6. Public Finance

In 2015, the growth of primary expenditures failed to decelerate as targeted. Public investment expenditures exceeded initial allowances to a considerable extent. On the other hand, tax revenues, particularly domestic indirect tax revenues such as SCT and VAT, performed better than the year-end targets. This pushed the central government primary surplus slightly upwards in annualized terms compared to 2014. Meanwhile, the central government budget deficit edged down amid the relatively low increase in interest expenditures and stood close to the target.

The MTP covering the 2016-2018 period, which was announced in October 2015, was revised in January. The MTP states that the fiscal policy will be implemented to support economic stability, to enhance growth potential, to reduce the current account deficit by increasing domestic savings and to contribute to price stability. To ensure that the fiscal policy helps achieve these goals, the sustainability of the fiscal policy will be assured and the public savings-investment gap will be gradually narrowed by curbing the rate of increase in public spending and the public sector borrowing requirement. Moreover, public spending on infrastructure investments, trainings and R&D will be prioritized to support economic growth. Meanwhile, the MTP 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. Thus, fiscal discipline will be maintained and the debt stock to the GDP ratio will be reduced further in a gradual way during the MTP period (Table 6.1). This fiscal adjustment projected for 2017 and 2018 is likely to be achieved by controlling the rate of increase in primary expenditures, and accordingly, the tax revenues to GDP ratio will edge down over time.

Table 6.1.
Central Government and General Government Budget Balance
(Percent of GDP)

	2014	2015*	2016**	2017**	2018**
Expenditures	25.7	25.8	25.9	24.9	24.2
Primary Expenditures	22.8	23.1	23.3	22.5	21.9
Interest Expenditures	2.9	2.7	2.5	2.4	2.3
Revenues	24.3	24.6	24.5	23.9	23.3
Tax Revenues	20.2	20.8	20.8	20.5	20.5
Other Revenues	4.2	3.9	3.7	3.3	2.9
Budget Balance	**-1.3**	**-1.2**	**-1.3**	**-1.0**	**-0.8**
Primary Balance	**1.5**	**1.5**	**1.2**	**1.4**	**1.4**
General Government Budget Balance	**-0.6**	**0.0**	**-0.7**	**-0.7**	**-0.4**
General Government Primary Balance	**2.3**	**2.8**	**2.0**	**1.8**	**2.0**
EU-Defined Nominal Debt Stock	**33.5**	**32.6**	**31.7**	**30.5**	**29.5**

* Forecast.
** MTP.
Source: MTP (2016-2018).

6.1. Budget Developments

In 2015, the central government budget balance registered a deficit of 22.6 billion TL, while the primary budget balance had 30.4 billion TL in surplus (Table 6.1.1). The growth rate of primary expenditures remained far above the deceleration targeted for 2015, yet tax revenues performed better than expected at the year-end, which contributed to the slight increase in the central government primary surplus compared to 2014. As interest expenditures also posted a relatively limited rise, the central government budget deficit declined only slightly year-on-year in 2015.

Table 6.1.1.
Central Government Budget Aggregates
(Billion TL)

	2014	2015	Rate of Increase (Percent)	Actual/Target (Percent)
Central Government Budget Expenditures	448.8	506.0	12.8	107.0
Interest Expenditures	49.9	53.0	6.2	98.2
Primary Expenditures	398.8	453.0	13.6	108.1
Central Government Budget Revenues	425.4	483.4	13.6	106.9
I. Tax Revenues	352.5	407.5	15.6	104.6
II. Non-Tax Revenues	56.2	57.3	2.0	111.3
Budget Balance	**-23.4**	**-22.6**	**-**	**-**
Primary Balance	**26.5**	**30.4**	**14.5**	**92.0**

Source: Ministry of Finance.

The central government budget deficit to the GDP ratio, which rose slightly to 1.3 percent in 2014 on an annual basis, is estimated to have dropped to 1.2 percent in 2015 (Chart 6.1.1). Meanwhile, the primary budget surplus to the GDP ratio assumed an upward course and reached 2 percent at end-2013, after declining to 1.1 percent in the third quarter of 2012. This ratio dropped to 1.6 percent in 2014 and is estimated to have risen to 1.5 percent in 2015.

