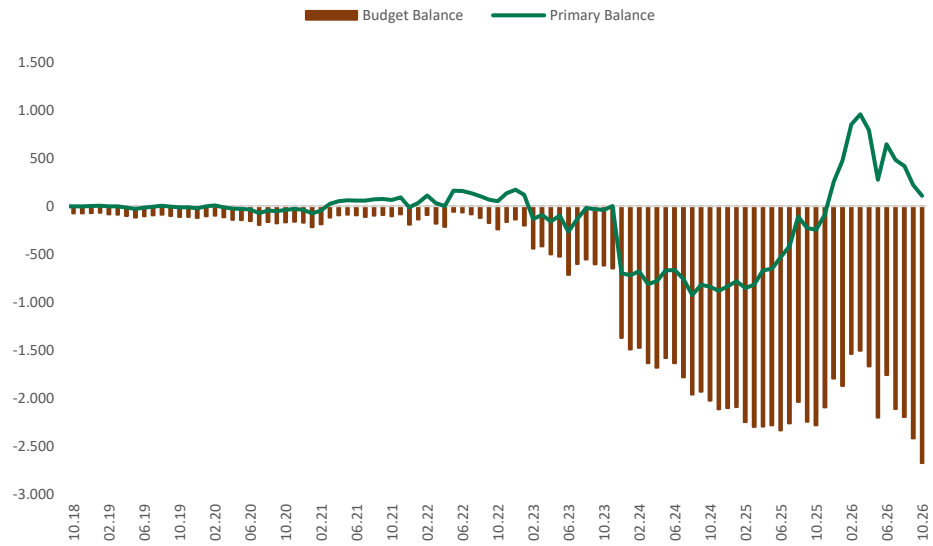
According to the October central government budget data published by the Ministry of Treasury and Finance, budget revenues totaled TRY1,298.3 billion, while budget expenditures amounted to TRY1,779.4 billion. During the same period, non-interest budget expenditures totaled TRY1,478 billion. Based on these figures, the budget posted a deficit of TRY481 billion, and the non-interest balance showed a deficit of TRY179.8 billion. The budget turned negative this month due to corporate tax refunds. Although this was offset by a decline in current transfers, interest pressure is making the budget deficit chronic. The decline in the non-interest balance is also noteworthy. Seasonal effects and corporate tax are keeping the core balance afloat. On the other hand, while interest expenses averaged at TRY250 billion in the first nine months of the year, they reached TRY300 billion in October. In particular, the solidification of interest payments at TRY200 billion and above can be viewed as a negative reflection on fiscal policy stemming from monetary policy and the inflation outlook. The current transfers category retreated from TRY679 billion to TRY615 billion this month, though a one-time transfer of TRY65 billion to electricity production stands out. Unless a tax collection policy is implemented to finance the increases in personnel expenses and current transfers, the budget deficit appears set to solidify at these levels. Excluding personnel expenses, nearly every sub-category shows an upward deviation of approximately TRY50 billion from its 9-month average. Current transfers lost momentum this month, providing only limited positive support to the budget. There is no significant increase in capital expenditures or transfers. While the 12-month cumulative non-interest balance has entered a downward trend, it remains positive. It is important to note that core budget indicators remain above the break-even level despite the recent deterioration. This suggests that improvements in inflation expectations and borrowing rates will alleviate pressure on the budget. In this context, we can say that anchoring inflation expectations and reducing interest expenses have been prerequisites for the budget balance's performance. The 12-month cumulative budget deficit has hit a record high of TRY2.68 trillion. When considering macroeconomic balances as a whole, the deviation from equilibrium on the monetary policy side is having a negative impact on fiscal policy through the budget. As the pace of disinflation slows and is spread out over time, the negative impact on the budget will persist for a longer period. Revenue policy and collection continue to trend flat. Meanwhile, the impact of inflation is clearly felt in expenditure items. In addition, periodic payments or transfers are triggering a negative trend in the budget, albeit temporarily. Since the beginning of the year, the budget deficit has stood at TRY2.3 trillion, and the 12-month cumulative deficit has reached TRY2.7 trillion. As of October 2025, these figures stood at TRY1.44 trillion and TRY2.3 trillion, respectively. On an annual basis, a significant increase above the inflation rate is evident. This indicates that, even when adjusted for price effects, there are structural negative trends in the budget under current conditions. The fact that the funding rate is expected to fluctuate within the 36–27% range over the next 12 months and that inflation expectations remain above 20% suggests that the budget's fiscal discipline target will not be achieved until late 2027. In particular, the upward momentum in the yield curve indicates that long-term interest rates are not keeping pace with the decline in the funding rate. We expect this cycle to break in the 2027–2028 period.

Looking at the details of the budget revenue/expenditure balance growth rates, budget expenditures in October increased by 29.9% compared to the same period last year. The highest percentage increases were observed in interest expenses (91.4%) and lending expenses (39.6%), while the largest expenditure categories were current transfers (TRY615.2 billion) and personnel expenses (TRY441.9 billion). The average annual increase in budget revenues stands at 13.2%. The highest increases were observed in income tax (31.3%) and VAT on imports (31.4%). The subcategories contributing the most to budget revenues were income tax and VAT collected domestically (TRY398.2 billion and TRY209.6 billion, respectively).

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



In summary, the budget posted a record deficit of TRY481 billion in October, with a non-interest balance of TRY179.8 billion. The persistently high borrowing rates are exerting significant downward pressure on budget performance beyond 2023. Any declines in nominal interest rates will have a notably positive impact on fiscal discipline in the 2027–2028 period. As monetary policy works to achieve disinflation, declining interest rates will also contribute to fiscal discipline. The recent increase in risks related to the global debt burden and borrowing costs has once again highlighted the importance of fiscal efficiency. A shift toward a tightening fiscal policy, coordinated 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 curbing expenditures will also ensure continuity in budget discipline. We emphasize here that transitions during the normalization process in economic policies may bring about additional shocks and require updates to our forecasts.

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