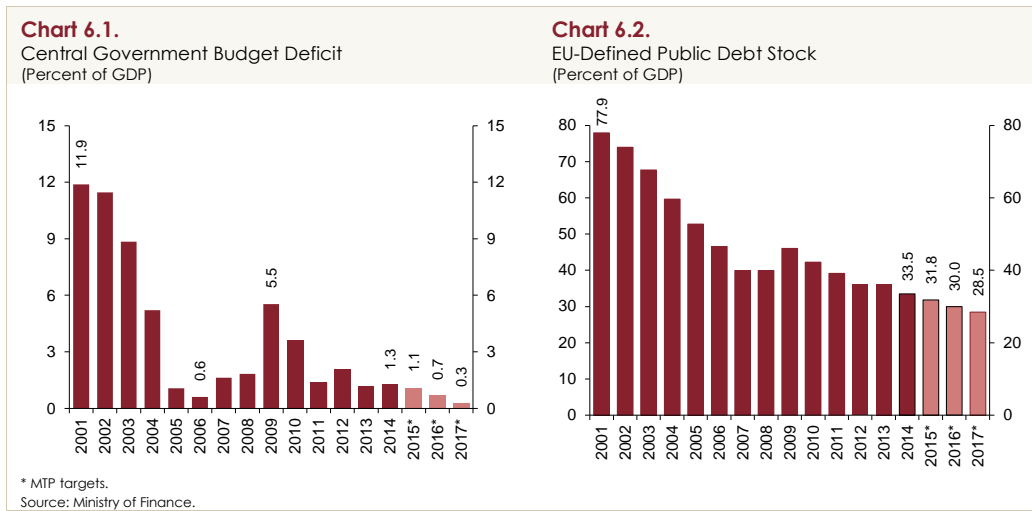


6. Public Finance

The central government budget balance posted a slight year-on-year deterioration in 2014, yet performed better than the target set in the budget period (Chart 6.1). Although primary expenditures continued to accelerate, non-tax revenues performed well in 2014, causing the budget deficit to remain below the target. Meanwhile, the EU-defined nominal debt stock to GDP ratio, which has assumed a downward trend as of 2010, continued to decelerate in 2014 following the break in 2013.



The MTP covering the 2015-2017 period envisions that fiscal discipline backed by tight fiscal policy practices will be sustained and the debt stock to the GDP ratio will continue to taper off during the implementation of the MTP. In addition, the MTP assesses that fiscal consolidation will be achieved by keeping primary expenditures under control, and policies that may permanently raise the level of expenditures in the medium and long term by exploiting temporary sources of revenues will be evaded.

An analysis of central government budget realizations of the first quarter of 2015 reveals the persistence of the uptrend in primary expenditures. Better-than-targeted performance of tax revenues in the first quarter of 2015 prevented a possible deterioration in the central government primary balance. Efforts paid to achieve fiscal adjustment by slowing primary expenditures during the implementation of the MTP are expected to underpin the CBRT's primary objective to maintain price stability and support macroeconomic stability.

6.1. Budget Developments

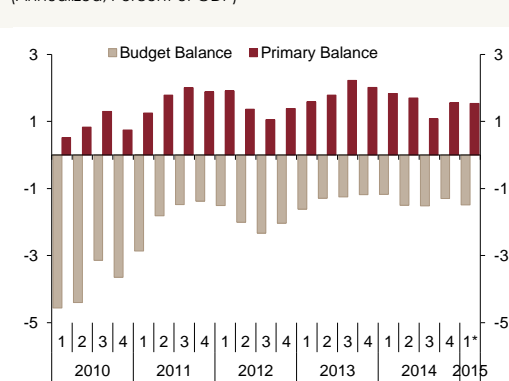
The central government budget posted a deficit of 5.4 billion TL, while the primary budget balance registered a surplus of 12.7 billion TL in the first quarter of 2015 (Table 6.1.1). In the same period, the central government primary budget surplus remained unchanged year-on-year, while the central government budget deficit exhibited a notable increase due to the accumulation of interest expenditures in the first quarter of 2015. The rate of increase in primary expenditures is far from the deceleration target set for 2015 in the first quarter. Still, tax revenues proved higher than the target, preventing the central government primary budget surplus from declining.

