Box 2.2

Recent Regulations and Supplementary Budget Law

The developments in the first half of the year increased budget expenditures. In particular, public expenditures in order to reduce the effects of the earthquake on economic and social life and to compensate for the damage caused a significant cost in the budget. Due to the arising financing need, the supplementary budget law was enacted on 15 July 2023, and the expenditure allowances were updated. In addition, income targets were also raised, thus indicating a determined stance to maintain fiscal discipline, which serves as an important anchor in the fight against inflation.

In addition to the cost of the earthquake, some arrangements were made which increased budget expenditures in the first half of 2023. In January, the salaries and pensions of public employees and retirees were increased by 30% including an additional welfare share; feast bonus payments to retirees were increased to TL 2,000 and the lowest pension to TL 7,500. Similarly, regulations to improve the conditions of employees and retirees continued in July. The law submitted to the Presidency of the Grand National Assembly of Türkiye on 5 July 2023 and published in the Official Gazette on 15 July 2023 increased the salaries of civil servants by a net TL 8,077 in addition to the increase made in accordance with the collective agreement and the inflation compensation. In addition, pensions were increased by 25% in the second half of the year. It is planned that the minimum wage support provided to employers since 2016 will be increased to TL 500 in the rest of 2023. It should be noted that since the aforementioned support is covered by the Unemployment Insurance Fund, it will not have a direct impact on the central government budget. Another regulation regarding public expenditures was the transfer of the entire system of FX-protected deposits to the CBRT. Thus, the cost of FX-protected deposits in the second half of the year will not be reflected in the central government budget. At the same time, the law includes a regulation to increase the net debt utilization amount determined within the scope of the Central Government Budget Law of 2023, in order to meet the additional financing needs arising from the earthquake disasters in February and to keep the Treasury cash reserve at a strong level.[1]

In 2023, the president was given the authority to add appropriations to the relevant articles of the public administrations' budgets within the scope of the central government, in order to meet the need for appropriations arising from the personnel expenditures and state premium expenditures to the Social Security Institution due to the increases in the financial and social rights of public employees within the scope of the central government budget. In addition, the president was authorized to add allowances to the relevant articles of the budgets of the Ministry of Treasury and Finance, the Ministry of Family and Social Services and the Ministry of Labor and Social Security in 2023, limited to the needs that may arise within the scope of pensions and bonuses, feast bonuses and health insurance payments.

There are also some measures to increase budget revenues in the mentioned law. There will be a one-time-only additional motor vehicle tax equal to the amount of motor vehicle tax accrued in 2023, with the exception of the places declared force majeure in the earthquake zone. The corporate tax rate on corporate income is increased from 20% to 25% and the rate on the earnings of the financial sector, including the banks, is increased from 25% to 30%. In addition, some exemptions applied in corporate tax collection have been reduced. It has been stated that the last six-month D-PPI increase will be taken as a basis in the determination of the fixed SCT amounts on fuel products, similar to the practice in tobacco and alcohol products. In addition, the President's authority to determine the fixed SCT amounts taken from fuel products has been changed, and he has been given the authority to increase it up to five times the highest tax amount that has been re-determined for each commodity and to reduce it to zero.[2] With the President's decision published in the Official Gazette dated 16 July 2023, the fixed SCT amounts of the relevant products were increased.

[1] The net debt utilization amount will be increased by three times the net debt utilization amount increased by the Minister and the President for 2023.

With the Presidential Decision published in the Official Gazette dated 7 July 2023, measures to increase budget revenues continued and some regulations were made regarding VAT, banking and insurance transactions tax (BITT), fees and gambling tax. While the general rate of VAT was increased from 18% to 20%, the 8% rate applied for some goods and services was increased to 10%. Cleaning products, which were included in the list of products for which VAT was charged at the rate of 8% before, were removed from the list and subjected to a general VAT rate of 20%. On the other hand, the 1% VAT rate applied for basic food products remained unchanged. The BITT on consumer loans was increased from 10% to 15%. Fixed fees applied in 2023 (excluding driver's license fees) have been increased by 50%. Gambling tax rates were also doubled from 5% to 10% in joint bets based on sports events, from 7% to 14% in horse races and from 10% to 20% in other gambling.

