

Macro: Budget surplus again in August

The central government budget balance posted a surplus of TRY51.3 bn in August. In January-August period, the budget deficit was TRY383.4 bn and the 12-month cumulative deficit declined to TRY559 bn. Despite the monthly surplus, the budget balance deteriorated in seasonally adjusted terms due to current transfers and interest expenditure. On the other hand, tax revenues continue to make a strong contribution to the budget strongly due to the accelerating inflation, higher tax rates and robust domestic demand.

The trend so far this year implies a year-end budget deficit of around TRY 600 billion. However, in the new Medium Term Program (MTP), the year-end budget deficit for 2023 is estimated to be TRY1,633 bn (6.4% of GDP) due to earthquake expenditures and increased interest payments. **This would imply a sizeable budget deficit for the rest of the year.** This signals that the dampening effect on growth of the expected slowdown in private demand, driven by monetary tightening steps, will be offset by public spending. The same is also true for 2024. Accordingly, despite a change in the composition of domestic demand over the rest of the year, we think that domestic demand-driven growth will continue.

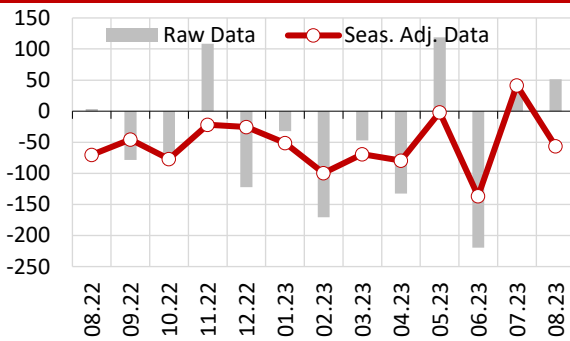
On the other hand, year-end budget deficits have been lower than projected in the MTPs in recent years. Depending on the course of growth, we believe that public sector spending may not be as high as projected and that it may be preferable to keep the budget deficit at a lower level. Nevertheless, we believe that the role of the public sector in growth will increase in the period ahead.

Details on the budget data are as follows:

Budget Balance

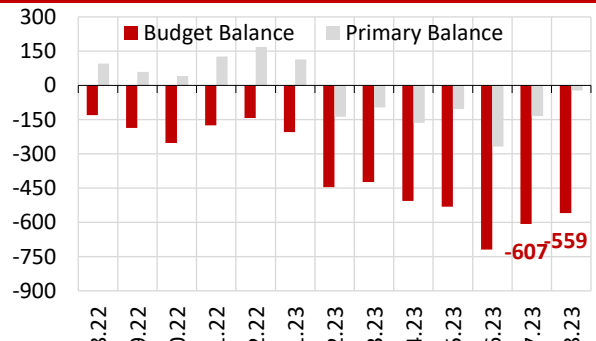
- Central government budget balance posted a surplus of TL51.3 bn and a primary surplus of TL138.4 bn in August (Chart 1). This brought the year-to-date budget deficit down to TL 383.4 bn and the 12-month cumulative deficit to TL 559.2 bn (Chart 2).
- The seasonally adjusted budget deficit deteriorated on a monthly basis (Chart 1). This was mainly driven by the increases in both interest and non-interest expenditure. However, strong tax revenues prevented the deficit from widening.

Chart 1. Budget Balance (bn TL)



Source: Treasury, Akbank

Chart 2. Budget Balance (12-month cumulative, bn TL)



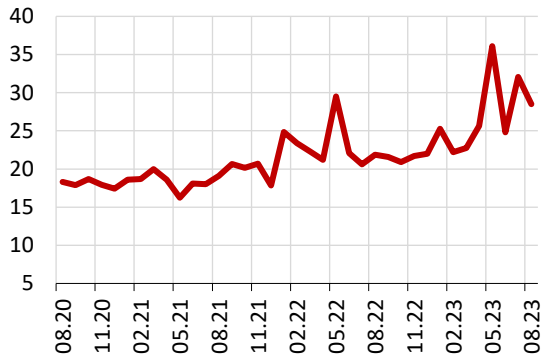
Source: Treasury

Budget Revenues:

