

6. Public Finance

As a result of the faster increase in budget revenues relative to primary expenditures, the budget performance displayed a year-on-year improvement in 2013. On the primary expenditures side, the increase in public investment expenditures was particularly noteworthy, while on the revenues side, tax revenues as well as non-tax revenues like privatization revenues had an upward trend. Tax hikes in September 2012 and early 2013, the collection of some overdue liabilities by TEDAŞ and BOTAŞ and the rise in consumption-based tax revenues owing to robust domestic demand contributed significantly to soaring tax revenues.

The budget improvement in 2013 is mostly due to temporary one-off revenues. Therefore, budget deficits may post a slight year-on-year increase, while the primary budget surplus may register a decline in 2014. However, according to the structural primary budget surplus that includes cyclical effects and one-off revenues, cautious fiscal stance will continue in 2014 and some fiscal tightening is projected throughout the MTP period (Box 6.1).

During the MTP period which covers 2014-2016, the cautious fiscal policy will be maintained and the fiscal adjustment is expected to be achieved via controlling primary expenditures. This will support the CBRT's policies, and therefore, enhance macroeconomic stability. Hence, it is critical that the fiscal policy be implemented in line with the MTP's projections.

6.1. Budget Developments

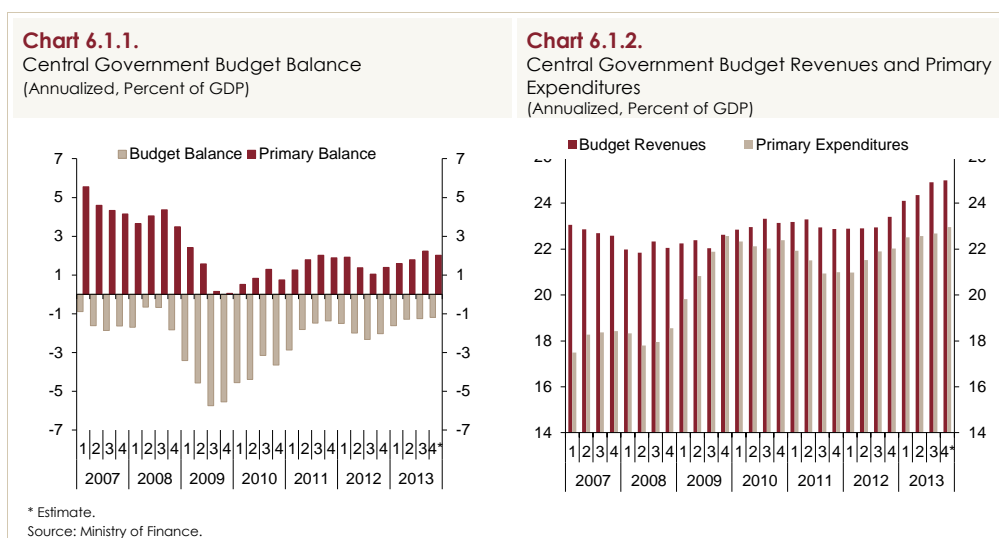
The central government budget posted a deficit of 18.4 billion TL, while the primary budget registered a surplus of 31.5 billion TL in 2013 (Table 6.1.1). Compared to 2012, the budget balance displayed a remarkable improvement. Even though the growth of primary expenditures is above the year-end target, the relatively lower growth of interest expenditures had some restraining effect on the growth of central government budget expenditures. The better-than-expected budget performance in 2013 is driven by the high collection of consumption-based tax revenues and the increase in privatization revenues.

Table 6.1.1.
Central Government Budget Aggregates
(Billion TL)

	2012	2013	Rate of Increase (Percent)	Actual/Target (Percent)
Central Government Budget Expenditures	361.9	407.9	12.7	101.0
Interest Expenditures	48.4	50.0	3.2	94.3
Primary Expenditures	313.5	357.9	14.2	102.0
Central Government Budget Revenues	332.5	389.4	17.1	105.2
I. Tax Revenues	278.8	326.1	17.0	102.6
II. Non-Tax Revenues	41.8	50.0	19.7	115.7
Budget Balance	-29.4	-18.4	-37.3	54.3
Primary Balance	19.0	31.5	65.9	165.6

Source: Ministry of Finance.

