

## 6. Public Finance

In the first half of the year, the public sector continued to support growth and the budget deficit widened. While tax revenues remained weak due to the toll of the pandemic on economic activity, the increase in primary expenditures accelerated on account of consumption expenditures and current transfer expenses. Meanwhile, the increase in non-tax revenues limited the budget deficit. Thus, the central government budget balance and the primary budget balance posted deficits of TRY 109.5 billion and TRY 38.2 billion, respectively, in the first half of 2020. While the Treasury was a net payer of foreign debt in this period, the budget deficit was financed through domestic borrowing. The domestic debt roll-over ratio increased significantly compared to 2019, while the external debt roll-over ratio decreased.

### 6.1 Budget Developments

In the first half of 2020, the central government budget balance posted a deficit of TRY 109.5 billion and 78.8% of the 2020 budget deficit target was achieved. This was driven by the relatively weaker increase in tax revenues despite the strong performance of non-tax revenues thanks to the CBRT's transfer of its profit and reserve funds, and the rise in interest and primary expenditures. The primary balance registered a deficit of TRY 38.2 billion in the first half of 2020 (Table 6.1.1).

**Table 6.1.1: Central Government Budget Aggregates (TRY billion)**

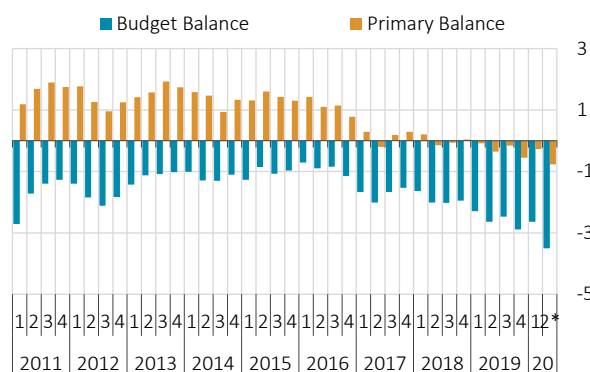
	January-June 2019	January-June 2020	Rate of Increase (%)	Realization/ Budget Target (%)
Central Government Budget Expenditures	481.6	564.9	17.3	51.6
Interest Expenses	50.7	71.3	40.4	51.3
Primary Budget Expenditures	430.8	493.6	14.6	51.6
Central Government Budget Revenues	403.0	455.4	13.0	47.6
I. Tax Revenues	307.7	335.9	9.2	42.8
II. Non-Tax Revenues	95.2	119.5	25.4	69.5
<b>Budget Balance</b>	<b>-78.6</b>	<b>-109.5</b>	<b>39.3</b>	<b>78.8</b>
<b>Primary Balance</b>	<b>-27.8</b>	<b>-38.2</b>	<b>37.2</b>	<b>-</b>

Source: Ministry of Treasury and Finance.

Taken as a proportion of GDP, the annual budget deficit and the primary budget deficit are expected to stand at 3.5% and 0.8%, respectively in the first half of 2020 (Chart 6.1.1). In the same period, the ratio of central government budget revenues to GDP is projected to increase by 0.8 points year-on-year to 21.1%, while that of central government primary expenditures to GDP is estimated to rise by 1.3 points to 21.8% (Chart 6.1.2).

Central government primary budget expenditures increased by 14.6% year-on-year to TRY 493.6 billion in the first half of 2020. While the increases in personnel expenditures and current transfer expenditures determined the rise in primary expenditures, the increases in purchases of goods and services and in SSI premium expenses remained relatively lower. While capital expenditures, which are indicative of public investment spending, posted a limited rise, capital transfers contracted (Table 6.1.2). In brief, in the first half of the year, the public sector supported growth through consumption expenditures, rather than through investment expenditures. Current transfers have also posted an increase in the recent period due to measures to mitigate the impact of the pandemic.

