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EVALUATION NOTE

CASH BALANCE IN TROUBLE: WILL THE TREASURY PROGRAM HOLD?

Treasury Cash Balance Deteriorating

As of the end of February, Treasury cash deficit increased by 49.4%, reaching a surplus of 602.6 billion TL. The imbalance between rising expenditures—particularly interest payments—and cash revenues has further accumulated during this period (Annex 1).

In response, the Treasury has been attempting to limit cash outflows through additional measures since the last week of March. In meetings and communications with spending institutions, cash disbursements have at times been restricted to prioritizing only tax liabilities and social security premium payments by the Ministry of Treasury and Finance (MoTF). In the coming days, additional tightening measures appear inevitable.

Table 1. Budget Balance and Cash Balance

(billion TL)	2024 Jan-Feb	2025 Jan-Feb	% Change Jan-Feb
Budget Balance (A)	-304,5	-449,4	47,6
Budget Cash Balance (B)	-305,4	-471,9	54,5
Cash Balance (C)	-403,5	-602,6	49,4
Deviation (C/A)	**32,5**	**34,1**	**5,0**

Source: MoTF, own estimation

The Divergence Between Budget Balance and Cash Balance Continues in 2025

As of 2025, the divergence between the budget balance and the cash balance has continued. By the end of February, the cash deficit surpassed the budget deficit by 34.1%, a higher level than the previous year. As emphasized in TEPAV's budget evaluation reports and bulletins, the budget and cash balance figures have been diverging significantly since 2024, primarily due to investment-related earthquake expenditures being recorded under deferred accounts.

[1] https://www.tepav.org.tr/tr/ekibimiz/s/1470/H.+Hakan+Yilmaz

Factors Driving the Deterioration in the Treasury's Cash Balance in 2025

The deterioration in the Treasury's cash balance is expected to continue due to the following reasons:

- Accumulated and carried-over earthquake allocations from the previous year,
- Payment arrears for large infrastructure projects (mainly from the General Directorate of Highways and the State Hydraulic Works) that were not accrued in 2024,
- Deferred payments related to state-owned enterprise (SOE) duty losses and capital transfers,
- Reversal in the exchange rate,
- Rising current transfers, particularly from the Social Security Institution (SGK),
- Worsening budget dynamics on both the revenue (tax) and expenditure sides.

The transfer of earthquake allocations from 2024 to 2025 via deferred accounts is expected to reach 1.3% of GDP (585 billion TL). With the carried-over funds from 2024, the total allocation for earthquake expenditures is projected to rise to 1.15 trillion TL (1.9% of GDP). As a result, fiscal pressure is expected to further widen the cash deficit in the coming period (Annex 2).

Evaluation of the Treasury's Borrowing Program

The failure to postpone non-priority investment expenditures, the lack of progress in reviewing public spending programs, and the incomplete implementation of structural reforms—particularly in taxation—are accelerating the structural deterioration of the fiscal balance.

These developments indicate that borrowing costs will surpass programed levels in an environment where treasury financing costs are rising. When examining the Treasury's **January-March 2025 Borrowing Strategy**, announced in December 2024, the following deviations are observed:

- **Net borrowing:** Planned at 239 billion TL, net borrowing deviated by 78.5%, reaching 427 billion TL.
- **Foreign currency borrowing:** The main deviation stems from foreign currency-denominated borrowings. The net external debt repayment position, initially planned at 114 billion TL, was reduced to 16 billion TL. Contrary to the original plan, the Treasury undertook external borrowing, thereby assuming exchange rate-related market risk.
- **Treasury deposits:** The use of Treasury deposits was significantly above the planned level (297%), leading to a decline in Treasury reserves.
- **Total financing:** The total financing requirement, initially programmed at 284 billion TL, deviated by 112%, reaching 603 billion TL.
- **Interest payments:** Net borrowing exceeded planned levels, surpassing the projected interest payment amount.

The following table presents the Treasury's borrowing program and actual outcomes for January-February 2025.