The central government budget deficit to GDP ratio, which soared in 2012 due to the slowdown in tax revenues and the acceleration in primary expenditures, is estimated to fall to 1.2 percent in 2013 (Chart 6.1.1). Having declined to 1.1 percent in the third quarter of 2012, the primary budget surplus to GDP ratio has started to increase. This ratio is estimated to have reached 2 percent in 2013.



Having surged due to the adoption of fiscal measures to contain the adverse effects of the 2009 global crisis on the Turkish economy, the central government primary expenditures to GDP ratio declined in the subsequent years, and reached 20.9 percent in the third quarter of 2011. However, the central government primary expenditures to GDP ratio has accelerated notably since the last quarter of 2011, and is estimated to have hit 23 percent at the end of 2013 (Chart 6.1.2). Meanwhile, due to tax adjustments in September 2012 and January 2013 as well as the relatively robust economic activity, the central government budget revenues to GDP ratio is expected to reach 25 percent by the end of 2013.

Table 6.1.2.

Central Government Primary Expenditures (Billion TL)

	2012	2013	Rate of Increase (Percent)	Actual/Target (Percent)
Primary Expenditures	313.5	357.9	14.2	102.0
1. Personnel Expenditures	86.5	96.2	11.3	99.0
2. Government Premiums to SSI	14.7	16.3	10.7	97.1
3. Purchase of Goods and Services	32.9	36.3	10.3	108.4
4. Current Transfers	129.5	148.7	14.9	98.3
a) Duty Losses	3.9	4.1	4.2	91.1
b) Health, Pension and Social Benefits	63.7	71.8	12.7	98.5
c) Agricultural Support	7.6	8.7	15.0	96.8
d) Shares Reserved from Revenues	34.4	39.9	16.1	98.0
5. Capital Expenditures	34.4	43.6	26.9	130.2
6. Capital Transfers	6.0	7.7	27.5	150.0
7. Lending	9.5	9.1	-4.6	81.8

Source: Ministry of Finance.

The central government's primary budget expenditures, which started to surge as of the second half of 2012, increased further in 2013, albeit at a slower rate. Accordingly, the central government primary budget expenditures registered a year-on-year increase of 14.2 percent in 2013 (Table 6.1.2).

In 2013, current transfers, personnel expenditures and purchase of goods and services, which are major items in primary expenditures, registered a year-on-year increase of 14.9 percent, 11.3 percent and 10.3 percent, respectively. Among current transfers, expenditures on health, pension and social benefits registered a relatively slow growth, while the increase in agricultural subsidies and shares reserved from revenues pulled the overall rate of increase in current transfers higher. As for other expenditure items, the dramatic surge in

capital expenditures and capital transfers was noteworthy in 2013. Road construction expenditures played a major role on the 26.9 percent increase in capital expenditures.

In 2013, the central government general budget revenues recorded a year-on-year increase of 7.3 percent (Table 6.1.3). In the same period, tax revenues and non-tax revenues increased by 17 percent and 19.7 percent, respectively.

Table 6.1.3.
Central Government General Budget Revenues
(Billion TL)

	2012	2013	Rate of Increase (Percent)	Actual/Target (Percent)
General Budget Revenues	320.5	376.1	17.3	104.1
I-Tax Revenues	278.8	326.1	17.0	102.6
Income Tax	56.5	63.8	12.9	101.7
Corporate Tax	29.0	29.0	-0.1	99.1
Domestic VAT	31.6	38.0	20.3	104.4
SCT	71.7	85.5	19.2	102.8
VAT on Imports	50.0	62.7	25.5	102.5
II-Non-Tax Revenues	41.8	50.0	19.7	115.7
Enterprises and Property Revenues	14.0	14.3	2.3	156.7
Interests, Shares and Fines	22.7	23.5	3.5	104.7
Capital Revenues	2.1	10.1	392.0	108.8

Source: Ministry of Finance.

Tax revenues performed well on stronger domestic demand, the adoption of revenue-increasing measures in September 2012 and January 2013 and regular payments by BOTAŞ on overdue liabilities. Accordingly, the increase in consumption-based indirect tax revenues was noteworthy in 2013. During this period, SCT revenues surged by 19.2 percent on account of the rising SCT revenues on oil and natural gas products as well as motor vehicles. Domestic VAT revenues posted an increase of 20.3 percent, while, after the slowdown in 2012, VAT revenues on imports soared by 25.5 percent in 2013 driven by BOTAŞ payments.