Table 6.1.1.Central Government Budget Aggregates
(Billion TL)

	2014 January- March	2015 January- March	Rate of Increase (Percent)	Actual/Target (Percent)	Target (Percent)
Central Government Budget Expenditures	105.8	118.6	12.1	25.1	5.5
Interest Expenditures	14.0	18.1	29.5	33.5	8.2
Primary Expenditures	91.8	100.5	9.4	24.0	5.1
Central Government Budget Revenues	104.3	113.2	8.5	25.0	6.2
I. Tax Revenues	85.1	96.3	13.2	24.7	10.5
II. Non-Tax Revenues	15.2	12.4	-18.2	24.1	-9.3
Budget Balance	-1.5	-5.4	-	-	-
Primary Balance	12.5	12.7	1.6	38.3	21.3

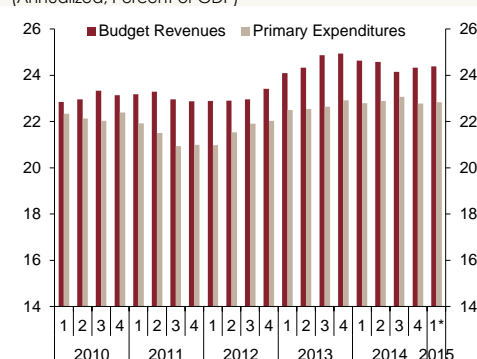
Source: Ministry of Finance.

The central government budget deficit to the GDP ratio, which rose to 1.3 percent in 2014, is estimated to increase further, up to 1.5 percent in the first quarter of 2015 (Chart 6.1.1). Meanwhile, the primary budget surplus to the GDP ratio assumed an upward course and reached 2 percent at end-2013, after declining to 1.1 percent in the third quarter of 2012. This ratio dropped to 1.6 percent in 2014 and is estimated to be 1.5 percent in the first quarter of 2015.

Chart 6.1.1.Central Government Budget Balance
(Annualized, Percent of GDP)

* Estimate.

Source: Ministry of Finance.

Chart 6.1.2.Central Government Budget Revenues and Primary Expenditures
(Annualized, Percent of GDP)

Having surged since 2012 and reaching 22.9 percent at end-2013, the central government primary expenditures to the GDP ratio hit 23.1 percent in the third quarter of 2014, which is the highest level recorded since 2008. This ratio fell slightly to 22.8 percent in the last quarter of 2014 and is expected to remain unchanged in the first quarter of 2015 (Chart 6.1.2). On the other hand, the central government budget revenues to the GDP ratio increased upon robust economic activity as well as tax adjustments in September 2012 and January 2013, reaching 24.9 percent at end-2013. This ratio dropped to 24.3 percent in 2014, mainly due to slowing tax revenues based on domestic demand and is estimated to go up to 24.4 percent in the first quarter of 2015.

The central government primary budget expenditures, which have trended upwards since the second half of 2012, lost pace in the first quarter of 2015. However, the rate of increase in primary budget expenditures in the first quarter of 2015 is still higher than the target set for 2015. Accordingly,

the central government primary budget expenditures registered a year-on-year increase of 9.4 percent in 2015 (Table 6.1.2).

In the first quarter of 2015, personnel expenditures, a major item in primary expenditures, registered an increase by 10.1, while current transfers posted a slight rise by 0.3 percent. The limited increase in current transfers was particularly caused by the decline in health, pension and social benefit expenditures, while the notable fall in agricultural subsidies proved effective as well. The shares allocated to other public institutions and enterprises from the central government revenues recorded an upsurge. This was led by not only the high central government tax revenue performance in the first quarter of 2015, but also the 6-month postponement of the deduction to apply to the debts of local administrations. On the other hand, the hikes in capital expenditures and capital transfers, which can be defined as public investment expenditures, are noticeable. Capital expenditures rose upon the increase in highway construction expenditures, while capital transfers increased due to capital transfers to special provincial administrations. Most of the upsurge in lending resulted from the rise in loans extended to SEEs.

Table 6.1.2.

