

Macro: The budget continues to improve, but geopolitical risks may worsen the outlook

The central government budget recorded a surplus of TRY 24.4 billion in February, which was more favorable compared to the treasury cash balance (TRY 92.4 billion deficit). The primary surplus was TRY208.1 billion. Thus, the 12-month cumulative budget deficit decreased to TRY1.54 trillion (%GDP: -2.3, while the primary surplus increased to 449.9 billion TL (%GDP: 1.3). However, in seasonally adjusted terms, the primary surplus decreased compared to January.

The significant improvement in the 12-month cumulative budget performance is based on temporary effects rather than an improvement in the main trend. This is because the 4th provisional tax return, which was abolished in the 2022 tax period for corporate tax, was reinstated this year. Therefore, there was an increase of TRY365 billion in corporate tax collection compared to the same month last year. Excluding this increase, we see that the primary balance has a similar value to the same month last year. The shift of this collection from May last year to February this year will cause corporate tax collection in May this year to be lower by the same amount compared to last year. Therefore, the effect of this significant improvement in February on budget performance will be temporary. Another development that makes it difficult to evaluate the main trend this month is that the deadline for VAT declaration and payment was March 2 this year, compared to February 28 last year, and therefore VAT revenues decreased by 66.0% (TRY62 billion) on an annual basis. When we consider both effects together, we see that the actual improvement in budget performance is more limited, but more consistent with recent trends.

However, the sliding scale mechanism, implemented to limit the impact of rising oil prices on inflation due to recent geopolitical developments, will likely create a burden on the budget in the coming period, causing some disruption to the main trend. The trend in the primary balance as of January-February and interest rate projections for this year indicated a budget deficit/GDP ratio approaching 2% by the end of the year. However, we estimate that if oil prices remain at current levels, the tax revenue loss due to the sliding scale mechanism could amount to 0.5% of GDP. Furthermore, rising interest rates due to increased uncertainty will cause the interest burden to exceed projections. While the duration of the war is uncertain, a prolonged conflict could strengthen downward risks to the global economy and domestic growth, potentially creating additional negative impacts on tax revenues. On the other hand, the sliding scale mechanism, by mitigating inflationary pressures, provides positive support to the budget by limiting increases in inflation-indexed expenditures (personnel salaries, wage increases, purchases of goods etc.).

Finally, the extent to which geopolitical developments will burden the budget and the degree to which this pressure on the budget can be tolerated are also becoming important for the borrowing strategy and the disinflation process. Under current conditions, there is a possibility that administered price adjustments in energy items, which have not yet occurred, may exceed past forecasts.

Budget Balance:

- **The central government budget balance** significantly improved in February compared to the same period last year, due to the impact of legislative changes in corporate tax collection. The budget recorded a surplus of TRY24.4 billion in February, while the primary surplus reached TRY208.1 billion (Chart 1). In the same period of 2025, the budget balance showed a deficit of TRY310.1 billion, and the primary balance showed a deficit of TRY170.4 billion. Therefore, the 12-month cumulative budget deficit decreased to TRY1.54 trillion, while the 12-month cumulative primary surplus increased to TRY852 billion (Chart 2).

The fourth provisional tax return, which was abolished from the 2022 tax period onwards by the omnibus law numbered 7338, was reintroduced in December 2025 under the tax regulations made by law numbered 7566. Therefore, there was a TRY365 billion increase in corporate tax collection compared to the same month of the previous year due to this regulation. Excluding this increase, we see that primary balance remained similar to the same month of the previous year. The shift of this collection from May of last year to February of this year will result in corporate tax collection in May of this year remaining lower than last year by the same amount. Therefore, the impact of this significant improvement in February on budget performance will be temporary.

- In seasonally adjusted (s.a.) terms primary surplus declined compared to January (Chart 3). This decline was influenced by both an increase in primary expenditures and a decrease in revenues. The monthly deterioration in the budget would have been more pronounced if it weren't for the effects stemming from adjustments in corporate tax collection.

