

6. Public Finance

In the first half of 2016, the central government budget performance registered a year-on-year improvement, particularly upon the hikes in non-tax revenues. Although the growth of primary expenditures continued with an accelerated pace in this period, the mild uptick in tax revenues coupled with the occasional decline in interest expenditures contributed favorably to the budget performance.

The MTP covering the 2016-2018 period is based on an approach that the public savings-investment gap will be narrowed gradually by curbing the rate of increase in public spending and the public sector borrowing requirement. The MTP also emphasizes that the quality of public revenues will be improved, and therefore, non-recurring revenues will no longer be used to finance policies that permanently raise the level of public spending in the medium to long term. Gradual reduction of the public debt stock to the GDP ratio under the projected fiscal discipline during the MTP period will contribute to macroeconomic stability, thereby helping to achieve price stability, which is the primary objective of the CBRT.

6.1. Budget Developments

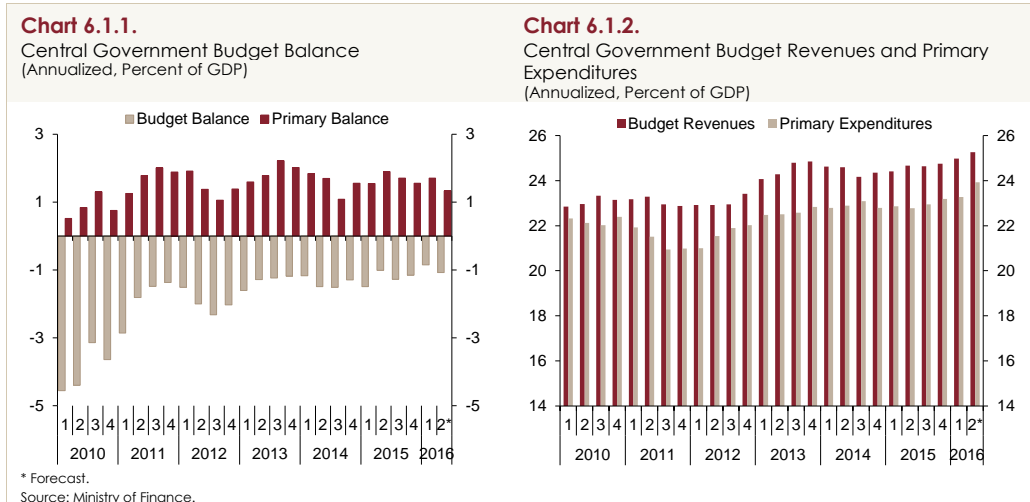
In the first half of 2016, the central government budget balance and the primary budget balance posted a surplus of 1.1 billion TL and 27.5 billion TL, respectively (Table 6.1.1). The robust tax revenue collection of 2015 continued into the first half of 2016 despite some deceleration. Backed by the intermittent fall in interest expenditures and also by the sharp year-on-year growth in non-tax revenues, the central government budget balance registered a slight year-on-year improvement in the first half of 2016.

Table 6.1.1.
Central Government Budget Aggregates
(Billion TL)

	2015 January-June	2016 January-June	Rate of Increase (Percent)	Actual/Target (Percent)	Target Rate of Increase (Percent)
Central Government Budget Expenditures	236.7	273.9	15.7	48.0	12.8
Interest Expenditures	29.7	26.4	-11.2	47.1	5.6
Primary Expenditures	206.9	247.5	19.6	48.1	13.6
Central Government Budget Revenues	237.5	275.0	15.8	50.8	11.9
I. Tax Revenues	194.7	216.6	11.2	47.2	12.7
II. Non-Tax Revenues	33.5	47.3	41.2	68.4	20.7
Budget Balance	0.8	1.1	-	-	-
Primary Balance	30.5	27.5	-9.8	104.7	-

Source: Ministry of Finance.

After rising slightly to 1.3 percent in 2014 on an annual basis, the central government budget deficit to the GDP ratio dropped to 1.2 percent in 2015. This ratio is estimated to fall further to 1.1 percent in the first half of 2016 (Chart 6.1.1). Meanwhile, having declined to 1.1 percent in the third quarter of 2012, the primary budget surplus to the GDP ratio assumed an upward course, ending 2013 at 2 percent. The ratio receded to 1.6 percent in 2014 and 2015, and is estimated to rise slightly to 1.3 percent in the first half of 2016.



