

Macro: Improvement in budget deficit insufficient to meet the MTP targets

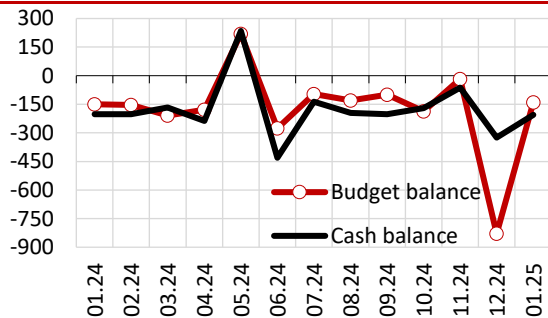
Central government budget balance recorded a deficit of 139.3 billion TRY in January, lower than the cash deficit (204.9 billion TRY). The primary balance recorded a surplus of 23.8 billion TRY. The budget figures for January point to an improvement compared to both the same month of the previous year and the previous month in seasonally adjusted terms. However, as a trend, the primary budget deficit still implies a significant deficit for the year as a whole, indicating that a tighter fiscal stance is needed to achieve the year-end primary budget target (0% of GDP).

As in most months last year, we started this year with a higher cash deficit than the accrual-based deficit. In last month's note, we highlighted that the gap between these two indicators at the end of 2023 did not close in 2024, but extended into 2025. Even if the accrual-based fiscal stance shifts becomes tighter with the reduction in earthquake-related spending, the cash-based deficit is likely to be looser, depending on the pace at which the said gap is closed. The extent to which fiscal policy will contribute to the disinflation process in 2025 will also depend on the progress of the cash balance.

Budget Balance

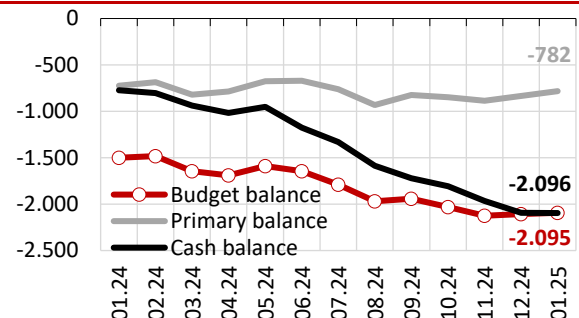
- The central government budget balance posted a deficit of 139.3 billion TRY in January, which was lower than the cash balance (204.9 billion TRY) (Chart 1). In January 2024, the budget balance posted a deficit of 150.7 billion TRY. The primary balance recorded a surplus of 23.8 billion TRY in January, while it recorded a deficit of 29.6 billion TRY in January 2024 (Table 1, Chart 2).

Chart 1. Budget and Cash Balance (billion TL)



Source: Treasury

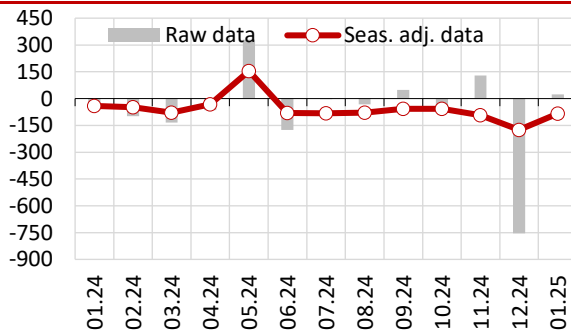
Chart 2. Budget and Cash Balance (12-month cumulative, billion TL)



Source: Treasury

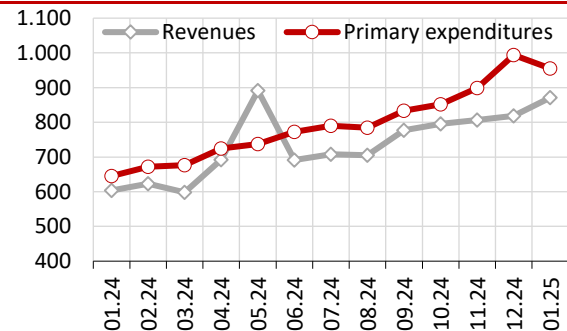
- In seasonally adjusted (s.a.) terms, the primary budget balance improved markedly in January (Chart 3). This was due to the rise in budget revenues and the decline in primary expenditure (Chart 4). However, it remains at a high negative level. According to the MTP, the primary budget is expected to remain in balance this year. In order to achieve this target, the primary budget (s.a.) should be in surplus for the rest of the year.