Chart 1. Budget and Cash Balances (billion TL)

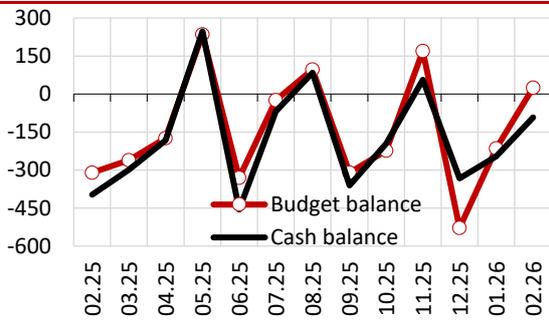


Chart 2. Budget and Cash Balances (12-month cumulative, billion TL)

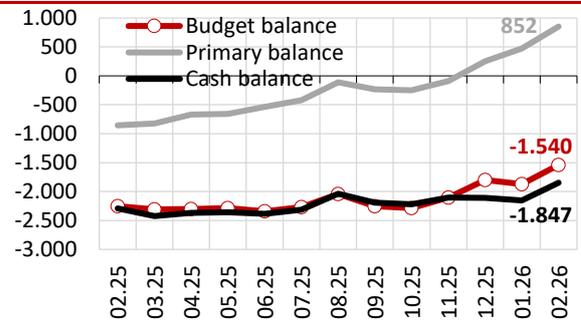
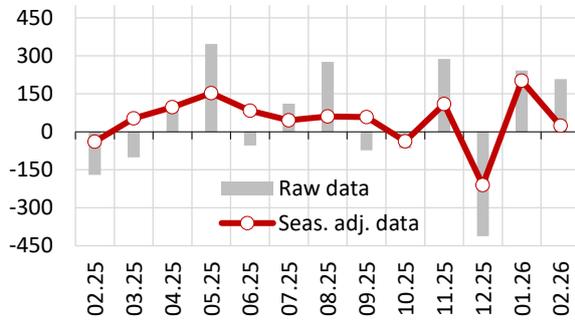
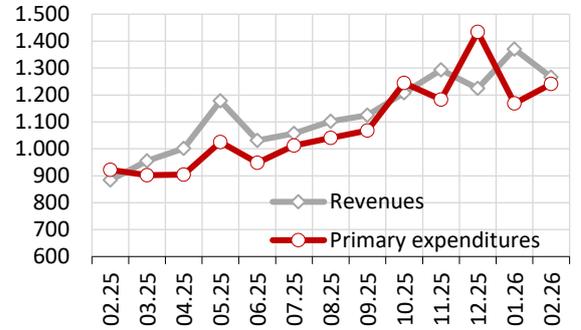


Chart 3. Primary Balance (billion TL)



Source: Treasury, Akbank

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



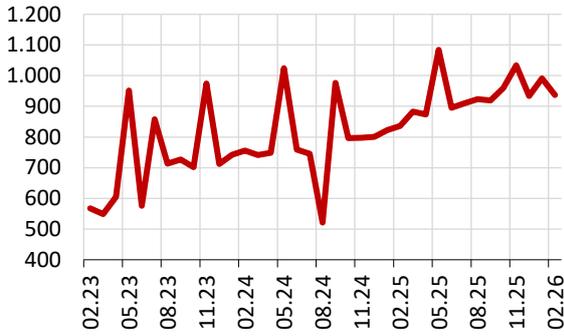
Source: Treasury, Akbank

Budget Revenue:

- **Central government budget revenues increased by 87.1 % year-on-year (yoy) in February, reaching TRY 1,353.6 billion.** Yea-to-date, it reached TRY2.775 billion, representing a 69.1% increase yoy.
 - **Tax revenues** rose by 91.8 % yoy to TRY 1,122 billion. As mentioned earlier, the most significant increase took place in provisional corporate tax, which was due to the reintroduction of the 4th provisional tax return period.
 - Annual increases in **corporate and income taxes** were 3349.8% and 67.5% in February, respectively.
 - **Domestic VAT** decreased by 66.0% yoy. We do not see this decrease as a signal of weakening economic activity. The deadline for VAT declarations and payments for January was February 28th last year, but it was March 2nd this year. Therefore, this decrease seems to be due to the shift in the declaration and payment schedule to March.