Table 2. Treasury Borrowing Program and Realizations (January-February 2025)

(billion TL)	Borrowing Prg*	Treasury Realizations		% Deviation
Net Borrowing	**239**	**427**		**78,5**
Net Domestic Borrowing	**354**	**443**		**25,4**
Payment	107	102		-3,9
Receipts	460	546		18,6
Net External Borrowing	**-114**	**-16**		**-85,8**
Payment	114	93		-18,8
Receipts		109		0,0
Non-Boorrowing Resources	**44**	**175**		**297,0**
Total Financing	**284**	**603**		**112,6**
Interest Payments	**284**	**292**		**2,9**
* Treasury Prg, Dec 2024				

Source: Our calculations based on Ministry of Treasury and Finance (HMB) data.

These results indicate that key factors leading to deviations in the borrowing program were not adequately considered during its preparation. In other words, the program needs to be revised in light of updated data to reassess both the borrowing strategy and the Treasury's financing needs.

Conclusion: Rising Market and Liquidity Risks in the Second Half of 2025

As we approach the second half of 2025, confidence in the economy is declining, making it increasingly difficult to meet budget targets. In addition, recent political developments—such as the legal proceedings leading to the potential imprisonment of Istanbul Mayor Ekrem İmamoğlu—have contributed to rising fiscal uncertainty.

As a result, in the upcoming period, the Treasury is expected to:

- Increase its borrowing,
- Face heightened market risks (exchange rate and interest rate volatility),
- Experience a notable rise in financing costs due to higher borrowing.

This suggests that public finances are entering a period of heightened risk, making it imperative to revise the existing borrowing strategy and accelerate structural reforms in public expenditure management.

Annex 1. Treasury Cash Balance Comparative (2024-2025)

(billion TL)	Borrowing Prg*	Treasury Realizations		% Deviation
Net Borrowing	**239**	**427**		**78,5**
Net Domestic Borrowing	**354**	**443**		**25,4**
Payment	107	102		-3,9
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Annex 2. Earthquake Expenditures: Budget and Cash Realizations

	2023				2024					2025	
	2023 BG	2023 NK (1)	2023 Cash Us. (%)	2024 Cash-Over	2024 B	2024 BG (1)	2024 NK (2)	2024 Cash Us. (%)	2025 Cash-Over	2025 B	2025 B+ 2024 Cash-Over
Earthquake Allocations (billion TL)	**960**	**289**	**30,1**	**671**	**1.028**	**927**	**343**	**33,4**	**585**	**567**	**1.152**
Earthquake Exp (% of GDP)	3,7	1,1	0,0	2,6	2,3	2,1	0,8	0,0	1,3	0,9	1,9

BG: Bütçe Realization; B: Budget; NK: Cash

(1) IMF Staff Report, 2024; (2) own estimation fro MoTF data

Annex 3. Treasury January-March 2025 Financing Program

TREASURY FINANCING PROGRAM			
(Billion ₺)	**January 2025**	**February 2025 [1]**	**March 2025 [1]**
Total Debt Service	**265.2**	**239.1**	**249.2**
Domestic Debt Service	**225.4**	**108.8**	**99.9**
Principal	106.5	0.0	14.8
Interest	118.9	108.8	85.1
External Debt Service	**39.8**	**130.4**	**149.3**
Principal	5.7	108.7	122.0
Interest	34.1	21.7	27.3
Financing	**265.2**	**239.1**	**249.2**
Non-Borrowing Resources [2][3]	**-28.6**	**72.8**	**88.0**
Borrowing	**293.8**	**166.4**	**161.1**
External Borrowing [3]	**0.0**	**0.0**	**0.0**
Domestic Borrowing	**293.8**	**166.4**	**161.1**
Borrowing from Domestic Market by Auction	189.5	152.2	143.5
Direct Sales [4]	92.3	4.2	4.8
Public Institutions	12.0	10.0	12.8

[1] *Provisional.*

[2] *The cash primary balance, privatization revenues, the revenues from 2-B land sales, receipts from on lending and guaranteed debt, receipts from SDIF, use of cash account and FX changes are shown under non-borrowing resources item.*

[3] *The amounts (external borrowing and cash reserve) are subject to change depending on borrowing from international institutions or international markets.*

[4] *The amount is subject to change depending on market conditions and possible gold and/or FX denominated issuances.*