

Macro: Expansionary fiscal stance in Q1

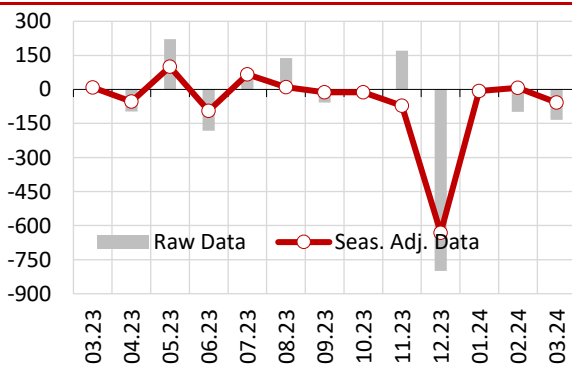
In March, central government budget balance posted a deficit of 209 billion TRY, while primary deficit was 134.4 billion TRY. Thus, 12-month cumulative total and primary deficits narrowed to 1.64 trillion TRY (5.5% of GDP) and 814 billion TRY (2.7% of GDP), respectively. For the last two months, the budget deficit had been below the cash balance deficit due to the payments of earthquake expenditures accrued in December 2023. However, this situation, which we expected to continue, did not materialise in March. In March, while expenditures were close in both figures, the cash balance posted a lower deficit than the budget balance thanks to the higher tax revenue performance. Seasonally adjusted primary budget balance deteriorated significantly compared to the last two months. While the increase in expenditures driven by the rise in current transfers and purchases of goods and services accounted for half of this deterioration, the other half of the deterioration stemmed from the decline in tax revenues.

The course of budget revenues and expenditures is consistent with our previous assessments that activity remained strong in the first quarter and the public stance was supportive of growth. Moreover, expenditures were also low in the first quarter in items associated with earthquake expenditures. In the upcoming period, we believe that fiscal policy should focus on domestic demand control in a way to enhance the effectiveness of the current monetary stance and the primary budget deficit should come down to lower levels. In this context, public expenditure and tax policies as well as the revenues policy for the second half of the year will be of critical importance.

Budget Balance

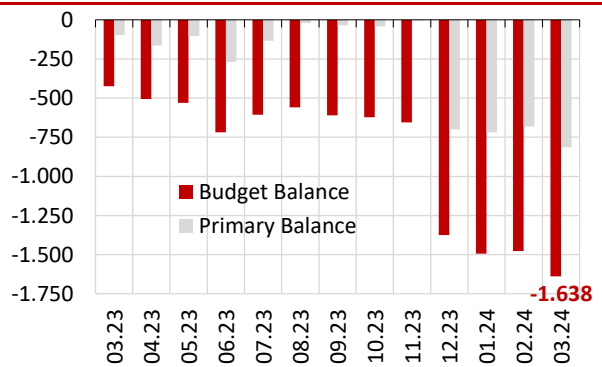
- **The central government budget balance posted a deficit of 209.0 billion TRY in March**, higher than the Treasury cash balance (167 billion TRY) and the same month of the previous year (47.2 billion TRY). The primary balance, at 134 billion TRY, also significantly exceeded the deficit of March last year (2.1 billion TRY). The fact that there was no profit transfer from the CBRT this year also played a role in the worse performance on an annual basis.
- In the first quarter of the year, the total and primary budget deficit stood at 513 billion TRY and 263 billion TRY, respectively. In 12-month cumulative terms, the budget deficit and primary budget deficit rose to TRY 1.64 trillion and TRY 814 billion, respectively (Chart 2). We estimate that these deficits correspond to approximately 5.5% and 2.7% of GDP, respectively.
- **In seasonally adjusted terms**, the primary budget balance was close to zero in January and February (Chart 1). However, it widened again on a monthly basis in March. Half of this widening stemmed from the decline in revenues and the remaining half from the increase in expenditures.