- **Import VAT** increased by 34.4% and by 1.4% on a monthly basis after adjusted for price and seasonal effects.
- **Special Consumption Tax (SCT) revenues** increased by 21.1%. **SCT revenues from petroleum and natural gas products** rose by 33.8% yoy, accounting for 29.1% of total SCT revenues. **SCT revenues from tobacco product** increased by 26.9% yoy, accounting for 29.7% of total SCT revenues. **SCT revenues from motor vehicles** rose by 5.0%, accounting for 29.4% of total SCT revenues and 3.9% of total tax revenues.

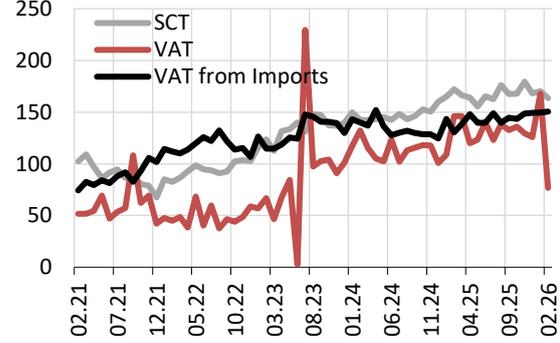
Chart 5. Tax Revenue (bn TL, s.a., 2025 prices)



Sources: Treasury, Akbank

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

Chart 6. Tax Revenue (bn TL, s.a., 2025 prices)



Sources: Treasury, Akbank

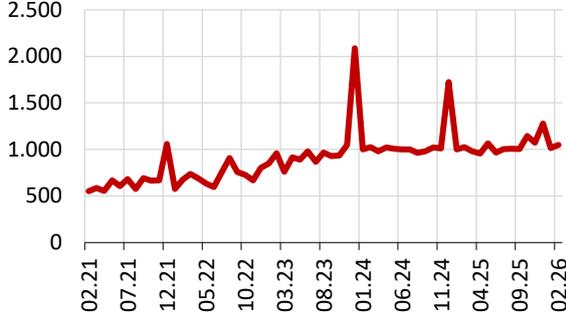
- In **seasonally adjusted terms**, tax revenues decreased by 3.4% in February, following an 8.5% monthly increase in January. In **seasonally adjusted real terms**, the monthly decrease in tax revenues was 5.4% (Chart 5). Looking at the details, despite the increase in corporate tax, decreases in domestic value-added tax, special consumption tax, and income tax contributed to the monthly decline (Chart 6). However, as mentioned above, the temporary effects in VAT and corporate tax collections prevent us from understanding the main trend in the monthly data.

Budget Expenditure:

- **Central government budget expenditures** increased by 28.6 % yoy in February, reaching TRY 1,329.2 billion. Thus, the annual increase in the first two months of the year was 41.9%.
 - **Primary expenditures** rose by 28.2 % yoy in February. In the January-February period, the annual increase reached TRY2.325 billion, with a rise of 30.1%.
 - **Current transfers** increased by 35.2 % yoy in February. The SEE assignment item reached TRY 60.2 billion, of which TRY 46.2 billion was transferred to Elektrik Üretim A.Ş., TRY 13.0 billion to BOTAŞ and TRY 1.0 billion to the Türkiye Coal Enterprises. In the first two months of the year, the total transfer amount reached TRY76.8 billion; of this amount, TRY46.2 billion transferred to Elektrik Üretim A.Ş. and TRY28 billion to BOTAŞ.
 - **Capital expenditures**, which include investment spending, have been declining for the past two months; in February, the year-on-year decrease was 35.5%. On the other hand, **goods and services purchases** increased by 39.1% year-on-year, while **personnel expenses** increased by 39.7% year-on-year.
 - **Lending item** increased by 23.0% yoy in to TRY 28.6 billion. Of this amount, TRY 22.0 billion was composed of capital transfers within the scope of lending to SEEs: TRY12.4 billion to Türkiye Sugar Factories Inc.
 - **Interest payments** increased by 31.5% year-on-year to 183.7 billion TL in February, and by 111.5% to 640 billion TL in the first two months of the year.

