



Budget Balance - July/August 2014

Economic Research Division

TÜRKİYE BANKASI

Central government budget registered a deficit of 2.7 billion TRY in January-August period.

The Ministry of Finance announced both July and August budget data due to the fiscal holiday. 19.1% yoy increase in budget revenues recorded in August compensated their decrease of 6.4% yoy in July. On the other hand, budget expenditures registered an increase of 8.7% yoy in July while they contracted by 8.6% yoy in August. Thus, after having registered a deficit of 5.3 billion TRY in July, the budget posted 5.9 billion TRY surplus in August, pointing out a favorable outlook.

In the first eight months of 2014, budget revenues increased by 8.9% yoy and budget expenditures rose by 10.1% yoy. Thus, the budget, which gave a surplus of 231 million TRY in the first eight months of the previous year, posted a deficit of 2.7 billion TRY during the same period of 2014. The primary surplus, on the other hand, reached 30.1 billion TRY in January-August period, staying higher than the year-end target of 18.7 billion TRY.

Weak performance in tax revenues...

While tax revenues recorded a limited increase of 3.8% yoy in July, the contraction in other revenues (47.1% yoy) was noteworthy. Domestic Value Added Tax (VAT) and VAT on imports limited the positive impact of the expansion in income and special consumption taxes in July. Domestic VAT maintained its downward course in August as well. On the other hand, total tax revenues registered an increase of 19.6% yoy with the help of the rise in corporation taxes (61.8% yoy).

In the first eight months of the year, central government budget realizations displayed a better outlook than the year-end targets. Indeed, in this period budget revenues reached 70.2% of their year-end target. However, it was noteworthy that in this period all taxes except banking and insurance transaction, income and corporation taxes registered a decline in real terms.

The decline in non-interest expenditures...

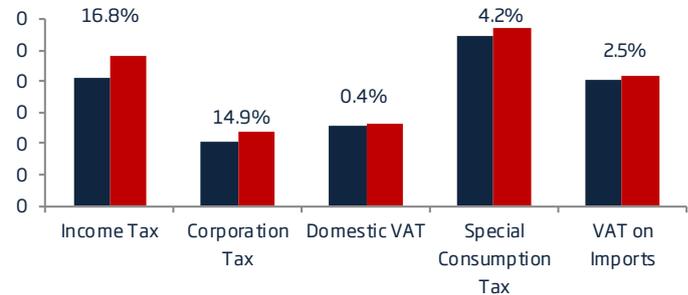
After having increased by 19.1% yoy in July, non-interest expenditures decelerated in August. Indeed, annual increase in this item was realized as 6.4% in August. In July, the expansion in non-interest expenditures mainly stemmed from the

Tax Revenues

(TRY billion)

■ January-August 2013

■ January-August 2014



increase of 26.2% yoy in current transfers. On the other hand, current transfers recorded a limited decrease of 3.9% yoy in August.

In the first eight months of 2014, non-interest expenditures increased by 13.6% yoy, while interest expenditures contracted by 10.9% yoy. It was noteworthy that the increase in both compensation of employees and current transfers constituted 77% of the rise in total expenditures. 5.1 billion TRY increase in retirement and social aid expenditure costs as well as 4.5 billion TRY rise in share from revenues were influential on this development.

Expectations

The loss of momentum in economic activity continued to affect tax revenues negatively in 2014. Regarding high sensitivity of domestic VAT and VAT on imports to course of economic activity, it is expected that tax revenues will continue to follow a relatively weak course in the forthcoming period. Considering the slowdown in domestic demand, it is anticipated that the expansion in budget expenditures in order to support economic activity might gain momentum. Nevertheless, the current central government budget figures, which were compatible with the year-end targets, are expected to keep their positive outlook in the coming period.

Central Government Budget

(billion TRY)

	July 2014	% Change*	August 2014	% Change*	January-August 2013	January-August 2014	% Change	Budget Target	Real./Target (%)
Expenditures	40.0	8.7	32.0	-8.6	259.7	285.9	10.1	436.4	65.5
Interest Expenditures	4.4	-36.1	2.8	-63.4	37.7	33.6	-10.9	52.0	64.7
Non-interest Expenditures	35.6	19.1	29.3	6.4	222.0	252.2	13.6	384.4	65.6
Revenues	34.7	-6.4	38.0	19.1	259.9	283.2	8.9	403.2	70.2
Tax Revenues	30.7	3.8	33.6	19.6	216.0	232.4	7.6	348.4	66.7
Other Revenues	4.0	-47.1	4.4	15.4	43.9	50.8	15.7	54.8	92.6
Budget Balance	-5.3	-	5.9	-	0.2	-2.7	-	-33.3	8.2
Primary Balance	-0.9	-	8.7	98.5	38.0	30.9	-18.6	18.7	165

Numbers may not add up to total due to rounding

Source: Finance Ministry

*Compared to the same month of the previous year

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