- Central government budget revenues, led by tax revenues, increased by 100.7% y-o-y to TL614 bn in August. In the January-August period, the annual increase was 69.6%; TRY2,998.7 bn. The 2023 year-end forecast in the MTP is TRY4,929.7 bn.
 - Tax revenues increased by 99.8% yoy to TRY543.2 bn in August. Thus, annual increase in the first eight months of the year was 76%.

- **Income tax and corporate tax collections** increased by 101.5% and 59.4%, respectively. Almost half of the increase in corporate tax revenues was due to the additional tax collected due to the earthquake.
- The annual increase in **SCT** was 164.5% y-o-y, mainly due to the rise in SCT on petroleum and natural gas products and motor vehicles. In the first eight months of the year, SCT revenues from motor vehicles amounted to TRY 257 bn, accounting for 50% of total SCT revenues and 10% of total tax revenues.
- The lump sum SCT increase on fuel products (5TL for gasoline and diesel, 4TL for LPG) was reflected in tax collection this month and tripled the revenue from this item. In seasonally adjusted terms, the monthly additional revenue is around TRY15 bn.
- **Domestic VAT** had posted a strong increase last month. In seasonally adjusted terms, August figures showed a correction in line with our expectations (Chart 4). However, it is still well above two months ago. This was mainly driven by the cumulative inflation reaching 19.4% in the last two months and the 2 percentage point increase in VAT rates. However, strong domestic demand also contributes to VAT collection. The annual increase is 287.8%.
- **Value added tax on imports** increased by 67% y-o-y due to the increase in the exchange rate.
- In August, TRY6.9 bn revenue was obtained from the additional Motor Vehicle Tax. In July, TRY1.6 bn revenue was collected from this item.
- **Adjusted for price and seasonal effects**, tax revenues decreased by 11% m-o-m in August due to the decline in items excluding SCT and taxes on property (Chart 3). SCT, on the other hand, increased by 10.5% m-o-m. VAT on imports decreased by 2.4% m-o-m.

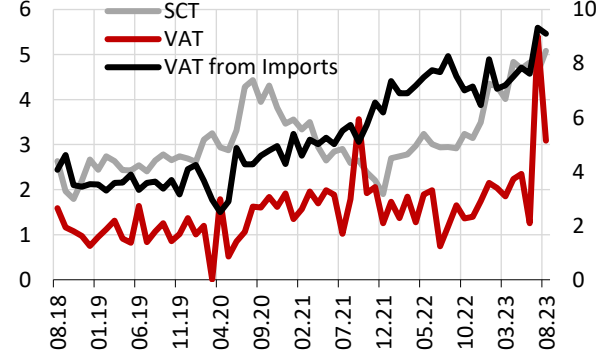
Chart 3. Tax Revenues (bn TL, s.a., 2003 prices)



Sources: Treasury, Akbank

Note: Tax revenues are deflated with the relevant CPI items.

Chart 4. Tax Revenues (bn TL, s.a., 2003 prices)



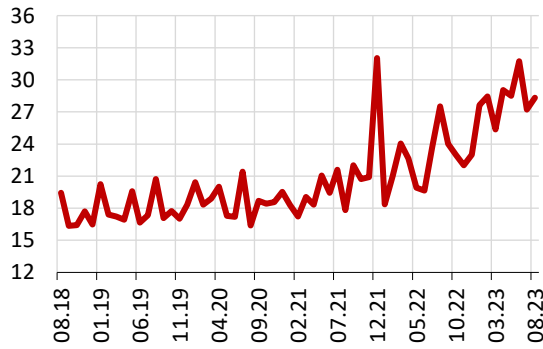
Sources: Treasury, Akbank

Budget Expenditures:

