

## 6. Public Finance

In 2018, fiscal policy supported economic growth through not only measures and incentives, but also public consumption and investment expenditures in particular. Due to the expenditures borne by incentives to boost investment, employment and exports as well as the increase in personnel and current transfer expenditures, the budget deficit grew wider in 2018. In the second half of 2018, despite the downside effect of the decelerated economic activity on tax revenues, the favorable performance of non-tax revenues contained the widening in the budget deficit.

Under the scope of the NEP announced in September, the measures taken towards decreasing primary budget expenditures and the revenues to be obtained from restructuring of taxes and some other receivables, the zoning amnesty and military service compensation fees had a positive effect on the budget balance.

In 2017, the rising public financing need that increased in tandem with the accommodative fiscal policy to boost economic activity was mostly met through domestic borrowing; and the domestic debt rollover ratio stood at 125.6%. 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. The domestic debt rollover ratio was 98.1%, while the external debt rollover ratio stood at 70.4% in this period.

### 6.1 Budget Developments

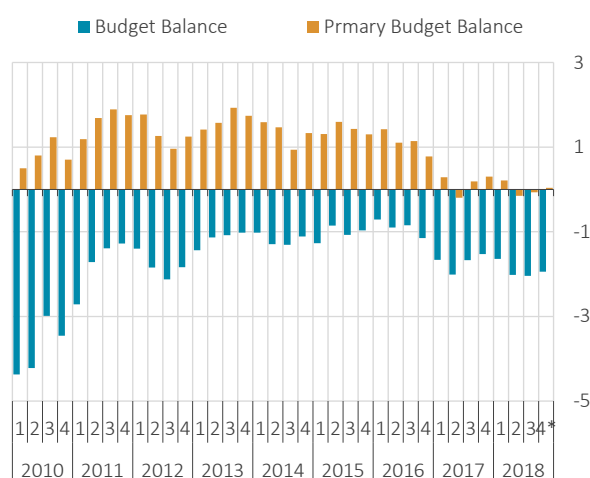
The central government budget balance posted a deficit of TRY 72.6 billion, and a surplus of TRY 1.3 billion in 2018 (Table 6.1.1). The strong performance of non-tax revenues had a favorable effect on the budget balance. The primary budget balance continued to post a surplus.

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

	2017	2018	Rate of Increase (%)	Realization/ Budget Target (%)
Central Government Budget Expenditures	678.3	830.4	22.4	108.9
Interest Expenditures	56.7	74.0	30.4	103.2
Primary Budget Expenditures	621.6	756.5	21.7	109.5
Central Government Budget Revenues	630.5	757.8	20.2	108.8
I. Tax Revenues	536.6	621.3	15.8	103.7
II. Non-Tax Revenues	93.9	136.5	45.4	140.2
<b>Budget Balance</b>	<b>-47.8</b>	<b>-72.6</b>	<b>52.0</b>	<b>110.1</b>
<b>Primary Balance</b>	<b>8.9</b>	<b>1.3</b>	<b>-84.9</b>	<b>23.3</b>

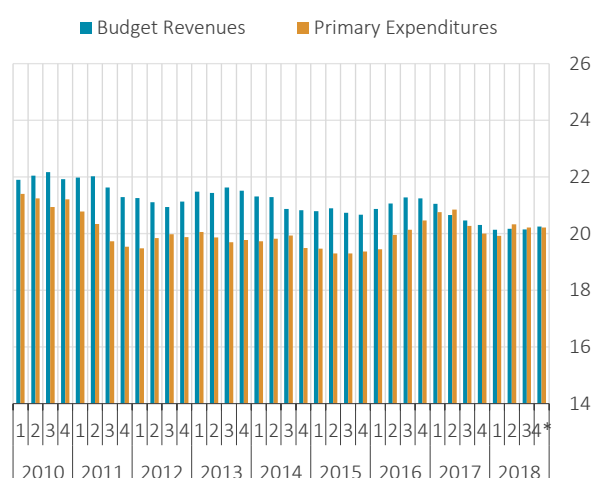
Source: Ministry of Treasury and Finance.

At the end of 2018, it is estimated that the ratio of annualized budget deficit to GDP will be 1.9%, while the primary budget balance to GDP ratio will be at the 0 level (Chart 6.1.1). These ratios are consistent with the targets envisaged in the NEP for 2018.

**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.

The central government revenues to GDP ratio is expected to remain unchanged year-on-year at 20.2% in the last quarter of 2018. The central government primary expenditures to GDP ratio is expected to display a year-on-year increase of 0.2 percentage points to 20.2% (Chart 6.1.2).