Having followed a significant uptrend since 2012, the central government primary expenditures to the GDP ratio hit 23.2 percent in 2015. The ratio is expected to inch higher to 23.9 percent in the first half of 2016, especially owing to sharp increases in public expenditures (Chart 6.1.2). On the other hand, upon the relatively robust economic activity as well as the tax adjustments in September 2012 and January 2013, the central government budget revenues to the GDP ratio climbed to 24.8 percent at end-2013. After dropping to 24.4 percent in 2014 mainly due to slowing tax revenues based on domestic demand, the ratio rose to 24.7 percent in 2015. Supported mainly by the hikes in non-tax revenues, the central government budget revenues to the GDP ratio is estimated to reach 25.3 percent in the first half of 2016.

Having leaped since the second half of 2012, the central government primary budget expenditures remained on the rise in the first quarter of 2016. Accordingly, the central government primary budget expenditures posted a year-on-year increase of 19.6 percent in the January-June period of 2016 (Table 6.1.2).

Table 6.1.2.

Central Government Primary Expenditures (Billion TL)

	2015 January-June	2016 January-June	Rate of Increase (Percent)	Actual/Target (Percent)
Primary Expenditures	206.9	247.5	19.6	48.1
1. Personnel Expenditures	63.0	76.9	22.2	52.0
2. Government Premiums to SSI	10.3	12.5	21.0	50.3
3. Purchases of Goods and Services	18.3	22.4	22.5	47.7
4. Current Transfers	87.7	111.3	26.8	51.1
a) Duty Losses	1.6	2.5	51.8	45.1
b) Health, Pension and Social Benefits	36.6	52.6	43.7	51.4
c) Agricultural Support	7.2	8.3	14.1	70.9
d) Reserved Share Revenues	27.4	30.4	11.0	48.3
5. Capital Expenditures	17.1	15.7	-7.9	30.4
6. Capital Transfers	3.7	2.9	-20.5	38.8
7. Lending	6.9	5.8	-16.7	44.5

Source: Ministry of Finance.

Across primary expenditures, current transfers, purchases of goods and services, and personnel expenditures surged by 26.8, 22.5 and 22.2 percent, respectively, in the first half of 2016. Health, pension and social benefit expenditures under current transfers, which also include social security deficit

financing, soared by 43.7 percent. Transfers for the financing of the social security deficit, which stood at 2.6 billion TL in the first half of 2015, amounted to 9.2 billion TL in the same period of 2016, thus leading to a jump in health, pension and social benefit expenditures. As for public investment expenditures, the slump in capital expenditures and capital transfers curbed the rise in primary budget expenditures. Excluding these two items, the rate of increase in primary expenditures climbed to 22.9 percent.

In the first half of 2016, central government budget revenues displayed a year-on-year increase by 15.6 percent (Table 6.1.3). In the same period, tax revenues rose by 11.2 percent, while non-tax revenues exhibited an outstanding performance with an upsurge by 41.2 percent.

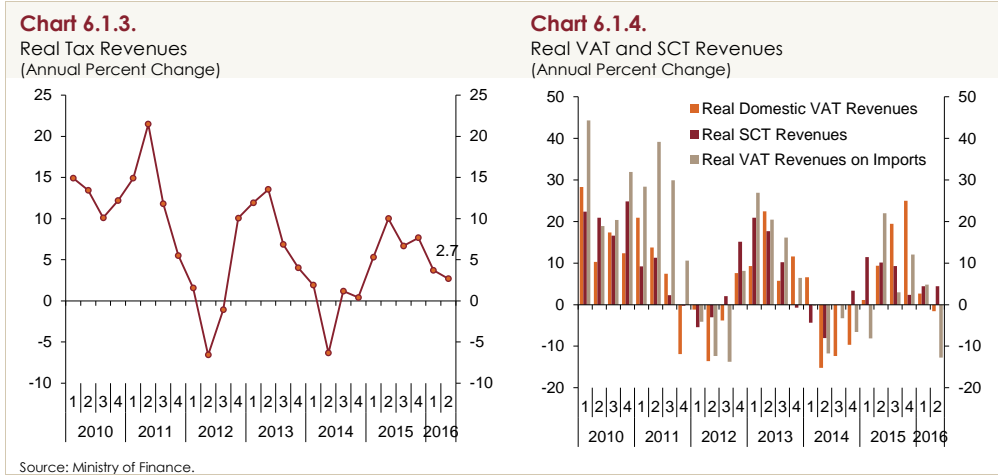
Across tax revenues, the collection of income tax, which makes up the largest share of direct taxes, recorded a year-on-year upsurge by 14.9 percent in the January-June period of 2016. Income tax collection is mostly composed of deductions from wages. In this regard, the large minimum wage hike of 2016 had a favorable impact on income tax revenues. Among consumption-based indirect taxes, the SCT and the domestic VAT rose by 12.6 and 8.7 percent, respectively. The details of SCT revenues show a jump of 19.1 and 16.1 percent, respectively, in tax revenues from tobacco products and motor vehicles, while an increase of 7.5 percent in petroleum and natural gas products, which account for the largest share of total SCT revenues. On the other hand, the VAT on imports exhibited a limited rise by 2.2 percent. The sharp rise in non-tax revenues was largely driven by the inclusion of an additional 9.9 billion TL of privatization revenues into the budget in the first half of 2016 coupled with the CBRT's profit transfer of 9.3 billion TL.