- **Central government budget expenditures** increased by 86.1% y-o-y to TRY562.7 bn. Thus, the annual increase in expenditures in the first eight months of the year was 94.9%; TRY3,382.1 bn. The 2023 year-end forecast in the MTP is TRY6,562.6 bn.
- **Primary expenditures increased** by 70% in August and by 91% in the first eight months of the year; TRY2,982 bn.
 - With the latest communiqué, the **KKM burden of the Treasury was transferred to the CBRT**. The end of transfers for the KKM was effective in the lower realization of budget expenditures. In the first seven months of the year, KKM expenditures were TRY59.5 bn.
 - About half of the acceleration in expenditures stemmed from the increase in the **current transfers** item. Duty losses to public enterprises was realized below the previous months in August as well.

- **Personnel expenditures** made the second largest contribution to the monthly increase. On an annual basis, it was also quite strong with 125.5%.
 - **Capital expenditures**, including investment expenditures, increased by 64.3% y-o-y. In seasonally adjusted terms, it increased by 10% m-o-m.
 - The annual increase in **purchases of goods and services** slowed down slightly compared to the previous months; 31.4%. However, it recorded a strong increase of 17% m-o-m in seasonally adjusted terms.
- **Interest expenditure** increased by TRY64.5 bn to TRY87.1 bn TL in August. In the first eight months of the year, it increased by 130% to TRY400 bn.
 - In seasonally adjusted terms, **real primary expenditure** rose by 4.1% on a monthly basis (Chart 5 and 6),

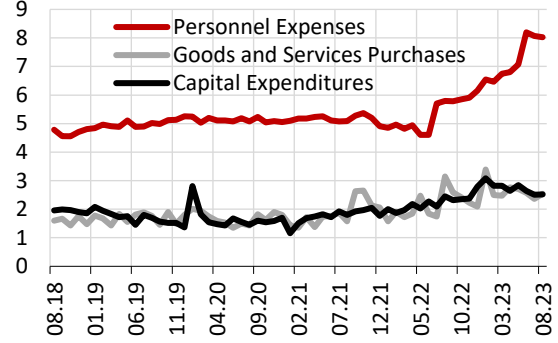
Chart 5. Primary Expenditures (bn TL, s.a., 2003 prices)



Sources: Treasury, Akbank

* Realizations were made with the relevant CPI items.

Chart 6. Primary Expenditures (bn TL, s.a., 2003 prices)



Sources: Treasury, Akbank

Table 1. Budget Balance (Million TL)

	Monthly		8-Months Cumulative		12-Month Cumulative	
	Aug.23	Aug.22	Aug.23	Aug.22	Aug.23	Aug.22
Budget Revenues	613,956	305,930	2,998,719	1,768,320	4,030,486	2,297,723
General Budget Revenues	606,644	301,322	2,932,320	1,730,328	3,940,800	2,245,273
Taxes	543,183	271,858	2,595,811	1,474,497	3,474,752	1,926,676
Income Tax	68,166	33,831	398,119	205,785	548,798	293,301
Corporate Tax	161,064	101,051	473,399	366,579	614,274	427,380
VAT	51,173	13,196	285,482	107,863	352,762	160,670
Special Consumption Tax	104,100	39,351	512,746	241,024	691,513	313,885
VAT from Imports	96,798	57,925	550,545	360,994	768,517	470,884
Property Income	4,723	2,507	97,834	74,670	127,869	81,945
Grants and Aids and Special Revenues	2,440	1,830	17,544	21,073	24,471	21,799
Interest, Shares and Fines	54,671	22,778	208,608	150,412	295,923	200,013
Capital Revenues	937	2,167	8,443	8,505	12,295	13,189
Collections from Loans	691	182	4,079	1,171	5,491	1,650
Special Budget Revenues	5,705	3,803	48,797	28,738	68,490	40,892
Rev. of Regulatory & Supervisory Inst.	1,607	805	17,602	9,254	21,196	11,558
Budget Expenditures	562,686	302,343	3,382,103	1,735,193	4,589,657	2,428,596
Primary Expenditures	475,537	279,696	2,982,002	1,561,199	4,052,648	2,201,914
Compensation of Employees	129,274	57,318	826,534	379,621	1,062,209	496,960
Social Security Contributions	16,421	9,000	119,660	59,794	156,730	79,577
Purchases of Goods and Services	40,650	30,942	232,056	126,905	362,811	205,320
Current Transfers	186,923	98,547	1,412,053	715,982	1,822,435	964,895
Capital Expenditures	36,762	22,373	199,227	107,975	368,147	184,571
Capital Transfers	33,416	9,792	100,484	20,467	128,840	39,624
Lending	32,091	51,725	91,988	150,455	151,477	230,967
Interest Payments	87,149	22,647	400,100	173,994	537,009	226,682
Budget Balance	51,270	3,586	-383,384	33,127	-559,171	-130,873
Primary Balance	138,419	26,233	16,716	207,121	-22,162	95,809