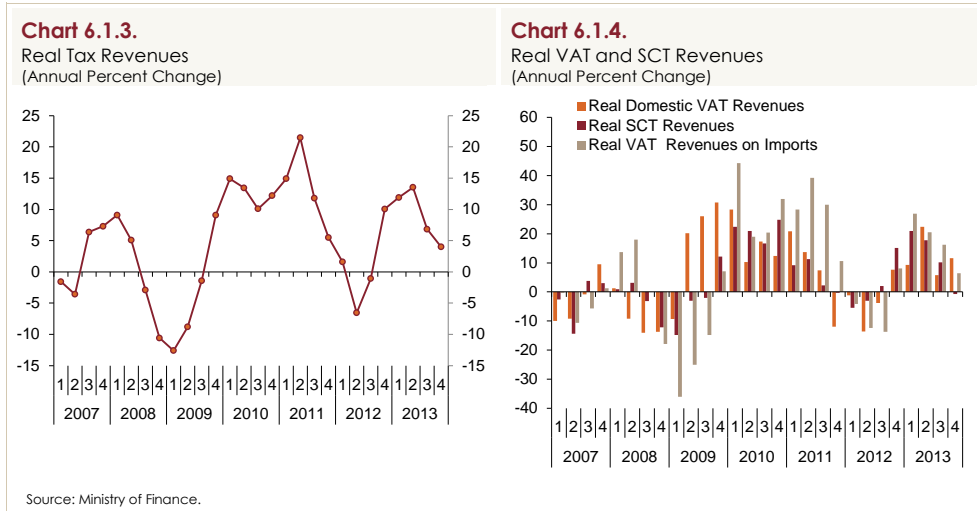
Meanwhile, general budget tax revenues, enterprise and property revenues as well as interest, share and fine revenues collected as per Law No. 6111, which is publicly referred to as the Tax Amnesty, amounted to a total of 24.9 billion TL by the end of 2013. Of this total amount, 13.3 billion TL was collected in 2011, 7.6 billion TL in 2012, and 4 billion TL in 2013.

In 2013, capital revenues, one of the major sub-items of non-tax revenues, rose dramatically, while enterprise and property revenues increased slightly. The major hike in capital revenues was essentially due to the increase in privatization revenues and revenues from real estate sales. The limited growth of enterprise and property revenues, on the other hand, is attributed to the fall in the CBRT's profit transfers the budget.

Having slowed down as of the third quarter of 2011, the annual rate of increase in real tax revenues recorded negative values in the second and third quarters of 2012 due to the balancing between domestic and external demand in 2012 and the base effect. The annual rate of increase in real tax revenues turned positive amid tax hikes in September 2012 as well as the base effect, and reached 4 percent in the last quarter of 2013. Although real tax revenues increased during the second half of 2013, the pace of increase was slower than in the first half (Chart 6.1.3).

Consumption-based tax revenues are the main tax revenue items that worsened due to the balancing between domestic and external demand in 2012. Having exhibited a particularly negative performance in the first three quarters of 2012, these taxes displayed a remarkable increase in the last quarter due to the favorable base effect and adopted tax measures. Throughout the entire 2013, consumption-

