

## 6. Public Finance

In the first quarter of 2019, fiscal policy contributed to economic growth through not only measures and incentives but also public expenditures. The contribution from the public sector, investments in particular, decreased in the following period. Primary expenditures and interest expenses were up in the first half of the year while the growth of tax revenues slowed, with indirect taxes in the lead. Meanwhile, the transfer of strong profits from the Bank helped buoy up non-tax revenues, putting a lid on the widening budget deficit.

In 2018, the widening in the budget deficit and the fall in net external borrowing were mostly financed through domestic borrowing, while public deposits were used to meet the financing need to some extent. In 2018, the domestic debt rollover ratio was 98.1% and the external debt rollover ratio was 70.4%. In the first half of 2019, the public financing need was met by both domestic and external borrowing, with domestic borrowing having a larger share. In this period, domestic and external debt rollover ratios amounted to 132% and 109.3%, respectively.

### 6.1 Budget Developments

The central government budget balance posted a deficit of TRY 78.6 billion in the first half of 2019. Interest expenses increased due to the surge in borrowing costs, leading to a further widening in the budget deficit. The strong performance of non-tax revenues affected the budget balance positively, but this effect was offset by tax revenues rising at a slower pace than expenditures. As of the second quarter of 2019, the primary budget balance ran a deficit of TRY 27.8 billion, up from TRY 12.3 billion in the second quarter of 2018 (Table 6.1.1).

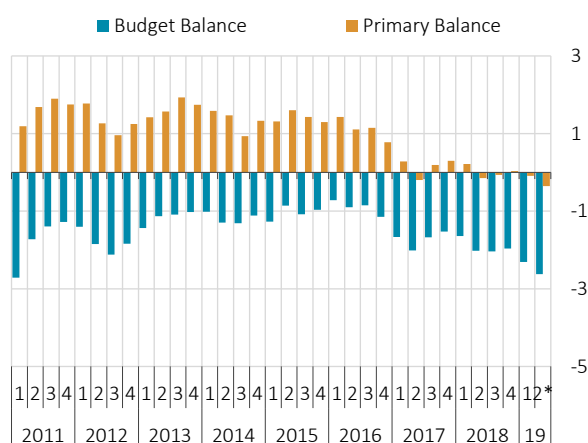
**Table 6.1.1: Central Government Budget Aggregates (TRY Billion)**

	January-June 2018	January-June 2019	Rate of Increase (%)	Actual/Target (%)
Central Government Budget Expenditures	399.7	481.6	20.5	50.1
Interest Expenses	33.8	50.7	50.1	43.3
Primary Budget Expenditures	365.9	430.8	17.7	51.1
Central Government Budget Revenues	353.6	403.0	14.0	45.8
I. Tax Revenues	294.8	307.7	4.4	40.7
II. Non-Tax Revenues	58.8	95.2	62.0	76.9
<b>Budget Balance</b>	<b>-46.1</b>	<b>-78.6</b>	<b>70.5</b>	<b>97.5</b>
<b>Primary Balance</b>	<b>-12.3</b>	<b>-27.8</b>	<b>126.6</b>	<b>-75.9</b>

Source: Ministry of Treasury and Finance.

The annualized budget deficit to GDP ratio is estimated to be 2.6% in the second quarter of 2019, while the primary budget deficit to GDP ratio will be 0.4% (Chart 6.1.1). The ratio of central government budget revenues to GDP is projected to decrease by 0.1 points year-on-year to 20.1% in the second quarter of 2019. On the other hand, the central government primary budget expenditures to GDP ratio is estimated to rise by 0.2 points year-on-year to 20.5% (Chart 6.1.2).

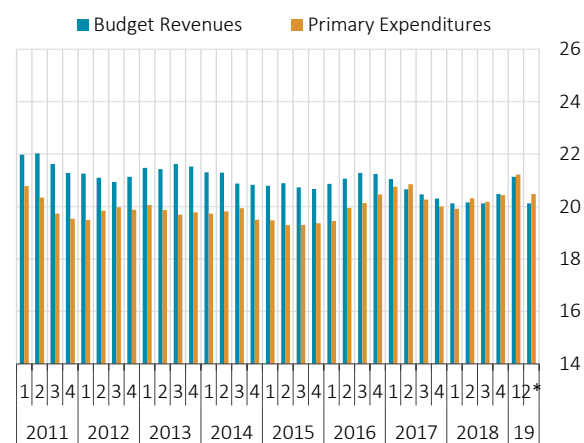
**Chart 6.1.1: Central Government Budget Balances**  
(Annualized, % of GDP)



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.

