

## 6. Public Finance

The central government budget deficit posted a year-on-year deterioration in the third quarter due to the upsurge in primary expenditures and the limited rise in consumption-based taxes. Among primary expenditures, the rise in current transfers besides public investment and public consumption expenditures stood out. On the tax revenues front, indirect tax revenues like the SCT and VAT registered low increases. Meanwhile, the overperformance of non-tax revenues is estimated to further improve the budget realizations.

The MTP covering the 2015-2017 period was announced to the public. The main priorities of the MTP are to reduce inflation as well as the current account deficit and to raise domestic savings and growth potential in the upcoming period. To this end, a tight stance in monetary and fiscal policies will be maintained. This stance will also be underpinned by the incomes policy and structural reforms will gain pace. Accordingly, it is projected that fiscal discipline led by tight fiscal policy practices will be sustained and the debt stock to GDP ratio will continue to taper off during the implementation of the MTP (Table 6.1). The envisaged fiscal adjustment will be achieved by keeping primary expenditures under control, which will result in a fall in the budget revenues to the GDP ratio over time.

In 2014, the central government budget balance to the GDP ratio is estimated to improve by 0.5 percentage points compared to the previous MTP and post a deficit by 1.4 percent (Table 6.1). The expected budget recovery in 2014 is mainly attributed to non-tax revenues. Tight fiscal policies to be implemented from 2015 to 2017, which is the MTP period, aim to gradually improve budget balances and increase public savings.

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

	2013	2014*	2015**	2016**	2017**
Expenditures	26.1	25.4	24.3	23.6	22.8
Primary Expenditures	22.9	22.6	21.5	21.1	20.5
Interest Expenditures	3.2	2.8	2.8	2.5	2.3
Revenues	24.9	24.0	23.2	22.8	22.5
Tax Revenues	20.8	19.9	20.0	19.9	19.8
Other	4.1	4.1	3.2	2.9	2.8
<b>Budget Balance</b>	<b>-1.2</b>	<b>-1.4</b>	<b>-1.1</b>	<b>-0.7</b>	<b>-0.3</b>
<b>Primary Balance</b>	<b>2.0</b>	<b>1.5</b>	<b>1.7</b>	<b>1.8</b>	<b>2.0</b>
<b>General Government Budget Balance</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-0.5</b>	<b>-0.2</b>	<b>0.1</b>
<b>General Government Primary Balance</b>	<b>2.6</b>	<b>2.2</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>
<b>EU-Defined Nominal Debt Stock</b>	<b>36.2</b>	<b>33.1</b>	<b>31.8</b>	<b>30.0</b>	<b>28.5</b>

\* Estimate.

\*\* MTP Target.

Source: MTP (2015-2017).

### 6.1. Budget Developments

The central government budget posted a deficit of 11.9 billion TL, while the primary budget balance registered a surplus of 26.3 billion TL in the January-September period (Table 6.1.1). Tax revenues were on track with the year-end target, while primary expenditures continued to rise

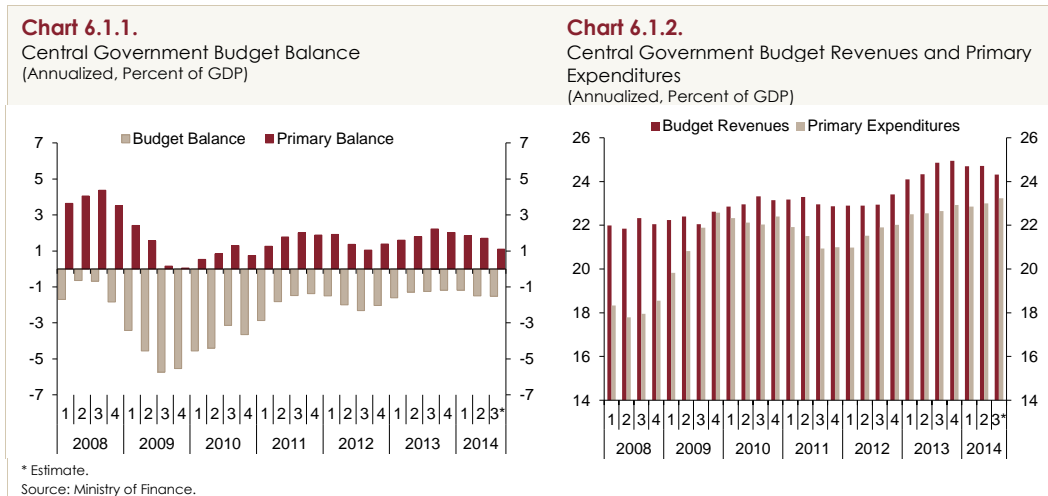
dramatically. Thus, despite the fall in interest expenditures, the budget balance deteriorated compared to the same period in 2013.

