

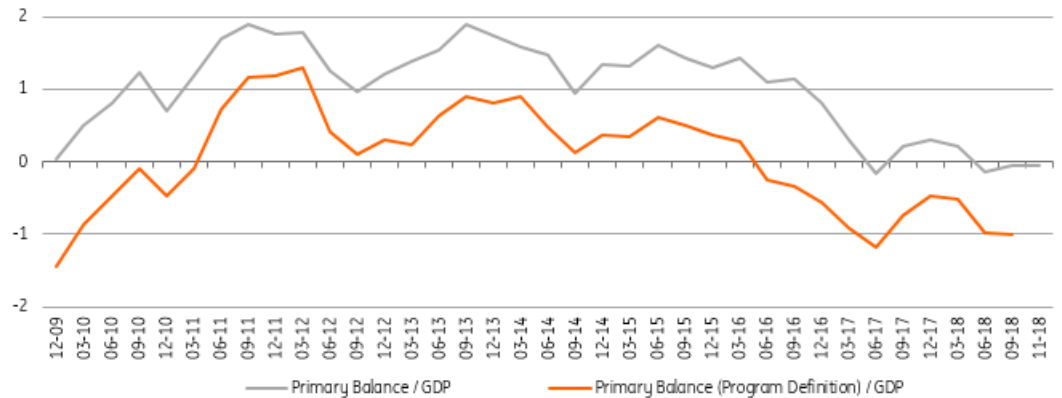
16 July 2018
Snap

Turkey: Budget deficit expands further

The June budget saw a marked deterioration with the primary deficit and budget deficit almost doubling on the back of continued strong spending

In the election month, a surge in primary spending driven mainly by current transfers along with personnel expenditures weighed on the budget performance, while interest expenditures continued to expand rapidly due to the Treasury's repayment schedule and an uptrend in yields. Still, revenues showed a healthy increase thanks to hefty growth in tax income. Accordingly, both the primary deficit and budget deficit almost doubled (both up by 86.5% year on year), pulling the 12-month rolling budget deficit to 2.0% of GDP vs the 1.9% target for this year.

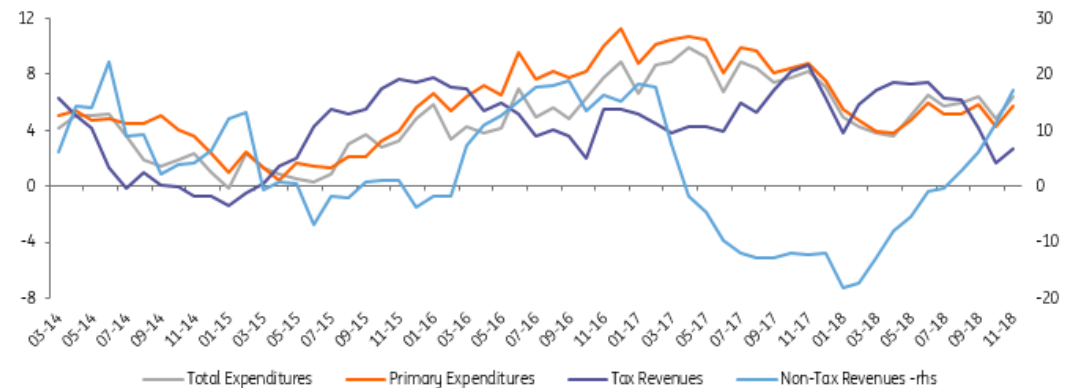
Budget Balance (12M Rolling, % of GDP)



Source: Ministry of Finance, ING Bank

The budget in the first half reveals robust revenue generation attributable to strong economic activity (although there have been recent signs of moderation) supporting tax revenues, the impact of the lira's depreciation on import VAT and the adjustment in the corporate tax rate. Non-tax revenues have also improved mainly due to large profit transfers from the Central Bank. On the spending side, an across-the-board increase in all items (though some momentum loss in capital expenditures vs skyrocketing health, retirement & social aid expenditures in June alone) have contributed to the year-to-date performance.

Budget breakdown (CPI Adj., YoY Growth, %)



Source: Ministry of Finance, ING Bank

Overall, the budget outcome calls for fiscal prudence in the period ahead. Economy and

Finance Minister Berat Albayrak has signalled that budget spending will be controlled more effectively. However, this could be a challenging task if economic activity slows down sharply.

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