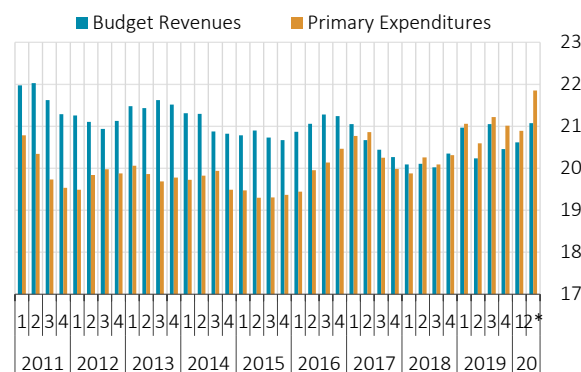
**Chart 6.1.1: Central Government Budget Balances**  
(Annualized, % of GDP)



Source: Ministry of Treasury and Finance.

\*Forecast.

**Chart 6.1.2: Central Government Budget Revenues and Primary Expenditures**  
(Annualized, % of GDP)



Source: Ministry of Treasury and Finance.

\*Forecast.

**Table 6.1.2: Central Government Primary Expenditures (TRY billion)**

	January-June 2019	January-June 2020	Rate of Increase (%)	Realization/ Budget Target (%)
<b>Primary Budget Expenditures</b>	<b>430.8</b>	<b>493.6</b>	<b>14.6</b>	<b>51.6</b>
1. Personnel Expenditures	125.8	145.9	16.0	51.7
2. State Premium Payments to SSI	21.7	24.3	11.9	50.4
3. Purchase of Goods and Services	31.9	35.6	11.5	47.1
4. Current Transfers	199.3	239.1	20.0	53.0
a) Duty Losses	3.8	5.0	30.3	54.2
b) Health, Pension and Social Benefit Expenditures	98.1	120.6	23.0	55.1
c) Agricultural Support Payment	11.9	15.5	30.4	70.4
d) Allocated Revenues	47.3	52.0	10.0	43.2
e) Household Transfers	13.1	15.4	18.4	55.6
5. Capital Expenditures	31.0	32.6	5.4	57.7
6. Capital Transfers	7.3	2.3	-68.8	33.7
7. Lending	13.8	13.8	-0.6	50.8

Source: Ministry of Treasury and Finance.

Central government general budget revenues increased by 13.2% year-on-year to TRY 441 billion in the first half of 2020 (Table 6.1.3). Tax revenues posted a modest increase by 9.2%, while non-tax revenues surged by 28.3%. This is mainly attributable to the CBRT's transfer of its profit and reserve funds in the amount of TRY 40.5 billion to the budget in January. Additionally, TRY 3 billion was transferred to the budget in this period as part of the restructuring laws no. 7143, 7020 and 6736. An analysis by subcategories indicates that corporate taxes increased at a relatively faster pace, while income taxes declined. Due to the economic effects of the pandemic, the collection of domestic VAT among consumption-based indirect taxes declined noticeably, while that of imports increased relatively moderately. The collection of SCT, on the other hand, rose on the back of the increase in SCT on motor vehicles. In real terms, it is obvious that tax revenues declined due to the slowdown in activity (Chart 6.1.3). While the revenues from domestic VAT and from VAT on imports declined, in real terms SCT revenues only edged up (Chart 6.1.4).

Table 6.1.3: Central Government General Budget Revenues (TRY billion)

	January-June 2019	January-June 2020	Rate of Increase (%)	Realization/ Budget Target (%)
<b>General Budget Revenues</b>	<b>389.6</b>	<b>441.0</b>	<b>13.2</b>	<b>47.1</b>
<b>I-Tax Revenues</b>	<b>307.7</b>	<b>335.9</b>	<b>9.2</b>	<b>42.8</b>
Income Tax	74.8	67.7	-9.4	37.2
Corporate Tax	36.5	49.3	35.0	55.2
Domestic VAT	25.2	20.6	-18.3	35.6
SCT	64.8	77.5	19.6	44.2
VAT on Imports	57.9	63.3	9.2	40.0
<b>II-Non-Tax Revenues</b>	<b>81.9</b>	<b>105.1</b>	<b>28.3</b>	<b>69.1</b>
Enterprise and Property Revenues	45.5	52.3	15.0	81.3
Interests, Shares and Fines	26.7	42.5	59.3	68.4
Capital Revenues	2.9	3.3	15.4	24.5

Source: Ministry of Treasury and Finance.