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

	January- September 2013	January- September 2014	Rate of Increase (Percent)	Actual/Target (Percent)	Targeted Annual Rate of Increase (Percent)
Central Government Budget					
Expenditures	294.5	325.4	10.5	74.6	7.0
Interest Expenditures	43.8	38.3	-12.7	73.6	4.0
Primary Expenditures	250.7	287.2	14.5	74.7	7.4
Central Government Budget					
Revenues	290.0	313.5	8.1	77.8	3.5
I. Tax Revenues	240.3	258.7	7.7	74.2	6.8
II. Non-Tax Revenues	40.4	42.8	6.0	96.0	-10.8
<b>Budget Balance</b>	<b>-4.5</b>	<b>-11.9</b>	<b>-</b>	<b>35.9</b>	<b>-</b>
<b>Primary Balance</b>	<b>39.3</b>	<b>26.3</b>	<b>-33.1</b>	<b>140.5</b>	<b>-</b>

Source: Ministry of Finance.

The central government budget deficit to the GDP ratio, which declined to 1.2 percent in 2013 amid the favorable budget performance, is estimated to increase slightly to 1.5 percent in September (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. However, the ratio is estimated to decline to 1.1 percent in the third quarter of 2014.



Having surged since 2012 and reaching 22.9 percent at end-2013, the central government primary expenditures to the GDP ratio is estimated to hit 23.2 percent in the third quarter of 2014, which is the highest level recorded since 2008 (Chart 6.1.2). On the other hand, the central government budget revenues to the GDP ratio increased upon robust economic activity as well as tax adjustments in September 2012 and January 2013, reaching 24.9 percent at end-2013. This ratio is estimated to decline to 24.3 percent in the third quarter of 2014, mainly due to slowing tax revenues based on domestic demand.

The central government primary budget expenditures, which saw a hike as of the second half of 2012, increased further in the first three quarters of 2014. Accordingly, the central government primary budget expenditures registered a year-on-year increase of 14.5 percent in the January-September period of 2014 (Table 6.1.2).

In the January-September period, current transfers, personnel expenditures and purchase of goods and services, which are major items in primary expenditures, registered an increase of 12.7, 15 and 13.7 percent, respectively. Personnel expenditures, government premiums to SSI and public investment expenditures (capital expenditures) were the main drivers of the surge in primary expenditures. On the other hand, most of the upsurge in lending resulted from the rise in loans extended to SEEs.

**Table 6.1.2.**

Central Government Primary Expenditures (Billion TL)

	January- September 2013	January- September 2014	Rate of Increase (Percent)	Actual/Target (Percent)
<b>Primary Expenditures</b>	<b>250.7</b>	<b>287.2</b>	<b>14.5</b>	<b>74.7</b>
1. Personnel Expenditures	73.3	84.4	15.0	76.7
2. Government Premiums to SSI	12.0	14.1	17.3	74.8
3. Purchase of Goods and Services	21.6	24.6	13.7	65.5
4. Current Transfers	110.9	125.0	12.7	76.4
a) Duty Losses	2.9	2.0	-30.8	46.4
b) Health, Pension and Social Benefits	54.9	62.3	13.5	80.8
c) Agricultural Support	7.4	7.8	5.0	80.6
d) Shares Reserved from Revenues	29.3	35.1	19.7	74.4
5. Capital Expenditures	22.3	27.0	21.1	73.6
6. Capital Transfers	3.8	4.3	12.8	65.5
7. Lending	6.7	7.8	17.1	102.4

Source: Ministry of Finance.

In the January-September period of 2014, the central government general budget revenues recorded a year-on-year increase of 7.4 percent (Table 6.1.3). In this period, tax revenues and non-tax revenues increased by 7.7 and 6 percent, respectively.

**Table 6.1.3.**

Central Government General Budget Revenues (Billion TL)