Chart 6.1.1.
Central Government Budget Balance
(Annualized, Percent of GDP)

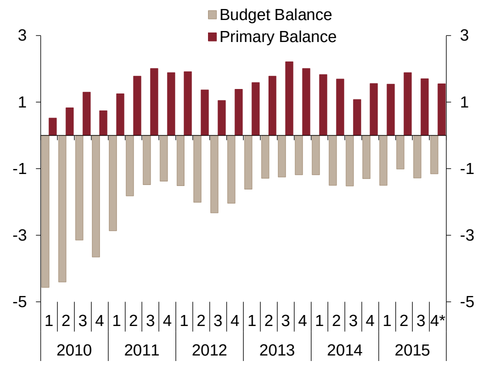
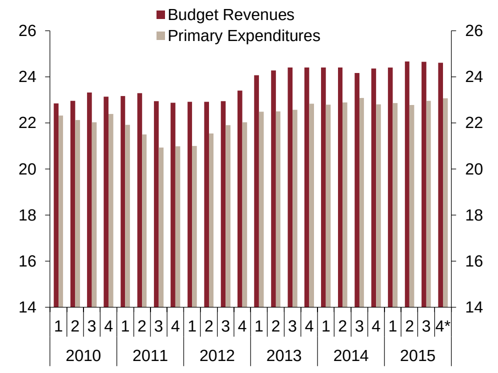


Chart 6.1.2.
Central Government Budget Revenues and Primary Expenditures
(Annualized, Percent of GDP)



* Forecast.
Source: Ministry of Finance.

Having surged since 2012 and reaching 22.8 percent at end-2013, the central government primary expenditures to the GDP ratio hit 23.1 percent in the third quarter of 2014, which is the highest level recorded since 2008. This ratio fell slightly to 22.8 percent in the last quarter of 2014 and is expected to creep up to 23.1 percent in 2015 (Chart 6.1.2). On the other hand, the central government budget revenues to the GDP ratio increased upon the relatively robust economic activity as well as tax adjustments in September 2012 and January 2013, reaching 24.8 percent at end-2013. This ratio dropped to 24.4 percent in 2014, mainly due to slowing tax revenues based on domestic demand, and is estimated to have gone up to 24.6 percent in 2015.

Trending upwards since the second half of 2012, the central government primary budget expenditures remained on the rise also in 2015. Accordingly, the central government primary budget expenditures registered a year-on-year increase of 13.6 percent in 2015 (Table 6.1.2).

Table 6.1.2.
Central Government Primary Expenditures (Billion TL)

	2014	2015	Rate of Increase (Percent)	Actual/Target (Percent)
Primary Expenditures	**398.8**	**453.0**	**13.6**	**108.1**
1. Personnel Expenditures	110.4	125.0	13.3	104.9
2. Government Premiums to SSI	18.9	21.0	11.2	103.5
3. Purchases of Goods and Services	40.8	45.4	11.4	110.4
4. Current Transfers	162.3	182.8	12.6	103.6
a) Duty Losses	3.8	4.8	25.7	109.2
b) Health, Pension and Social Benefits	77.3	80.1	3.6	99.3
c) Agricultural Support	9.1	10.0	9.0	99.7
d) Reserved Share Revenues	47.3	55.8	17.9	102.5
5. Capital Expenditures	48.2	56.9	18.0	138.9
6. Capital Transfers	7.7	10.5	35.7	153.9
7. Lending	10.5	11.3	7.4	107.5

Source: Ministry of Finance.

In 2015, personnel expenditures, current transfers and purchases of goods and services, which are major items in primary expenditures, registered increases by 13.3, 12.6 and 11.4 percent, respectively. Health, pension and social benefit expenditures edged up by 3.6 percent, which slightly contained the rise in current transfers. A higher collection of premiums owing to the restructuring of public receivables as per Law No. 6552 narrowed the social security deficit. Accordingly, the budget transfer for the social security deficit, a key item of health, pension and social benefit expenditures, posted a decline. The shares reserved for other public institutions and enterprises from the central government revenues increased significantly by 17.9 percent. This was due to the high tax performance of the central government in 2015 and the termination of deductions made for debts of local administrations. As for public investment expenditures, capital expenditures and capital transfers surged by 18 and 35.7 percent, respectively, considerably exceeding the year-end target.

