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The Second Channel: Municipalities and Their Debt

A local government model that builds services on credit and leaves the revenue to the private sector — revenue, expenditure, debt and repayment terms by year; the Istanbul case compared with Seoul and Chile

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01 Executive Summary — The City Produces, the Municipality Borrows, the Market Takes the Rent

≈ ₺1.1 tn	₺234 bn	≈ 30%	$3.8 bn
local government debt stock 2025 (≈ $28 bn); ₺108 bn in 2017	social-security arrears of municipalities and their companies, Aug 2025	Istanbul's share of GDP; population share ≈ 18%; IMM budget ≈ 3–4% of provincial output	IMM debt stock (Oct 2025), mostly FX; $2.6 bn in 2014

Reports 1–3 measured the central budget's debt service and the assets sold or licensed away. This report measures the second channel of resource loss: municipalities, where urban services are actually produced, finance those services mainly with debt — in the metropolitan areas, FX debt — while the value the debt creates (land rent, zoning gains, operating income, contractor payments) accrues to the market rather than the municipality. The pattern above ground mirrors the pattern below ground: the public sector produces, borrows and does not share in the uplift.

- **Debt grows faster than revenue.** The stock was 84% of annual revenue in 2017 and above 50% in 2025 (≈ ₺1.1 tn), but most of it is FX-denominated and re-inflates with every currency move. İzmir is the measure: a ₺26 bn stock in March 2024 rose to ₺56.6 bn despite ₺22.5 bn of repayments and ₺25.6 bn of new borrowing — exchange losses and interest exceeded principal repaid.
- **Repayment comes from deductions, not services.** The constitutional security for municipal debt is the general-budget tax share: İller Bankası loans, Treasury-guaranteed foreign loans and restructured tax/social-security arrears are deducted at source. In 2025 IMM transferred 23 properties against ₺3.9 bn of social-security arrears: debt paid with the city's assets.
- **Half of revenue depends on the centre; own revenue is weak.** Property tax is ≈ 0.3% of GDP against an OECD average of ≈ 1.9%. Municipalities largely lack value-capture instruments (betterment levies, land value capture, sale of development rights).
- **Istanbul is one of the smallest-budget large cities relative to its economy.** Producing ≈ 30% of national output, IMM's consolidated 2026 budget (₺609 bn ≈ $13 bn) is ≈ 3–4% of provincial GDP. Seoul (≈ 23% of Korea's GDP) runs a municipal budget of ≈ 8–9% of its output, in won, through bonds, under a 20% debt/revenue ceiling. Chile, of similar population and output to Istanbul, runs a $90–100 bn state budget.

> **Thesis:** municipal debt is a product of revenue design, not profligacy: the city's taxes go to the centre, the city's rent goes to the market, the city's services are built on credit, and credit is repaid by deducting the tax share. The fix is not "a larger share" but the three instruments Seoul, Hong Kong and London use to make the municipality a partner in the value it creates: land value capture, long-dated local-currency municipal bonds, and property tax at market value.

02 Revenue, Expenditure and Debt by Year; Debt Channels

Year	Expenditure ₺bn	Revenue ₺bn	Debt stock ₺bn	Debt stock $bn	Debt / revenue
2010	47≈	43≈	33≈	22	77%
2014	88≈	79≈	55≈	25	70%
2017	148	128	108	30	84%
2020	232≈	205≈	210≈	30	102%
2022	480	450	350	21	78%
2024	1,500≈	1,400≈	780≈	24	56%
2025	**2,250≈**	**2,100≈**	**1,100≈**	**28**	**52%**

Source: General Directorate of Accounting local government statistics; 2017 (₺108 bn) and 2022 (₺350 bn) are official anchors, other years VMA estimates to be replaced by the consolidated official series. In dollars the stock moved only from ≈ $21 bn to ≈ $28 bn: real growth is limited, the currency effect dominant — indirect proof that most of the debt is FX-denominated.

Channel	Terms	Security / deduction	Result
İller Bankası loans	TL, 5–15 years; ₺29.7 bn in 2024; bank profit ₺17.2 bn	Deducted at source from the tax share	Cheap but small; the bank profits, the municipality's share shrinks
Treasury-guaranteed foreign loans	Investment only; EUR/USD, 10–20 yrs; EBRD, EIB, AIIB, World Bank, JBIC — the main source for metro and treatment plants	Treasury pays on default and recovers from the tax share; local governments are the Treasury's largest debtor group (₺10.6 bn, 2023)	FX risk on the municipality; deduction from the citizen's share
Commercial bank loans (TL)	Short-term, 45–60% in 2024–25	Revenue assignment, property mortgage	Most expensive channel
Tax and social-security arrears	De facto borrowing; restructuring laws 2011–2023 (36–120 month instalments)	Deducted from the tax share; property transfer (IMM 2025: 23 properties)	"Amnesty" cycle; debt paid with the city's assets
Contractor and company payables	Delayed progress payments; 565,000 staff in municipal companies (2022)	None; de facto forced trade credit	Implicit interest to contractors

Four mechanisms move value to the private sector: (1) transport investment → land rent (a metro corridor lifts property values 10–30%; IMM is building ten lines at once with ₺155 bn for transport in 2026; the 2020 betterment levy applies only to plan changes); (2) zoning rights → construction rent; (3) transfer of services to private operators (private buses, parking, advertising); (4) contractor and municipal-company payments. Rough measure for Istanbul: ≈ $8–10 bn of metro investment generating ≈ $20–30 bn of private value uplift on ≈ $150–200 bn of corridor property — two to three times the investment, with the municipality's share close to zero. Hong Kong MTR, Seoul's development levy and London Crossrail's business-rate supplement (£4.1 bn) show the share can be captured.

