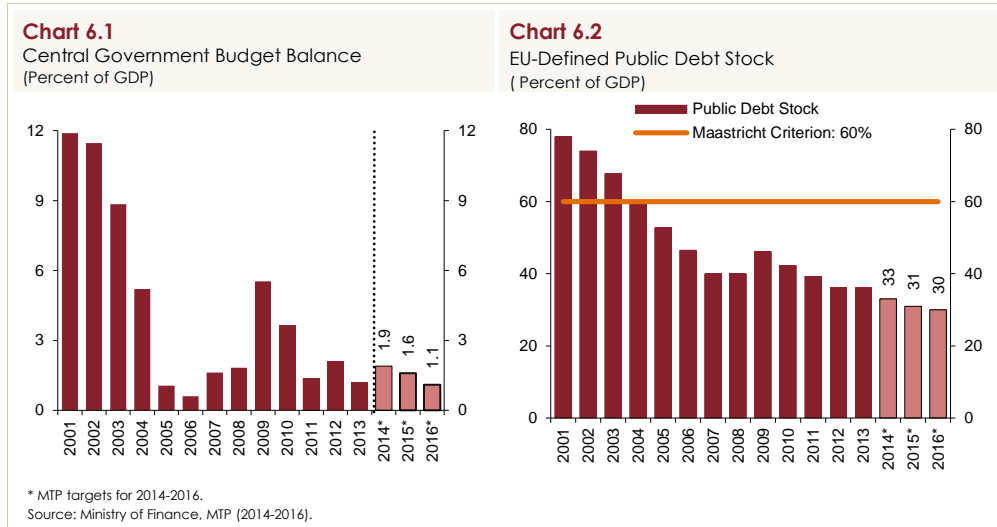


6. Public Finance

The budget performance displayed a significant year-on-year improvement in 2013 (Chart 6.1). This is attributed to the surge in budget revenues, which is owed to robust domestic demand, temporary one-time revenues and some tax adjustments. In 2013, the ratio of EU-defined nominal debt stock to GDP, which declined during 2010 and 2012, remained unchanged from 2012 (Chart 6.2).



Budget performance displayed a favorable outlook in the first quarter of 2014. Tax revenues also surged amid rising primary expenditures in the same period. The favorable course of tax revenues in this quarter is attributed to tax adjustments in early 2014, exchange rate and price developments and advance spending on consumption goods before the implementation of the adopted macro prudential measures to restrict domestic demand.

The favorable budget performance in the first quarter of 2014 notwithstanding, it is critical that the fiscal policy be implemented in line with the MTP's projections and the primary expenditures be kept under control for the rest of the year as well.

6.1. Budget Developments

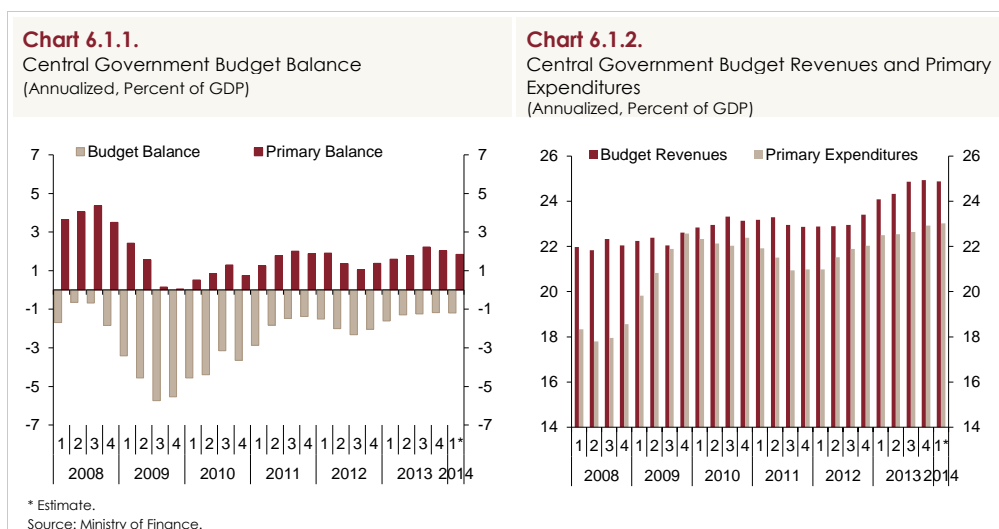
The central government budget posted a deficit of 1.5 billion TL, while the primary budget registered a surplus of 12.5 billion TL in the first quarter of 2014 (Table 6.1.1). Despite the quarterly decline in interest expenditures, the growth of tax revenues lagged behind the rate of increase in primary expenditures, thereby leading to a slight increase in the budget deficit compared to 2013. As of the first quarter of 2014, tax revenues have been on a target-consistent path, while primary expenditures have been growing notably above the targeted rate of increase.