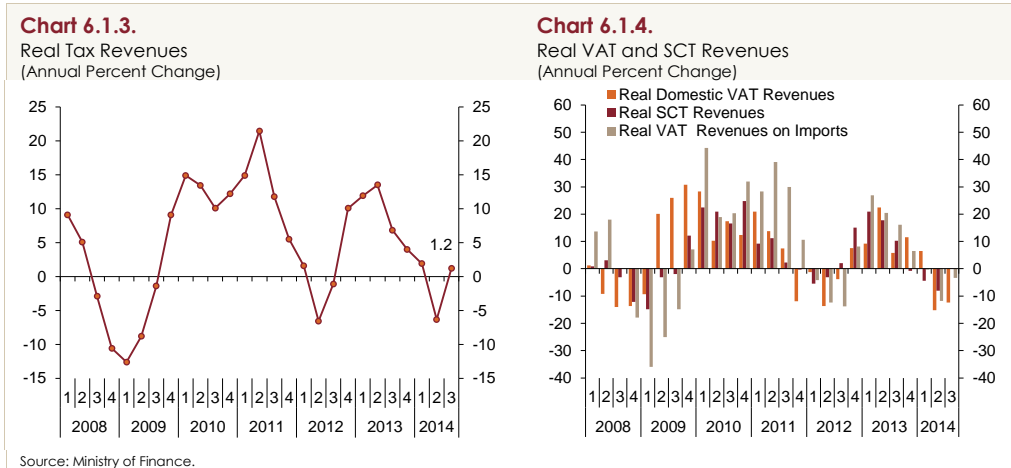
	January- September 2013	January- September 2014	Rate of Increase (Percent)	Actual/Target (Percent)
<b>General Budget Revenues</b>	<b>280.7</b>	<b>301.5</b>	<b>7.4</b>	<b>76.7</b>
<b>I-Tax Revenues</b>	<b>240.3</b>	<b>258.7</b>	<b>7.7</b>	<b>74.2</b>
Income Tax	45.7	53.2	16.3	75.1
Corporate Tax	21.1	24.1	14.4	77.6
Domestic VAT	29.0	29.3	1.0	73.8
SCT	62.6	65.4	4.4	73.1
VAT on Imports	45.7	47.1	3.1	72.6
<b>II-Non-Tax Revenues</b>	<b>40.4</b>	<b>42.8</b>	<b>6.0</b>	<b>96.0</b>
Enterprises and Property Revenues	11.4	11.4	0.6	140.3
Interests, Shares and Fines	18.2	22.1	21.4	84.8
Capital Revenues	9.4	6.8	-28.0	77.4

Source: Ministry of Finance.

A closer scrutiny of tax revenues reveals that income and corporate tax revenues displayed relatively high-rated increases in the first three quarters of 2014 and the rate of increase in tax revenues declined from 7.6 percent to 4.6 percent after excluding income and corporate tax. This is largely attributed to the slowdown in consumption-based tax collection. Among consumption-based tax revenues, the SCT and import VAT revenues rose by 4.4 and 3.1 percent, respectively, while domestic

VAT revenues increased merely by 1 percent. The details of SCT revenues show an 11.9 and 11.2 percent increase in tax revenues on tobacco products and motor vehicles, respectively, whereas tax revenues on petroleum and natural gas products, which account for a large share of total SCT revenues, dropped by 1.2 percent. Even though non-tax revenues rose by only 6 percent, the realization ratio is quite high compared to the year-end target amid the higher-than-targeted profit transfers from the CBRT and state banks to the budget.

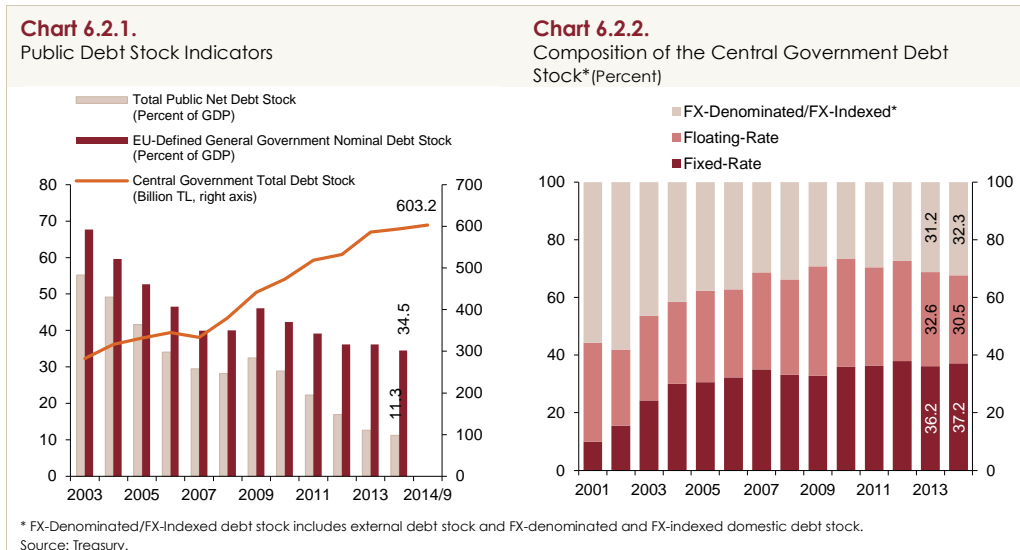
The annual rate of increase in real tax revenues, having turned positive amid tax hikes in September 2012 as well as the base effect, started to slacken in the third quarter of 2013 and had negative values in the second quarter of 2014. Driven partially by the base effect and partially by the relatively high collection in income and corporate taxes, real tax revenues registered an increase in the third quarter of 2014, albeit limited (Chart 6.1.3). Among consumption-based tax revenues, domestic VAT and import VAT revenues receded by 12.4 and 3.3 percent in real terms, respectively, while the SCT revenues remained unchanged in the third quarter of 2014 (Chart 6.1.4).