Central Government Primary Expenditures
(Billion TL)

	2014 January- March	2015 January- March	Rate of Increase (Percent)	Actual/Target (Percent)
Primary Expenditures	91.8	100.5	9.4	24.0
1. Personnel Expenditures	29.4	32.3	10.1	27.1
2. Government Premiums to SSI	5.0	5.5	8.3	26.8
3. Purchase of Goods and Services	6.4	7.3	15.4	17.8
4. Current Transfers	41.6	41.7	0.3	23.7
a) Duty Losses	0.8	0.8	2.9	18.4
b) Health, Pension and Social Benefits	20.2	17.1	-15.0	21.3
c) Agricultural Support	3.6	2.4	-32.5	24.3
d) Shares Reserved from Revenues	11.3	14.2	25.8	26.1
5. Capital Expenditures	5.7	7.3	28.2	17.7
6. Capital Transfers	1.0	1.8	78.5	26.4
7. Lending	2.8	4.6	66.7	43.5

Source: Ministry of Finance.

In the first quarter of 2015, the central government general budget revenues recorded a year-on-year increase of 8.4 percent (Table 6.1.3). In this period, tax revenues hit a higher-than-projected level targeted for 2015, while non-tax revenues saw a notable decline.

A closer scrutiny of tax revenues reveals that collection of corporate tax, SCT and income tax revenues registered a year-on-year upsurge in the first quarter of 2015. As income tax revenues are largely provided through withholding taxes on salaries and wages, the high increase of minimum wages in 2015 improved the collection of income taxes. Among consumption-based tax revenues, the SCT and domestic VAT revenues recorded an uptick by 19.8 and 8.6 percent, respectively. The details of SCT revenues show an increase by 44.6 and 21.5 percent in tax revenues on motor vehicles and tobacco products, respectively, whereas the increase in the collection of taxes on petroleum and natural gas products, which account for a large share of total SCT revenues, remained relatively low and stood at 11.9 percent. Meanwhile, import VAT revenues fell by 1.1 percent due to the decline in the import volume.

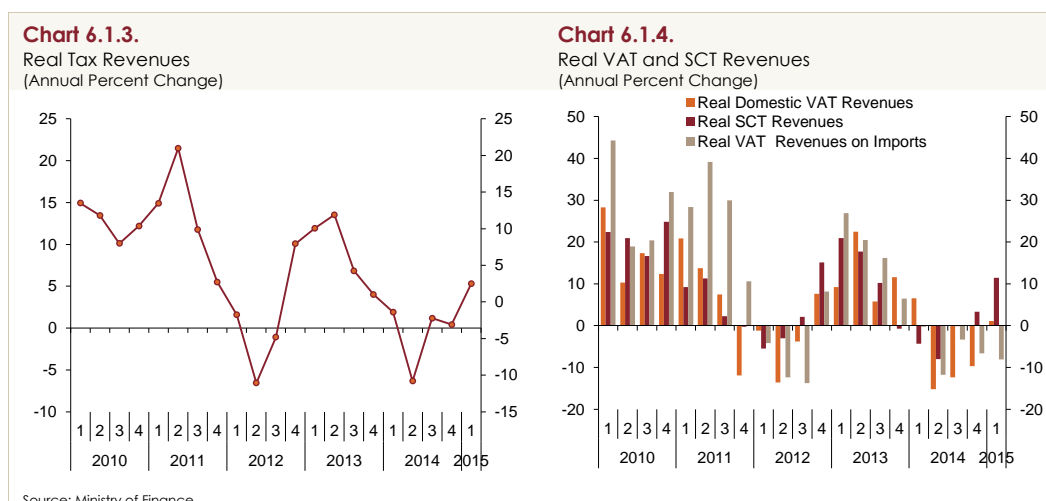
Table 6.1.3.Central Government General Budget Revenues
(Billion TL)

	2014 January- March	2015 January- March	Rate of Increase (Percent)	Actual/Target (Percent)
General Budget Revenues	100.3	108.7	8.4	24.6
I-Tax Revenues	85.1	96.3	13.2	24.7
Income Tax	17.7	20.0	13.3	24.3
Corporate Tax	7.2	9.5	32.4	26.3
Domestic VAT	10.8	11.7	8.6	26.5
SCT	18.6	22.3	19.8	23.7
VAT on Imports	15.9	15.8	-1.1	21.0
II-Non-Tax Revenues	15.2	12.4	-18.2	24.1
Enterprises and Property Revenues	2.4	2.0	-15.8	21.2
Interests, Shares and Fines	8.5	7.4	-12.6	25.6
Capital Revenues	3.0	2.0	-33.1	19.0

Source: Ministry of Finance.