03 Istanbul vs Seoul and Chile; Revenue Potential; Recommendations

Metric	Istanbul (IMM)	Seoul (SMG)	Chile (central state)
Population	≈ 15.7 m (18% of Türkiye)	≈ 9.4 m (18% of Korea)	≈ 20 m
Output	≈ $400 bn (≈ 30% of Türkiye)	≈ $400 bn (≈ 23% of Korea)	≈ $330 bn
Budget	₺609 bn ≈ $13 bn (2026); with districts ≈ $18–20 bn	≈ 48 tn won ≈ $33–35 bn	≈ $90–100 bn
Budget / output	≈ 3–4% (≈ 5% with districts)	≈ 8–9%	≈ 27–30%
Debt	$3.8 bn, mostly FX	≈ $8 bn, all won, municipal bonds; 20% ceiling	Public debt ≈ 42% GDP, balanced currencies
Metro finance	IMM FX loans + ministry budget; no land value capture	National contribution + Seoul bonds + development levy; Seoul Metro public company	Metro S.A. public company; state capital + bonds
Property tax	≈ 0.3% GDP; assessed values far below market	≈ 1% GDP + comprehensive real-estate tax	≈ 1% GDP

Seoul runs 2.5 times Istanbul's budget with 60% of its population — not from spending appetite but revenue design. Istanbul manages an economy larger than Chile's with a fifth of Chile's state budget. Istanbul's fiscal problem is not the size of its debt ($3.8 bn is 1% of its output); it is that even this small debt is repaid from the centre's share, not the city's revenue, and that none of the rent the city creates enters its budget.

Revenue source	Now	Potential (national, annual)	Precedent
Property tax at market value	≈ 0.3% GDP (≈ ₺220 bn)	1% GDP = ≈ ₺750 bn (≈ $16 bn); primary-residence exemption, phased	OECD ≈ 1.9%; Korea, Chile ≈ 1%
Transport-corridor value capture	None	15–20% of ≈ $20–30 bn Istanbul uplift = $3–6 bn one-off; ≈ $5–8 bn nationally	Hong Kong MTR; Crossrail; Seoul
Sale of development rights / wider betterment levy	Partial (Law 7221, 2020)	≈ ₺100–200 bn	São Paulo CEPAC
Local-currency municipal bonds	2012 regulation unused	Replace FX loans; eliminate currency losses; TVF/ İller Bankası-guaranteed "Istanbul Infrastructure Bond" for pension and insurance funds	Seoul, Tokyo, US munis
Recovering service operating margins	Private buses, parking, advertising margins private	3–5% of metropolitan revenue	Seoul Metro, TfL
Total potential		**≈ ₺1–1.2 tn (≈ $25 bn) a year + ≈ $5–8 bn one-off — close to the entire local debt stock**	

RECOMMENDATIONS TO THE TVF BOARD (INDEPENDENT OF MUNICIPAL POLITICS; ALL VIA CENTRAL LEGISLATION AND TVF/İLLER BANKASI INSTRUMENTS)

1. **Replace FX debt with TL bonds:** TVF- or İller Bankası-guaranteed 10–20-year CPI-indexed "Metropolitan Infrastructure Bonds"; new foreign loans only where a grant element exists (EIB, AIIB).

2. **Land value capture law:** 15–20% of value uplift within rail and major infrastructure corridors payable to the municipality for ten years from opening, earmarked for debt service.
3. **Property tax reform:** automatic indexing of assessed values to market data; primary-residence and pensioner exemptions; the revenue stays entirely with the municipality.
4. **Reverse the deduction priority:** cap deductions from the tax share at 25%; collect Treasury and social-security claims by revenue assignment over long tenors; prohibit property transfers in settlement.
5. **Municipal debt and asset registry:** monthly consolidated debt by municipality with currency breakdown, all creditors in one table, municipal companies consolidated.
6. **Public-public partnership in metro:** merge IMM and ministry lines under one operator (Seoul Metro model); pool corridor real estate in a TVF–IMM asset company ("Rail + Property"); match revenue to debt.

Sources: General Directorate of Accounting local government budget statistics 2006–2025; Treasury Public Debt Management Reports; İller Bankası 2024 Annual Report; IMM 2023–2025 budgets and 2026 budget presentation (Nov 2025); Ministry of Labour statements on municipal social-security arrears (2024–25); Laws 5393, 5779, 4749, 2464, 1319, 7221, 5510; TurkStat provincial GDP (2023); Seoul Metropolitan Government budget and debt disclosures; Chile Dipres; OECD Revenue Statistics; ITDP and Lincoln Institute land-value-capture literature; TfL Crossrail funding report. Series marked "≈" must be replaced with the consolidated official tables before decisions.