

Box 2.6

Fiscal Outlook as a Strong Anchor

While fiscal policy has macroeconomic effects, changes in macro indicators such as growth, inflation and exchange rate also have effects on budget aggregates. In 2022, additional appropriation need has arisen in order to meet the budget expenditures which occurred as a result of the increase in public spending especially on civil service salaries and pensions due to inflation, the increase in transfers to public energy enterprises to avoid reflection of rising natural gas and electricity costs due to the exchange rate and imported product prices on consumers and the faster growth of social aid expenditures. On the other hand, changes in macro indicators also affect budget revenues especially tax revenues and necessitate revision of revenue forecasts.

In the first five months of the year, 54.8% of budget expenditure appropriations and 55.5% of primary expenditure appropriations were used. In the same period, the ratio of tax revenue realization to tax revenue targets was 70.0%. Including non-tax revenues, this ratio becomes 73.6%. All these indicators show that initial 2022 budget targets will be significantly exceeded both on expenditure and income sides and there is a need for an upward revision in budget items (Table 1).

The legislative proposal on the amendment to the 2022 Central Government Budget Law was submitted to the Presidency of the Grand National Assembly of Türkiye on 20 June 2022 and published in the Official Gazette on 7 July 2022. The proposal includes an increase in both revenue and expenditure appropriations. Accordingly, an additional appropriation of TRY 1.08 trillion is proposed for expenditures. It is projected that the financing requirement arising from additional budget appropriations will be entirely met by the increase in the budget revenues. In this context, revenues are also projected to increase by TRY 1.08 trillion. It is assumed that the budget deficit will remain as originally targeted (TRY 278.4 billion), as a result of the increase in revenues and expenditures by the same amount. On the other hand, while the 2022 budget deficit target remains unchanged, the primary budget balance which was initially targeted to post a deficit of TRY 38 billion is expected to run a surplus of TRY 51.4 billion as a result of the upward revision of the appropriation for interest expenditures in the supplementary budget (Table 1).

A scrutiny of budget expenditure items reveals that the expenditure item with the highest increase is current transfers (TRY 421 billion), followed by personnel expenditures (including social security contributions), which is a rigid expenditure item, with an increase of TRY 216.9 billion and by lending with an increase of TRY 140 billion. The increase in interest expenditures is expected to be TRY 89.4 billion. While the purchase of goods and services is expected to increase by TRY 86.7 billion, an increase of TRY 74.1 billion and TRY 13.6 billion is planned for capital expenditures and capital transfers which are considered flexible expenditure items. With this legal regulation, an appropriation of TRY 40 billion has been provided specifically for the foreign currency-protected deposits and participation account. An additional appropriation of TRY 120.5 billion was provided for the Petroleum Pipeline Corporation (BOTAS) and Turkish Hard Coal Enterprises (TTK) in the context of public enterprises capital transfer. Together with the additional appropriation, the total expenditure appropriation allocated for 2022 increased to TRY 2.83 trillion (Table 1).

The public revenues to be used in the financing of public expenditures were revised upwards mainly due to tax revenues. In this framework, it is expected that 85.9% and 14.1% of the TRY 1.08 trillion-increase in budget revenues will be composed of tax revenues and non-tax revenues, respectively. With the additional budget revenues, the total budget revenue target for 2022 has increased to TRY 2.55 trillion. The tax revenue items that are subject to major revisions are corporate tax, VAT on imports and SCT (Table 1). Although the revision in domestic VAT, another important tax item, totals TRY 163.3 billion when tax rebates are included this increase remains limited to TRY 13.2 billion when tax rebates are deducted.

The main reason for the good performance in financial indicators and the high primary surplus in the budget balance and primary budget balances in the first half of the year stemmed from the higher-than-expected budget revenues. This constitutes an important reference at the point of ensuring fiscal discipline. Consequently, the supplementary budget has served to design a public financial outlook in which fiscal discipline in public finance will be sustained and increased public spending will be financed by public revenues. In this framework, it is considered that public finance will continue to support the disinflationary process under an outlook in which fiscal discipline will be preserved on the back of the supplementary budget.

Table 1: 2022 Central Government Initial and Supplementary Budget

(TRY Billion)	Initial Budget	Supplementary Budget	Revised Budget (Initial + Supplementary)
Expenditures	1751.0	1080.5	2831.5
Primary Expenditures	1510.6	991.1	2501.7
Compensation of Employees	424.8	188.9	613.6
Social Security Contributions	69.1	28.0	97.2
Good and Service Purchases	128.2	86.7	214.8
Current Transfers	657.3	421.0	1078.3
Capital Expenditures	132.3	74.1	206.3
Capital Transfers	10.0	13.6	23.6
Lending	61.6	140.0	201.6
Reserve Appropriations	27.3	38.9	66.2
Interest	240.4	89.4	329.8
Revenues	1472.6	1080.5	2553.1
Tax Revenues	1258.3	927.7	2186.0
Income Tax	257.2	51.3	308.5
Corporation Tax	172.4	315.3	487.8
Special Consumption Tax	219.4	156.4	375.9
Domestic VAT	124.9	13.2	138.1
VAT on imports	290.8	284.0	574.9
Other Taxes	193.6	107.4	300.9
Non-Tax Revenues	214.3	152.8	367.1
Budget Balance	-278.4	0.0	-278.4
Primary Balance	-38.0	89.4	51.4

Source: Ministry of Treasury and Finance.