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

	2015 January-June	2016 January-June	Rate of Increase (Percent)	Actual/Target (Percent)
General Budget Revenues	228.2	263.9	15.6	49.9
I-Tax Revenues	194.7	216.6	11.2	47.2
Income Tax	40.2	46.2	14.9	46.7
Corporate Tax	16.9	20.5	21.5	55.8
Domestic VAT	22.3	24.2	8.7	47.2
SCT	48.5	54.6	12.6	47.0
VAT on Imports	36.1	36.9	2.2	42.5
II-Non-Tax Revenues	33.5	47.3	41.2	68.4
Enterprise and Property Revenues	11.2	17.0	52.0	89.9
Interests, Shares and Fines	13.7	17.3	26.4	50.9
Capital Revenues	6.9	10.7	54.8	87.8

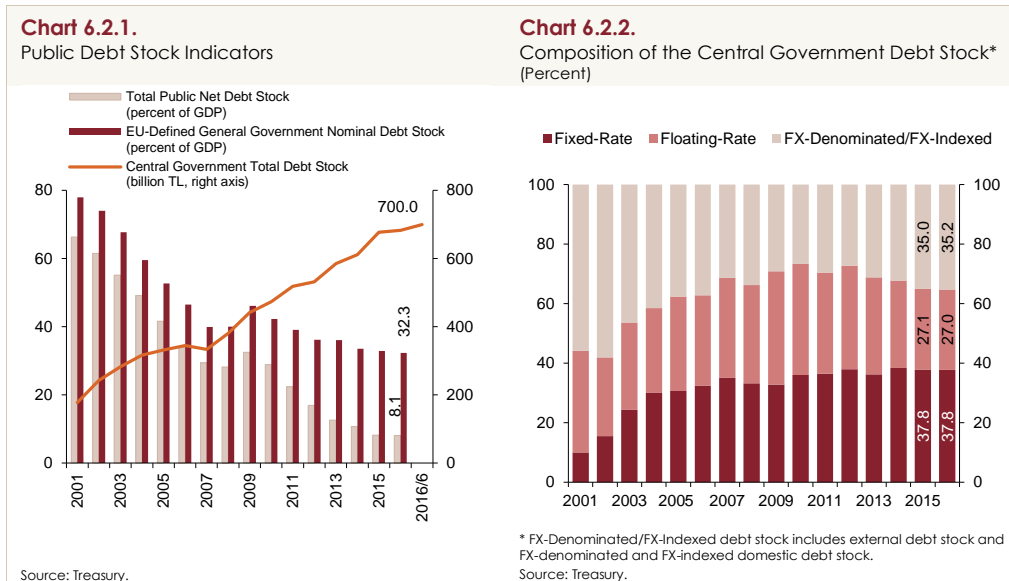
Source: Ministry of Finance.

Having turned positive amid tax rate hikes in September 2012 as well as the base effect, the annual rate of increase in real tax revenues started to slacken in the third quarter of 2013. Real tax revenues remained unchanged year-on-year in the last quarter of 2014, but increased by 7.7 percent in the last quarter of 2015. In the second quarter of 2016, however, real tax revenues rose by 2.7 percent year-on-year (Chart 6.1.3). The analysis of this increase by sub-items suggests that revenues from the VAT on imports and the domestic VAT, which are among consumption-based taxes, declined by 12.8 and 1.6 percent in real terms, respectively, while the SCT collection surged by 4.5 percent (Chart 6.1.4).