The deterioration of non-tax revenues is attributed to the base effect generated by the one-time inclusion of 3 billion TL in the budget in March 2014 from the special provincial administrations, which were annulled by Law No. 6360. On the other hand, privatization revenues, which were 2.3 billion TL during January-March 2014 period, amounted to 1.6 billion TL in the first quarter of 2015.

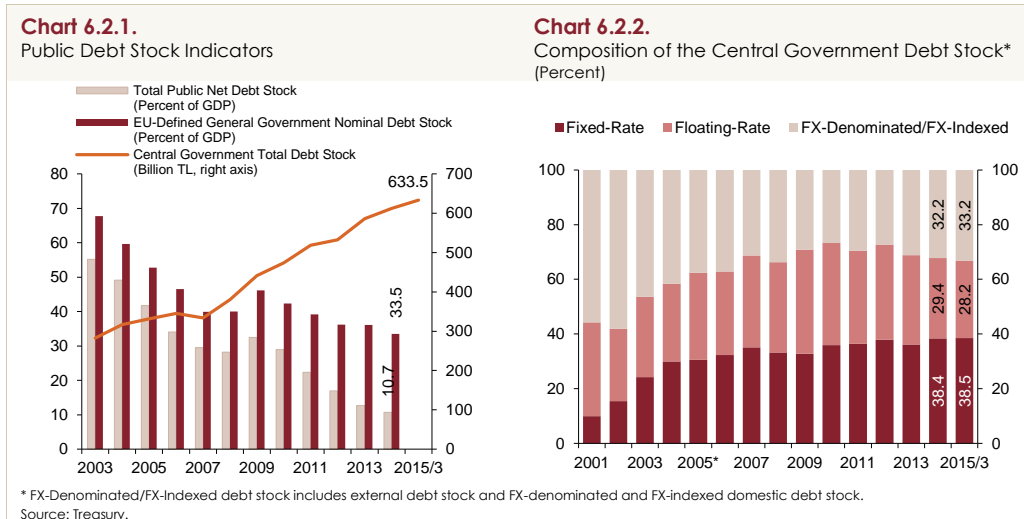
Having turned positive amid tax hikes in September 2012 as well as the base effect, the annual rate of change in real tax revenues started to slacken in the third quarter of 2013, and real tax revenues remained unchanged in the last quarter of 2014 compared to the same period of the previous year. Meanwhile, real tax revenues increased by 5.3 percent on an annual basis in the first quarter of 2015 (Chart 6.1.3). Among consumption-based tax revenues, the SCT and domestic VAT revenues surged by 11.4 and 1.1 percent in real terms, respectively, while import VAT revenues receded by 8.1 percent in the first quarter of 2015 (Chart 6.1.4).



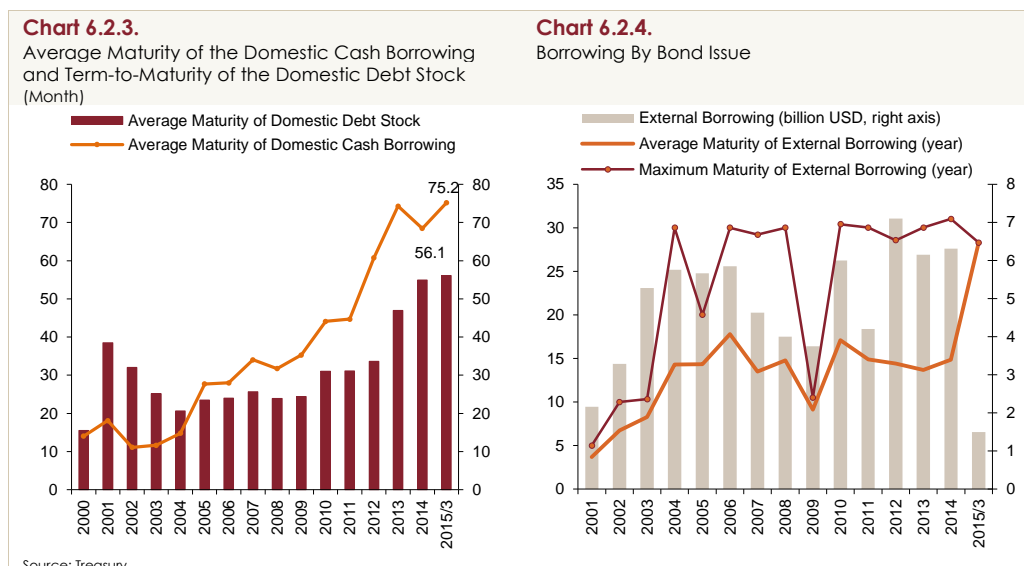
6.2. Developments in the Public Debt Stock

