

## 6. Public Finance

In the first half of 2013, the budget performance displayed a year-on-year improvement amid the adoption of tax rate hikes in September 2012 and January 2013 as well as payments by BOTAŞ on overdue liabilities and remarkable increases in consumption-based tax revenues owing to the relatively robust economic activity. The periodical decline in interest payments and the revenue obtained from the secondary public offering of Halkbank also contributed to the positive budget performance during this period. In the second half of the year, soaring indirect tax revenues on the expected improvement in domestic demand may positively affect the budget performance. Nevertheless, strengthening the fiscal framework by institutional and structural improvements envisaged in the MTP remains to be of utmost importance regarding the sustainability of the positive course of fiscal balances and for maintaining fiscal discipline on a permanent basis.

### 6.1. Budget Developments

In the first half of 2013, the central government budget and the primary balance posted a surplus of TL 3.1 billion and TL 26.4 billion, respectively (Table 6.1.1). Thus, the budget balance displayed a year-on-year improvement and registered a surplus in this period. Despite the surge in primary expenditures, the acceleration of the growth in consumption-based tax revenues and the periodical decline in interest expenditures were instrumental in the improvement in the budget performance.

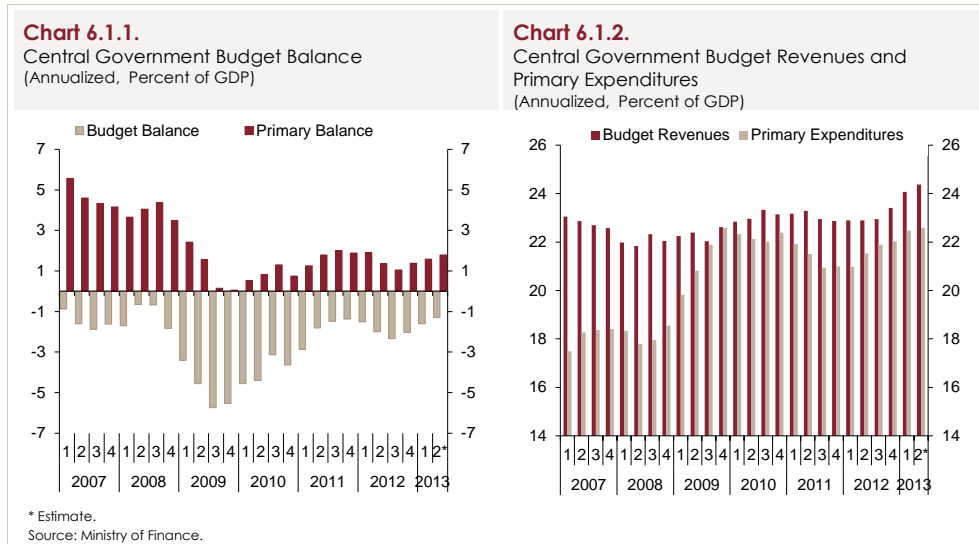
**Table 6.1.1.**  
Central Government Budget Aggregates  
(Billion TL)

	January-June 2012	January-June 2013	Rate of Increase (Percent)	Actual/Target (Percent)
Central Government Budget Expenditures	168.9	187.9	11.2	46.5
Interest Expenditures	26.3	23.3	-11.3	44.0
Primary Expenditures	142.6	164.6	15.4	46.9
Central Government Budget Revenues	162.2	190.9	17.7	51.6
I. Tax Revenues	131.2	158.4	20.7	49.8
II. Non-tax Revenues	24.9	26.2	4.9	60.6
<b>Budget Balance</b>	<b>-6.7</b>	<b>3.1</b>	<b>-</b>	<b>-</b>
<b>Primary Balance</b>	<b>19.6</b>	<b>26.4</b>	<b>34.8</b>	<b>138.4</b>

Source: Ministry of Finance.

The central government budget deficit to GDP, which went up in 2012 on the slowdown in tax revenues and the acceleration in primary expenditures, is expected to go down to 1.3 percent in the second half of 2013 (Chart 6.1.1). Having declined to as low as 1.1 percent in the third quarter of 2012, the primary

budget surplus to GDP has started to increase. Accordingly, the primary budget surplus to GDP ratio is estimated to reach 1.8 percent in the second quarter of 2013.