Chart 1. Primary Budget Balance (billion TL)



Source: Treasury, Akbank

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

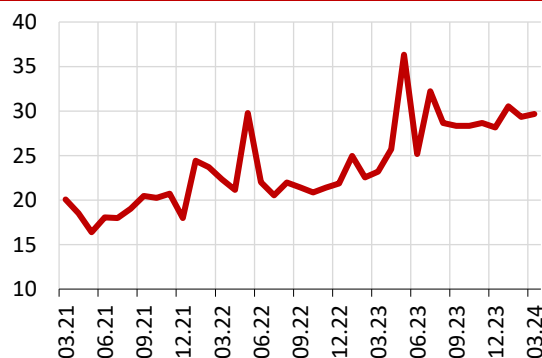


Source: Treasury

Budget Revenues:

- **Central government budget revenue rose by 68.7 % yoy to 483.8 billion TRY in March**, led by tax revenues. In the first quarter, annual increase was 106% yoy; 1,637 billion TRY.
 - **Tax revenue** increased by 111.7 % yoy to 420.5 billion TRY in March, up by 113% yoy in the first quarter.
 - **Income tax and corporate tax collections increased** by 111.9% and 252.4%, respectively, in March. The extension of the income tax filing deadline to 5 April limited the amount collected from income tax.
 - **SCT revenues** increased by 102% yoy. This increase was mainly driven by SCT increases in petroleum and natural gas products, tobacco products and durable consumer goods. Annual SCT increases in petroleum products and durable consumption goods were 361% and 106%, respectively. The annual increase in SCT revenues from motor vehicles slowed down slightly and totalled TRY 41.7 billion in March and TRY 104 billion in the first quarter of the year, accounting for 37% of total SCT revenues and 8% of total tax revenues. SCT revenues from tobacco products totalled 14.4 billion TRY in March and 57.7 billion TRY in the first quarter of the year, accounting for 20% of SCT revenues.
 - **Domestic VAT** continued to increase strongly on an annual basis and rose by 491.7% yoy in March. In price and seasonally adjusted terms, the monthly decline in February was followed by an increase in March. **Value added tax on imports** increased by 74.5% yoy in March.
 - In March, TRY 0.5 bn revenue was obtained from **the additional Motor Vehicle Tax**. Thus, the total revenues in July 2023 - March 2024 period amounted to TRY 33 billion.
- **Adjusted for price and seasonal effects**, tax revenues rose by 1.1% mom in March and by 5.2% qoq in the first quarter (Charts 3 and 4). This course of tax revenues confirms our previous assessments that economic activity remained robust in the first quarter.

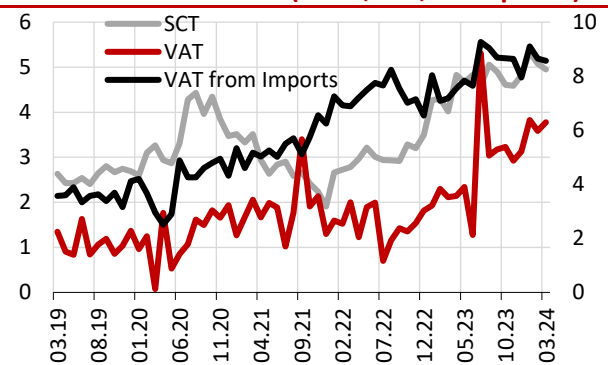
Chart 3. Tax Revenues (bn TL, s.a., 2003 prices)



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

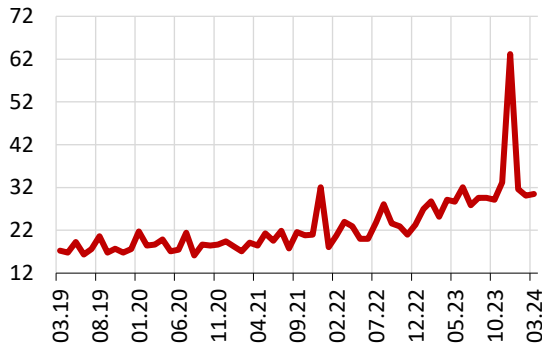
Budget Expenditures:

- **Central government budget expenditures** increased by 107% yoy in March, mainly led by current transfers and personnel expenditures and totalled 692.8 billion TRY. In January-March period, total expenditures were 2.151 billion TRY.
 - Primary expenditures increased by 114% yoy in March and 101% yoy in the Q1; 1.900 billion TRY.
 - **Current transfers** increased by 107% yoy in March. Transfers to Non-Profit Organisations item was quite high compared to its historical course with 25 billion TRY due to "Transformation

Expenses of Areas under Disaster Risk". While SEE assignments item was realised as 18.4 billion TRY in March, which was all transferred to Electricity Generation Co. In the first quarter of the year, SEE assignment item was 55.6 billion TRY.