6.2. Developments in the Public Debt Stock

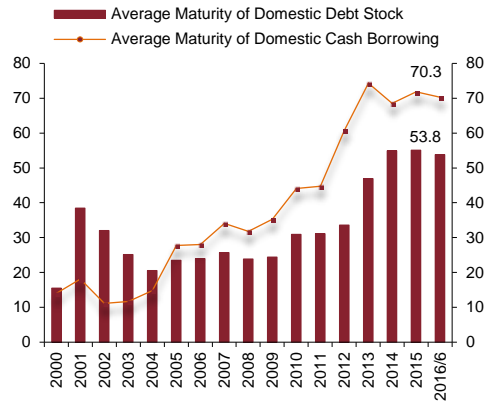
The central government debt stock reached 700 billion TL in the first half of 2016 (Chart 6.2.1). Total public net debt stock to the GDP and the EU-defined general government nominal debt stock to the GDP posted a year-on-year drop of 0.1 and 0.6 points, respectively, in the first quarter of 2016 (Chart 6.2.1).



By June 2016, the share of fixed-rate securities in the total debt stock had remained unchanged from 2015 (Chart 6.2.2). As for the interest rate and currency structure of domestic borrowing, the share of fixed-rate borrowing registered a year-on-year increase in the January-June period of 2016. Meanwhile, the ratio of public deposits to the average monthly debt service stood at 665.4 percent. The average term-to-maturity of the domestic debt stock reached 53.8 months (Chart 6.2.3). External borrowing by bond issues amounted to 3 billion USD in the first six months of the year, with an average maturity of 19.7 years (Chart 6.2.4).

Chart 6.2.3.

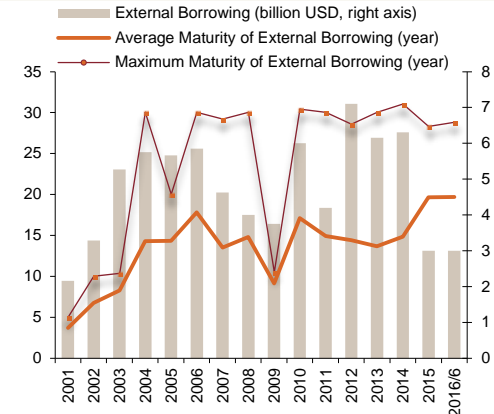
Average Maturity of the Domestic Cash Borrowing and Term-to-Maturity of the Domestic Debt Stock (Month)



Source: Treasury.

Chart 6.2.4.

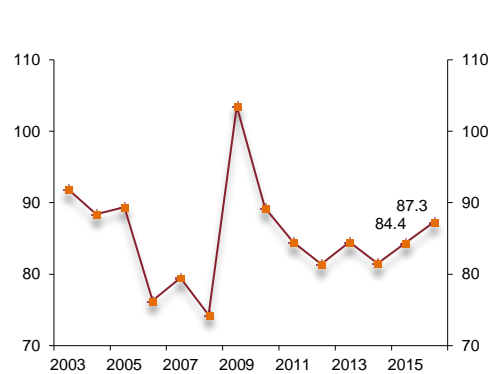
Borrowing By Bond Issue



The domestic debt rollover ratio stood at 87.3 percent by the end of May 2016 (Chart 6.2.5). The average real interest rate¹ has recently been on the decline (Chart 6.2.6).

Chart 6.2.5.

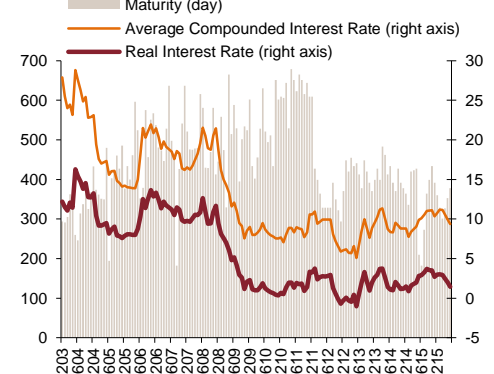
Total Domestic Debt Rollover Ratio (Percent)



Source: Treasury, CBRT.

Chart 6.2.6.

Average Maturity and Interest Rates of Borrowing at Discount Auctions



¹ Real interest rates are calculated by subtracting the 12-month-ahead inflation expectations of the CBRT Survey of Expectations from nominal interest rates (average annual compounded interest rate at the Treasury's TL-denominated zero-coupon securities auction).

