

Macro note – Central Government Budget Balance

In February, the budget recorded a surplus of TRY 24.4 billion and the primary balance a surplus of TRY 208 billion. Whilst corporate tax revenue contributed to the budget surplus, the negative trend in current transfers persists.

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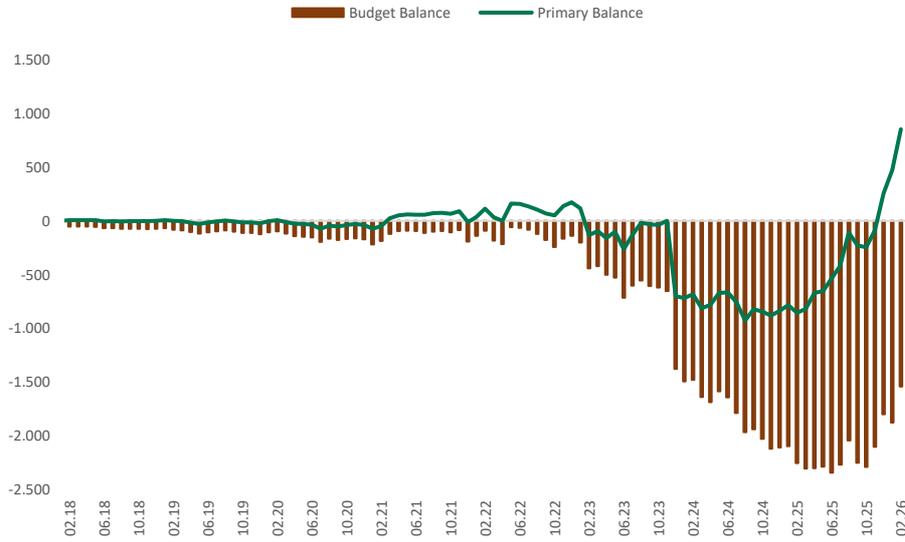
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According to the central government budget data for February published by the Ministry of Treasury and Finance, budget revenues stood at TRY 1,353.6 billion, whilst budget expenditures amounted to TRY 1,329.2 billion. During the same period, non-interest budget expenditures totaled TRY 1,145.6 billion. With these figures, the budget surplus stood at TRY 24.4 billion, whilst the non-interest balance recorded a surplus of TRY 208 billion. Although the interest burden on the budget has eased compared to January, it remains at a high level of 13%. If the current trend continues, interest expenditure is projected to rise to around TRY 2 trillion when considered on a 12-month cumulative basis. Even if the primary budget balance is at break-even, including interest payments brings the figure in line with the budget deficit forecast in the Medium-Term Programme (OVP). In this regard, the decline in inflation expectations and the fall in borrowing rates are of critical importance for fiscal discipline in the medium to long term. The trend in personnel expenditure continues at a moderate pace, with an increase close to the inflation rate. As for current transfers, the January–February total has exceeded TRY 1 trillion. In February, transfers of TRY 46 billion were made to Electricity Generation Inc. and TRY 13 billion to BOTAŞ. During the same period, transfers of TRY 19.8 billion were made to Ziraat Bank and TRY 5.5 billion to Halk Bank. Transfers to public enterprises and financial institutions reached TRY 85 billion in February. No significant changes are apparent in capital expenditure, transfers or lending items. The key driver of this month's budget surplus is the seasonal collection of corporate tax. Improving the trend in the non-interest balance has become a priority for fiscal discipline. The rebalancing of the budget deficit and the re-establishment of the anchor of fiscal discipline will reduce macroeconomic vulnerabilities, leading to a public finance framework that is more resilient to external shocks. Furthermore, this development, which curbs inflation generated by the public sector, will provide full support to monetary policy in achieving the long-term inflation target. Fiscal discipline will be maintained in the budget balance, including interest payments, alongside the easing of the monetary policy stance. Last year's fiscal performance was better than forecast. We will continue to see the positive effects of the ongoing coordination with monetary policy gradually unfold. We may also see fiscal policy measures from policymakers in 2026 that fully support this coordination and the disinflation process. Recent geopolitical developments will have a limited negative impact on fiscal policy. By forgoing a portion of excise duty revenues through the escalator mechanism, the public authorities are mitigating the impact of headline inflation on consumers. In this context, a limited decline in excise duty revenues may be observed during the March–April period.

Looking at the details of the changes in the budget revenue/expenditure balance, budget expenditure in February increased by 28.6% compared to the same period last year. The highest proportional increases were observed in state premium expenditure (50.6%) and personnel expenditure (39.7%), whilst the largest expenditure items were current transfers (TRY 548 billion) and personnel expenditure (TRY 390 billion). As for budget revenue, the average annual increase stands at 87%. The highest increases were observed in corporate tax (3,349%) and duties (213%). The sub-categories contributing most significantly to budget revenue were domestic corporate tax and income tax (TRY 376.2 billion and TRY 220.2 billion respectively). Whilst average

increases in expenditure items have fallen below the inflation rate, there has been a marked improvement in revenue and collections relative to inflation. Should this trend continue, we can conclude that there will be no compromise on fiscal discipline within the budget or on coordination in public finance.

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



In summary, the budget recorded a surplus of TRY 24.4 billion and the non-interest balance a surplus of TRY 208 billion in February. The main factor driving the budget surplus was seasonal collections of corporation tax. The high level of current transfers continues to put pressure on core budget performance. Any decline in nominal interest rates will have a clearly positive impact on the fiscal discipline anchor for the 2027–2028 period. Looking at the cumulative figures for the primary balance, there is a clear budget surplus. From this perspective, we can say that there is no deterioration in the core indicators. As monetary policy works to achieve disinflation, falling interest rates will also contribute to fiscal discipline. The increased risks regarding the global debt burden and borrowing costs in recent times have once again highlighted the importance of fiscal efficiency. A shift in fiscal policy towards a tightening stance, in coordination with monetary policy, will contribute to fiscal discipline and price stability in the medium term. Policies aimed at enhancing the efficiency of tax revenues and restricting expenditure will also ensure the continuity of budgetary discipline. We would like to emphasize that transitions during the normalization process in economic policies may bring about additional shocks and necessitate updates to our forecasts.

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