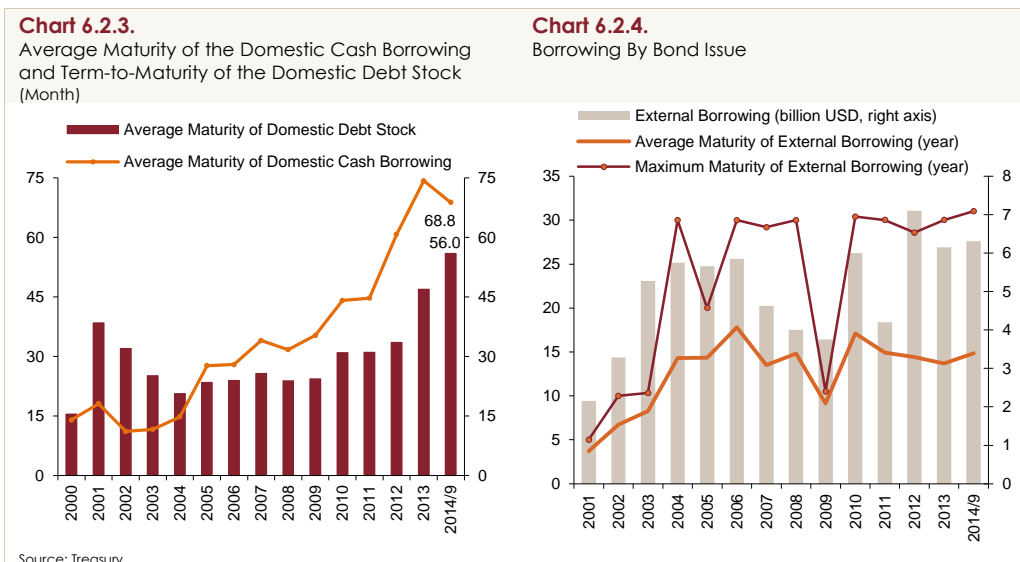
## 6.2. Developments in the Public Debt Stock

Public debt stock indicators displayed a favorable outlook in the third quarter of 2014. The total public net debt stock and the EU-defined general government nominal debt stock to GDP ratios continued to decline. While the share of fixed-rate securities in the total debt stock increased, the average maturity of the debt stock extended and the real cost of borrowing has remained low in recent months.

The central government debt stock stood at 603.2 billion TL by the end of September 2014 (Chart 6.2.1). In the second quarter of 2014, the total public net debt stock and the EU-defined general government nominal debt stock to GDP ratios decreased by 1.4 and 1.7 points, respectively, compared to end-2013 figures (Chart 6.2.1).



The share of fixed-rate securities in the total debt stock increased slightly from end-2013 (Chart 6.2.2). An analysis of the interest and exchange rate structure of domestic borrowing suggests that the share of fixed-rate borrowing registered a year-on-year decline in the first eight months of 2014. The ratio of public deposits to average monthly debt service stands at 205.8 percent. The average term-to-maturity of the domestic debt stock rose to 56 months (Chart 6.2.3). Meanwhile, in the first nine months of 2014, external borrowing by bond issues amounted to 6.3 billion USD, with the average maturity standing at 14.8 years (Chart 6.2.4).

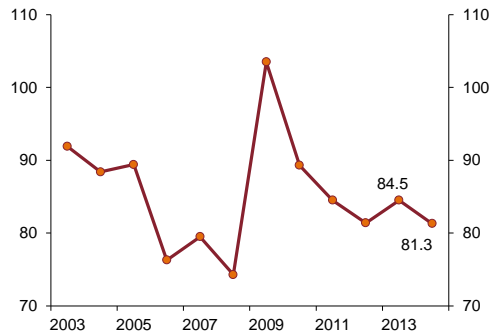


The domestic debt rollover ratio stood at 81.3 percent at the end of August 2014 (Chart 6.2.5). Having plummeted from early 2009 to early 2011, the average real interest rate<sup>1</sup>, which rose in the second half of 2013 due to global financial fluctuations and the cautious monetary policy stance, has recently recorded low levels (Chart 6.2.6).

<sup>1</sup> Real interest rates are calculated by subtracting the 12-month-ahead CPI expectation 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