Chart 6.1.3: Real Tax Revenues\* (YoY % Change)

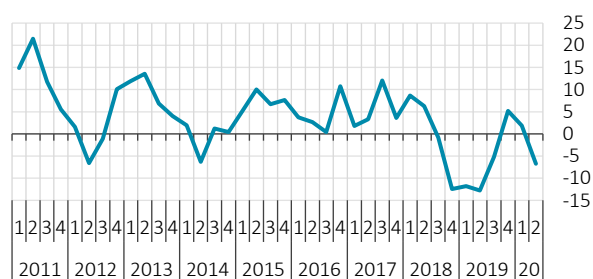
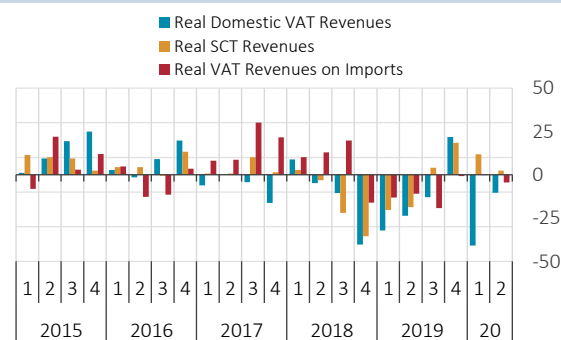
Source: Ministry of Treasury and Finance.  
\*Deflated by CPI.

Chart 6.1.4: Real VAT and SCT Revenues\* (YoY % Change)

Source: Ministry of Treasury and Finance.  
\*Deflated by CPI.

## 6.2 Developments in the Public Debt Stock

The EU-defined general government debt stock to GDP ratio stood at 35.1% by the first quarter of 2020 (Chart 6.2.1).

Chart 6.2.1: Public Debt Stock Indicators

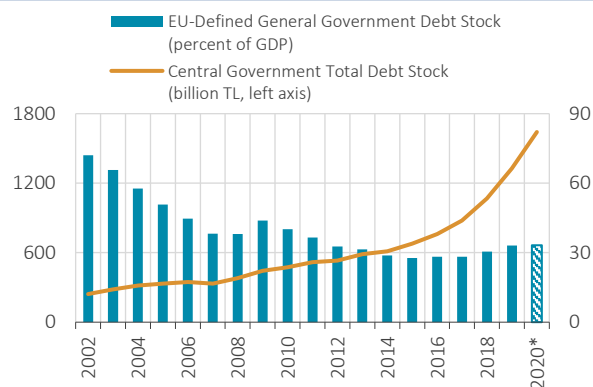
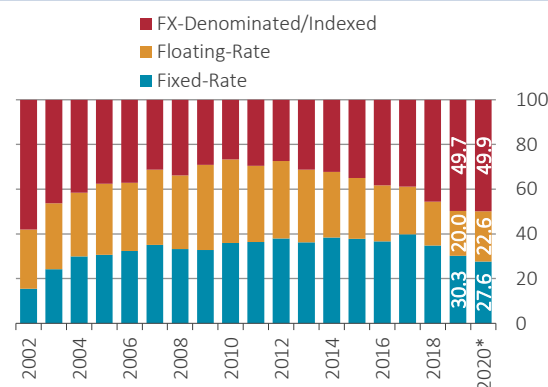
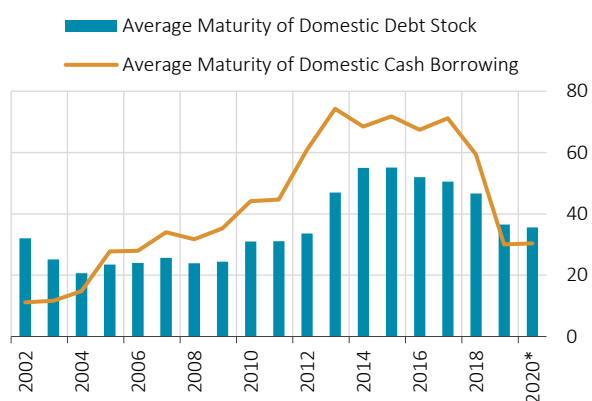
Source: Ministry of Treasury and Finance.  
\* Actual June 2020 figure for the central government total debt stock and NEP 2020 target for the EU-defined general government debt stock

Chart 6.2.2: Composition of the Central Government Debt Stock

Source: Ministry of Treasury and Finance.  
\* As of June.