Central government primary budget expenditures surged by 17.7% year-on-year to TRY 430.8 billion in the January-June period of 2019. This upsurge was mainly driven by the increases in current transfers and expenditures for personnel and SSI premiums while purchases of goods and services increased only slightly. A close look at current transfers, the most significant item among primary expenditures, reveals that health, pension and social benefit expenditures grew substantially. Capital expenditures and capital transfers, which are indicative of public investments, posted a decline, suggesting that the public sector made a smaller contribution to growth through investment compared to the first half of 2018 (Table 6.1.2).

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

	January-June 2018	January-June 2019	Rate of Increase (%)	Actual/Target (%)
<b>Primary Budget Expenditures</b>	<b>365.9</b>	<b>430.8</b>	<b>17.7</b>	<b>51.1</b>
1. Personnel Expenditures	98.6	125.8	27.7	50.9
2. State Premium Payments to SSI	16.4	21.7	32.3	50.0
3. Purchase of Goods and Services	30.7	31.9	3.9	47.2
4. Current Transfers	164.7	199.3	21.0	50.9
a) Duty Losses	3.6	3.8	8.2	47.9
b) Health, Pension and Social Benefit Expenditures	75.0	98.1	30.8	53.0
c) Agricultural Support Payment	10.6	11.9	12.0	73.8
d) Allocated Revenues	45.6	47.3	3.7	41.4
e) Household Transfers	13.5	13.1	-3.4	58.6
5. Capital Expenditures	35.6	31.0	-13.0	56.9
6. Capital Transfers	8.1	7.3	-9.1	73.0
7. Lending	11.9	13.8	16.7	63.6

Source: Ministry of Treasury and Finance.

Central government general budget revenues increased by 14.8% year-on-year to TRY 389.6 billion in the first half of 2019 (Table 6.1.3). Making up the bulk of general budget revenues, tax revenues rose modestly by 4.4%, whereas non-tax revenues jumped by 83.2%. This was largely due to the Bank's record high profit of TRY 37.5 billion in 2019. In addition, the Bank made a transfer of TRY 10 billion to the budget in the scope of the restructuring laws (no. 7143, 7020 and 6736) and another TRY 4 billion for the zoning amnesty in the first half of the year. Among direct taxes, income taxes increased at a relatively faster pace while corporate taxes registered a slower growth. Among consumption-based indirect taxes, the collection of SCT and domestic VAT decreased while that of VAT on imports only edged up in spite of a weaker Turkish lira as import demand dropped.

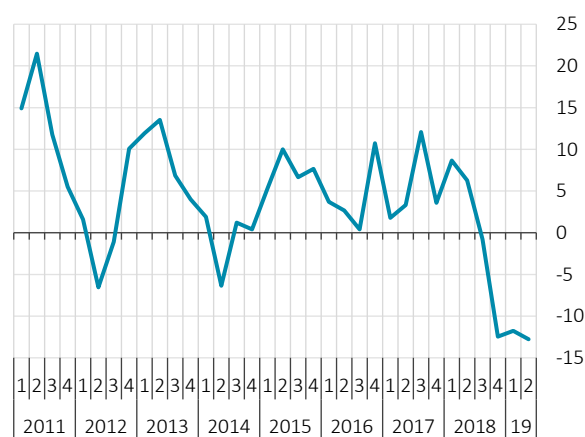
**Table 6.1.3: Central Government General Budget Revenues ( TRY billion )**

	January-June 2018	January-June 2019	Rate of Increase (%)	Actual/Target (%)
<b>General Budget Revenues</b>	<b>339.5</b>	<b>389.6</b>	<b>14.8</b>	<b>45.2</b>
<b>I-Tax Revenues</b>	<b>294.8</b>	<b>307.7</b>	<b>4.4</b>	<b>40.7</b>
Income Tax	63.4	74.8	17.8	43.5
Corporate Tax	34.7	36.5	5.2	49.2
Domestic VAT	29.5	25.2	-14.7	35.6
SCT	67.7	64.8	-4.2	39.9
VAT on Imports	55.3	57.9	4.6	34.9
<b>II-Non-Tax Revenues</b>	<b>44.7</b>	<b>81.9</b>	<b>83.2</b>	<b>77.1</b>
Enterprise and Property Revenues	19.3	45.5	135.2	133.9
Interests, Shares and Fines	19.8	26.7	34.7	48.9
Capital Revenues	4.1	2.9	-30.5	21.3

Source: Ministry of Treasury and Finance.

Real tax revenues remain on a downtrend as of the second quarter of 2019 (Chart 6.1.3). Across sub-categories, real VAT and SCT revenues continue to fall, albeit at a slower pace (Chart 6.1.4).

