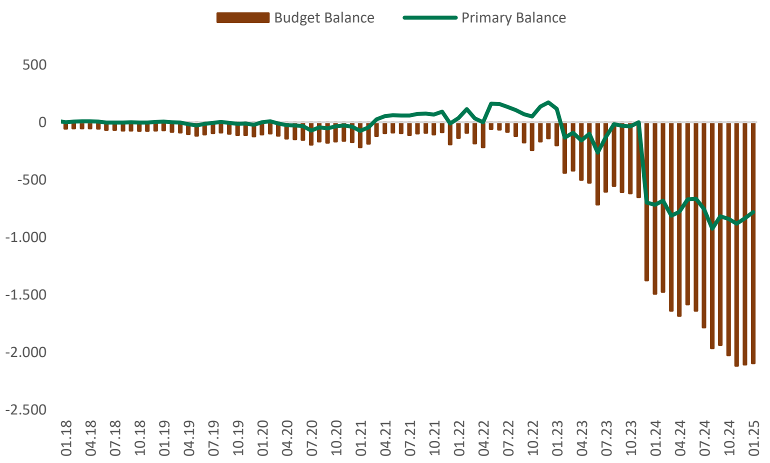
Macro note – Central Government Budget Balance

In January, the budget posts a deficit of 139.3 billion and primary balance a surplus of 23.8 billion TRY. Although the monthly performance in the budget balance is favorable, it falls well short of fiscal discipline targets.

Abdulkadir DOGAN
Chief Economist
adogan@sekeryatirim.com.tr
(+90) 212 334 33 33/313

According to the January central government budget data released by the Ministry of Treasury and Finance, budget revenues and budget expenditures were realized as 917 billion TRY and 1,056.3 billion TRY, respectively. In the same period, non-interest budget expenditures were realized as 893.3 billion TRY. Accordingly, the budget deficit was realized as 139.3 billion TRY, while the primary balance posted a surplus of 23.8 billion TRY. Considering the year-end realizations in budget performance, the long-lasting inflationary pressure and weak fiscal measures have brought about historic highs in the budget deficit. With the new year, the importance of fiscal support to monetary policy has increased and the burden on fiscal policy has become critical. In the January budget details, transfers to the Electricity Generation Co. amounted to 14.2 billion TRY (15.3 billion in the previous month and TRY 213.7 billion throughout 2024). Transfers to BOTAŞ amounted to TRY 35 billion (TRY29 billion in the previous month and TRY66 billion for 2024) due to the winter season. An analysis of the annual growth performance of expenditure items shows that they generally lagged behind inflation. However, public austerity items such as procurement of goods and services increased by 71% yoy, above the average. In this context, especially the reflection of fiscal measures on the figures has become essential in terms of expectations management. The change in the pension system, the earthquake disaster and continued high inflation are the most important items limiting the budget recovery. The most important transformation that can reverse the rigidity in expenditure items will come from the revenues policy. The rigidity in budget expenditures despite the adjustments in tax collection and the increasing expenditures despite the measures taken have evolved into a chronic budget deficit. The twelve-month cumulative budget deficit is TL 2.1 trillion, about nine times the average of the last decade. We would like to remind 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. The coordination of monetary and fiscal policy, which is referenced in the inflation report and monetary policy texts, has become an indispensable prerequisite for price stability. 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 37.6% compared to the same period of the previous year. The highest proportional increases were recorded in capital transfers (137.7%) and purchase of goods/services (71.3%), while current transfers (120 billion TRY) and personnel expenditures (100 billion TRY) were the highest items. The average annual increase in budget revenues was 48.6%. The highest increases were recorded in income tax (92%) and bank/insurance transaction tax (101%). Income tax and domestic VAT made the highest contribution to budget revenues (TRY95 billion and 57 billion, respectively). The rate of increase in budget revenues outpaced expenditures, which reduced the pace of the budget deficit. Nevertheless, the budget performance is still well below the targeted levels.