Table 6.1.1.
Central Government Budget Aggregates
(Billion TL)

	January- March 2013	January- March 2014	Rate of Increase (Percent)	Actual/Target (Percent)	Targeted Annual Rate of Increase (Percent)
Central Government Budget					
Expenditures	95.0	105.8	11.3	24.2	7.0
Interest Expenditures	15.1	14.0	-7.8	26.9	4.0
Primary Expenditures	79.9	91.8	15.0	23.9	7.4
Central Government Budget					
Revenues	94.1	104.3	10.8	25.9	3.5
I. Tax Revenues	77.4	85.1	10.0	24.4	6.8
II. Non-Tax Revenues	13.4	15.2	12.9	34.0	-10.8
Budget Balance	-0.9	-1.5	69.1	4.6	-
Primary Balance	14.3	12.5	-12.6	66.5	-

Source: Ministry of Finance.

The central government budget deficit to GDP ratio, which declined to 1.2 percent in 2013 amid the favorable budget performance, is estimated to remain unchanged in the first quarter of 2014 (Chart 6.1.1). Meanwhile, the primary budget surplus to GDP ratio assumed an upward course after declining to 1.1 percent in the third quarter of 2012. This ratio, which hit 2 percent at end-2013, is estimated to reach 1.9 percent in the first quarter of 2014.



Having surged dramatically since 2012 and reaching 22.9 percent at end-2013, the central government primary expenditures to GDP ratio is estimated to hit 23 percent in the first quarter of 2014. On the other hand, the central government budget revenues to GDP ratio increased upon robust economic activity as well as tax adjustments in September 2012 and January 2013, reaching 24.9 percent at end-2013. The ratio is estimated to remain at 24.9 percent in the first quarter of the year.

The central government primary budget expenditures, which started to surge as of the second half of 2012, increased further in the first quarter of 2014. Accordingly, the central government primary budget expenditures registered a year-on-year increase of 15 percent in this period (Table 6.1.2).

In the first quarter of 2014, current transfers, personnel expenditures and purchase of goods and services, which are major items in primary expenditures, registered a year-on-year increase of 9.8 percent, 17.1 percent and 17.8 percent, respectively. Among current transfers, expenditures on health,

pension and social benefits registered a relatively slower rate of increase, while the increase in agricultural subsidies and shares reserved from revenues pulled the overall rate of increase in current transfers higher. The increase in personnel expenditures by sub-items indicates an 18.7 percent and 17.9 percent rise in expenditures for officers and workers, respectively. As for other expenditure items, the dramatic surge in capital expenditures and capital transfers was noteworthy in the first quarter of 2014. Road construction expenditures played a major role in the increase in capital expenditures.

Table 6.1.2.
Central Government Primary Expenditures
(Billion TL)

	January- March 2013	January- March 2014	Rate of Increase (Percent)	Actual/Target (Percent)
Primary Expenditures	79.9	91.8	15.0	23.9
1. Personnel Expenditures	25.1	29.4	17.1	26.7
2. Government Premiums to SSI	4.2	5.0	18.9	26.7
3. Purchase of Goods and Services	5.4	6.4	17.8	16.9
4. Current Transfers	37.9	41.6	9.8	25.5
a) Duty Losses	0.5	0.8	62.5	18.5
b) Health, Pension and Social Benefits	19.1	20.2	5.4	26.2
c) Agricultural Support	2.8	3.6	30.3	37.2
d) Shares Reserved from Revenues	10.2	11.3	10.6	23.9
5. Capital Expenditures	4.1	5.7	37.8	15.4
6. Capital Transfers	0.4	1.0	159.9	15.4
7. Lending	2.7	2.8	1.0	36.0

Source: Ministry of Finance.

In the first quarter of 2014, the central government general budget revenues recorded a year-on-year increase of 10.4 percent (Table 6.1.3). In the same period, tax revenues and non-tax revenues increased by 10 percent and 12.9 percent, respectively.

