

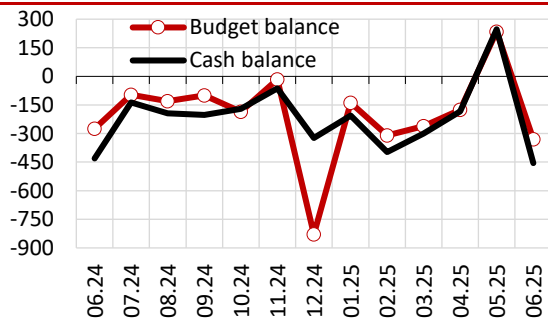
## Macro: Will the improvement in the primary balance be persistent?

In June, the central government budget recorded a surplus of TRY 330.2 billion, which was significantly lower than the cash deficit of TRY 455.1 billion. The primary balance deficit was TRY 54.5 billion. Thus, the budget deficit increased to TRY 980.5 billion in the first half of the year, while it remained almost flat at TRY 2.3 trillion (4.6% of GDP) on an annualised basis. In seasonally adjusted terms, the primary budget balance was positive for the first time since May 2024 due to a decline in current transfers.

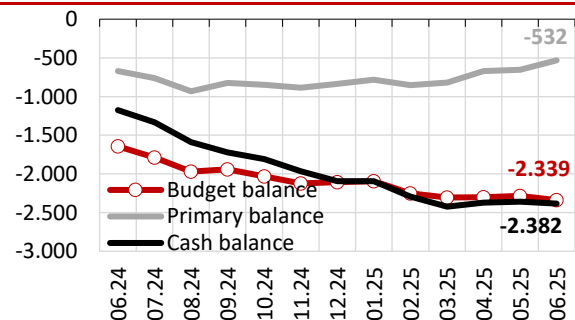
To meet the primary budget balance target of 0% of GDP set out in the MTP, fiscal policy must be tightened in the second half of the year. The outlook for the first half of the year implies a primary deficit of around TRY 300 billion (0.5% of GDP) by the end of the year. Conversely, the higher cash-based deficit compared to the accrual-based deficit suggests a looser real fiscal stance in the first half of the year. We expect this difference to persist until the end of the year. Data in the coming months will show whether the June outlook is a sign of the expected (and necessary) fiscal tightening in the second half of the year. However, interest expenditure is expected to remain above MTP projections due to increasing expenditure in this area, making it unlikely that the MTP target for the total budget deficit (3.1% of GDP) will be met.

**Budget Balance**

- The central government budget balance recorded a deficit of TRY 330.2 billion in June, which was TRY 125 billion lower than the Treasury cash deficit (TRY 455.1 billion) and higher than the deficit for the same month last year (TRY 275.3 billion) (Chart 1). In terms of primary expenditure, a deficit of TRY 54.5 billion was recorded in June, compared to a higher deficit of TRY 176.0 billion in the same period of 2024 (Table 1, Chart 2).
- Thus, the budget deficit amounted to TRY 980.5 billion in the first half of the year, while the 12-month cumulative deficit was TRY 2.3 trillion ( $\approx 4.6\%$  of GDP) and the primary budget deficit became TRY 532 billion (Chart 2).

**Chart 1. Budget and Cash Balance (billion TL)**

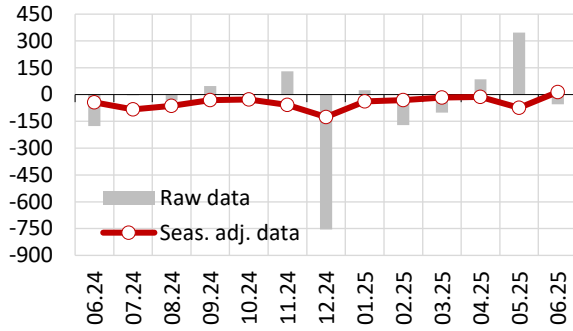
Source: Treasury

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

Source: Treasury

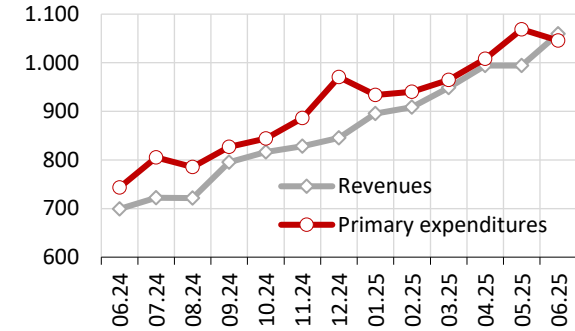
- In seasonally adjusted (s.a.) terms, the primary budget balance improved on a monthly basis in June and posted a surplus for the first time since May 2024 (Chart 3). This was driven by the monthly increase in budget revenues, but the decline in primary expenditures due to current transfers and purchases of goods and services (Chart 4).