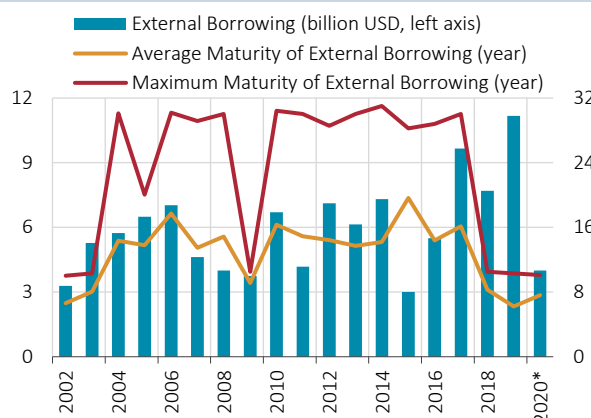
As of June 2020, the share of fixed-rate in the total debt stock decreased compared to 2019, while the shares of floating-rate securities, and FX-denominated and FX-indexed securities increased (Chart 6.2.2). In the first five months of 2020, 53.7% of domestic borrowing was financed by fixed-rate instruments. The share of TL-denominated borrowing in domestic borrowing was 72.9% in that period.

**Chart 6.2.3: Average Maturity of Domestic Cash Borrowing and the Average Term-to-Maturity of the Domestic Debt Stock (Month)**



Source: Ministry of Treasury and Finance.  
\* As of June.

**Chart 6.2.4: External Borrowing through Bond Issues**

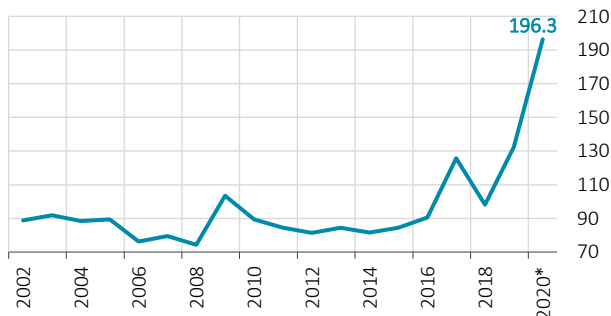


Source: Ministry of Treasury and Finance.  
\* As of June.

In June 2020, the average term-to-maturity of the domestic debt stock was 35.5 months and that of domestic cash borrowing was approximately 30.4 months (Chart 6.2.3). External borrowing through bond issues amounted to USD 4 billion in the same period, with an average maturity of 7.6 years (Chart 6.2.4). In the first half of 2020, the external debt rollover ratio decreased compared to the overall 2019 ratio (of 106%) to 49.5%.

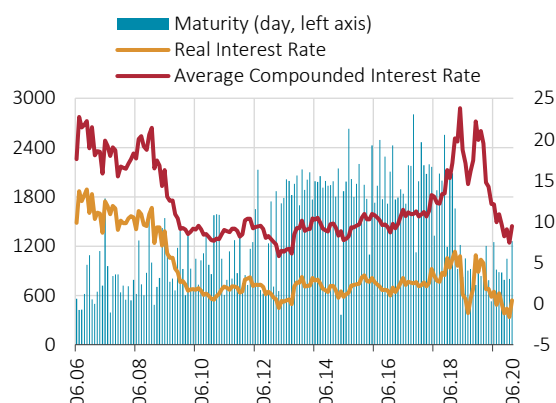
In the January-June 2020 period, the domestic debt rollover ratio increased significantly compared to 2019 (132.4%) to 196.3% (Chart 6.2.5). In this period, the public financing need was met through domestic borrowing. The average domestic borrowing real interest rate has been hovering at quite low levels in recent months (Chart 6.2.6).<sup>1</sup>

**Chart 6.2.5: Total Domestic Debt Rollover Ratio (%)**



Source: Ministry of Treasury and Finance.  
\* As of June.

**Chart 6.2.6: Treasury Auctions Interest Rate and Maturity Structure**



Source: Ministry of Treasury and Finance.

<sup>1</sup> Real interest rates were calculated by adjusting the nominal interest rates at the Treasury auctions for the 12-month forward CPI expectation obtained from the CBRT Survey of Expectations.