

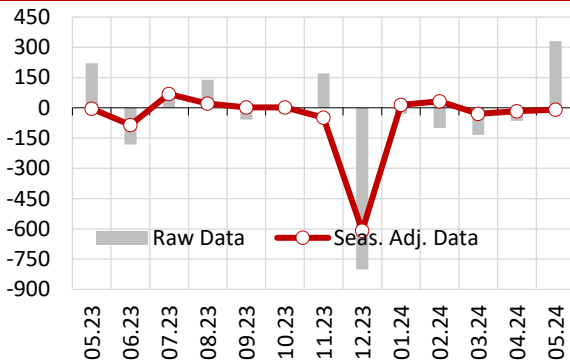
Macro: Significant contribution to the budget from seasonal increase in corporate tax revenue

In May, central government budget balance recorded a surplus of 219.4 billion TRY and a primary surplus of 330.1 billion TRY. This brought the cumulative budget deficit for the first five months of the year to 472 billion TRY and for the last 12-months to 1.58 trillion TRY. Seasonally high corporate tax revenues (403.9 billion TRY) were the main driver of the budget surplus in May. Seasonally adjusted data, which exclude this effect, showed that the primary budget balance improved slightly compared to the previous month and remained in deficit, although not at a high level. Although we consider it positive that the moderate trend has been maintained, we do not consider it sufficient to achieve the tight fiscal stance that we expect to accompany the tightening of monetary policy. Moreover, we believe that steps to improve fiscal performance should be taken through expenditure-cutting measures rather than revenue-raising measures, in order to limit the impact of demand conditions and inflation expectations on inflation and pricing behaviour.

Budget Balance

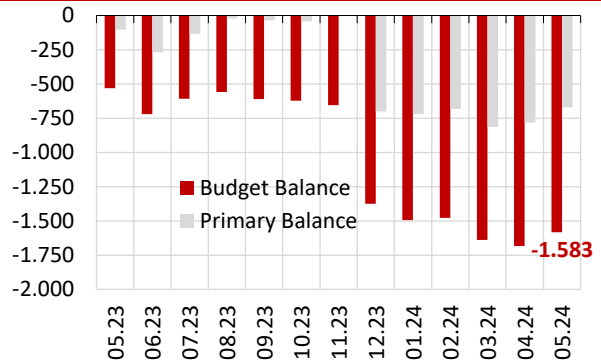
- The central government budget balance recorded a surplus of 219.4 billion TRY in May, slightly lower than the cash balance of the Treasury (234.7 billion TRY). The primary budget surplus stood at 330.1 billion TRY. Thus, the 12-month cumulative budget deficit and primary deficit narrowed to 1,583 billion TRY and 671 billion TRY, respectively (Table 1, Chart 2).
- The surplus in the budget balance in May was driven by strong corporate tax revenues (TRY 403.9 bn). Law No. 7338, published on 26 October 2021, abolished the fourth provisional tax that income and corporate taxpayers were required to declare from 2023. Therefore, for the last two years, budget revenues in May have reflected both the corporate tax based on the declaration, which is for the last quarter of the previous year, and the provisional corporate tax, which is for the first quarter of the current year. Tax revenues in May have therefore acquired a new seasonal character. In order to assess the budget's performance more accurately, we need to adopt an approach that excludes these effects. Accordingly, seasonally adjusted figures suggest that the improvement in the primary budget balance was limited.

Chart 1. Primary Budget Balance (billion TL)



Source: Treasury, Akbank

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



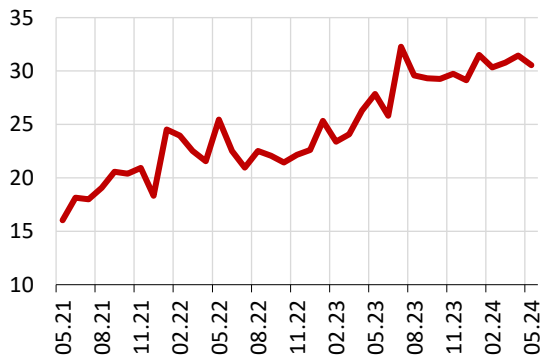
Source: Treasury

Budget Revenues:

- Central government budget revenue increased by 83% yoy to 1.007 billion TRY in May, led by corporate tax revenues. In January-May period, annual increase was 101% yoy; 3,240 billion TRY.
 - Tax revenues increased by 77% yoy to 898 billion TRY in May, up by 99% yoy in the first five months of the year.