- **Personnel expenditures** rose by 135% yoy in March. In price and seasonally adjusted terms, the monthly increase was limited to 1%.
- **Capital expenditures**, including investment expenditures, increased by 106.5% yoy. In price and seasonally adjusted terms, it slowed down after the strong increase in February.
- **Purchases of goods and services** rose by 73.5% yoy and by 4% mom in March in seasonally adjusted terms.
- **Lending** amounted to 33.6 billion TRY in March; 23.9 billion TRY of this amount was composed of capital transfers to SEEs. Of the SEE transfers, 18.4 billion TRY was to the Turkish Grain Board, 2.7 billion TRY to Turkish State Railways and 1.38 billion TRY to Turkish Hard Coal Corporation.
- **Interest expenditures** increased by 65.4% yoy in March to 74.5 billion TRY and by 149% in January-March period, amounting to 250.5 billion TRY.
- In seasonally adjusted terms, **real primary expenditures** rose by 1.3% mom in March. The increase was widespread across subcategories (Charts 5 and 6).

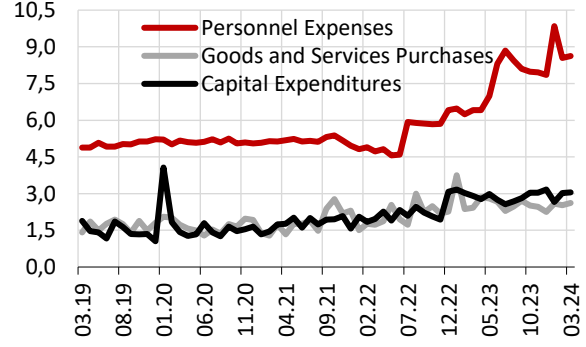
Chart 5. Primary Expenditures (bn TL, s.a., 2003 prices)



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 TRY)

	Monthly		Year-to-Date Cumulative		12-Month Cumulative	
	Mar.24	Mar.23	2024	2023	Mar.24	Mar.23
Budget Revenues	483,842	286,821	1,637,198	794,728	6,052,958	2,992,291
General Budget Revenues	471,061	278,110	1,577,889	765,156	5,909,878	2,916,462
Taxes	420,468	198,590	1,343,960	631,036	5,213,790	2,529,316
Income Tax	85,156	40,185	257,505	117,173	834,346	404,891
Corporate Tax	5,076	1,440	28,291	15,265	799,340	419,851
VAT	49,011	8,283	221,918	70,309	657,075	208,623
Special Consumption Tax	96,596	47,777	283,153	135,275	1,076,073	489,231
VAT from Imports	111,768	64,063	303,057	168,051	1,084,515	634,707
Property Income	6,134	57,519	48,975	67,616	114,451	112,141
Grants and Aids and Special Revenues	3,344	1,290	24,618	5,216	48,945	21,178
Interest, Shares and Fines	39,674	16,642	154,675	55,403	508,246	235,490
Capital Revenues	747	3,734	3,333	4,649	15,998	14,877
Collections from Loans	694	337	2,327	1,235	8,447	3,460
Special Budget Revenues	10,611	5,529	42,889	20,322	110,739	58,791
Rev, of Regulatory & Supervisory Inst,	2,170	3,182	16,420	9,249	32,342	17,038
Budget Expenditures	692,807	334,044	2,150,680	1,044,753	7,691,383	3,415,785
Primary Expenditures	618,254	288,969	1,900,204	944,095	6,866,950	3,089,063
Compensation of Employees	203,941	86,683	664,320	274,557	1,714,293	759,432
Social Security Contributions	25,922	13,767	81,510	42,835	224,410	118,423
Purchases of Goods and Services	48,819	28,140	118,734	70,794	500,796	297,990
Current Transfers	258,217	124,694	837,168	464,759	2,746,050	1,367,123
Capital Expenditures	44,780	21,682	95,576	49,497	589,075	310,038
Capital Transfers	2,960	8,586	5,054	20,874	842,239	68,790
Lending	33,617	5,417	97,843	20,780	250,087	167,267
Interest Payments	74,553	45,075	250,476	100,658	824,433	326,722
Budget Balance	-208,965	-47,223	-513,482	-250,025	-1,638,425	-423,494
Primary Balance	-134,412	-2,148	-263,006	-149,367	-813,991	-96,772

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

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