Public debt stock indicators displayed a favorable outlook in the first quarter of 2015. The total public net debt stock and the EU-defined general government nominal debt stock continued to decline as a percentage of the GDP. The average maturity of the debt stock increased and the real cost of borrowing has remained relatively low in recent months.

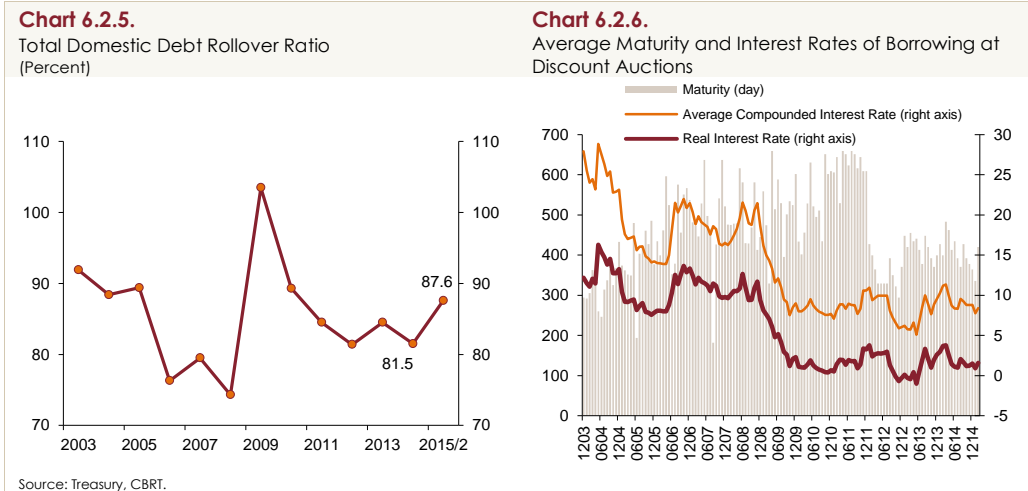
The central government debt stock has been 633.5 billion TL as of March 2015 (Chart 6.2.1). In 2014, the ratio of the total public net debt stock and the EU-defined general government nominal debt stock to GDP decreased by 1.9 and 2.6 points, respectively, compared to end-2013 (Chart 6.2.1).



The share of fixed-rate securities in the total debt stock has remained unchanged since 2014 (Chart 6.2.2). However, an analysis of the interest and exchange rate structure of domestic borrowing suggests that the share of fixed-rate borrowing registered a slight year-on-year increase in the first two months of 2015. The ratio of public deposits to average monthly debt service stands at 236.3 percent. The average term-to-maturity of the domestic debt stock climbed to 56.1 months (Chart 6.2.3). Meanwhile, external borrowing by bond issues amounted to 1.5 billion USD, with an average maturity of 28.3 years (Chart 6.2.4).



The domestic debt rollover ratio stood at 87.6 percent in February 2015 (Chart 6.2.5). Having plummeted from early 2009 to early 2011, the average real interest rate¹, which increased in the second half of 2013 due to global financial fluctuations and the cautious monetary policy stance, has recently recorded low levels (Chart 6.2.6).



¹ Real interest rates are calculated by subtracting the 12-month-ahead CPI expectation of the CBRT Survey of Expectations from nominal interest rates (average annual compounded interest rate at the Treasury's TL-denominated zero-coupon securities auction).