

Turkey: Another weak budget in October

A marked deterioration with the budget balance turning to deficit this year, on the back of strong spending despite significant expansion in revenues



Source: Shutterstock

The October budget saw the government's revenues increase by 21.8% year-on-year, while primary expenditures accelerated by 29.8% YoY expansion following unexpected contraction a month ago. We also saw a sharp 22% YoY jump in interest expense due to the uneven repayment schedule of the Treasury and elevated rates since the beginning of this year. Accordingly, the primary surplus in October 2016 of TRY2.8bn melted to a barely positive reading of TRY0.2bn, showing the extent of the deterioration in monthly performance.

The bottom line that was in the balance last year was in deficit at TRY-3.3bn this year

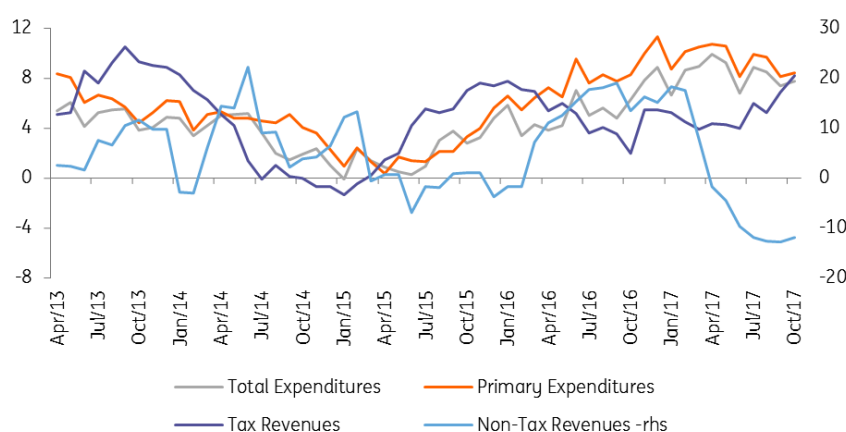
On a monthly basis, robust revenue growth is driven by a jump in tax revenues of 26.3% YoY, stemming from income tax (5.6ppt contribution) and SCT receipts (4.3 percentage points), while VAT on imports provided a 7.5ppt contribution given recent acceleration in imports, robust

domestic demand and the boosting effect of TRY depreciation.

The data also includes the impact of collections sourced by the tax amnesty regulation, amounting to TRY25.5bn on a cumulative basis this year, while non-tax income has remained weak.

Evolution of revenues and expenses

12M rolling, CPI Adj. YoY Growth, %

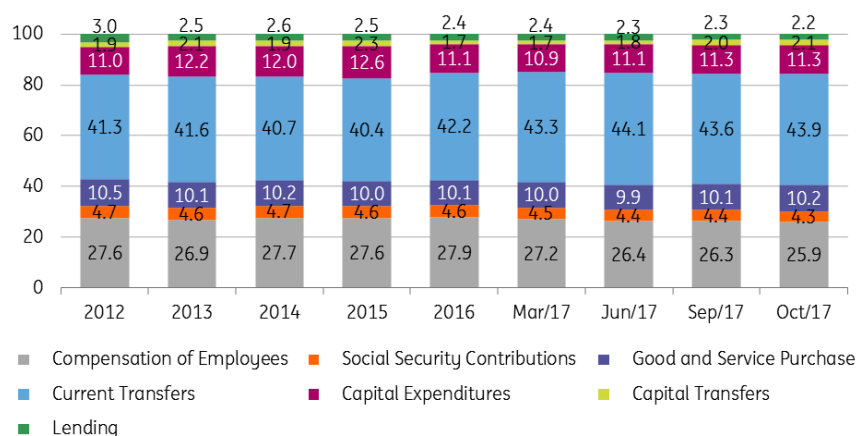


Source: Ministry of Finance, ING Bank

On the spending side, the expansion in primary spending is significant, driven by almost all items. Current transfers, due to health, retirement & social aid expenditures as well as local governments' revenue shares was the major driver, recording a 37.1% YoY increase.

Breakdown of primary spending

Last 12M, % share



Source: Ministry of Finance, ING Bank

Following a benign September reading, we see another bout of widening in the deficit in October despite reversal of most of the stimulus measures to support economic activity at

end of the third quarter. However, according to the Ministry of Finance, the latest budget developments are incompatible with the Medium-Term Programme (MTP) and the target at 2.0% of GDP for this year is still within reach.

Author

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.