Having surged due to the adoption of fiscal measures to contain the adverse effects of the 2009 global crisis on the Turkish economy, the central government primary expenditures to GDP ratio declined in the subsequent years. However, as of the second half of 2012, the central government primary expenditures to GDP ratio has accelerated notably, and reached 22.6 percent in the second quarter of 2013. Meanwhile, on the back of the tax adjustments in September 2012 and January 2013 as well as the relatively robust economic activity, the central government budget revenues to GDP ratio reached a recent high of 24.4 percent in the second quarter of 2013 (Chart 6.1.2).

Central government primary budget expenditures, which started to surge as of the second half of 2012, increased further in the first half of 2013. Accordingly, central government primary budget expenditures registered a year-on-year increase by 15.4 percent in the first half of 2013 (Table 6.1.2).

**Table 6.1.2.**

Central Government Primary Expenditures (Billion TL)

	January-June 2012	January-June 2013	Rate of Increase (Percent)	Actual/Target (Percent)
<b>Primary Expenditures</b>	<b>142.6</b>	<b>164.6</b>	<b>15.4</b>	<b>46.9</b>
1. Personnel Expenditures	43.8	49.0	11.7	50.4
2. Government Premiums to SSI	7.3	8.1	10.3	48.1
3. Purchase of Goods and Services	12.3	13.3	8.0	39.9
4. Current Transfers	66.7	75.3	13.0	49.8
a) Duty Losses	0.9	1.4	64.1	31.7
b) Health, Pension and Social Benefits	34.4	36.5	6.3	50.1
c) Agricultural Support	6.3	6.8	8.0	75.3
d) Shares Reserved from Revenues	16.7	19.6	17.3	48.1
5. Capital Expenditures	7.2	12.0	65.8	35.8
6. Capital Transfers	1.1	2.2	99.6	43.2
7. Lending	4.1	4.7	13.0	42.2

Source: Ministry of Finance.

In the first half of 2013, current transfers, personnel expenditures and purchase of goods and services, one of the major items in primary expenditures, registered a year-on-year increase by 13 percent, 11.7 percent and 8 percent, respectively. Expenditures on health, pension and social benefits registered a relatively slow growth, while shares reserved from revenues contributed to the increase in current transfers.

As for other expenditure items, the surge in capital expenditures and capital transfers are noteworthy in the first half of 2013. Road construction expenditures played a major role in the 65.8 percent increase in capital expenditures.

In the first half of 2013, central government general budget revenues recorded a year-on-year increase by 18.2 percent (Table 6.1.3). During the same period, tax revenues and non-tax revenues increased by 20.7 percent and 4.9 percent, respectively.

**Table 6.1.3.**

Central Government General Budget Revenues (Billion TL)

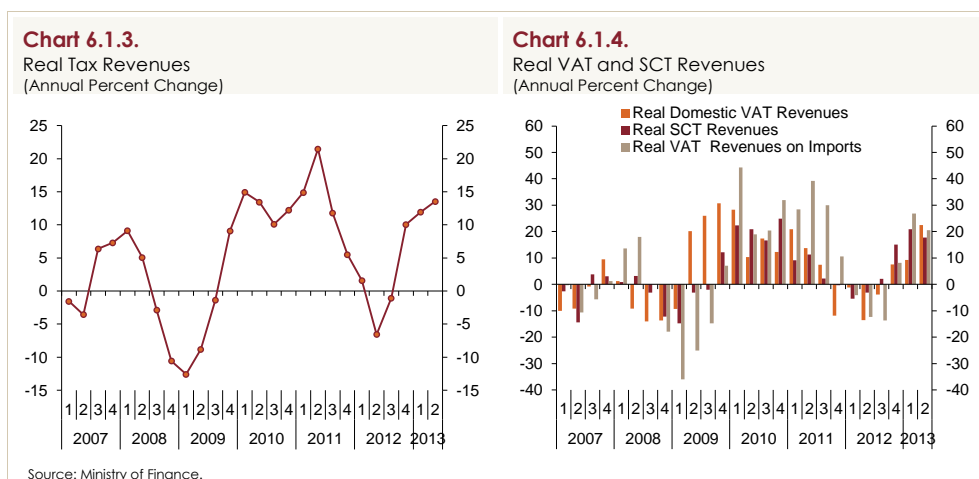
	January-June 2012	January-June 2013	Rate of Increase (Percent)	Actual/Target (Percent)
<b>General Budget Revenues</b>	<b>156.1</b>	<b>184.5</b>	<b>18.2</b>	<b>51.1</b>
<b>I-Tax Revenues</b>	<b>131.2</b>	<b>158.4</b>	<b>20.7</b>	<b>49.8</b>
Income Tax	26.8	29.5	10.1	47.1
Corporate Tax	14.4	15.4	7.0	52.6
Domestic VAT	15.4	19.0	23.8	52.3
SCT	31.3	40.0	27.6	48.1
VAT on Imports	23.3	30.9	32.3	50.5
<b>II-Non-Tax Revenues</b>	<b>24.9</b>	<b>26.2</b>	<b>4.9</b>	<b>60.6</b>
Enterprises and Property Revenues	10.9	7.5	-31.5	81.7
Interests, Shares and Fines	10.2	12.2	19.1	54.3
Capital Revenues	1.4	5.4	286.9	58.0

