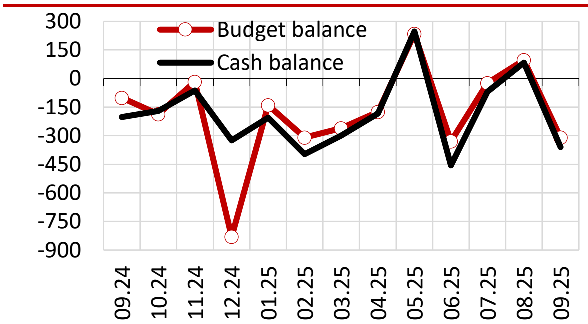
Macro: Fiscal stance continued to tighten in the third quarter

In September, the central government budget deficit stood at TRY309.6 billion, below the Treasury's cash balance (TRY359.9 billion). The monthly primary budget deficit was TRY73.0 billion. Thus, the budget deficit reached TRY1.22 trillion so far this year, and TRY2.25 trillion in 12-month cumulative terms. Based on our third-quarter GDP forecast, we estimate the budget deficit/GDP as 4.0% and the primary budget deficit/GDP as 0.4% as of September. These figures indicate a significant tightening in the fiscal stance compared to the beginning of the year. We estimate that half of this tightening is driven by expenditures and the other half by revenues. As you may recall, the MTP (Medium Term Program) had announced a year-end budget deficit/GDP of 3.6%, with a primary budget/GDP of 0.3%. To achieve this target, the tightening trend must be maintained in the final quarter. As emphasized in the CBRT Monetary Policy Committee decision, we believe it is crucial for the fiscal stance to adhere to the framework outlined in the MTP to support the disinflation.

Budget Balance:

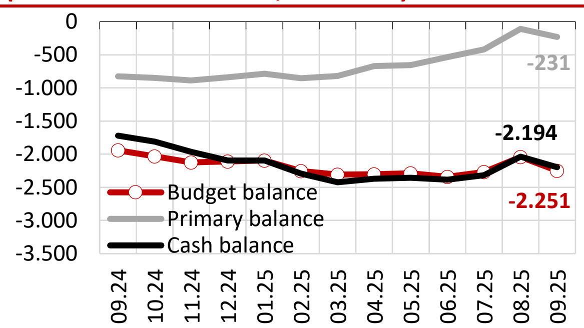
- **The central government budget deficit wasTRY309.6 billion in September, below the Treasury cash deficit (TRY359.9 billion).** In the same period of 2024, the budget had a deficit of TRY100.5 billion (Chart 1). The monthly primary budget deficit was TRY73.0 billion in September this year, while it gave a surplus of TRY48.2 billion in September 2024 (Table 1, Chart 2). Thus, Thus, the budget deficit reached TRY1.22 trillion so far this year, and TRY2.25 trillion in 12-month cumulative terms (Chart 2).

Chart 1. Budget and Cash Balances (billion TL)



Source: Treasury

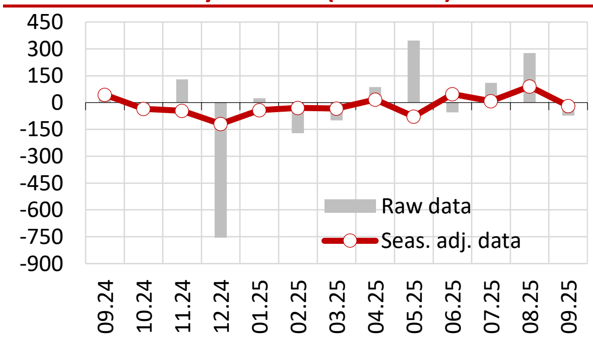
Chart 2. Budget and Cash Balances (12-month cumulative, billion TL)



Source: Treasury

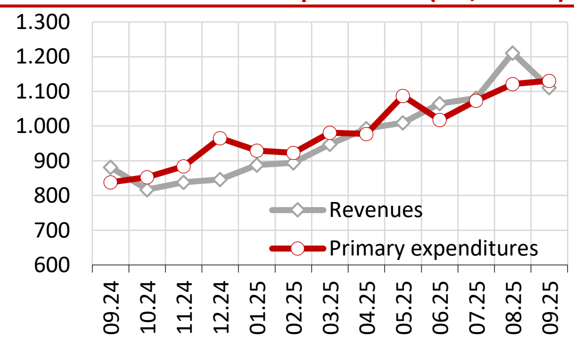
- In seasonally adjusted (s.a.) terms, primary budget balance deteriorated monthly (Chart 3). Corporate tax collections were made in September last year and in August this year, which led to a volatile course in monthly budget figures. For a more accurate assessment, we compare September with July and notice a limited decline

Chart 3. Primary Balance (billion TL)