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



The deviation of the budget balance from the 2% budget deficit/GDP target, the anchor of fiscal discipline, is a consequence of external shocks as well as elections. To achieve the pre-2022 performance, some structural transformations seem imperative. A revenues policy that can compensate for the increase in expenditures triggered by inflation and the earthquake disaster has not yet been established. In our previous reports, we have noted that fiscal policy has additional duties in an environment where monetary policy has been tight for a long time. 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 require 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 summary; budget posted a deficit of 139.3 billion TRY in January, while primary balance posted a surplus of 23.8 billion. While income tax recovery continued, VAT revenues also increased due to the recovery in expenditures. When the increase in the purchase of goods and services and the expenditures item are evaluated together, we see that the austerity measures in the public sector are not at the targeted level. We are going through a period in which past preferences in monetary policy have hindered the discipline in public finance. Considering the current realizations, we estimate that the budget deficit/GDP level will be realized at around 4.8%. Under the anchor of fiscal discipline, this deficit has hovered 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 that the budget outlook will gradually reach levels consistent with price stability starting from 2025. We would like to underline that transitions in the normalization process in economic policies may bring additional shocks and updates to our forecasts.

ŞEKER INVEST RESEARCH

Şeker Yatırım Menkul Değerler A.Ş.
Buyukdere Cad. No: 171 Metrocity
A Blok Kat 4-5 34330 SİSLİ /IST
TURKEY

TEL: +90 (212) 334 33 33
Fax: +90 (212) 334 33 34
E-mail: research@sekeryatirim.com
Web: http://www.sekeryatirim.com/english/index.aspx

For additional information, please contact:

Research

Kadir Tezeller	**Head**	**+90 (212) 334 33 81**	ktezeller@sekeryatirim.com
Burak Demirbilek	**Utilities, Defense Industry**	**+90 (212) 334 33 33-128**	bdemirbilek@sekeryatirim.com
Sevgi Onur	**Banks**	**+90 (212) 334 33 33-150**	sonur@sekeryatirim.com
Engin Değirmenci	**Cement**	**+90 (212) 334 33 33-201**	edegirmenci@sekeryatirim.com
A. Can Tuğlu	**Food & Bev., Retail, Auto, Aviation, Oil&Gas**	**+90 (212) 334 33 33-334**	atuglu@sekeryatirim.com
Esra Uzun Özbaskın	**Telcos, Iron & Steel, Cons. Dur.**	**+90 (212) 334 33 33-245**	euzun@sekeryatirim.com
Başak Kamber	**Glass**	**+90 (212) 334 33 33-251**	bkamber@sekeryatirim.com

Economy & Politics

Abdulkadir Doğan	**Chief Economist**	**+90 (212) 334 91 04**	adogan@sekeryatirim.com

Institutional Sales

Batuhan Alpman	**Head**	**+90 (212) 334 33 70**	balpman@sekeryatirim.com
Deniz Keskin	**Trader**	**+90 (212) 334 33 36**	dkeskin@sekeryatirim.com
M.Kerim Culum	**Trader**	**+90 (212) 334 33 33-316**	kculum@sekeryatirim.com.tr

DISCLAIMER

I, Abdulkadir Dogan, hereby certify that the views expressed in this research accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

This report has been prepared by Şeker Yatırım Menkul Değerler A.Ş. (Şeker Invest, Inc.). The information and opinions contained herein have been obtained from and are based upon public sources that Şeker Invest considers to be reliable. No representation or warranty, express or implied, is made that such information is accurate or complete and should not be relied upon, as such. All estimates and opinions included in this report constitute our judgments as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors as they believe necessary. Şeker Invest may, from time to time, have a long or short position in the securities mentioned in this report and may solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) for any company referred to in this report and may, to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis upon which it is based, before its publication. This report is for the use of intended recipients and may not be reproduced in whole or in part or delivered or transmitted to any other person without the prior written consent of Şeker Invest. By accepting this document you agree to be bound by the foregoing limitations.