Macro note – Central Government Budget Balance

In November, the budget shows a surplus of 169.5 billion TRY and the primary balance is 287.4 billion TRY. A limited recovery in the budget continues, primarily driven by corporate tax.

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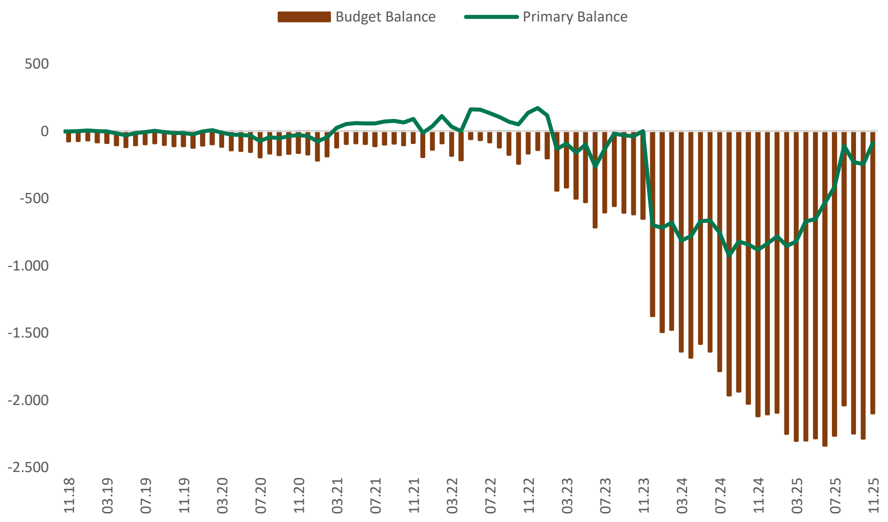
According to the central government budget data for November published by the Ministry of Treasury and Finance, budget revenues amounted to TRY 1,420 billion, while budget expenditures totaled TRY 1,250 billion. Non-interest budget expenditures reached TRY 1,132 billion during the same period. With these figures, the budget surplus was TRY 169.5 billion and the non-interest balance showed a surplus of TRY 287.4 billion. Interest payments continue to show limited improvement (average TRY 180 billion, November TRY 118 billion). While personnel expenses and current transfers increased in line with inflation, the periodic collection of corporate tax contributed to the recovery in budget performance. Transfers to state-owned enterprises and financial institutions decreased significantly this month, returning to the year-to-date average trend. TRY 18.8 billion was transferred to Elektrik Üretim AŞ (Electricity Generation Inc.), while no current transfers were made to BOTAŞ (Turkish Petroleum Pipeline Corporation) this month. A total of TRY 371 billion was transferred to BOTAŞ and Elektrik Üretim AŞ during the January-November period. If we calculate that total interest expenses amounted to TRY 1.93 trillion during the same period, the total burden on the budget from public borrowing interest and transfers to state-owned enterprises since the beginning of the year has been approximately TRY 2.3 trillion. When the 12-month totals are considered together, the budget deficit is at the level of TRY 2.1 trillion, while the core balance excluding interest shows a deficit of TRY 87 billion. We see a significant impact of inflation and high borrowing interest rates on the budget. The recent decrease in inflation and the parallel decline in market interest rates will alleviate the interest rate pressure on the budget. The discipline in fiscal policy, supported by monetary policy, will be important in this regard. The fact that monetary policy has built disinflation after a long-term struggle also eases fiscal policy. After this threshold is reached, inflationary pressures created by public finances will be more permanent. Coordination between monetary and fiscal policies is crucial to avoid fiscal pressures that create price stickiness due to past effects, rather than temporary shocks in inflation. We are closely monitoring the revaluation rate and the inflation contributions from administered prices.

Budget expenditures increased by 30.7% compared to the same period of last year. The highest percentage increases were seen in capital transfers (570%) and lending expenses (75%), while the highest expenditure items were current transfers (TRY 451 billion) and personnel expenses (TRY 326 billion). Budget revenues, on the other hand, showed an average annual increase of 51.1%. The highest increases were seen in corporate tax (77%) and income tax (66%). The sub-items contributing most to budget revenues were corporate tax and income tax (TRY 328 billion and TRY 280 billion, respectively). While the expenditure balance is converging towards inflation, we see an improvement in tax collection above the inflation rate. In particular, the efficiency of tax auditing and collection has significantly improved in terms of fiscal discipline. Every step taken with austerity policies in expenditure items will contribute to the disinflationary process.

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



In summary, the budget showed a surplus of TRY 169.5 billion in November, and the non-interest balance reached TRY 287.4 billion. While interest rate pressure eased, increases in expenditure items in line with inflation positively impacted budget performance. In addition, the collection of periodic corporate taxes contributed to the budget surplus. While core indicator performance is at targeted levels, borrowing interest rates and transfers are hindering fiscal discipline in the budget. Achieving fiscal discipline without ensuring price stability seems quite difficult. Within the fiscal discipline anchor, this deficit has remained in the 1.5-2.5% range. The recently increased risks on global debt burden and borrowing interest rates have once again highlighted the importance of efficiency in public finances. We are experiencing a period where past monetary policy choices have hampered discipline in public finances. A shift towards a tightening fiscal policy in coordination 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 continuity in budget discipline. We would like to emphasize that transitions in the normalization process of economic policies may bring additional shocks and updates to our forecasts.

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