- In **seasonal adjusted real terms**, primary expenditures increased by 3.5% in February after a sharp decline in January (-20.7%) (Chart 7). Capital expenditures and lending items saw strong monthly increases.

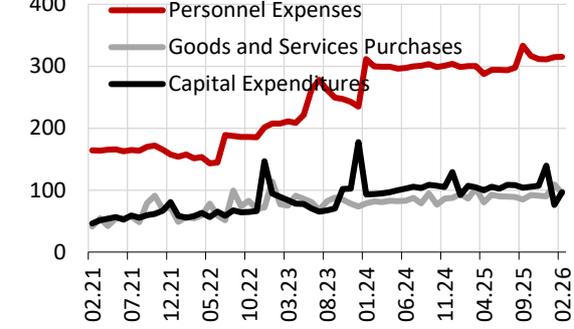
Chart 7. Primary Expenditure (bn TL, s.a., 2025 prices)



Sources: Treasury, Akbank

Note: Expenditure are deflated with the relevant CPI items.

Chart 8. Primary Expenditures (bn TL, s.a., 2025 prices)



Sources: Treasury, Akbank

Table 1. Budget Balance (Million TRY)

	Monthly		First 2 months		12-Month Cumulative	
	Feb.26	Feb.25	Feb.26	Feb.25	Feb.26	Feb.25
Budget Revenues	1,353,593	723,425	2,774,838	1,640,508	13,969,807	9,159,984
General Budget Revenues	1,305,709	682,179	2,694,927	1,578,875	13,612,126	8,915,061
Taxes	1,121,978	584,958	2,303,196	1,377,625	11,975,039	7,759,412
Income Tax	220,239	131,494	558,523	328,851	3,042,907	1,684,166
Corporate Tax	376,296	10,908	390,009	18,902	1,594,981	885,902
VAT	31,927	93,908	330,709	259,366	1,627,275	1,079,144
Special Consumption Tax	152,599	125,977	324,690	261,036	2,087,970	1,525,739
VAT from Imports	147,634	109,819	281,989	223,243	1,782,944	1,365,886
Property Income	62,371	9,279	133,227	28,194	305,179	121,018
Grants and Aids and Special Revenues	10,054	17,603	12,140	32,360	97,028	176,952
Interest, Shares and Fines	104,728	60,477	209,601	126,786	1,162,698	803,871
Capital Revenues	6,262	7,592	36,371	11,506	69,933	41,310
Collections from Loans	316	2,272	392	2,404	2,249	12,498
Special Budget Revenues	26,325	31,470	52,280	47,788	277,207	201,348
Rev, of Regulatory & Supervisory Inst,	21,560	9,776	27,631	13,845	80,474	43,575
Budget Expenditures	1,329,226	1,033,517	2,965,015	2,089,859	15,509,763	11,412,600
Primary Expenditures	1,145,531	893,828	2,324,903	1,787,152	13,117,976	10,015,361
Compensation of Employees	390,195	279,268	892,490	638,421	3,888,019	2,844,070
Social Security Contributions	50,258	33,370	110,996	75,704	489,694	352,333
Purchases of Goods and Services	83,613	60,112	151,516	106,452	1,114,815	783,583
Current Transfers	547,925	405,300	1,061,567	809,502	5,660,433	4,094,466
Capital Expenditures	42,098	65,297	60,548	93,547	1,310,607	986,835
Capital Transfers	2,822	27,212	3,274	27,874	335,535	666,137
Lending	28,621	23,269	44,512	35,652	318,873	287,939
Interest Payments	183,696	139,688	640,112	302,707	2,391,787	1,397,239
Budget Balance	24,366	-310,092	-190,177	-449,351	-1,539,956	-2,252,616
Primary Balance	208,062	-170,403	449,935	-146,644	851,831	-855,377

Source: Treasury

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