

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. Public revenues obtained via the early transfer of the Central Bank profit were predominantly used to finance the budget expenditures in the first quarter of the year. Despite the increases in public expenditures and the weakening tax revenues, the positive performance of non-tax revenues contained the expansion in the budget deficit.

Measures taken towards decreasing primary budget expenditures under the New Economy Program (NEP) announced in September 2018 and the restructuring of taxes and some other receivables as well as the course of non-tax revenues are expected to have an impact on the budget balance in 2019.

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. Accordingly, the domestic debt rollover ratio was 98.1% and the external debt rollover ratio was 70.4% in 2018. As for the first quarter 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 stood at 124.3% and 145.1%, respectively.

6.1 Budget Developments

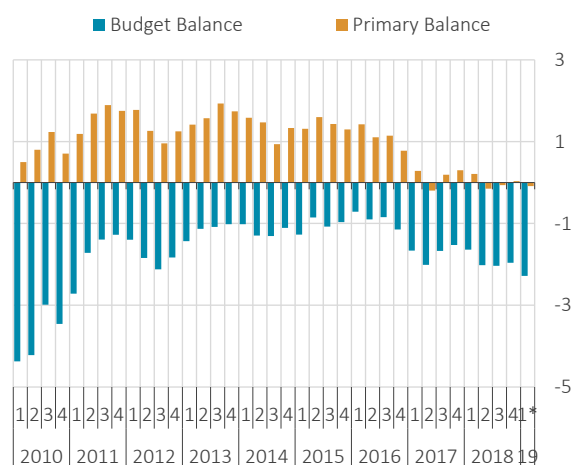
The central government budget balance posted a deficit of TRY 36.2 billion in the first quarter of 2019 (Table 6.1.1). Interest expenditures, which increased due to the surge in borrowing costs were one of the factors widening budget deficit. Although the strong performance of non-tax revenues positively affected the budget balance, weakening tax revenues curbed this effect. The primary budget balance, which registered a surplus of TRY 1.9 billion in the first quarter of 2018, posted a deficit of TRY 2.8 billion in the first quarter of 2019.

Table 6.1.1: Central Government Budget Aggregates (TRY billion)

	January-March 2018	January-March 2019	Rate of Increase (%)	Realization/ Budget Target (%)
Central Government Budget Expenditures	187.9	254.4	35.4	26.5
Interest Expenditures	22.3	33.4	49.8	28.4
Primary Budget Expenditures	165.6	221.1	33.5	26.2
Central Government Budget Revenues	167.4	218.3	30.4	24.8
I. Tax Revenues	145.8	154.3	5.8	20.4
II. Non-Tax Revenues	21.6	64.0	195.9	51.7
Budget Balance	-20.4	-36.2	77.1	44.9
Primary Balance	1.9	-2.8	-250.8	-7.6

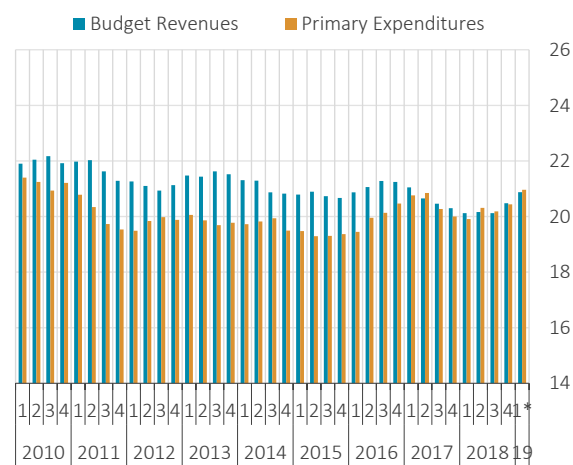
Source: Ministry of Treasury and Finance.

It is estimated that the ratio of annualized budget deficit to GDP will be 2.3% in the first quarter of 2019, while the primary budget deficit to GDP ratio will be 0.1% (Chart 6.1.1). The ratio of central government budget revenues to GDP is projected to increase by 0.8 points year-on-year to 20.9%. On the other hand, the central government primary budget expenditures to GDP ratio is estimated to rise by 1.1 points year-on-year to 21% (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 33.5% year-on-year to TRY 221.1 billion in the January-March period of 2019 (Table 6.1.2). This surge was mainly driven by the increases in capital expenditures and transfers, current transfers and personnel expenditures whereas only the increase in purchases of goods and services remained limited. A close look at current transfers, the most significant item among primary expenditures, reveals that social security deficit financing costs significantly increased. The fact that capital expenditures and capital transfers, which are indicative of public investments, posted a strong increase suggests that the public sector continued contributing to growth through the investment channel in the first quarter of the year.