Although the current regulations support the continuation of fiscal discipline by limiting the budget deficit, they are expected to have an upward effect on inflation in the short term (Zoom-in 2.2). While the increase in the motor vehicle tax and BITT will not have an impact on the CPI inflation in 2023, it is thought that the possible impact of the increase in the fees and gambling tax rates will be limited. The corporate tax increase is expected to indirectly push inflation somewhat higher. Also, the fixed SCT regulation on fuel is expected to have direct and indirect effects on CPI. Although the VAT increase has a relatively high impact, the fact that the VAT rate applied to basic foodstuffs has not been changed and kept at 1% is considered positive.

Due to the need for resources resulting from the expenditures made to reduce the economic and social effects of the earthquake disasters that occurred in February, the Proposal on the Amendment of the Central Government Budget Law for the Year 2023 was submitted to the Presidency of the Grand National Assembly of Turkey on 7 July 2023 and enacted in the General Assembly of the Turkish Grand National Assembly on 15 July 2023. Accordingly, it has been proposed to add an appropriation of TL 1.1 trillion for expenditures. It is foreseen that the financing need resulting from the additional budget appropriations will be met entirely by the increase in the budget revenues, and it is stated that the revenues will increase by TL 1.1 trillion.

When the details of the budget expenditure items are analyzed, the highest increase is anticipated to be capital transfers with TL 483.7 billion. The total appropriations needed for the elimination of earthquake damage are TL 527.3 billion, and most of this is reserved for capital transfers. The capital transfers item is followed by current transfers with TL 258.9 billion and purchase of goods and services with TL 100.8 billion. A more limited appropriation increase is envisaged for reserve appropriations, capital expenditures and lending items. No additional allowance has been made for personnel expenses and state premium expenses to the SSI (Table 1). The central government budget revenues to be used in the financing of public expenditures have been updated upwards considering the positive effect of the 2022 revenues above the expectations on the 2023 revenues, the expected changes in macroeconomic indicators, collections within the scope of Law No. 7440 on Restructuring Some Receivables and Amending Some Laws and budget revenue realizations for the first six months. In this framework, it is foreseen that 95.7% of the TL 1.1 trillion increase in budget revenues will consist of tax revenues and 4.3% will consist of non-tax revenues. With the additional budget revenues, the total budget revenue target for 2023 has increased to TL 4.3 trillion. The items subject to major revisions can be listed as SCT, internal VAT and income tax (Table 1).

In the first half of 2023, the major role in the rapid increase in the central government budget deficit was played by the high amount of expenditures due to the earthquake, while the regulations made to improve the financial and social conditions of public employees and retirees were also an important cost factor. The recent regulations and the supplementary budget law are important in terms of maintaining the fiscal discipline. In this framework, although upside effects on inflation are expected in the short term, it is expected that in the medium term, public finances will continue to support the disinflationary process in an environment where fiscal discipline will be preserved.

[2] Prior to this regulation, the President was authorized to increase up to half of the highest tax amount and reduce it to zero for each property.

Table 1. 2023 Central Government Initial and Supplementary Budget (TL Billion)

	Initial Budget	Supplementary Budget	Revised Budget (Initial + Supplementary)
Expenditures	**4469.6**	**1119.5**	**5589.1**
Primary Expenditures	**3904.0**	**1039.0**	**4943.0**
Compensation of Employees	952.3	-	952.3
Social Security Contributions	150.4	-	150.4
Good and Service Purchases	318.7	100.8	419.5
Current Transfers	1682.0	258.9	1940.9
Capital Expenditures	315.8	67.4	383.2
Capital Transfers	37.3	483.7	521.0
Lending	359.2	51.2	410.4
Reserve Appropriations	88.2	77.0	165.2
Interest Payments	**565.6**	**80.5**	**646.1**
Revenues	**3810.1**	**1119.5**	**4929.6**
Tax Revenues	**3199.5**	**1071.1**	**4270.6**
Income Tax	495.0	201.4	696.4
Corporation Tax	619.1	163.1	782.2
Special Consumption Tax	510.6	306.6	817.2
Domestic VAT	203.6	237.3	440.9
VAT on Imports	931.4	-	931.4
Other Taxes	439.8	162.7	602.5
Non-Tax Revenues	**610.6**	**48.4**	**659.0**

Source: Ministry of Treasury and Finance.