Chart 3. Primary Balance (billion TL)



Source: Treasury, Akbank

Chart 4. Revenue and Expenditure (s.a, bn. TL)

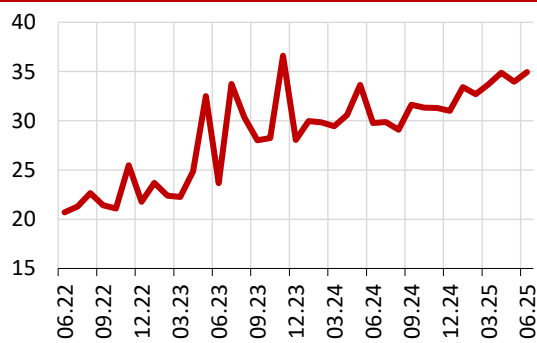


Source: Treasury, Akbank

**Budget Revenue:**

- **Central government budget revenue increased by 53.8% yoy to TRY 909.4 billion in June.** In the first half of the year, revenues rose by 46.1% yoy to TRY 5,599 billion.
  - **Tax revenue** rose by 58.3% yoy in June, led by the increases in domestic VAT and SCT, while the annual increase in the first half was realized as 48.5%; TRY4.771 billion.
    - **Income tax** increased by 92.4% yoy in June, while the increase in **corporate tax** was more limited at 5.0%.
    - **Domestic VAT** increased by 58.6% yoy, while VAT on imports rose by 39.2% yoy. Price and seasonally adjusted monthly increases in domestic VAT and VAT on imports were realized as 10.7% and 0.2%, respectively.
    - **SCT revenues** increased by 46.7% yoy. This was mainly driven by the 96.0% yoy increase in SCT revenues from **tobacco products**. In the first half of the year, revenues from this item accounted for 22% of total SCT revenues. SCT revenues from **motor vehicles** increased by 38.3% yoy in June, accounting for 37.4% of total SCT revenues and 6.6% of total tax revenues in the first half of the year. SCT revenues from petroleum and natural gas products increased by 27.6% in June.
  - Following a slight decline in May, **seasonally adjusted tax revenues** increased by 5.4% in June, mainly due to the rise in indirect taxes.
  - **In price and seasonally adjusted terms**, tax revenues decreased by 2.6% month-on-month in May, but rose by 2.9% in June (Chart 5). Broken down by subcategories, corporate tax revenues decreased, while domestic VAT and SCT revenues increased (Chart 6).

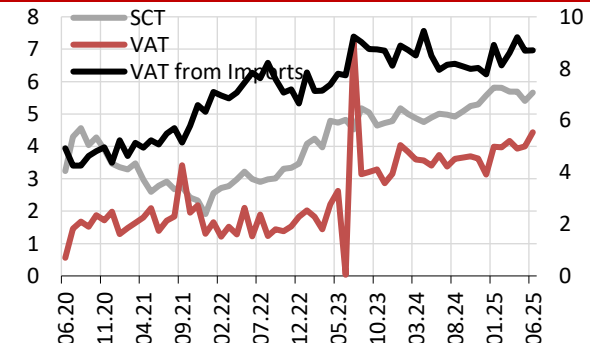
Chart 5. Tax Revenue (bn TL, s.a., 2003 prices)



Sources: Treasury, Akbank

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

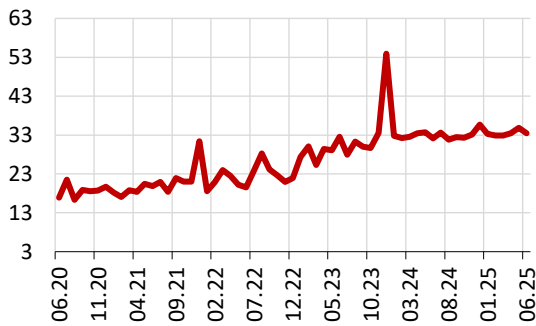
Chart 6. Tax Revenue (bn TL, s.a., 2003 prices)