Table 6.1.2: Central Government Primary Expenditures (TRY billion)

	January-March 2018	January-March 2019	Rate of Increase (%)	Realization/ Budget Target (%)
Primary Budget Expenditures	165.6	221.1	33.5	26.2
1. Personnel Expenditures	48.2	63.8	32.2	25.8
2. State Premium Payments to SSI	8.3	11.4	37.5	26.4
3. Purchase of Goods and Services	13.2	13.6	3.2	20.1
4. Current Transfers	74.3	98.3	32.2	25.1
a) Duty Losses	1.3	1.8	32.7	22.1
b) Health, Pension and Social Benefit Expenditures	30.5	44.3	45.1	23.9
c) Agricultural Support Payment	7.1	9.1	28.2	56.3
d) Allocated Revenues	23.2	24.7	6.3	21.6
e) Household Transfers	4.6	5.0	8.0	22.5
5. Capital Expenditures	13.8	18.9	36.9	34.7
6. Capital Transfers	3.2	6.1	88.9	61.1
7. Lending	4.5	8.9	100.1	41.0

Source: Ministry of Treasury and Finance.

Central government general budget revenues increased by 32.2% year-on-year to TRY 211.2 billion in the first quarter of 2019 (Table 6.1.3). Tax revenues that make up a majority of general budget revenues rose modestly by 5.8% year-on-year due to the sluggish economic activity in the first quarter of 2019. Income and corporate taxes, which are direct tax items, registered relatively high increases in this period whereas the collection of SCT and domestic VAT among consumption-based indirect taxes decreased. The VAT on imports increased moderately due to the deceleration in import demand despite the depreciation of the Turkish lira. On the other hand, the early transfer of the Central Bank profit in January had an important role in the significant year-on-year increase in non-tax revenues driven by the positive performance in the first quarter of 2019. In this context, TRY 37.5 billion was transferred to the budget as of the first quarter of the year. Additionally, budget revenues were also boosted by TRY 6.2 billion that was transferred to the budget in the first three months of the year in the scope of restructuring laws (Law No. 7143, 7020 and 6736).

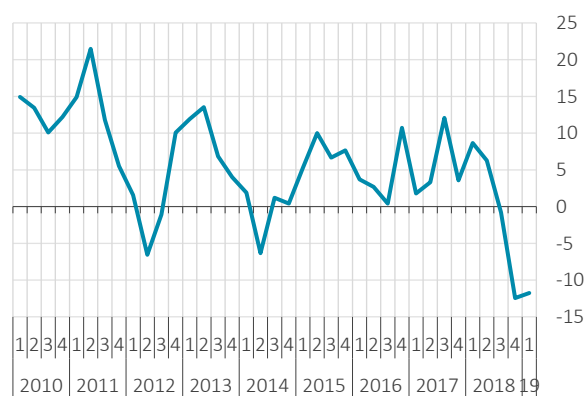
Table 6.1.3: Central Government General Budget Revenues (TRY billion)

	January-March 2018	January-March 2019	Rate of Increase (%)	Realization/ Budget Target (%)
General Budget Revenues	159.8	211.2	32.2	24.5
I-Tax Revenues	145.8	154.3	5.8	20.4
Income Tax	30.5	35.9	17.6	20.9
Corporate Tax	16.8	20.7	23.3	27.9
Domestic VAT	16.2	13.2	-18.6	18.7
SCT	31.8	30.4	-4.5	18.7
VAT on Imports	26.0	27.0	4.2	16.3
II-Non-Tax Revenues	14.0	56.9	307.2	53.6
Enterprise and Property Revenues	2.4	40.6	1582.9	119.4
Interests, Shares and Fines	10.0	13.2	32.3	24.2
Capital Revenues	0.6	0.5	-17.7	3.7

Source: Ministry of Treasury and Finance.