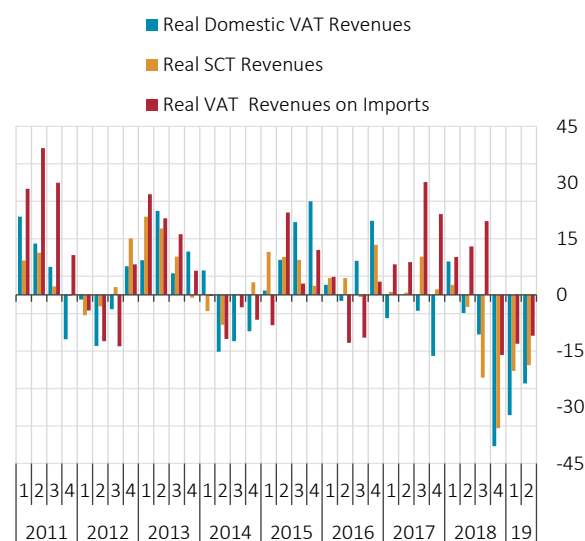
**Chart 6.1.3: Real Tax Revenues (YoY % Change)\***



Source: Ministry of Treasury and Finance.

\*Deflated by the CPI.

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



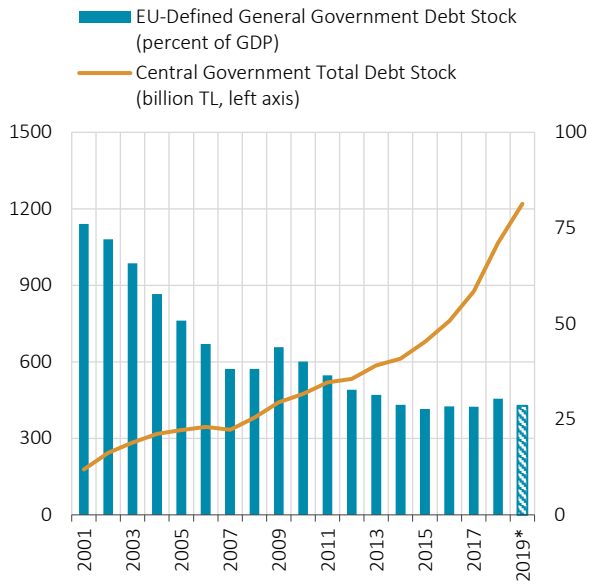
Source: Ministry of Treasury and Finance.

\*Deflated by the CPI.

## 6.2 Developments in the Public Debt Stock

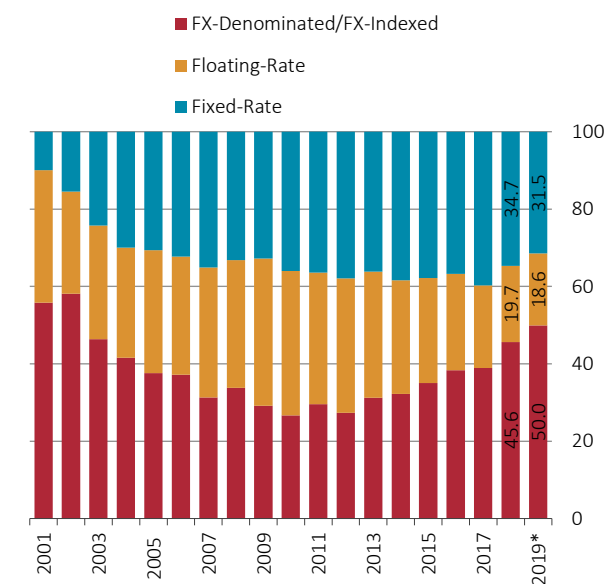
Targeted to be 28.5% in the New Economic Program (NEP) for 2019, the EU-defined general government debt stock to GDP ratio rose by 1.4 points year-on-year to 31.8% in the first quarter of 2019 (Chart 6.2.1).

Chart 6.2.1: Public Debt Stock Indicators



Source: Ministry of Treasury and Finance.  
\* Actual June 2019 figure for the central government total debt stock, and NEP 2019 target for the EU-defined general government debt stock.

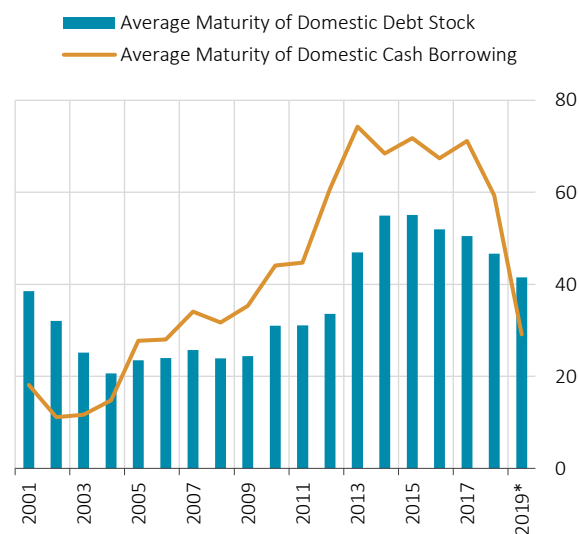
Chart 6.2.2: Composition of the Central Government Debt Stock \* (%)