Source: Treasury, Akbank

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

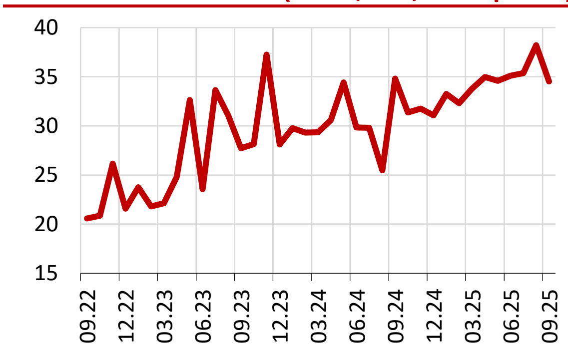


Source: Treasury, Akbank

Budget Revenue:

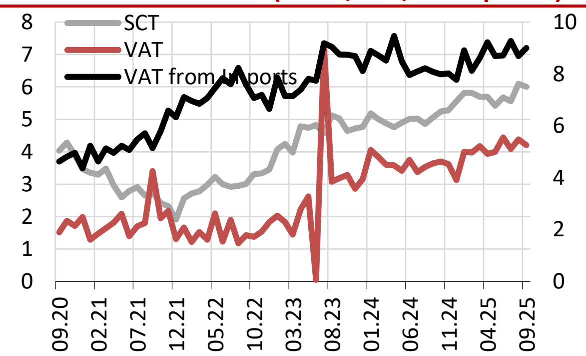
- **Central government budget revenues increased by 22.8% yoy in September to TRY1,021.4 billion**. Thus, revenues rose to TRY9,005 billion in the first nine months of the year, representing a 48.0% annual increase. The year-end estimate in the new MTP is TRY 12,465.9 billion, 72% of which was realized so far this year.
  - **Tax revenues** increased by 20.4% yoy in September. Thus, tax revenues reached TRY7,754 billion in the first nine months of the year, representing a 51% annual increase.
    - **Corporate tax** increased significantly in August due to the base effect of the previous year. This was due to the provisional corporate tax for 2024 being collected in September. **Corporate tax decreased by 90.5% yoy in September**. **Income tax** increased by 81.2% yoy in September.
    - **Domestic VAT** increased by 53.2% yoy, while **VAT on imports** increased by 38.0%. In seasonally adjusted real terms, domestic VAT increased by 7.4% mom in August, followed by a 4.0% decrease in September. **VAT on imports** increased by 3.6% mom in seasonally adjusted real terms.
    - The annual increase in **SCT revenues** was 41.9%. This was particularly driven by the 75.7% annual increase in SCT revenues from **motor vehicles**, particularly in August and September. In the first nine months of the year, SCT from motor vehicles accounted for 36.6% of total SCT revenues and 6.6% of total tax revenues. SCT revenues from **petroleum and natural gas products** increased by 33.4% annually. SCT revenues from **tobacco products** increased by 10.6% annually in September. Revenues from this item accounted for 22.0% of total SCT revenues in the first nine months of the year.

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

  - In **seasonally adjusted terms, tax revenues** decreased by 10.4% mom in September, which was largely driven by time-shift in corporate tax collections.
  - **In seasonally adjusted real terms,** the monthly decrease in tax revenues was 9.7% (Chart 5). Looking at the details, corporate tax led the decline, while domestic value-added tax and special consumption tax also decreased (Chart 6). Income tax and value-added tax on imports increased mom.

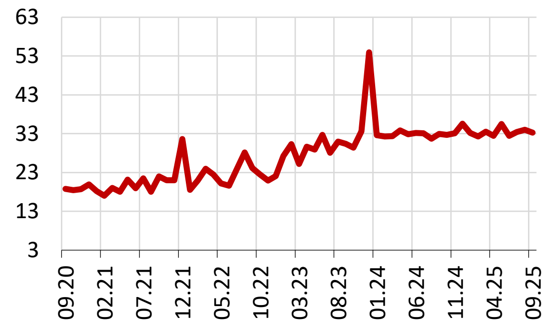
Budget Expenditure:

- **Central government budget expenditures** increased by 42.8% yoy in September, reaching TRY1,331 billion. Thus, budget expenditures increased by 42.8% yoy in the first nine months of the year, reaching TRY10,222 billion. The year-end estimate in the new MTP is TRY14,674.1 billion, 70% of which has been realized in the first nine months
  - The annual increase in **primary expenditures** was 39.7%, with current transfers and personnel expenses leading the way. In the January-September period, expenditures increased by 37% yoy, reaching TRY 8,560 billion.