Central government primary budget expenditures rose by 21.7% year-on-year to TRY 756.5 billion in 2018 (Table 6.1.2). Meanwhile, current transfers, the most significant item among primary expenditures, posted a rather limited rise of 19.3% in 2018. The low increase in health, pension and social benefit expenditures curbed the rise in current transfers. The upsurge in shares allocated from income was driven by the increased shares transmitted to the defense industry, support fund and local administrations.

**Table 6.1.2: Central Government Primary Expenditures (Billion TL)**

	2017	2018	Rate of Increase (%)	Realization/ Budget Target (%)
<b>Primary Budget Expenditures</b>	<b>621.6</b>	<b>756.5</b>	<b>21.7</b>	<b>109.5</b>
1. Personnel Expenditures	162.1	200.9	23.9	109.7
2. State Premium Payments to SSI	27.3	34.4	26.0	111.6
3. Purchase of Goods and Services	63.6	71.7	12.8	108.6
4. Current Transfers	270.9	323.1	19.3	107.9
a) Duty Losses	7.4	7.4	0.5	106.3
b) Health, Pension and Social Benefit Expenditures	132.5	148.4	12.0	109.4
c) Agricultural Support Payment	12.7	14.6	14.4	100.3
d) Allocated Revenues	72.6	96.1	32.4	107.0
e) Household Transfers	16.5	23.5	42.8	110.8
5. Capital Expenditures	71.0	88.0	24.0	127.9
6. Capital Transfers	13.3	16.7	25.5	109.3
7. Lending	13.3	21.7	63.1	107.1

Source: Ministry of Treasury and Finance.

Central government general budget revenues increased by 20.1% year-on-year to 729.1 billion TL in 2018 (Table 6.1.3). Tax revenues that make up a vast part of general budget revenues rose modestly by 15.8%, while the growth of non-tax revenues hovered above this figure. The upsurge in non-tax revenues was led by the collection of one-time revenues such as the legal arrangement for restructuring tax and premium debts (Law no 7143), the zoning amnesty and military service compensation fees.

Income and corporate taxes, which are direct tax items, recorded relatively high increases in 2018 and remained above the year-end targets. The sliding scale system introduced to prices of fuel products in mid-May coupled with the tax adjustments on automobiles and commercial vehicles introduced in late October had influence on the drop of the collection of the Special Consumption Tax (SCT). The increase in VAT in imports is affected by the rise in the exchange rates.

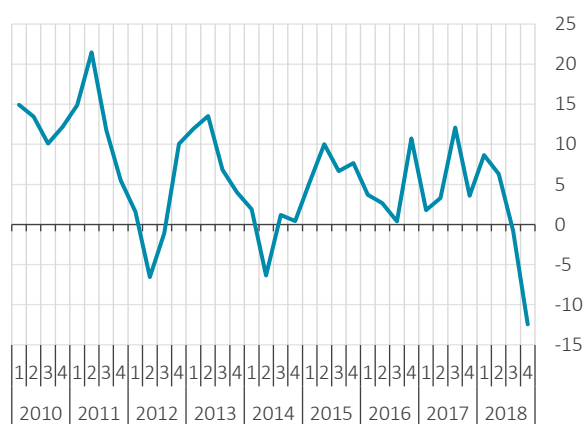
**Table 6.1.3: Central Government General Budget Revenues (Billion TL)**

	2017	2018	Rate of Increase (%)	Realization/ Budget Target (%)
<b>General Budget Revenues</b>	<b>607.1</b>	<b>729.1</b>	<b>20.1</b>	<b>107.0</b>
<b>I-Tax Revenues</b>	<b>536.6</b>	<b>621.3</b>	<b>15.8</b>	<b>103.7</b>
Income Tax	112.4	139.0	23.7	113.2
Corporate Tax	52.9	78.7	48.7	119.6
Domestic VAT	55.6	56.4	1.4	85.4
SCT	138.3	133.9	-3.2	91.4
VAT on Imports	100.1	122.1	22.0	113.3
<b>II-Non-Tax Revenues</b>	<b>70.5</b>	<b>107.8</b>	<b>52.9</b>	<b>131.6</b>
Enterprise and Property Revenues	19.8	26.1	32.2	129.6
Interests, Shares and Fines	35.6	71.3	100.4	153.4
Capital Revenues	11.7	7.8	-33.2	64.6

Source: Ministry of Treasury and Finance.