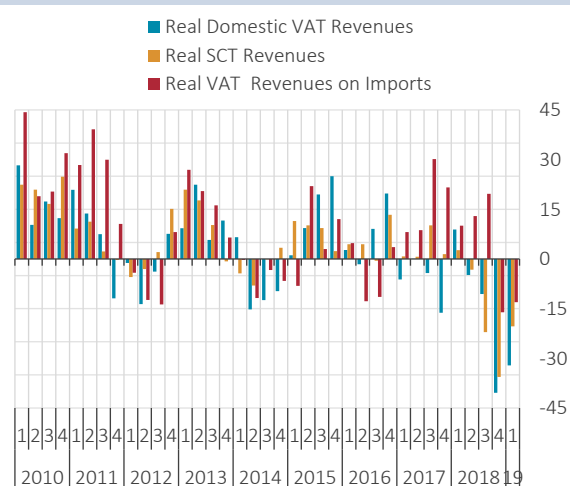
As of the first quarter of 2019, the downtrend in real tax revenues persisted, albeit in a somewhat decelerated manner (Chart 6.1.3). Analyzed by sub-items, the contraction in real VAT and SCT revenues continued but lost some pace (Chart 6.1.4).

Chart 6.1.3: Real Tax Revenues (Y-o-Y % Change)



Source: Ministry of Treasury and Finance, CBRT.

Chart 6.1.4: Real VAT and SCT Revenues (Y-o-Y % Change)

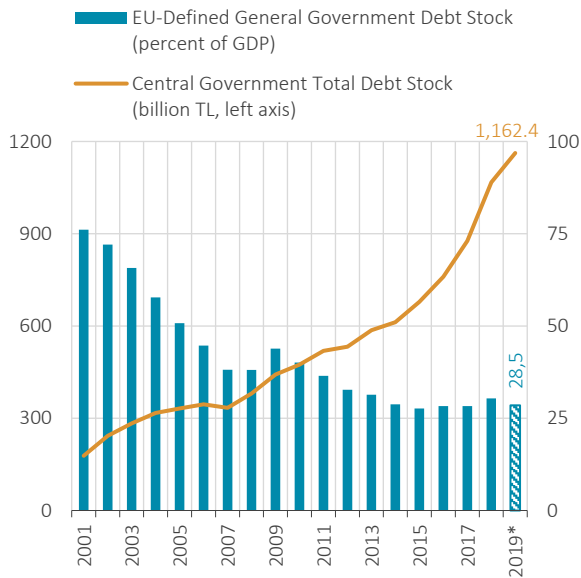


Source: Ministry of Treasury and Finance, CBRT.

6.2 Developments in the Public Debt Stock

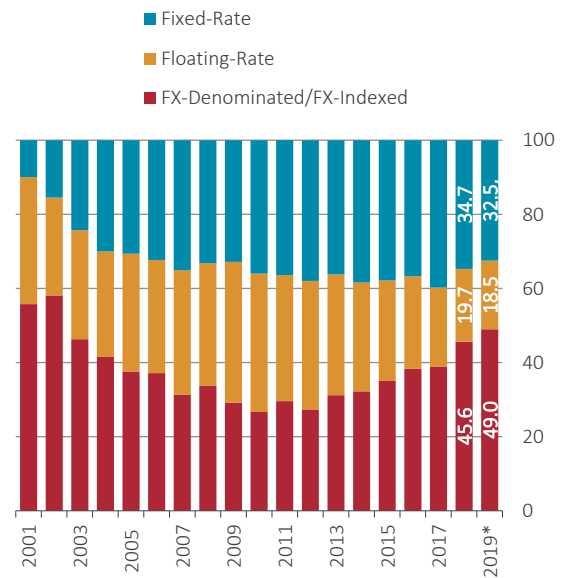
The ratio of EU-defined general government debt stock to GDP stood at 30.4% as of end-2018 (Chart 6.2.1).

Chart 6.2.1: Public Debt Stock Indicators



Source: Ministry of Treasury and Finance.
* March 2019 realization is used for the central government total debt stock, and NEP 2019 target for the EU-defined general government debt stock.

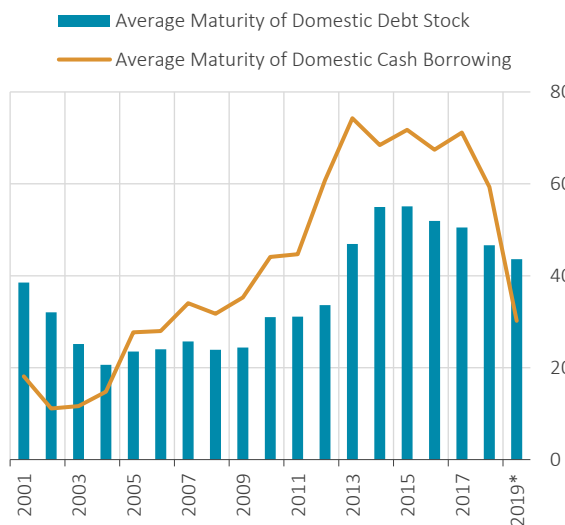
Chart 6.2.2: Composition of the Central Government Debt Stock * (%)



Source: Ministry of Treasury and Finance.
* As of March.