- **Current transfers** increased by 37.4% yoy in September. The SEE assignment item reached TRY15.0 billion; this amount was transferred entirely to BOTAŞ. In the first nine months of the year, of the total TRY289.9 billion, TRY147.2 billion was transferred to Elektrik Üretim A.Ş., TRY134.5 billion to BOTAŞ, TRY6.6 billion TL to the Türkiye Grain Board, and TRY1.6 billion to the Türkiye Coal Enterprises Corporation.
- Annual increase in **capital expenditures**, increased by 22% yoy. **In seasonal adjusted real terms**, they have been decreasing for the last two months, decreasing by 3.6% in September following a 0.7% monthly decrease in August.
- **Goods and services purchases** increased by 23.5% annually, while personnel expenses increased by 49.2%. **In seasonal adjusted real terms**, purchases of goods and services continued to decline mom, while personnel expenses increased by 6.2% monthly.
- **Lending item** increased by 59.7% yoy in September to TRY25.1 billion. Of this amount, TRY17.8 billion was composed of capital transfers within the scope of lending to SEEs. TRY15.3 billion of this amount was transferred to the Türkiye State Railways and TRY2.5 billion to the Türkiye Hard Coal Corporation.

- **Interest expenditures** rose by 59.2% yoy in September to TRY 236.6billion, and reached TRY 2,053 billion in the first eight months of the year. Based on the debt repayment projection, over the next three months, TRY 393 billion interest payments will be made.
- In **seasonal adjusted real terms, after two months of increases,** primary expenditures decreased by 2.0% in September (Chart 7). Looking at the monthly breakdown, current transfers and expenditures on purchases of goods and services decreased, while personnel expenses increased.

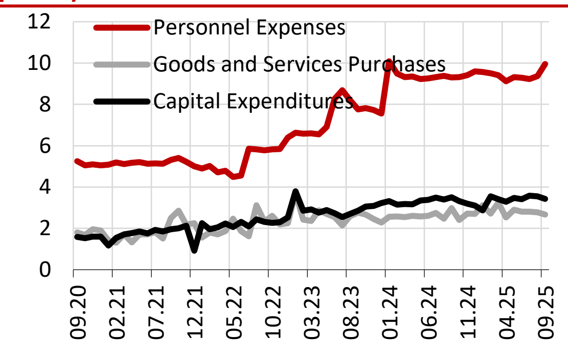
Chart 7. Primary Expenditure (bn TL, s.a., 2003 prices)



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		Year-to-Date Cumulative		12-Month Cumulative	
	Sep.25	Sep.24	Sep.25	Sep.24	Sep.25	Sep.24
Budget Revenues	**1,021,358**	**831,603**	**9,004,924**	**6,084,619**	**11,593,138**	**7,852,202**
General Budget Revenues	**994,236**	**815,860**	**8,760,703**	**5,927,488**	**11,276,229**	**7,659,595**
Taxes	881,810	732,244	7,753,506	5,134,059	9,924,726	6,653,133
Income Tax	255,084	140,781	1,947,538	1,016,622	2,458,580	1,248,257
Corporate Tax	16,262	171,456	860,035	672,070	1,078,181	970,164
VAT	139,091	90,776	1,104,554	693,774	1,403,465	857,899
Special Consumption Tax	180,386	127,118	1,394,157	998,835	1,846,583	1,315,517
VAT from Imports	152,504	110,478	1,224,847	970,621	1,588,158	1,276,265
Property Income	8,886	6,627	156,631	98,832	193,465	129,326
Grants and Aids and Special Revenues	5,132	16,066	89,536	108,169	147,233	112,622
Interest, Shares and Fines	96,807	58,777	719,345	563,498	947,932	730,684
Capital Revenues	1,489	1,096	38,412	14,342	56,460	22,783
Collections from Loans	112	1,051	3,274	8,588	6,414	11,046
Special Budget Revenues	**22,806**	**12,930**	**191,788**	**123,036**	**254,591**	**152,576**
Rev. of Regulatory & Supervisory Inst.	**4,316**	**2,813**	**52,433**	**34,095**	**62,317**	**40,031**
Budget Expenditures	**1,331,001**	**932,068**	**10,222,202**	**7,158,637**	**13,844,179**	**9,794,067**
Primary Expenditures	**1,094,380**	**783,390**	**8,559,822**	**6,245,951**	**11,824,030**	**8,677,631**
Compensation of Employees	365,857	245,204	2,738,816	2,006,736	3,398,107	2,370,431
Social Security Contributions	49,398	30,458	335,901	246,567	421,551	295,335
Purchases of Goods and Services	84,296	68,256	660,904	454,468	953,483	634,365
Current Transfers	457,009	332,578	3,807,703	2,740,330	4,931,287	3,490,172
Capital Expenditures	102,845	84,265	762,669	532,861	1,173,891	840,523
Capital Transfers	9,903	6,930	83,562	52,485	671,435	776,970
Lending	25,073	15,700	170,267	212,504	274,276	269,834
Interest Payments	**236,621**	**148,678**	**1,662,380**	**912,686**	**2,020,150**	**1,116,437**
Budget Balance	**-309,643**	**-100,464**	**-1,217,278**	**-1,074,018**	**-2,251,042**	**-1,941,866**
Primary Balance	**-73,022**	**48,213**	**445,103**	**-161,332**	**-230,892**	**-825,429**

Source: Treasury

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