- Corporate tax revenue** was realized as 403.9 billion TL in May, 58% above the previous year. Declaration-based corporate tax collection was 215.4 billion TRY. Provisional corporate tax collection was 187.7 billion TRY (May 2023: 87.9 billion TRY). The annual increase in income tax was realized as 135%.
- Value added tax on imports** increased by 76% yoy.
- SCT revenues increased by 86% yoy.** This increase was mainly driven by SCT increases in petroleum and natural gas products, alcoholic beverages and tobacco products; annual SCT increases in these items were realized as 293%, 138% and 122%, respectively. SCT revenues from motor vehicles amounted to 44.9 billion TRY in May and 181 billion TRY in the first five months of the year. SCT revenue from motor vehicles accounted for 36% of total SCT revenue and 7% of total tax revenues. SCT revenues from tobacco products amounted to 24.3 billion TRY in May and 108 billion TRY in the first five months of the year, accounting for 22% of total SCT revenues.
- Domestic VAT** continued to increase on an annual basis and rose by 108% yoy in May.
- Adjusted for price and seasonal effects**, which we monitor to obtain timely information on the course of activity, fell by 2.8% mom in May after two months of increase (Chart 3). According to the provisional data released by the Ministry of Trade, imports fell sharply in May ([Macro: Sharp correction in external balance](#)). Accordingly, VAT on imports posted a similar monthly decline. On the other hand, domestic VAT, which is driven by domestic consumption, continued to fall (Chart 4). However, its level still signals that the weakening in domestic demand is not strong.

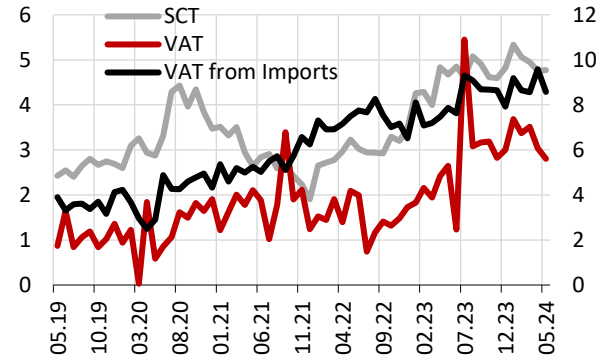
Chart 3. Tax Revenues (bn TL, s.a., 2003 prices)



Sources: Treasury, Akbank

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

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



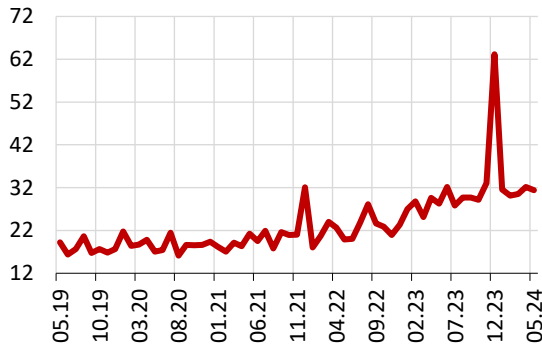
Sources: Treasury, Akbank

Budget Expenditures:

- Central government budget expenditure** increased by 83% yoy in May, mainly led by current transfers and personnel expenditures and were realized as 787.7 billion TRY. In January-May period, the annual increase was 98% and totaled 3.712 billion TRY.
 - Primary expenditures increased by 106.6% yoy in May and 98% yoy in the first five months of the year; 3237 billion TRY.
 - Current transfers** increased by 106% yoy in May. "Transformation Expenses of Areas under Disaster Risk", which is included in Transfers to Non-Profit Organisations item, was 32 billion TRY in May, totaling 76.6 billion TRY in the last three months. While SEE assignments item was 11.2 billion TRY in May, this amount was transferred to Electricity Generation Co. In the first five months of the year, SEE assignments amounted to 89.7 billion TRY.
 - Personnel expenditures continued to** increase strongly by 134% yoy in May. In real and seasonally adjusted terms, the monthly increase was 1.9%.
 - Capital expenditures**, including investment expenditures, increased by 133.5% yoy. In price and seasonally adjusted terms it increased strongly by 11.6%.