Chart 3. Budget and Cash Balance (billion TL)



Source: Treasury, Akbank

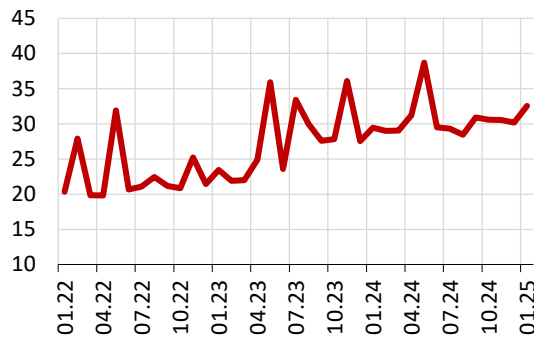
Chart 2. Revenue and Expenditure (s.a, bn. TL)



Source: Treasury, Akbank

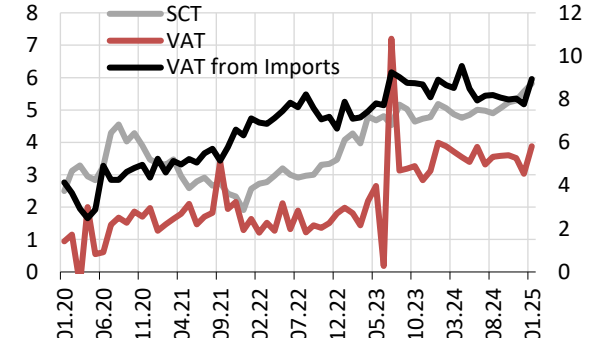
Budget Revenue:

- **Central government budget revenues** increased by 48.6% yoy to 917.1 billion TRY in January.
 - **Tax revenues increased by 53.3% yoy to 792.7 billion TRY in January.** While corporate tax decreased, income tax increased.
 - **Income tax** increased by 91.9% yoy in January, while **corporate tax** decreased by 20.9%.
 - **Domestic VAT** increased by 52.6% yoy, while **VAT on imports** rose by 24.4% yoy.
 - The annual increase in **SCT revenues** was 38.2%. SCT revenues from petroleum and natural gas products increased by 53.9% yoy. SCT revenue from motor vehicles increased by 31.4% yoy to 37.7 billion TRY in January. SCT revenue from motor vehicles accounted for 28% of total SCT revenue and 5% of total tax revenues. SCT on tobacco products was 34.5 billion TRY in January and accounted for 26% of SCT revenues.
 - **In seasonally adjusted terms**, tax revenues increased strongly in January. On a monthly basis, the increase was widespread.
 - **In price and seasonal adjusted terms**, tax revenues increased significantly by 7.8% month-on-month in January after three consecutive months of decline (Chart 5). Broken down by subcategories, income tax decreased, while other large items increased (Chart 6)

Chart 5. Tax Revenues (bn TL, s.a., 2003 prices)

Sources: Treasury, Akbank

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

Chart 6. Tax Revenues (bn TL, s.a., 2003 prices)

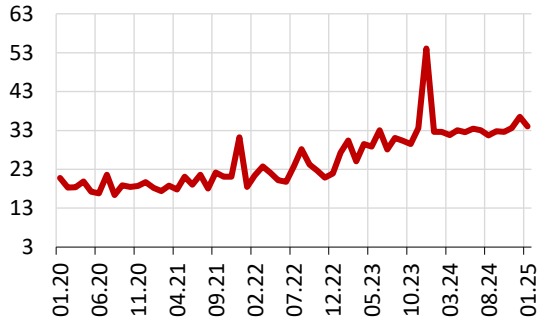
Sources: Treasury, Akbank

Budget Expenditure:

- **Central government budget expenditure** increased by 37.6% yoy to 1,056.3 billion TRY in January.
 - **Primary expenditures** increased by 38.1% yoy in January; 893.3 billion TRY.
 - Annual increase in current transfers was 42.0% in January. While the SEE assignment item was 49.2 billion TRY in January, most of which was transferred to Botaş with 35 billion TRY and 14.2 billion TRY was transferred to Electricity Generation Co.
 - **Personnel expenditures** and **purchases of goods and services** increased by 38% yoy and 71.3% yoy, respectively
 - **Capital expenditures**, which includes investment expenditures, continued to increase, annual increase was 56.4% in January.
 - In January, **lending** decreased by 52.4% yoy to 12.4 billion TRY. Of this amount, 9.1 billion TRY was composed of capital transfers within the scope of lending to SEEs; 7.0 billion TRY was transferred to Turkish Sugar Factories and 2.1 billion TRY to Turkish Coal Enterprises.
 - **Interest expenditure** increased by 34.6% yoy to 163.0 billion TRY in January.
 - **In price and seasonal adjusted terms**, primary expenditures decreased by 6.8% mom in January after two months of monthly increases (Chart 7). Expenditures for the purchase of goods and services

increased significantly on a monthly basis. Personnel expenditures were another item that recorded an increase. On the other hand, other items decreased (Chart 8).

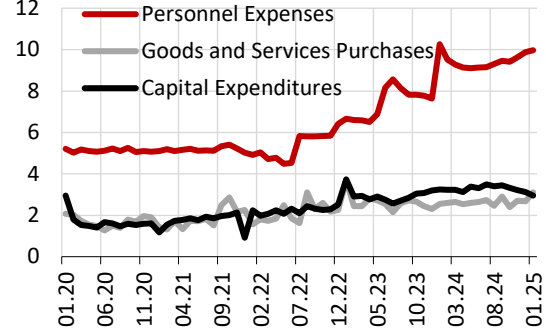
Chart 7. Primary Expenditure (bn TL, s.a., 2003 prices)



Sources: Treasury, Akbank

Note: Expenditure are deflated with the relevant CPI items.

Chart 8. Primary Expenditures (bn TL, s.a., 2003 prices)



Sources: Treasury, Akbank

Table 1. Budget Balance (Million TRY)

	Monthly		12-Month Cumulative	
	Jan.25	Jan.24	Jan.25	Jan.24
Budget Revenues	917,083	617,249	8,970,697	5,535,737
General Budget Revenues	896,696	605,258	8,730,483	5,422,155
Taxes	792,667	517,201	7,580,329	4,765,484
Income Tax	197,357	102,837	1,622,108	747,303
Corporate Tax	7,994	10,107	888,085	787,244
VAT	165,458	108,395	1,049,701	572,924
Special Consumption Tax	135,059	97,707	1,488,611	981,116
VAT from Imports	113,423	91,157	1,356,200	988,232
Property Income	18,915	10,979	143,530	138,939
Grants and Aids and Special Revenues	14,757	15,314	174,726	39,515
Interest, Shares and Fines	66,310	59,498	794,725	452,122
Capital Revenues	3,914	1,550	26,029	18,510
Collections from Loans	133	716	11,144	7,584
Special Budget Revenues	16,318	8,780	195,415	88,246
Rev. of Regulatory & Supervisory Inst.	4,070	3,211	44,800	25,337
Budget Expenditures	1,056,342	767,968	11,065,383	7,034,663
Primary Expenditures	893,324	646,875	9,753,002	6,260,315
Compensation of Employees	359,153	260,250	2,764,866	1,481,595
Social Security Contributions	42,334	30,555	343,935	200,818
Purchases of Goods and Services	46,341	27,056	764,149	461,125
Current Transfers	404,202	284,656	3,983,144	2,512,122
Capital Expenditures	28,250	18,057	953,293	552,184
Capital Transfers	662	279	640,741	858,528
Lending	12,383	26,022	302,873	193,944
Interest Payments	163,018	121,093	1,312,381	774,348
Budget Balance	-139,259	-150,719	-2,094,685	-1,498,926
Primary Balance	23,759	-29,626	-782,305	-724,578

Source: Treasury

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