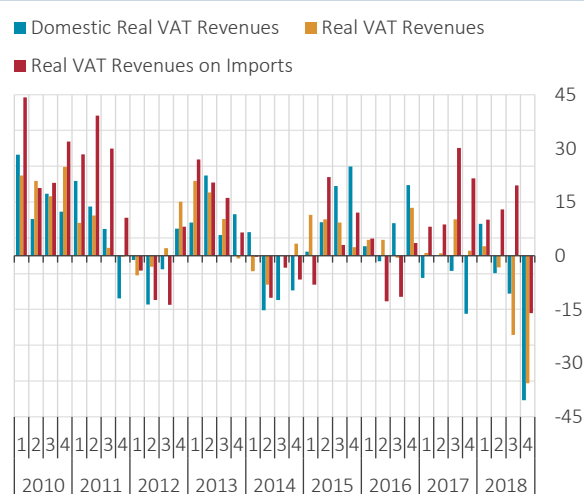
Real tax revenues declined in the last quarter of 2018 (Charts 6.1.3 and 6.1.4).

**Chart 6.1.3: Real Tax Revenues (Year-on-Year % Change)**



Source: Ministry of Treasury and Finance.

**Chart 6.1.4: Real VAT and SCT Revenues (Year-on-Year % Change)**

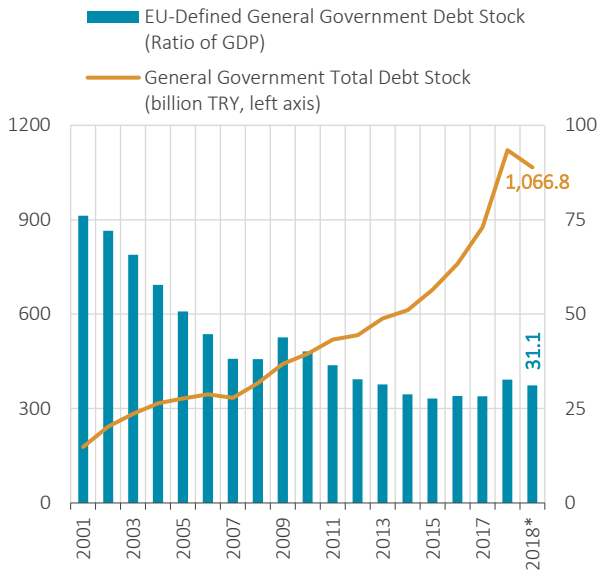


Source: Ministry of Treasury and Finance.

## 6.2 Developments in the Public Debt Stock

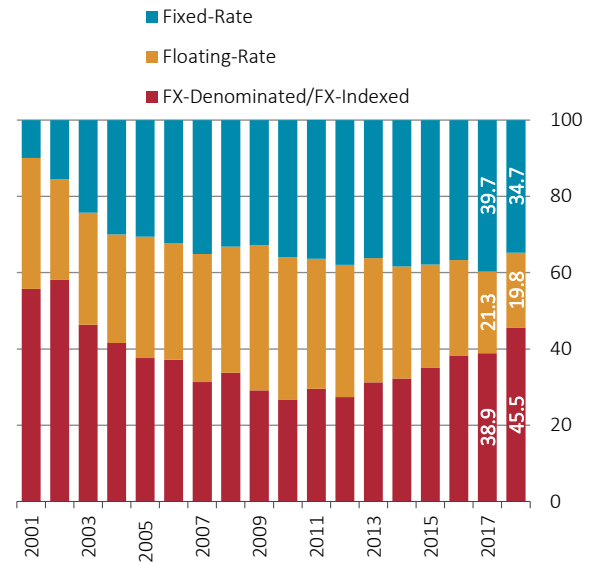
The EU-defined general government nominal debt stock to GDP ratio is 32.6% (Chart 6.2.1).

Chart 6.2.1: Public Debt Stock Indicators



Source: Ministry of Treasury and finance  
 \* December 2018 realization for the central government total debt stock, NEP 2018 forecasts for the EU-defined general government debt stock

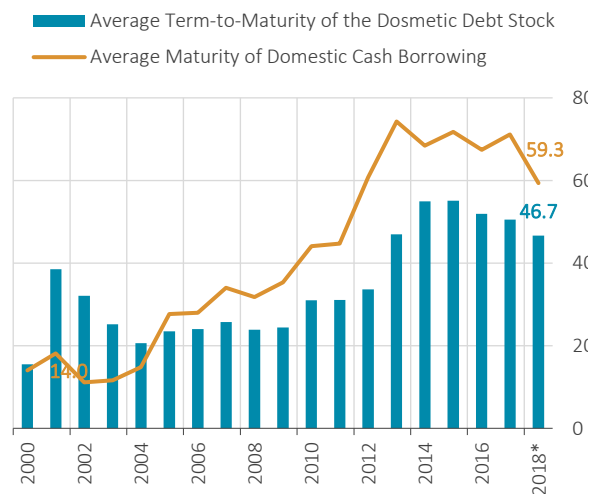
Chart 6.2.2: Composition of the Central Government Debt Stock\* (%)