Source: Ministry of Finance.

Tax revenues displayed a positive performance on stronger domestic demand, the adoption of revenue-increasing measures in September 2012 and January 2013 and regular payments by BOTAŞ on overdue liabilities. In particular, consumption-based indirect tax revenues soared in the first half of 2013. During this period, SCT revenues surged by 27.6 percent on account of the increases in tax revenues on oil and natural gas products, motor vehicles and alcoholic beverages. In the first half of 2013, domestic VAT revenues posted an increase by 23.8 percent, while VAT revenues picked up after the slowdown in 2012 and went up by 32.3 percent on BOTAŞ payments.

In the first half of 2013, non-tax revenues displayed a limited increase. By sub-items, capital revenues registered a notable hike, while enterprises and property revenues plunged. The hike in capital revenues is mainly due to the transfer of the privatization revenue on the secondary public offering of Halkbank to the Treasury in January. The plunge in enterprises and property revenues, on the other hand, is attributed to the declining amount of the transfer of the CBRT's profit to the budget.

Having slowed down in the first three quarters of 2012 due to weak domestic demand, real tax revenues soared in the last quarter on tax adjustments as well as base effect. As of the first quarter of 2013, real tax revenues increased further amid the relatively robust domestic demand and the adoption of revenue-increasing measures in January 2013 (Chart 6.1.3).



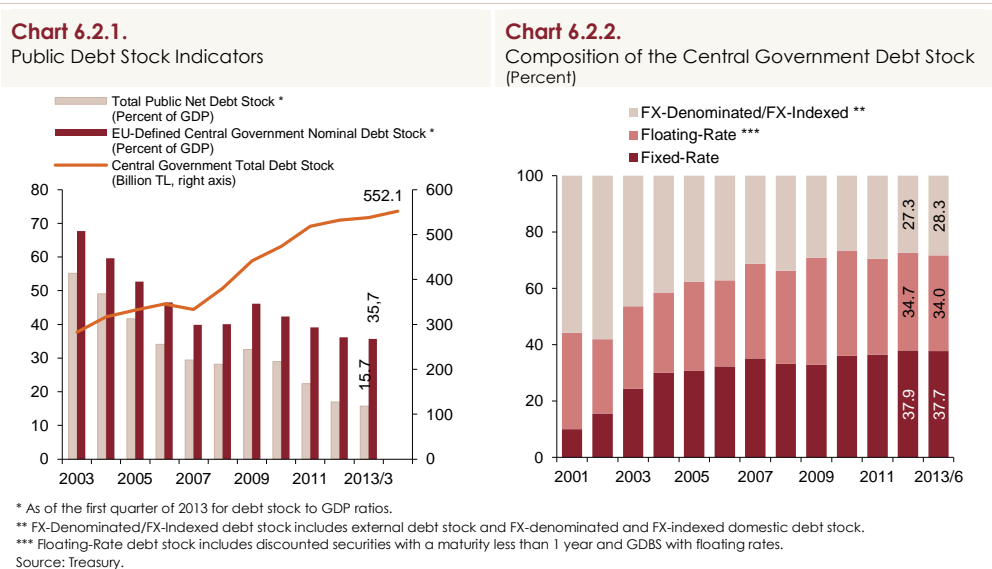
Consumption-based tax revenues are the major tax revenue items to have been adversely affected from the balancing of domestic and external demand in 2012. While the tax revenue items exhibited a particularly negative

