Turkey: Budget deficit narrows sharply

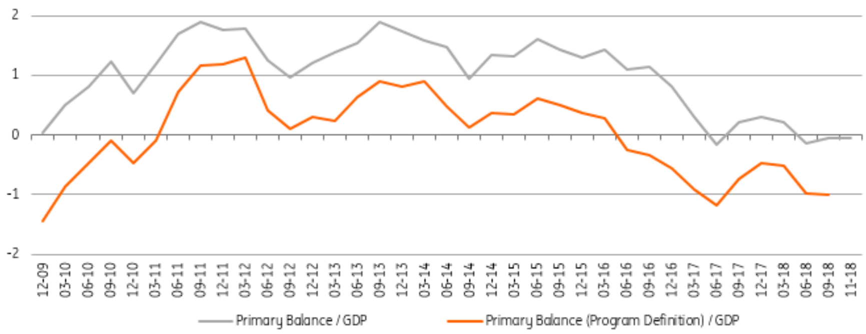
The Budget shows marked improvement in February thanks to strong revenue generation

Source: iStock

Turkey's central administration recorded a budget deficit of 1.9bn Turkish liras in February, a significant improvement from the TRY 6.8bn deficit recorded in the same month of last year. The monthly outcome shows hefty revenue generation (at 30.1% YoY), elevated primary spending with 15.6% YoY growth, and a jump in interest expenditure (by 31.0% YoY) due to the uneven distribution of the Treasury's repayment schedule. Accordingly, the primary balance turned to surplus at TRY 4.8bn, from a TRY 1.8bn deficit.

Evolution of revenues and expenses

(12M rolling, CPI Adj., YoY Growth, %)



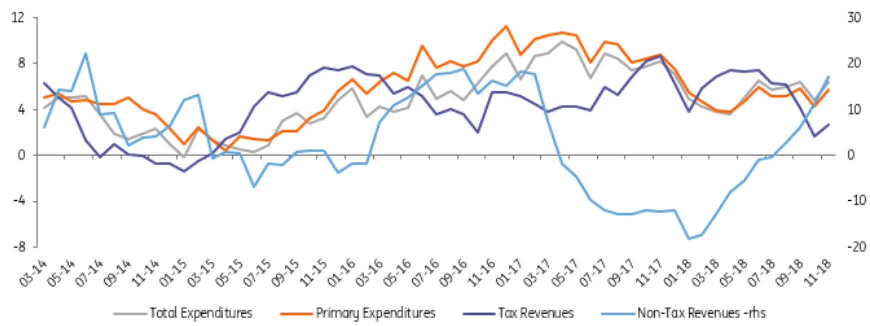
Source: Ministry of Finance, ING Bank

Revenue performance was driven by surging tax income as evidenced by the recovery in CPI-adjusted growth, reflecting the impact of robust demand and a hike in the corporate tax rate to 22% from 20%. Strength in tax income stemmed from corporate taxes (8.6ppt contribution), Special Consumption Tax (SCT) receipts (7.0ppt), domestic VAT (2.7ppt) and VAT on imports (2.9ppt).

On the spending side, a marked expansion in primary spending was driven by the almost doubling of capital expenditures and a continued rise in personnel expenditures by 18.5% YoY growth. In the first two months of this year, capital expenditures more than quadrupled on a cumulative basis and turned out to be the major item contributing to primary spending, while capital expenditures have lost momentum, recording a mere 4.7% increase in the Jan-Feb period.

Contribution to primary spending

(12M rolling, ppt)



Source: Ministry of Finance, ING Bank

Given the fading credit stimulus, the government will increasingly rely on budgetary stimulus to support the economy this year, as it did last year, likely resulting in a larger fiscal deficit. Also, given declining support of one-off revenues from tax amnesty and asset restructuring, budget indicators could be increasingly under pressure, while higher than anticipated growth may provide an additional lift to tax revenues, as in 2017.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

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