

## Turkey: More reliance on local funding

Public finances continue to tighten and the primary balance remains stable. However, inflation and rapidly rising debt service costs are driving up gross borrowing needs. In nominal terms, the issuance of Turkey government bonds (TURKGBs) will rise significantly this year, but it remains almost unchanged in relative terms. With the anticipated rate cuts from the Central Bank of Turkey and the maturity calendar, we expect issuance to be concentrated in the middle of the year



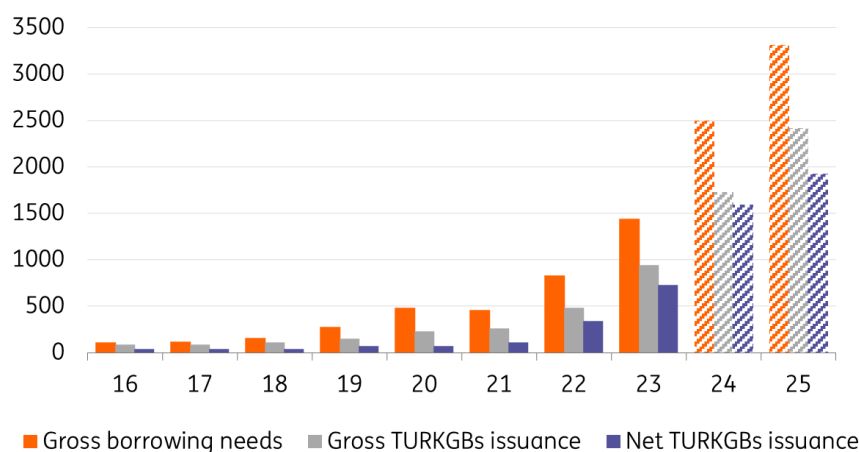
Galata tower at night in Istanbul, Turkey

### Fiscal policy: further narrowing of the budget deficit

The government likely plans to narrow the budget deficit in 2025 (implying a negative impulse) by reducing the contribution of personnel and social security spending by keeping wage increases below actual inflation, and by raising tax revenues, which largely depend on the deflator.

However, even with reduced earthquake-related spending, it will be difficult for the government to achieve the 3.1% of GDP budget deficit target (versus the primary budget on balance). This is due to the challenges in implementing significant expenditure cuts given the relatively inflexible nature of government spending and the impact of an economic slowdown on tax revenue generation. Consequently, we anticipate budget and primary deficits of 3.4% and 0.2%, respectively.

## Gross financing needs and TURKGBs issuance (TRYbn)



Source: MinFin, ING estimates

### Local issuance: nominal figures increase again, but remain stable in relative terms

Given inflation and the rapidly rising debt service, we expect a massive increase in gross borrowing needs this year despite a narrower fiscal deficit than last year. Our forecast shows a 33% increase in needs, from TRY2,494bn to TRY3,313bn. However, in terms of GDP, they decrease slightly from 5.9% to 5.8%, aligning with the five-year average.

MinFin is further increasing its reliance on local funding and in particular on TURKGBs. This is our assumption for this year as we believe that TURKGBs (including 1y T-bills) will cover about 73% of all borrowing needs. At the same time, TURKGBs issuance should cover any deviations from the budget plan, which is reflected in our forecast versus MinFin. Thus, gross TURKGBs issuance should increase by 40% from TRY1725bn to TRY2418bn.

We expect MinFin to continue to increase the average maturity of TURKGBs from last year's 3.9y, or at least keep the same level, and focus on issuances in the 5-10y segment. Given the upcoming CBT rate cuts and maturities concentrated mainly in the second and third quarters, we can expect the supply of TUKGBs to concentrate mainly in the middle of the year and beyond.

## Financing needs for 2025 (TRYbn)

	MinFin	ING
Domestic debt service	2,385	2,515
Foreign debt service	857	798
<b>Total financing needs</b>	<b>3,242</b>	<b>3,313</b>
Domestic borrowing	2,845	2,948
External borrowing	459	428
Non-borrowing resources	-63	-63
<b>Gross borrowing requirement</b>	<b>3,242</b>	<b>3,313</b>
<b>TURKGBs issuance</b>		<b>2,418</b>
<b>Net TURKGBs issuance</b>		<b>1,929</b>
<b>FX issuance</b>		<b>428</b>

Source: MinFin, ING estimates

## FX issuance: focus on refinancing

Turkey is expected to have another active year in the primary market, with the sovereign likely to follow the lead of recent corporate and financial issuers to start the year.

The government has indicated plans for \$11bn in gross issuance, which suggests that net supply will be slightly negative due to significant upcoming maturities. This relatively supportive technical picture, combined with the ongoing improvement in fundamentals, should help to keep spreads well anchored over the coming years.

We expect both conventional and sukuk issuance in the USD space, along with the potential for more EUR paper as well.

### Author

#### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

#### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

#### James Wilson

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

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