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

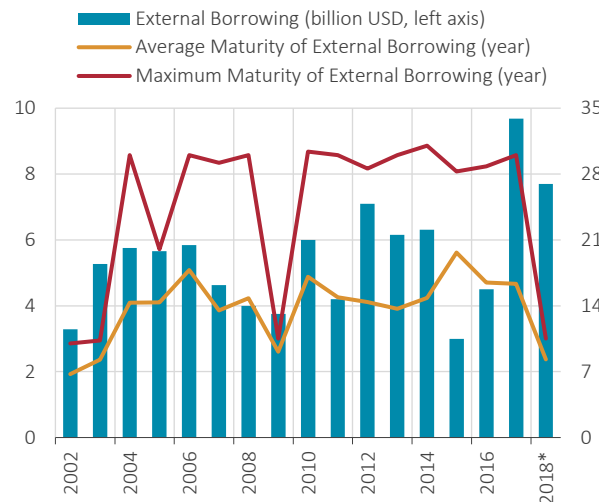
In December 2018, the shares of fixed-rate and floating-rate securities in the total debt stock have decreased compared to 2017, while those of FX-denominated and FX-indexed securities increased due to the depreciation of exchange rates (Chart 6.2.2). Domestic borrowing was mostly financed by fixed-rate 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 December.

Chart 6.2.4: External Borrowing through Bond Issues

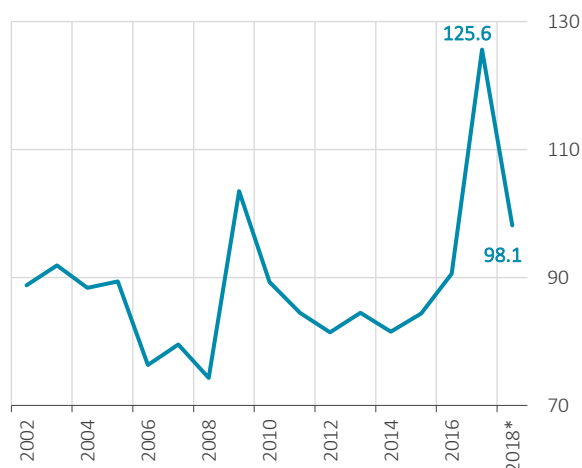


Source: Ministry of Treasury and Finance.  
 \* As of December.

The average term-to-maturity of the domestic debt stock stood at 46.7 months at the end of 2018 (Chart 6.2.3). In 2018, the amount of external borrowing by bond issues was 7.7 billion USD, with an average maturity of 8.3 years (Chart 6.2.4). The external debt rollover ratio was 70.4% in 2018.

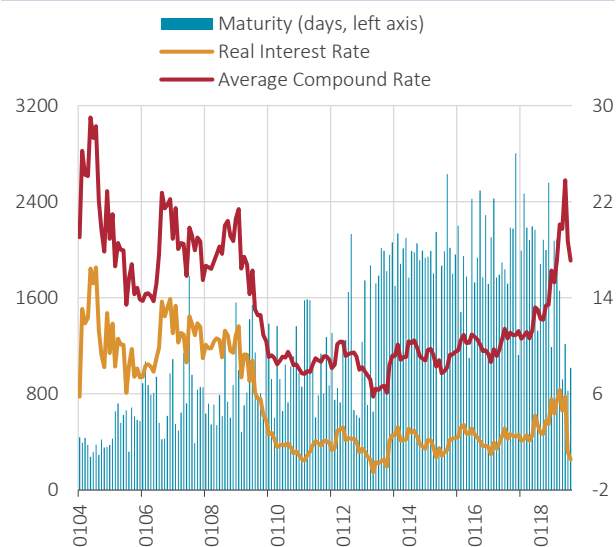
The domestic debt rollover ratio stood at 98.1% in 2018 (Chart 6.2.5). In this period, the public financing need was mostly met through domestic borrowing and some part of public deposits was used to meet financing need as well. The average domestic borrowing real interest rate<sup>1</sup> decreased following October due to the relatively low borrowing costs and increased inflation expectations (Chart 6.2.6).

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



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

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



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

<sup>1</sup>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 auction.