- **Purchases of goods and services** rose by 76% yoy and increased by 3.2% on a monthly basis in May in seasonally adjusted terms.
- **Lending** increased by 24.5% yoy to 12.6 billion TRY in May, of which 9.1 billion TRY was composed of capital transfers within the scope of lending to SEEs. Of the SEE transfers, 7.9 billion TRY was to the Turkish State Railways.
- **Interest expenditures** increased by 7.7% yoy in May, totaling 110.6 billion TRY. In the January-May period, they rose by 100% yoy to 475.1 billion TRY.
- **In seasonally adjusted terms**, non-interest expenditures have decreased since the beginning of the year (excluding March and April); the monthly decline was 2.1% in May. The most notable decline was observed in current transfers, while personnel expenditures continued to increase (Charts 5 and 6).

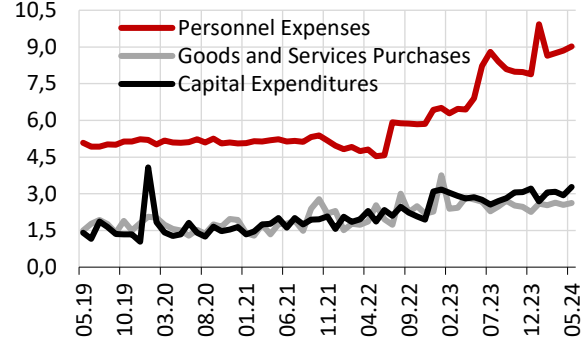
Chart 5. Primary Expenditures (bn TL, s.a., 2003 prices)



Sources: Treasury, Akbank

Note: Expenditures were deflated by 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	
	May.24	May.23	May.24	May.23	May.24	May.23
Budget Revenues	1,007,136	549,424	3,240,147	1,612,124	6,838,511	3,327,821
General Budget Revenues	990,238	542,166	3,150,706	1,566,274	6,681,577	3,244,098
Taxes	898,424	507,414	2,730,239	1,371,153	5,859,951	2,843,435
Income Tax	113,337	48,236	481,321	213,083	962,253	452,568
Corporate Tax	403,930	255,731	451,978	280,693	957,599	528,768
VAT	61,619	29,586	355,752	128,694	732,524	238,186
Special Consumption Tax	116,327	62,442	497,055	251,324	1,173,926	544,646
VAT from Imports	119,948	68,154	534,484	293,307	1,190,687	672,177
Property Income	8,376	7,774	64,754	83,037	114,809	120,548
Grants and Aids and Special Revenues	14,324	2,627	46,327	10,001	65,870	21,441
Interest, Shares and Fines	66,977	23,237	300,143	94,136	614,981	240,263
Capital Revenues	1,173	666	5,301	5,939	16,676	14,435
Collections from Loans	964	447	3,941	2,006	9,290	3,976
Special Budget Revenues	14,084	5,995	67,416	33,721	121,867	65,413
Rev. of Regulatory & Supervisory Inst,	2,814	1,262	22,025	12,130	35,066	18,311
Budget Expenditures	787,728	430,518	3,712,050	1,875,715	8,421,791	3,858,690
Primary Expenditures	677,084	327,804	3,236,904	1,637,846	7,509,899	3,431,803
Compensation of Employees	204,032	87,344	1,077,721	449,760	1,952,491	849,144
Social Security Contributions	25,430	13,145	132,919	69,348	249,306	131,414
Purchases of Goods and Services	59,519	33,815	223,699	135,631	540,923	326,865
Current Transfers	310,849	150,643	1,458,138	790,144	3,041,634	1,533,109
Capital Expenditures	61,237	26,226	214,567	107,966	649,598	338,293
Capital Transfers	3,373	6,476	12,236	45,170	825,124	89,883
Lending	12,644	10,156	117,624	39,827	250,822	163,094
Interest Payments	110,643	102,714	475,147	237,869	911,893	426,887
Budget Balance	219,409	118,906	-471,903	-263,590	-1,583,280	-530,869
Primary Balance	330,052	221,620	3,244	-25,722	-671,388	-103,982

Source: Treasury

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