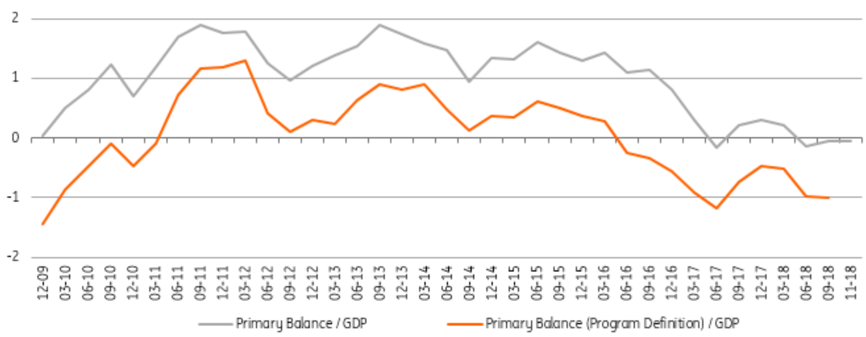
Turkey: Budget ends 2017 on a positive note

Turkey's annual budget turned out to be better than expected on the back of a significant improvement in December's monthly performance

Source: Shutterstock

Budget Balance (12M Rolling,TRY bn)

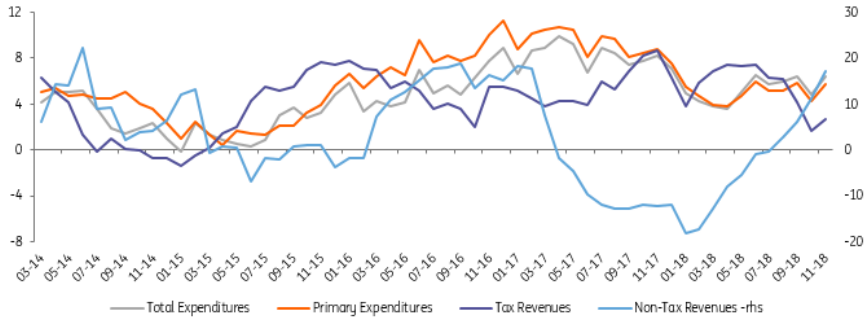


Source: Ministry of Finance, ING Bank

The stimulus package that the government introduced in early 2017 (before the referendum to change the constitution) weakened the country's fiscal performance significantly in the first half of the year, pulling the 12M rolling deficit sharply up to 2% of GDP. However, in the second half of the year, the central administration budget saw a gradual improvement as the budget deficit-to-GDP ratio dropped to 1.7% in September. With an unexpectedly strong performance in December, the 2017 deficit will likely be around 1.5% of GDP, in line with the target set at the end of 2016, though much better than the revised estimate at 2.0% in the latest Medium Term Plan (MTP) released in late September. The debt-to-GDP ratio, on the other hand, would be c.28%, again lower than the MTP forecast at 28.5%. Given the Finance Minister’s statement that they did not defer any expenditure items to 2018 to manage the budget outcome, the fiscal performance last year hints at a return to fiscal discipline with a reversal of most of the stimulus measures to support economic activity.

On an annual basis, the budget balance was in deficit by TRY47.4bn in 2017, up by 62% over 2016. The primary surplus contracted by 56% in the same period. Despite a surge in primary expenditures driven mainly by current transfers, the adverse impact of an elevated rate environment on interest expenditures and sluggish non-tax income, robust economic activity helped to drive tax receipts as did the new tax amnesty regulation by some TRY28.2bn.

Evolution of revenues and expenses (12M rolling, CPI Adj., YoY Growth, %)



Source: Ministry of Finance, ING Bank

According to the MTP, the central government budget is expected to be at 1.9% of GDP at the end of this year and fall gradually to 1.6% of GDP by the end of 2020. So, the government will likely refrain from significant fiscal easing in the period ahead as long as the economy maintains its current momentum and will try to keep the budget deficit under control.

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