Budget Balance - September 2014

Economic Research Division

TÜRKİYE İŞ BANKASI

The central government budget gave 11.9 billion TRY deficit during January-September.

According to the Ministry of Finance's announcements, central government budget expenditures increased by 13.5% in September compared to the same period of the previous year. Budget revenues, on the other hand, increased by 0.7% in the same period. Thus, the budget deficit increased from 4.7 billion TRY in September 2013 to 9.2 billion TRY in September 2014 and reached the highest monthly level of 2014.

Regarding the cumulative figures for the first 9 months, the budget expenditures increased by 10.5% yoy while budget revenues increased by 8.1% yoy. Hence, the budget deficit increased from 4.5 billion TRY in the first 9 months of 2013 to 11.9 billion TRY in the same period of 2014.

Interest expenditures decreased.

It was noteworthy that the interest expenditures decreased by 12.7% yoy in the first 9 months. On the other hand, non-interest expenditures rose faster than inflation in the corresponding period. In fact, in the first 9 months, compensation of public sector employees, capital expenditures, goods and services purchases increased by 15%, 21.1% and 13.7% yoy, respectively. The rise in total non-interest expenditures was realized as 14.5% yoy.

Weak tax collection in the first 9 months

Tax revenues were negatively affected by the slowdown in economic growth in 2014. In fact, after having increased by 19% yoy in the first 9 months of 2013, tax collection rose by only 7.7% during the same period of this year. Due to the rise in interest rates and measures taken in order to curb consumption, domestic demand slowed down. Accordingly, the Domestic Value Added Tax (VAT) collection increased by only 1% yoy, Special Consumption Tax collection increased by 4.4% yoy and VAT on Imports increased by 3.1% yoy in the first 9 months. Despite this weak outlook in indirect taxes, Income Tax and Corporate Tax collections were up by 16.3% yoy and 14.4% yoy, respectively, limiting the slowdown in total tax revenues.

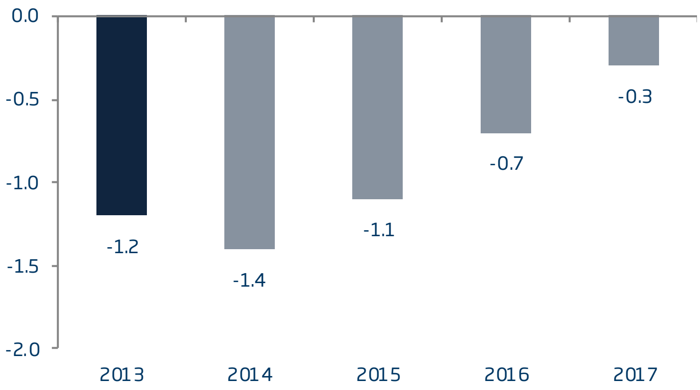
The non-tax revenues increased by 10.2% in the first 9 months.

Medium Term Program and expectations

The government announced the Medium Term Program (MTP) in October. The program includes the Government's 2014 forecast for several macroeconomic variables and fiscal policy indicators. It also provides the Government's targets set for the 2015-2017 period. According to the MTP, the share of public expenditures and revenues in GDP will continue to shrink so that public sector's weight in economic activity will decline gradually in the coming period. The central government budget deficit to GDP ratio, which was set as 1.9% in the previous MTP, is forecasted to realize as 1.4%. The primary surplus to GDP ratio, which was set as 1.1% in the previous MTP, is anticipated to be 1.5%. The central government budget deficit to GDP ratio is targeted to decrease to 1.1% in 2015 and decrease further to 0.3% at the end of the Program period. In other words, central government budget will be almost "balanced" at the end of 2017. The EU defined general government debt stock to GDP ratio, which was 36.2% in 2013, is also forecasted to decline to 33.1% at the end of 2014 and is targeted to further decrease to 28.5% at the end of the Program.

The expected improvement in nominal debt stock to GDP ratio indicates that the public sector will borrow less in the Program period. Moreover, taking into account that the 2014 budget deficit to GDP ratio will be lower than previously targeted despite the local elections and Presidential election that were held in 2014, the upcoming general election in 2015 is not likely to cause a notable loosening in the fiscal policy.

Central Government Budget Balance (% GDP)



Source: Medium Term Program (2015-2017)

Central Government Budget (TRY billion)

	September		%	January-September		%	2014 Budget	MTP	Real./
	2013	2014	Change	2013	2014	Change	Target	Target (%)	MTP Tar. (%)
Expenditures	**34.8**	**39.6**	**13.5**	**294.5**	**325.4**	**10.5**	**436.4**	**448.4**	**72.6**
Interest Expenditures	6.1	4.6	-24.0	43.8	38.3	-12.7	52.0	50.2	76.2
Non-interest Expenditures	28.7	34.9	21.5	250.7	287.2	14.5	384.4	398.2	72.1
Revenues	**30.1**	**30.3**	**0.7**	**290.0**	**313.5**	**8.1**	**403.2**	**424.0**	**73.9**
Tax Revenues	24.2	26.2	8.3	240.3	258.7	7.7	348.4	351.6	73.6
Other Revenues	5.9	4.1	-30.5	49.8	54.9	10.2	54.8	72.4	75.8
Budget Balance	**-4.7**	**-9.2**	**95.0**	**-4.5**	**-11.9**	**165.5**	**-33.3**	**-24.4**	**48.9**
Primary Balance	**1.4**	**-4.6**	**-**	**39.3**	**26.3**	**-33.1**	**18.7**	**25.8**	**102.1**

Numbers may not add up to total due to rounding
Source: Finance Ministry

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