Table 6.1.3.
Central Government General Budget Revenues
(Billion TL)

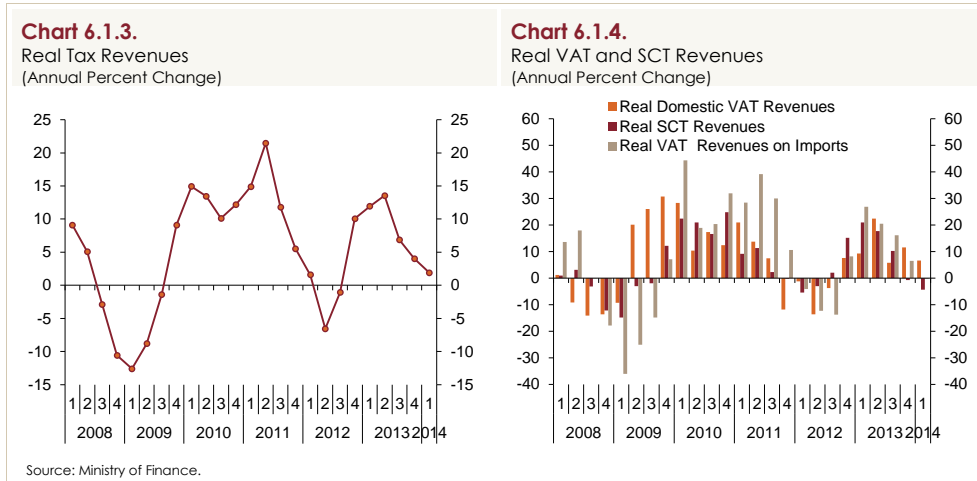
	January- March 2013	January- March 2014	Rate of Increase (Percent)	Actual/Target (Percent)
General Budget Revenues	90.8	100.3	10.4	25.5
I-Tax Revenues	77.4	85.1	10.0	24.4
Income Tax	14.2	17.7	25.0	25.0
Corporate Tax	7.8	7.2	-7.6	23.1
Domestic VAT	9.4	10.8	15.0	27.3
SCT	18.0	18.6	3.3	20.8
VAT on Imports	14.8	15.9	7.7	24.6
II-Non-Tax Revenues	13.4	15.2	12.9	34.0
Enterprises and Property Revenues	1.6	2.4	52.7	29.3
Interests, Shares and Fines	6.4	8.5	32.6	32.5
Capital Revenues	5.0	3.0	-40.5	34.0

Source: Ministry of Finance.

A closer analysis of tax revenues reveals that income tax revenues displayed high-rated increases in the first quarter of 2014, whereas corporate tax revenues declined. As for consumption-based tax revenues, the VAT revenues performed well, while SCT revenues registered a slight rise. The details of SCT revenues show a 19.6 percent and 7 percent increase in tax revenues on tobacco products and motor vehicles, respectively. On the other hand, tax revenues on petroleum and natural gas products decreased by 4.2 percent.

Having turned positive amid tax hikes in September 2012 as well as the base effect, the annual rate of increase in real tax revenues started to slacken in the second half of 2013 and reached 1.9

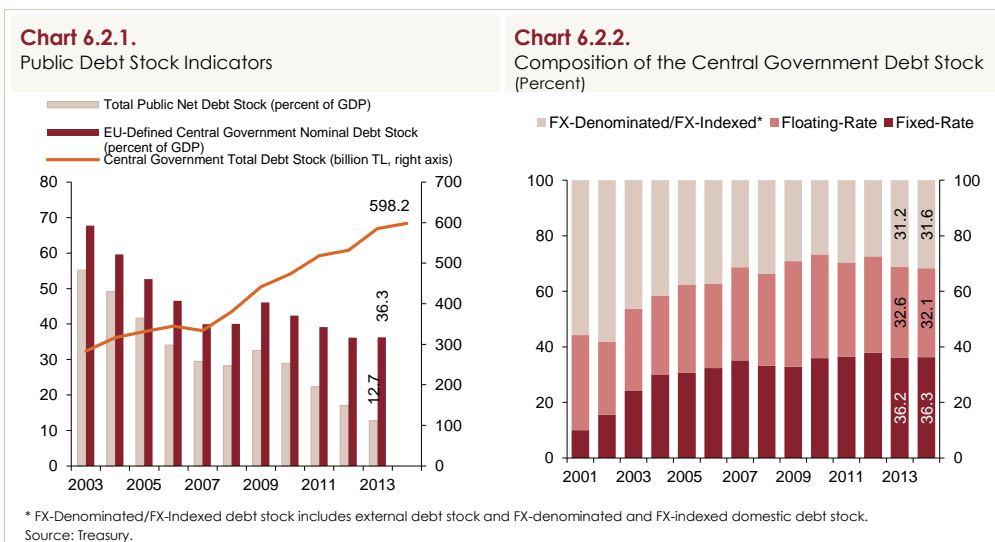
percent in the first quarter of 2014 (Chart 6.1.3). Consumption-based tax revenues increased drastically in 2013 on the back of the adopted tax regulation, the relatively robust economic activity and also BOTAŞ payments. In the first quarter of 2014, domestic VAT revenues continued to increase in real terms, while SCT revenues declined (Chart 6.1.4).