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

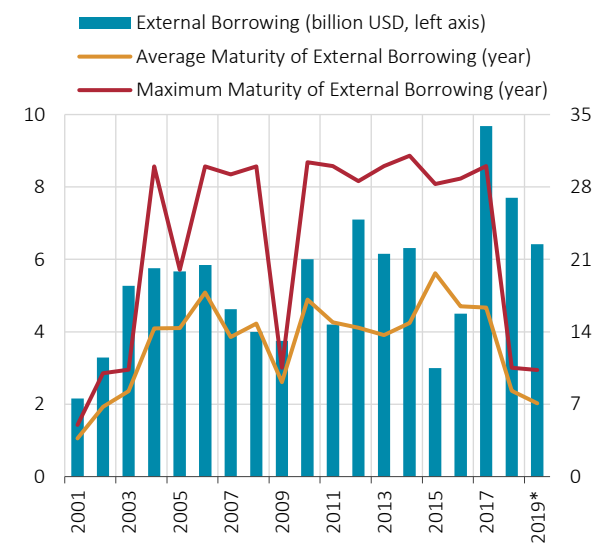
In June 2019, the shares of fixed-rate and floating-rate securities in the total debt stock were lower compared to 2018, while those of FX-denominated and FX-indexed securities increased (Chart 6.2.2). Domestic borrowing was mostly financed by fixed-rate securities in this period.

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

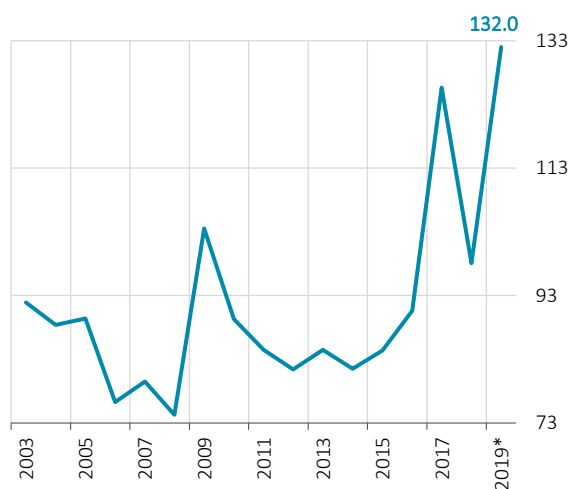


Source: Ministry of Treasury and Finance.  
\* As of June.

The average term-to-maturity of the domestic debt stock is 41.5 months as of June 2019 (Chart 6.2.3). In the first half of 2019, external borrowing through bond issues amounted to USD 6.4 billion, with an average maturity of 7.1 years (Chart 6.2.4). As of June 2019, the external debt rollover ratio is 109.3%.

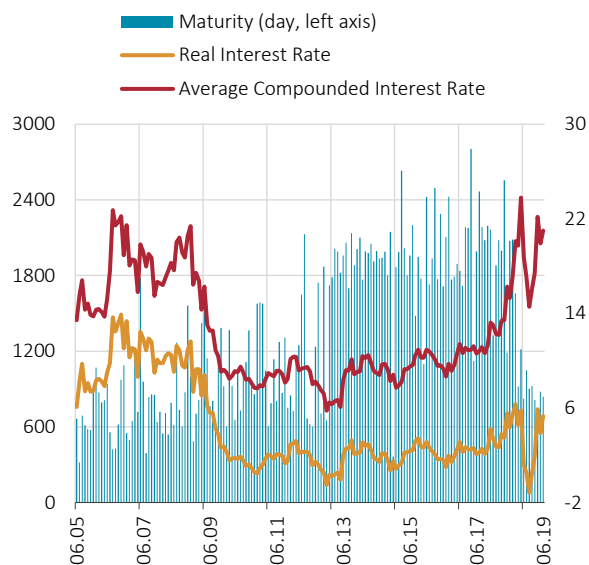
The domestic debt rollover ratio is 132% in the January-June period of 2019 (Chart 6.2.5). In this period, the public financing need was met through both domestic and external borrowing, with domestic borrowing having a larger weight. The average domestic borrowing real interest rate<sup>1</sup> was slightly up due to relatively higher borrowing costs and partially lower inflation expectations in the post-January period (Chart 6.2.6).

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> The real interest rate is calculated by subtracting the 12-month-ahead inflation expectations of the CBRT Survey of Expectations from nominal interest rates at the Treasury's auctions.