Source: Treasury

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağrı Sarıkaya– Chief Economist

Cagri.Sarikaya@akbank.com

Çağlar Yüncüler

Caglar.Yunculer@akbank.com

M. Sibel Yapıcı

Sibel.Yapici@akbank.com

Alp Nasır

Alp.Nasir@akbank.com

DISCLAIMER STATEMENT: The text, information and graphs in this report and comments has been prepared from the primary accessible systemic sources on a bona fide basis, and without consideration to establishing any guarantee and assurance for establishing a basis for any informed decision under any name or form, in terms of their accuracy, validity and effectiveness, and thus it has only been gathered for information purposes. Akbank TAŞ, Ak Yatırım AŞ and their employees will not be held responsible for any damages resulting from the comments included in this report such as lack of information and/or updates. Akbank TAŞ and Ak Yatırım AŞ may modify and/or remove the above information and recommendations at any time, without having to serve any prior notice and/or warning in any way, manner or form. Since this report and comments, the comprehensive information and recommendations which have been prepared in the form of general investment suggestions for the purpose of providing general information do not include any commitment by Akbank TAŞ and Ak Yatırım AŞ, the consequences of any decisions taken, conclusions reached, transactions made and any risks caused by any private and/or legal person based on such information will therefore rest with such persons. For this reason, Akbank T.A.Ş., Ak Yatırım A.Ş. and their employees shall not by any means or in any manner be liable for any material and moral damages, loss of profits, or any direct and/or indirect damages, whatsoever, incurred by the persons concerned or 3rd parties, as a result of the decisions taken, conclusions reached, or transactions performed by private and/or legal persons due to reliance on the information contained in this report, the comments and recommendations herein, and the persons concerned understand and accept that they are not entitled to claim any indemnity, whatsoever, from Akbank TAŞ, Ak Yatırım AŞ and their employees for any damages suffered/to be suffered. The information given in this report, and the comments and recommendations contained herein do not constitute an "investment consultancy" service and/or activity, but fall within the scope of a general investment consultancy activity, and individuals and entities willing to receive an investment consultancy service must contact entities and institutions that are authorized to provide such service and obtain such service under a service agreement pursuant to the legislations of CMB. Investment consultancy services are offered under an investment consultancy agreement to be signed between brokerage houses, portfolio management companies, banks that do not admit deposits and the clients. The comments and recommendations contained herein depend upon the personal opinions of the persons who make the comments and recommendations. Since such opinions have been arranged in the scope of a general investment consultancy activity they do not contain reports, comments and recommendations specific to a person, and may therefore not suit your financial status, risk and return preferences. Thus, making investment decisions solely based on the information contained herein might not bring an outcome that meets your expectations.