Macro note – Central Government Budget Balance

In November, the budget posts a deficit of TRY16.7 billion and primary balance a surplus of TRY129.7 billion. Improved tax collection, limited expenditures and interest payments curb the negative trend in the budget deficit.

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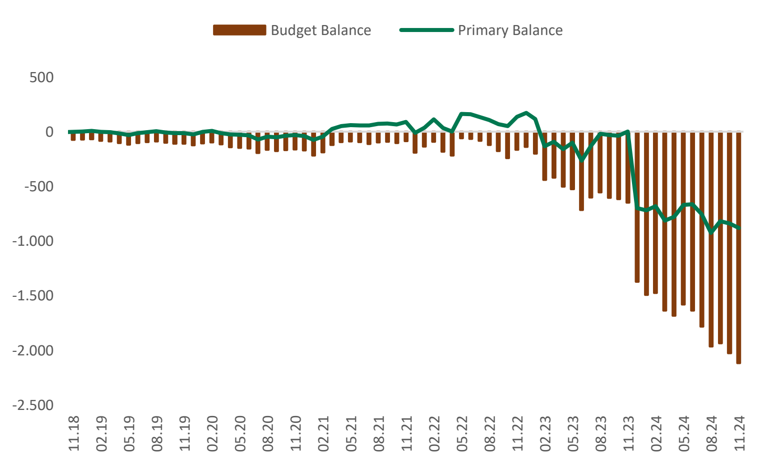
According to the November central government budget data released by the Ministry of Treasury and Finance, budget revenues and budget expenditures were realized as TRY939.5 billion and TRY956.1 billion, respectively. In the same period, non-interest budget expenditures were realized as TRY809.8 billion. Accordingly, budget deficit was realized as TRY16.7 billion, while the primary balance posted a surplus of TRY129.7 billion. The most obvious reflections of inflation on the budget balance remain be on current transfers and personnel expenditures. We expect this cycle to follow a calmer course by 2025. Transfers to the Electricity Generation Co. amounted to TRY14.9 billion, totaling TRY198.4 billion over 2024. For the first time in eleven months, TRY29 billion was transferred to BOTAŞ. A tax collection policy that can cover the increase in personnel expenditures and current transfers will be one of the most vital issues on the 2025 agenda. The change in the pension system, earthquake disaster relief, and the continued high inflation are the key items limiting the budget recovery. The twelve-month cumulative budget deficit is TRY2.1 trillion, about nine times the average of the past decade. The rigidity in budget expenditures despite the adjustments in tax collection, and increasing expenditures despite the measures taken have evolved into a chronic budget deficit. The overall trend is negative, except for periods such as November when seasonal effects come into play. We remind readers that the desired level of tightness in fiscal policy has not yet been achieved and that additional pressure on inflation may come from the budget deficit. Having focused on monetary policy, the economic administration has recently increased its fiscal policy measures. We believe that monetary policy alone will take time to bring price stability in the current conjuncture and that fiscal policy should be emphasized. Budget expenditures increased by 42.5% yoy. The highest proportional increase was recorded in personnel expenditures (82%) and Social Security premium expenditures (75%), while the highest items were current transfers (TRY343 billion) and personnel expenditures (TRY244 billion). The average annual increase in budget revenues was 25.8%. The highest increases were in income tax (118%) and banking and insurance transactions tax (133%). Income and corporate taxes made the highest contribution to budget revenues (TRY168 billion and TRY185 billion, respectively).

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



When the ten months of the year are evaluated together, we see that fiscal policy has moved away from the long-standing anchor of fiscal discipline. A revenue policy that can compensate for the increase in expenditures triggered by inflation and the earthquake disaster has yet to be established. We have stated in our previous reports that fiscal policy has additional duties in an environment where monetary policy has long been tight. While some expenditure-cutting measures have been taken, the rhetoric that the fiscal discipline anchor will be effectively implemented keeps expectations about medium-term targets alive. In this sense, we find the recent fiscal measures limitedly positive. Personnel expenditures, which have increased especially due to inflation, cannot be compensated without cuts in other budget items. Another alternative is to generate additional tax revenues, and these practices have increased recently. It was inevitable that the deteriorating inflation outlook, especially as a result of monetary policy, would eventually spill over into other macro indicators. Fiscal discipline has long had a negative outlook due to both inflation and high expenditures. Although tax collections have improved due to seasonal effects, the overall trend continues to deteriorate. In this context, the decisive implementation of the recent austerity measures is critical for the stability of fiscal policy. Although the inflation level has been brought down to 30% thanks to monetary policy, the structural breaks after this point will need additional measures beyond monetary policy. In this context, fiscal policy has a serious role to play. If revenue collection remains weak, the year-end budget deficit may exceed forecasts. Although monetary policy-induced pressures on the budget have eased, the impact of inflation will persist for some time. We anticipate that the budget performance and fiscal discipline outlook of the pre-Covid period can be achieved by 2025-2026.

In sum, the budget posted a deficit of TRY16.7 billion in November. The high course of personnel expenditures and current transfers points to a significant deficit in the budget when seasonal revenues are adjusted. We are going through a period in which past preferences in monetary policy have undermined the discipline in public finance. The year-end budget deficit will deviate significantly from the 2013-2023 average. In the last quarter of the year and especially in December, we may see a very high budget deficit due to the closure of accounting periods. A tightening of fiscal policy in coordination with monetary policy will contribute to fiscal discipline and price stability in the medium term. Policies to increase the efficiency of tax revenues and to restrict expenditures will bring about continuity in budget discipline. We continue to expect the budget outlook to gradually reach levels consistent with price stability starting from 2025. We underline here that transitions in the normalization process of economic policies may prompt additional shocks and updates to our forecasts.

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