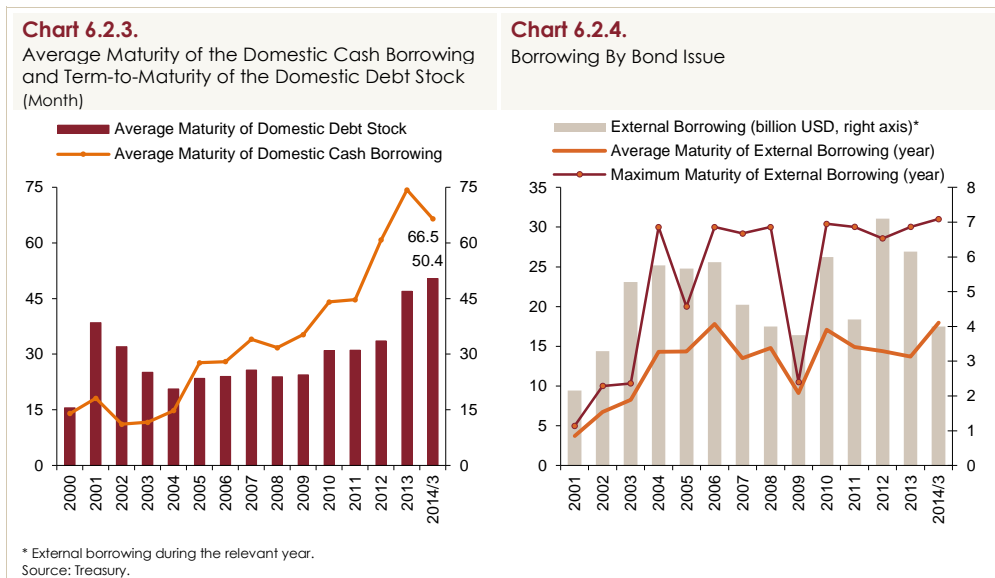
6.2. Developments in the Public Debt Stock

Public debt stock indicators displayed a favorable outlook in the first quarter of 2014. The ratio of total public net debt stock to GDP continued to decline, while the average maturity of the debt stock extended.

The central government debt stock stands at 598.2 billion TL as of March 2014 (Chart 6.2.1). The ratio of total public net debt stock to GDP decreased by 4.3 percentage points, while the ratio of the EU-defined general government nominal debt stock to GDP increased by 0.1 percentage points compared to end-2013 figures (Chart 6.2.1).



The share of fixed-rate securities in the total debt stock remained almost unchanged from 2013 (Chart 6.2.2). As for the interest and exchange rate structure of domestic borrowing in 2013, the share of fixed-rate securities registered a year-on-year decline, while the share of floating rate securities increased slightly in the first two months of the year. The ratio of public deposits to average monthly debt service stands at 196.5 percent. The average term-to-maturity of the domestic debt stock rose slightly to 50.4 months (Chart 6.2.3). Meanwhile, in the first quarter of 2014, external borrowing by bond issues amounted to 4 billion USD, with the average maturity standing at 18 years (Chart 6.2.4).



The domestic debt rollover ratio stood at 91.6 percent at end-February 2014 (Chart 6.2.5). Having plummeted from early 2009 to early 2011, the average real interest rate at discount auctions continues to surge due to the recent global financial fluctuations and the cautious monetary policy stance (Chart 6.2.6).