Central government general budget revenues increased by 13.7 percent year-on-year in 2015 (Table 6.1.3). Tax revenues surged notably by 15.6 percent in this period, while non-tax revenues soared slightly by 2 percent.

A closer scrutiny of tax revenues reveals that the collection of consumption-based taxes and the income tax recorded a year-on-year upsurge in 2015. As income tax revenues are largely collected through withholding taxes on salaries and wages, the high increase in minimum wages in 2015 improved the collection of income taxes. Among consumption-based taxes, revenues from domestic VAT, SCT and VAT on imports recorded an uptick by 21.8, 16.3 and 15.5 percent, respectively. The details of SCT revenues show a jump of 32.5 percent in tax revenues on motor vehicles. The increase in the collection of taxes on petroleum and natural gas products, which account for a large share of total SCT revenues, remained relatively low at 11.4 percent. Meanwhile, the inclusion of the VAT revenues in the budget accrued by the 4.5 G license sales is as an additional factor, which accounted for the rising domestic VAT revenues.

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

	2014	2015	Rate of Increase (Percent)	Actual/Target (Percent)
General Budget Revenues	**408.7**	**464.8**	**13.7**	**105.4**
I-Tax Revenues	**352.5**	**407.5**	**15.6**	**104.6**
Income Tax	73.9	85.8	16.0	104.1
Corporate Tax	32.3	33.4	3.4	92.4
Domestic VAT	38.1	46.4	21.8	105.0
SCT	91.1	105.9	16.3	112.7
VAT on Imports	64.4	74.4	15.5	99.0
II-Non-Tax Revenues	**56.2**	**57.3**	**2.0**	**111.3**
Enterprise and Property Revenues	16.1	19.7	21.9	207.4
Interests, Shares and Fines	28.3	26.5	-6.2	92.0
Capital Revenues	9.5	7.9	-16.9	76.0

Source: Ministry of Finance.

Even though non-tax revenues increased only slightly in 2015, they performed well above the year-end target. In this context, enterprise and property revenues more than doubled the targeted amount. This high performance is attributed to 4.6 billion TL collected under the Type II telecommunication license and general permit revenues as per the 4.5 G tender. On the other hand, targeted privatization revenues, which had been 8.7 billion TL for 2015, amounted to only 6.1 billion TL, pulling capital revenues below the target.

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 (Chart 6.1.3). The analysis of this increase by sub-items suggests that revenues from domestic VAT, VAT on imports and SCT, which are among consumption-based taxes, rose by 25, 12 and 2.4 percent in real terms, respectively (Chart 6.1.4).

Chart 6.1.3.
Real Tax Revenues
(Annual Percent Change)

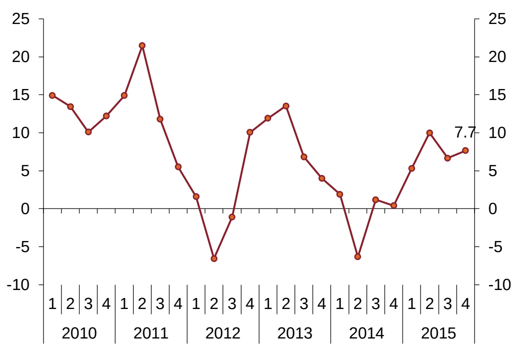
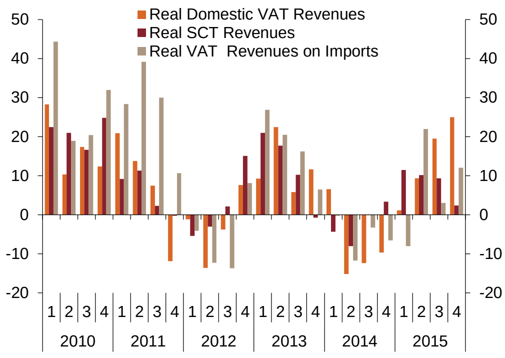


Chart 6.1.4.
Real VAT and SCT Revenues
(Annual Percent Change)

