Macro note – Central Government Budget Balance

In October, the budget posts a deficit of TRY 223.2 billion and the primary balance yields a deficit of TRY 65.8 billion. While interest rate pressures on the budget persist, a sharp increase in current transfers fuels the budget deficit.

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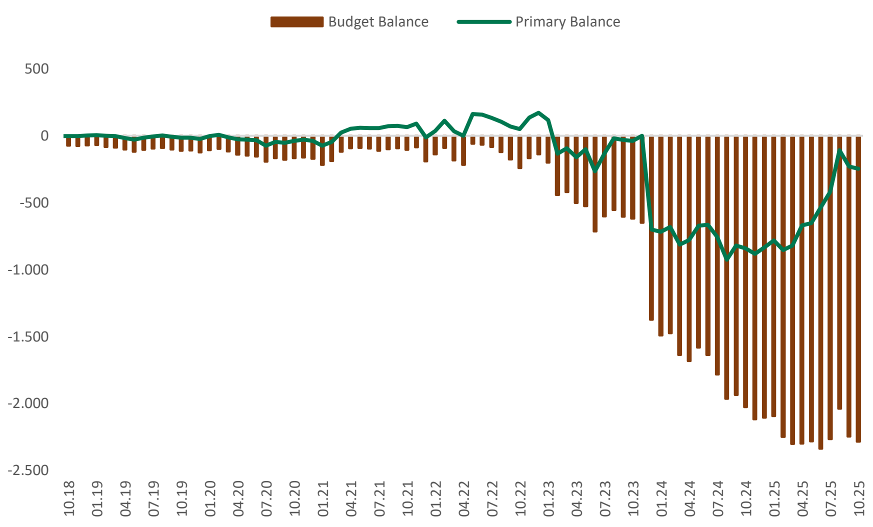
According to the October central government budget data published by the Ministry of Treasury and Finance, budget revenues were TRY 1,147 billion and budget expenditures were TRY 1,370 billion. Non-interest budget expenditures amounted to TRY 1,213 billion during the same period. Based on this data, the budget deficit reached TRY 223.2 billion, while the non-interest balance showed a deficit of TRY 65.8 billion. Although interest payments fell below the ten-month average trend, they remain high (average TRY 180 billion, TRY 157 billion in October). Current transfers saw the highest monthly expenditure, including the earthquake period. Despite personnel expenses remaining flat regardless of the effects of inflation, transfers to state-owned enterprises and financial institutions, in particular, broke records. A total of TRY 71.8 billion was transferred to public enterprises, reflecting seasonal effects. Of this, TRY 49.8 billion was transferred to Elektrik Üretim AŞ (Electricity Generation Inc.) and TRY 20.5 billion to BOTAŞ (BOTAŞ). A total of TRY 352 billion was transferred to BOTAŞ and Elektrik Üretim AŞ between January and October. If we calculate total interest expenses at TRY 1.81 trillion during the same period, the total burden on the budget since the beginning of the year from public borrowing interest and transfers to state-owned enterprises (SOEs) has reached approximately TRY 2.15 trillion. When the 12-month totals are considered together, the budget deficit stands at TRY 2.3 trillion, while the core balance, excluding interest, has a deficit of TRY 245 billion. While interest rate pressure continues on the budget, additional expenses in current transfers are fueling the budget deficit. We anticipate this pressure increasing with the arrival of winter. Inflation-focused interest rate cuts in monetary policy will alleviate the pressure on borrowing rates. In this context, we view price stability as a prerequisite for achieving fiscal discipline targets. The upgraded forecasts in the latest inflation report and the possibility that monetary policy will remain tighter than expected will also affect budget performance. Considering that the pressure on expenditures will continue, the effectiveness of tax collection will increase the contribution of fiscal policy to disinflation.

Budget expenditures increased by 43.4% compared to the same period of last year. The highest proportional increases were experienced in capital transfers (589%) and expenditures for the purchase of goods and services (59%), while the largest expenditure items were current transfers (TRY 520 billion) and personnel expenses (TRY 332 billion). The average annual increase in budget revenues was 49.1%. The highest increases were in income tax (90%) and revenues from special budget administrations (86.3%). The sub-items contributing the most to budget revenues were income tax and special consumption tax (TRY 303 billion and TRY 186 billion, respectively). The increase in both revenue and expenditure balances is far above inflation. While there has been a significant improvement in tax collection recently, rigidity in expenditure items is clearly felt. And despite income tax collection improvement, the rise in tax revenues from expenditures indicates that inflationary pressures continue. The decline in disinflation to targeted levels will bring about discipline in public finances.

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



In summary, the budget posted a deficit of TRY 223.2 billion in October, and a primary balance of TRY 65.8 billion. Current transfer pressure, occasionally added to the budget's interest burden, fuels the deficit. While core indicator performance remains at targeted levels, borrowing rates and transfers are disrupting fiscal discipline within the budget. Achieving fiscal discipline without price stability appears quite challenging. Based on the fiscal discipline anchor, this deficit has hovered around 1.5-2.5%. Recent rising risks to the global debt burden and borrowing rates have further highlighted the importance of public fiscal efficiency. We are experiencing a period where past monetary policy choices are undermining public fiscal discipline. A shift in fiscal policy toward a tightening structure, coordinated with monetary policy, will contribute to fiscal discipline and price stability in the medium term. Policies aimed at increasing the efficiency of tax revenues and restricting expenditures will also ensure continued budget discipline. We emphasize here that transitions during the normalization process in economic policies may bring additional shocks and updates to our forecasts.

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