Macro note – Central Government Budget Balance

In December, the budget and primary balance posts a deficit of TRY 829.2 billion and TRY 754 billion, respectively. Per the 2024 closing, the total budget deficit is TRY 2.1 trillion, while the primary deficit is TRY 835.7 billion. As the budget deficit ends the year at a record high, a budget deficit/GDP ratio of around 4.8% will be realized.

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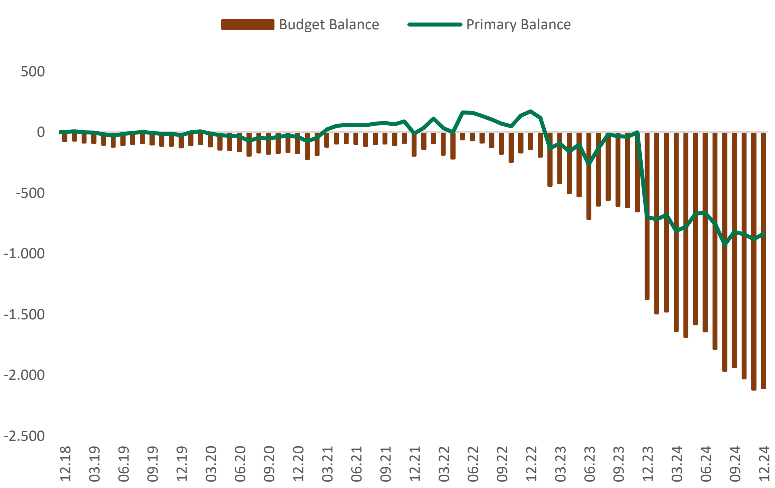
According to the December central government budget data released by the Ministry of Treasury and Finance, budget revenues and budget expenditures were realized as TRY 877.6 billion and TRY 1,706.8 billion, respectively. In the same period, primary budget expenditures were realized as TRY 1,631.5 billion. Against this background, the budget deficit amounted to TRY 829.2 billion, while the primary balance posted a deficit of TRY 754 billion. Three points were noteworthy in terms of budget expenditures at the end of the year. First, while personnel expenditures retreated compared to the previous month, purchases of goods and services nearly doubled (TRY 70 billion). Interest expenditures both fell behind the eleven-month average and retreated compared to the previous month (TRY 75 billion). The second point is that the increase in current transfers outpaced the decline in these two expenditures (TRY 86 billion). The last and most important point is the astronomical increase in capital expenditures and transfers. Capital expenditures increased by approximately TRY 130 billion compared to the previous month. As for capital transfers, the "Capital Transfers to Other Unclassified Institutions, Enterprises, and Households" item increased by TRY 548 billion compared to the previous month. Transfers to Elektrik Üretim A.Ş. amounted to TRY 15.3 billion, and TRY 213.7 billion was transferred in 2024. While TRY 37 billion in transfers were made to BOTAŞ due to the winter season, the total for 2024 reached TRY 66 billion. A tax collection policy that can cover the increase in personnel expenditures and current transfers will be among the crucial issues on the 2025 agenda. The change in the pension system, the earthquake disaster, and continued high inflation are the key items limiting the budget recovery. The twelve-month cumulative budget deficit is TRY 2.1 trillion, about nine times the average of the past decade. The rigidity in budget expenditures, despite the adjustments in tax collection and rising expenditures despite the measures taken, has evolved into a chronic budget deficit. We remind readers that the desired level of tightness in fiscal policy has yet to be achieved, and 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 about price stability in the current conjuncture, and fiscal policy should be emphasized. Budget expenditures increased by 22.3% yoy. The highest proportional increases were recorded in lending (108.8%) and personnel expenditures (84.9%), while the highest items were current transfers (TRY 430 billion) and capital transfers (TRY 569 billion). The average annual increase in budget revenues was 60.4%. The highest increases were recorded in income tax (122.6%) and the special budget administrations' own revenues (150%). Income tax and SCT made the highest contribution to budget revenues (TRY 183 billion and TRY 173 billion, respectively).

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



When the ten months of the year are evaluated together, we note that fiscal policy has moved away from the long-standing anchor of fiscal discipline. A revenue policy that can compensate for the rise 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 certain expenditure-cutting measures have been taken, the rhetoric that the fiscal discipline anchor will be effectively implemented keeps expectations of 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 indeed, 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 the combination of 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. And while the inflation level has been reduced to 30% by monetary policy, the structural breaks past this point will require additional measures beyond monetary policy alone. In this context, fiscal policy has a serious role to play. If revenue collection remains weak, the year-end budget deficit may exceed the forecasts. Although monetary policy-induced pressure on the budget has 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 summary, the budget posted a deficit of TRY 829.2 billion in December, while the annual budget deficit reached TRY 2.1 trillion in 2024. The greatest pressure on the budget at the end of the year came from capital and current transfers. When the increase in the purchase of goods and services and the expenditures item are evaluated together, we see that the public sector austerity measures were not at the targeted level. Essentially, 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 deviated significantly from the 2013-2023 averages. Based on current realizations, we estimate a budget deficit/GDP ratio of around 4.8%. Under the anchor of fiscal discipline, this deficit hovered at around 1.5-2.5%. 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 sustainability in budget discipline. We continue to expect the budget to gradually reach levels consistent with price stability starting from 2025. We underline here that transitions in the normalization process in economic policies may bring additional shocks and prompt updates to our forecasts.

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