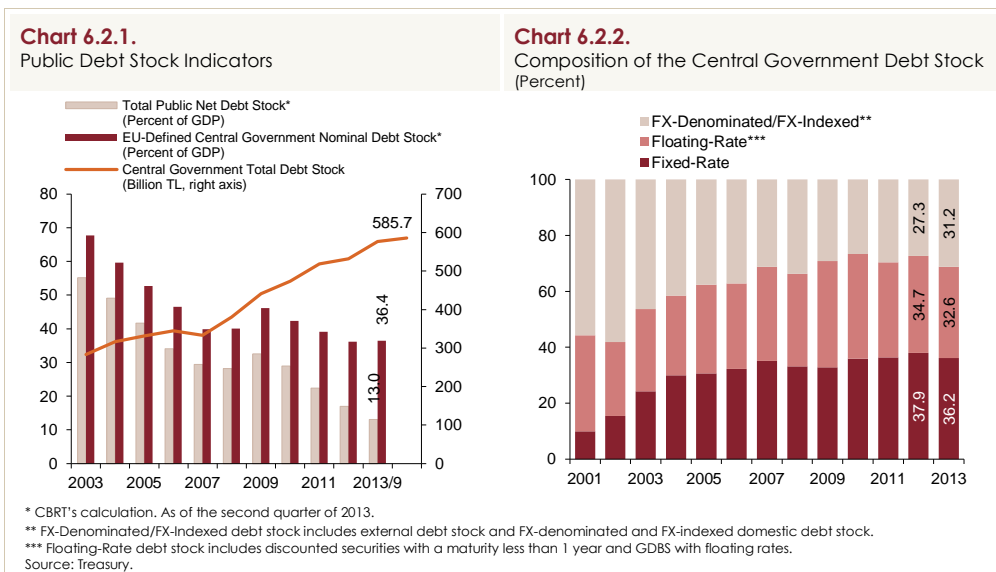
based tax revenues accelerated further on the back of tax measures adopted in January, the relatively robust economic activity and also BOTAŞ payments. In the fourth quarter of 2013, domestic VAT and VAT on imports increased by 11.6 and 6.5 percent year-on-year, respectively, while the SCT declined by 0.7 percent in real terms due to the base effect (Chart 6.1.4).



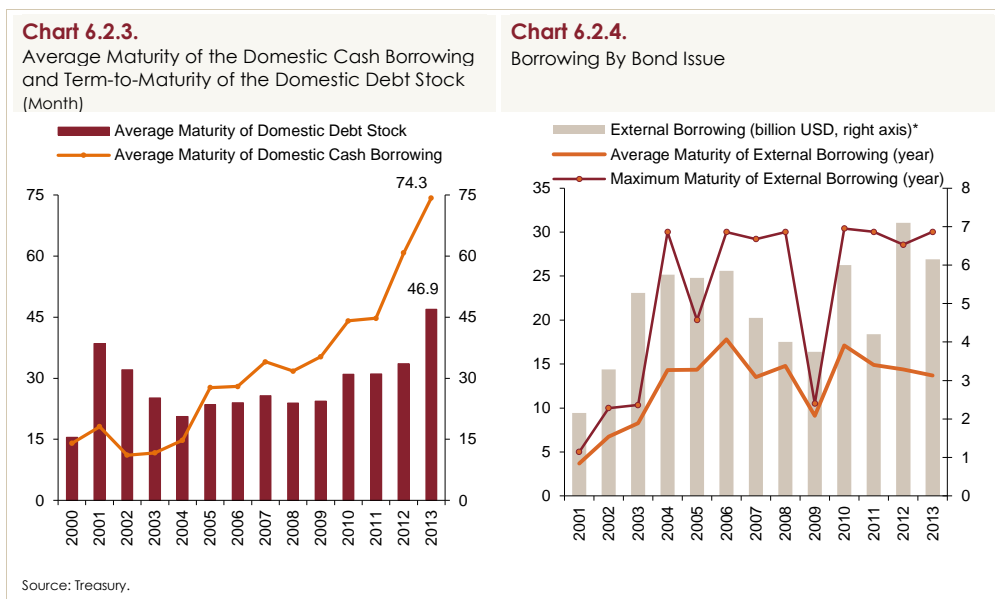
6.2. Developments in the Public Debt Stock

Public debt stock indicators displayed a favorable outlook in 2013. The ratio of total public net debt stock to GDP continued to decline, while the average maturity of the debt stock extended remarkably.