performance in the first three quarters of 2012, consumption-based tax revenues displayed a remarkable increase in the last quarter due to favorable base effect and adoption of tax measures. Consumption-based tax revenues accelerated further in 2013. Accordingly, in the second quarter of 2013, domestic VAT revenues registered a year-on-year increase by 22.4 percent, while VAT revenues on imports and SCT revenues went up by 20.5 percent and 17.7 percent, respectively in real terms (Chart 6.1.4).

## 6.2. Developments in the Public Debt Stock

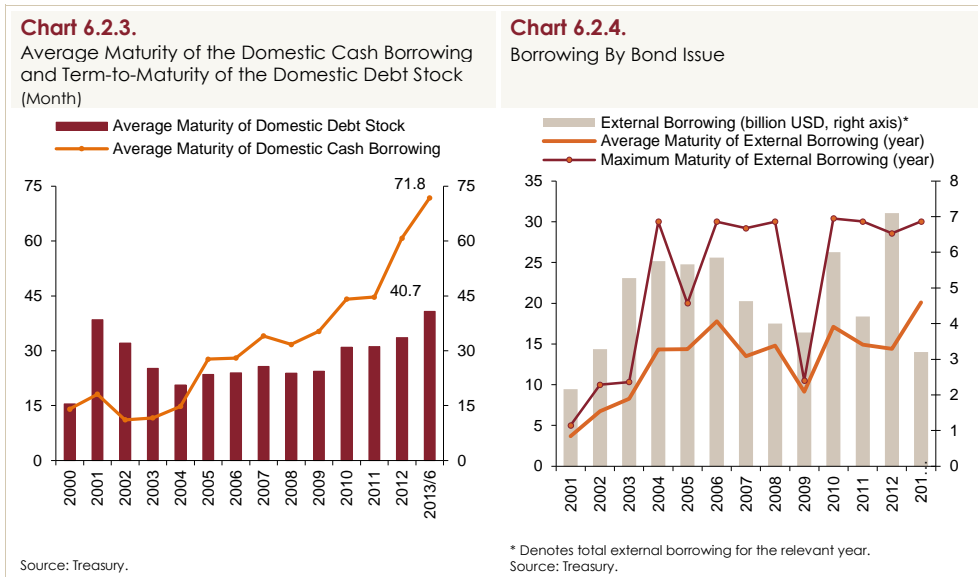
Public debt stock indicators improved further in June 2013. The ratio of total public net debt stock and EU-defined general government nominal debt stock to GDP continued to decline; the real cost of borrowing stood low and the average maturity of the debt stock extended further.

As of June 2013, central government debt stock displayed a slight year-on-year increase and reached TL 552 billion (Chart 6.2.1). Compared to end-2012, the ratio of total public net debt stock and EU-defined general government nominal debt stock to GDP went down by 1.3 and 0.4 percentage points to 15.7 and 35.7 percent, respectively, in the first quarter of 2013 (Chart 6.2.1).



As of the first half of 2013, the Treasury continued with its borrowing strategy to alleviate the sensitivity of the debt stock to liquidity, interest and exchange rate. Accordingly, the share of fixed-rate securities in the total debt

stock remained unchanged from 2012 (Chart 6.2.2). The ratio of public deposits to average monthly debt service stands at 217.2 percent. The average maturity of the domestic cash borrowing displayed a remarkable year-on-year increase in 2013, thereby raising the average term-to-maturity of the domestic debt stock to 40.7 months (Chart 6.2.3). External borrowing by bond issues amounted to USD 3.2 billion, with the average maturity hitting 20.1 years (Chart 6.2.4).



Domestic debt rollover ratio stood at 87.3 percent as of end-May 2013 (Chart 6.2.5). The average real interest rate at discount auctions, which slumped from early 2009 to early 2011, continues to remain low (Chart 6.2.6).