Sources: Treasury, Akbank

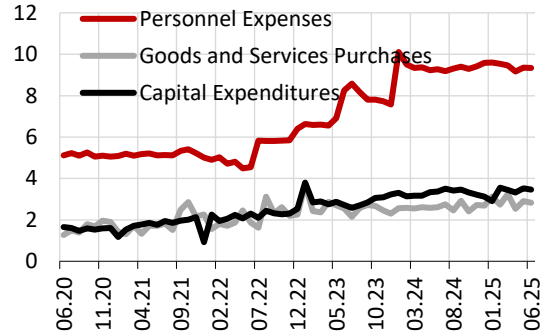
**Budget Expenditure:**

- **Central government budget expenditure** increased by 43.1% yoy to TRY1,239.6 billion in June. Thus, the annual increase in expenditures in January-June period was 43.7%, totaling TRY6,579 billion.
  - Annual increase in **primary expenditures** (25.6%) lost momentum in June. In the first half of the year, non-interest expenditures increased by 36.5% yoy to 5.468 billion TRY.
    - Annual increase in **current transfers** was 24.6% in June. The SEE assignment item totalled TRY18.4 billion, of which TRY18.2 billion was transferred to Electricity Generation Co. In the first half of the year, out of the total TRY185.0 billion, TRY103.9 billion was transferred to Electricity Generation Co., TRY79.5 billion to BOTAS and TRY1.6 billion to Türkiye Coal Enterprises Corporation.
    - Annual increase in **capital expenditures**, including investment expenditures, continued to lose momentum and was realized as 14.6% in June. In seasonally adjusted terms, capital expenditures posted a limited monthly increase of 0.2%. **Capital transfers**, on the other hand, decreased by 51.0% yoy.
    - **Goods and services purchases** increased strongly by 56.5% yoy in June, while **personnel expenditures** posted a more limited annual increase of 33.7%.
    - **Lending item**, on the other hand, decreased by 6.0% yoy to TRY24.2 billion in June. Of this amount, TRY17.4 billion was composed of capital transfers within the scope of lending to SEEs, TRY16.1 billion was transferred to Türkiye State Railways and TRY1.0 billion to Türkiye Hard Coal Corporation.
  - **Interest expenditures** increased by 177.7% yoy to TRY275.7 billion in June. Thus, in the first half of the year, interest expenditures increased by 93.5% yoy to TRY1,111.4 billion.
  - In **price and seasonal adjusted terms**, primary expenditures fell by 4.0% mom in June, following a 4.2% monthly increase in May (Chart 7). The strongest monthly decline was observed in current transfers.

**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		First Half		12-Month Cumulative	
	Jun.25	Jun.24	Jun.25	Jun.24	Jun.25	Jun.24
<b>Budget Revenues</b>	<b>909,427</b>	<b>591,218</b>	<b>5,598,580</b>	<b>3,831,365</b>	<b>10,438,078</b>	<b>7,158,582</b>
<b>General Budget Revenues</b>	<b>882,685</b>	<b>574,507</b>	<b>5,430,386</b>	<b>3,725,212</b>	<b>10,144,219</b>	<b>6,994,446</b>
Taxes	764,929	483,126	4,771,457	3,213,365	8,862,955	6,112,163
Income Tax	204,303	106,214	1,154,462	587,535	2,094,514	1,022,456
Corporate Tax	14,555	13,868	538,903	465,847	963,254	961,397
VAT	128,085	80,750	695,890	436,502	1,252,025	816,062
Special Consumption Tax	163,851	111,671	842,860	608,726	1,685,393	1,211,856
VAT from Imports	134,194	96,389	768,076	630,874	1,471,136	1,221,589
Property Income	11,815	6,764	127,585	71,518	191,660	115,977
Grants and Aids and Special Revenues	4,801	13,812	72,297	60,139	187,441	73,875
Interest, Shares and Fines	98,820	68,297	433,585	368,440	853,058	665,344
Capital Revenues	2,226	909	22,593	6,209	40,049	17,117
Collections from Loans	93	1,599	2,870	5,540	9,057	9,970
<b>Special Budget Revenues</b>	<b>21,636</b>	<b>13,260</b>	<b>128,923</b>	<b>80,676</b>	<b>236,125</b>	<b>127,502</b>
<b>Rev. of Regulatory &amp; Supervisory Inst.</b>	<b>5,106</b>	<b>3,451</b>	<b>39,271</b>	<b>25,477</b>	<b>57,734</b>	<b>36,635</b>
<b>Budget Expenditures</b>	<b>1,239,603</b>	<b>866,498</b>	<b>6,579,058</b>	<b>4,578,549</b>	<b>12,777,519</b>	<b>8,802,988</b>
<b>Primary Expenditures</b>	<b>963,928</b>	<b>767,222</b>	<b>5,467,619</b>	<b>4,004,125</b>	<b>10,970,047</b>	<b>7,829,193</b>
Compensation of Employees	277,592	207,699	1,747,793	1,285,420	3,128,337	2,052,569
Social Security Contributions	33,257	25,873	212,258	158,792	385,623	258,704
Purchases of Goods and Services	75,247	48,089	413,188	271,788	886,264	561,565
Current Transfers	462,161	370,861	2,512,316	1,828,998	4,546,917	3,156,454
Capital Expenditures	83,619	72,943	432,361	287,510	1,087,951	697,866
Capital Transfers	7,844	16,007	50,320	28,243	662,434	832,345
Lending	24,209	25,750	99,383	143,375	272,521	269,691
<b>Interest Payments</b>	<b>275,675</b>	<b>99,277</b>	<b>1,111,440</b>	<b>574,424</b>	<b>1,807,472</b>	<b>973,795</b>
<b>Budget Balance</b>	<b>-330,176</b>	<b>-275,280</b>	<b>-980,478</b>	<b>-747,183</b>	<b>-2,339,440</b>	<b>-1,644,405</b>
<b>Primary Balance</b>	<b>-54,501</b>	<b>-176,004</b>	<b>130,962</b>	<b>-172,760</b>	<b>-531,969</b>	<b>-670,611</b>

Source: Treasury

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