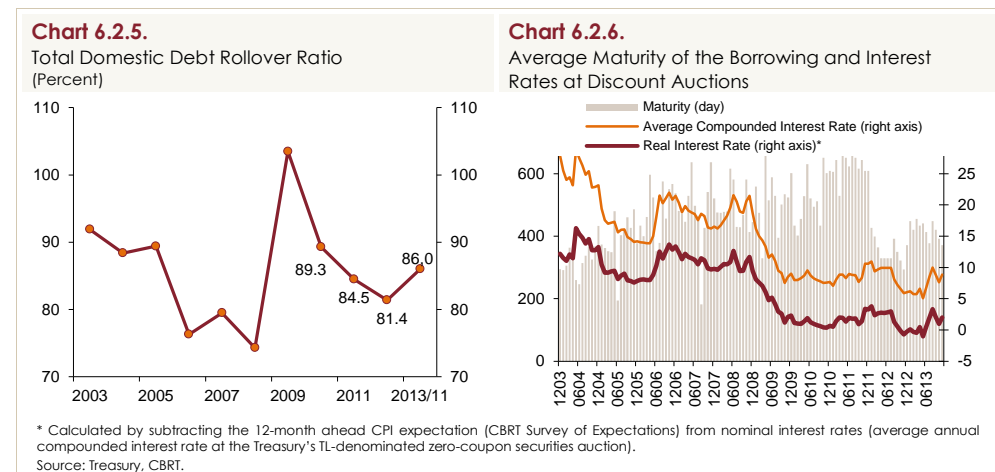
The central government debt stock increased to 585.7 billion TL at the end of 2013 (Chart 6.2.1). As of the third quarter of 2013, the ratio of total public net debt stock to GDP decreased by 3.9 points, while the ratio of the EU-defined general government nominal debt stock to GDP was up 0.3 points compared to end-2012 figures (Chart 6.2.1).



In 2013, the Treasury continued with its borrowing strategy of alleviating the sensitivity of the public debt stock to liquidity and interest rate. Yet, the share of fixed-rate securities in the total debt stock fell from end-2012 (Chart 6.2.2). As for the interest and exchange rate structure of domestic borrowing in 2013, the share of fixed-rate securities registered a year-on-year decline, while the share of floating rate securities increased slightly. The ratio of public deposits to average monthly debt service reached 356.8 percent. The average maturity of the domestic cash borrowing displayed a remarkable year-on-year increase in 2013, thereby significantly raising the average term-to-maturity of the domestic debt stock to 46.9 months (Chart 6.2.3). External borrowing by bond issues amounted to 6.2 billion USD, with the average maturity standing at 13.7 years (Chart 6.2.4).



Domestic debt rollover ratio stood at 86 percent at end-November 2013 (Chart 6.2.5). Having plummeted from early 2009 to early 2011 and reaching almost zero in end-2012 and early 2013, the average real interest rate at discount auctions surged amid the recent global financial fluctuations and the cautious monetary policy stance (Chart 6.2.6).



Structural budget balance is the budget balance when actual national income equals the potential output level. It is obtained by subtracting budget items that are sensitive to cyclical fluctuations from the actual budget balance. This box presents the fiscal stance for 2007-2016 in Turkey by calculating the central government's structural primary budget balance and focusing on cyclical effects and one-off revenues.

The box calculates the structural primary budget balance in line with the OECD approach as outlined in Çebi and Özlale (2011).¹ Yet, unlike Çebi and Özlale (2011), this box excludes unsustainable one-off revenues from the structural budget balance calculation. As another novelty, this box takes the import gap into account when estimating structural tax items for taxes on international trade and operations (VAT on imports, customs duty).² On the other hand, similar to Çebi and Özlale (2011), the consumption gap is taken into consideration for indirect taxes (indirect taxes excluding taxes on international trade and operations), while the output gap is used for direct taxes (income tax and corporate tax) in estimating structural budget tax revenues.³

One-Off Revenues

In estimating the structural primary budget balance, some large-scale, one-off revenue items whose effects may spread over one or a few more years are subtracted. Thus, subtracting cyclical effects as well as one-off revenues helps provide a more reliable approach in order to determine fiscal stance in assessing fiscal performance.⁴ These one-off revenues include privatization revenues from 2007 to 2016, CBRT profit transfers, dividends from public banks, revenues from 3rd generation GSM sales, net tax payments collected as per Law No. 5811 on Integration of Some Assets into National Economy (Asset Amnesty) and Law No. 6111 on Restructuring Some Claims (Tax Amnesty), revenues from 2B sales and payments by energy-related SEE (BOTAŞ and TEDAŞ) on overdue liabilities.⁵ Discretionary (optional) fiscal measures for restricting the negative effects of the global financial crisis on the domestic economy are not considered as one-off measures and are included in the calculation of the structural primary budget balance.