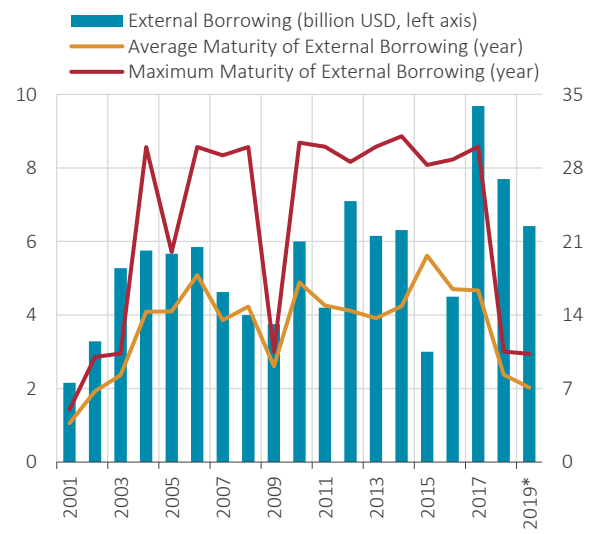
As of March 2019, the shares of fixed-rate and floating-rate securities in the total debt stock decreased compared to 2018, while those of FX-denominated and FX-indexed securities increased (Chart 6.2.2). Domestic borrowing was mostly carried out through fixed-rate securities in this period.

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 March.

Chart 6.2.4: External Borrowing through Bond Issues

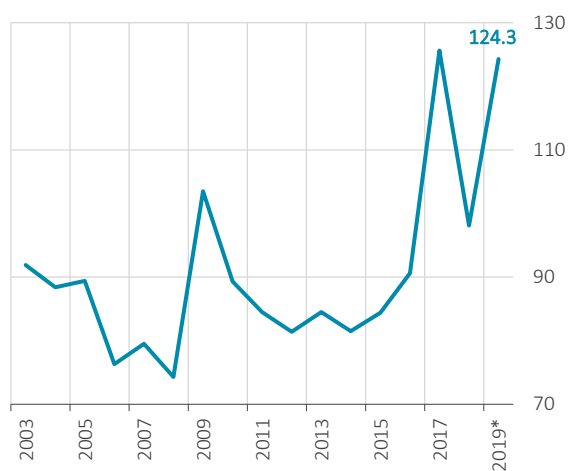


Source: Ministry of Treasury and Finance.
* As of March.

The average term-to-maturity of the domestic debt stock was 43.6 months as of March 2019 (Chart 6.2.3). In the first quarter 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). The external debt rollover ratio was 145.1% as of March 2019.

The domestic debt rollover ratio stood at 124.3% in the January-March 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 rate¹ slightly increased due to relatively high borrowing costs and the partial decline in inflation expectations, in the post-January period (Chart 6.2.6).

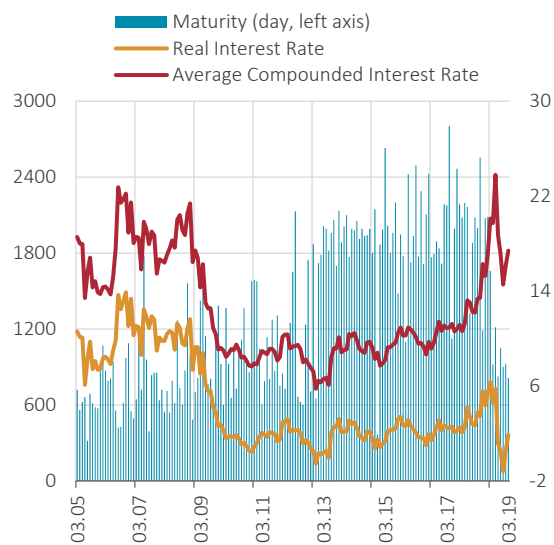
Chart 6.2.5: Total Domestic Debt Rollover Ratio (%)



Source: Ministry of Treasury and Finance.

* As of March.

Chart 6.2.6: Treasury Auctions Interest Rate and Maturity Structure



Source: Ministry of Treasury and Finance.

¹ 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.