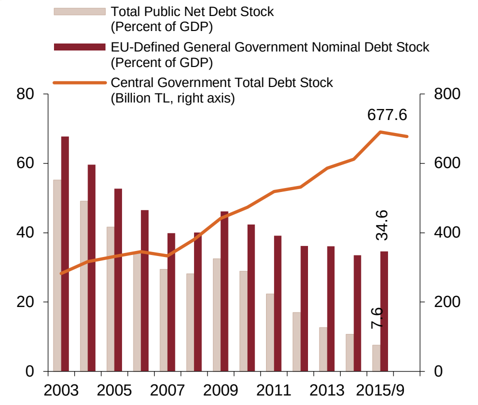


Source: Ministry of Finance.

6.2. Developments in the Public Debt Stock

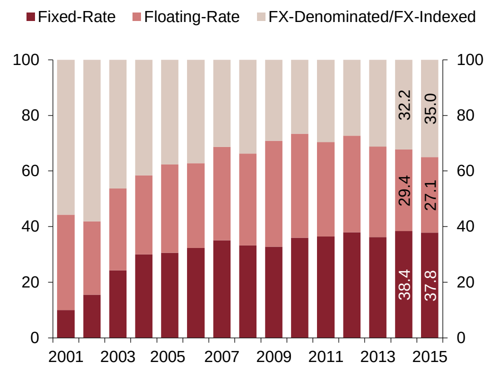
The central government debt stock stood at 677.6 billion TL in 2015 (Chart 6.2.1). In the third quarter of the year, the ratio of the total public net debt stock to GDP dropped by 3.1 points from end-2014, while the EU-defined general government nominal debt stock to GDP ratio rose by 1.1 points (Chart 6.2.1).

Chart 6.2.1.
Public Debt Stock Indicators



Source: Treasury.

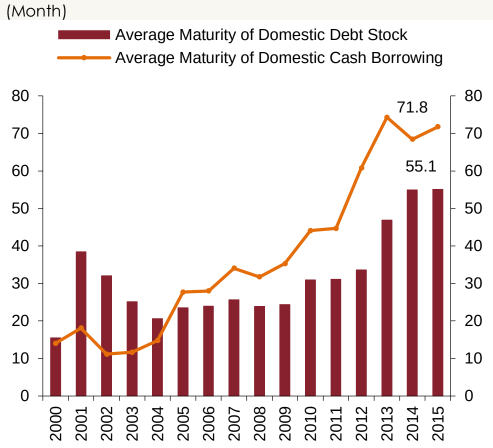
Chart 6.2.2.
Composition of the Central Government Debt Stock*
(Percent)



* FX-Denominated/FX-Indexed debt stock includes external debt stock and FX-denominated and FX-indexed domestic debt stock.
Source: Treasury.

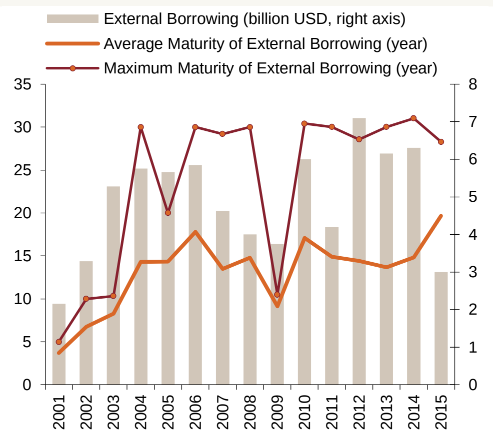
At end-2015, the share of fixed-rate securities in the total debt stock was slightly down from 2014 (Chart 6.2.2). As for the interest rate and currency structure of domestic borrowing, the share of fixed-rate borrowing increased annually from January to November in 2015. Meanwhile, the ratio of public deposits to the average monthly debt service stood at 488.7 percent. The average term-to-maturity of the domestic debt stock reached 55.1 months (Chart 6.2.3). External borrowing by bond issues amounted to 3 billion USD, 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 was 84.5 percent in November 2015 (Chart 6.2.5). The average real interest rate[1] has been on the rise since early 2015 (Chart 6.2.6).

[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).

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