¹ For detailed information on the calculation of the structural budget balance, see Çebi and Özlale (2011).

² In estimating structural tax revenues, Çebi and Özlale (2011) also include consumption gap for consumption-based indirect taxes in order to account for composition effect.

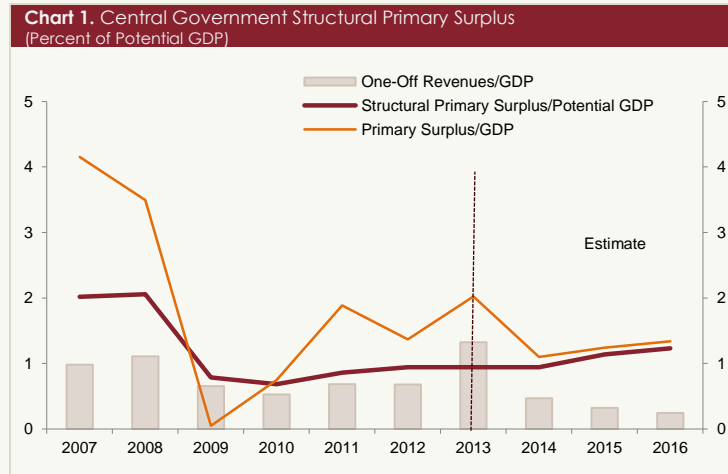
³ The Hodrick- Prescott filter is used in estimating output gap, consumption gap and import gap.

⁴ It is important to subtract revenues as well as some one-off spending items within primary expenditures when estimating the structural primary budget balance. Thus, it is necessary to exclude temporary spending items like expenditures following natural hazards such as earthquakes and floods or expenditures for people from neighboring countries who seek refuge due to war, etc. However, since there is no extensive information in official documents regarding these expenditure items, they are not omitted from these calculations.

⁵ Data on privatization revenues, CBRT profit transfers and dividends from public banks and revenues from 3rd generation GSM sales are obtained from the Treasury's table on central government budget program-defined primary balance. Data on payments collected as per Law No. 5811 on Integration of Some Assets into National Economy (Asset Amnesty) and revenues from 2B sales are obtained from the Ministry Finance's Public Accounts Bulletin. Data on net payments collected as per Law No. 6111 on Restructuring Some Claims (Tax Amnesty) and information on payments by BOTAŞ and TEDAŞ in 2013 on overdue liabilities are obtained from the Ministry of Development's Annual Programs. Information on expected payments from one-off revenues over the MTP period of 2014-2016 is obtained from Table B of the Central Government Budget Law for 2014.

Structural Primary Budget Balance: Findings and Review

This study estimates the central government structural primary budget surplus for 2007-2016. The estimation of the structural primary budget surplus for 2013-2016 relies on the macro framework outlined in the MTP. Chart 1 shows the ratio of 2007-2016 central government structural primary budget surplus to GDP, the ratio of structural primary budget surplus to potential GDP and the ratio of one-off revenues to GDP. Actual primary budget surplus appears more volatile than the structural primary budget surplus. The structural primary budget surplus adjusted for cyclical effects and one-off revenues, on the other hand, seems to have remained stable following the global financial crisis.



Discretionary fiscal measures taken during 2008-2009 for restricting the negative effects of the global financial crisis on the domestic economy (temporary tax cuts and hikes on some public expenditures) helped to bring the structural primary budget surplus down, but this fall was not as significant as the actual surplus in the primary budget (Chart 1). The pre-crisis fiscal room (relatively high primary budget surplus and low debt stock) facilitated the active use of fiscal policy tools in maintaining economic stability during the crisis. However, as a result of the counter-cyclical fiscal policies of 2009, budget deficits widened and debt stock increased.

The period following the global financial crisis seems to be marked by small increases in the structural primary budget surplus and attempts to restore fiscal discipline. In other words, there has been some fiscal tightening after the global crisis and the fiscal policy has been broadly a-cyclical. Over the MTP period of 2014-2016, the cautious fiscal stance is likely to be maintained and this is expected to support the CBRT's policies and contribute to macroeconomic stability (Chart 1).

REFERENCES

Çebi C., Ü. Özlale, 2011, Structural Budget Balance and Fiscal Stance in Turkey, CBRT Working Paper No. 11/11.

