Turkey: Weak start to the year in the budget

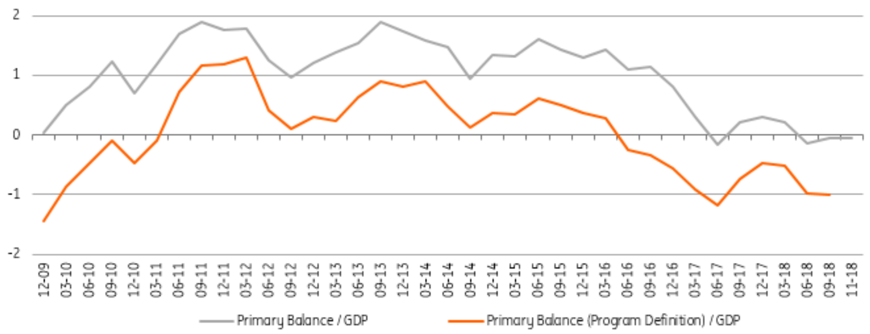
The budget balance for January came in at a surplus of TRY1.7bn, a considerable deterioration from last year. Primary surplus also plunged

Source: Shutterstock

The Finance Ministry announced budget data for January and recorded a budget balance surplus of TRY1.7bn, a significant deterioration when compared to the same month last year at TRY11.4bn.

Evolution of revenues and expenses

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



Source: Ministry of Finance, ING Bank

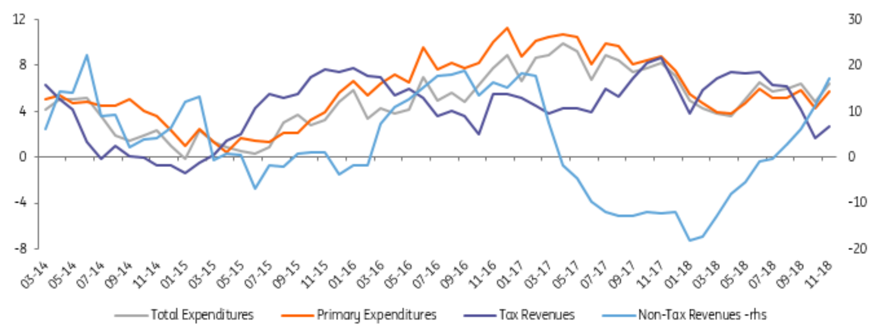
The first month of the year usually has strong seasonality and generally sees a budget surplus, but last January attracted considerable attention with its 24% YoY jump in expenditures, while revenue generation turned out to be broadly even when compared to previous years. The primary deficit, on the other hand, plunged 57%, pointing to the extent of the deterioration.

The Revenue performance was driven by sharp deterioration in non-tax income on the back of melting privatisation revenues. However, it should be noted that TRY4.2bn in the privatisation fund from 2016 was transferred to the budget accounts in January 2017 helped the fiscal performance last year.

So, the deterioration is not as bad as it seems at first glance. Tax income recorded a modest 7.4% increase on the back of income tax and VAT on imports, while SCT on tobacco products down by more than 40% dragged the performance.

Contribution to primary expenditure

(12M rolling, ppt)



Source: Ministry of Finance, ING Bank

On the spending side, primary spending skyrocketed due to TRY5.0bn capital expenditures up from a mere TRY0.6bn a year ago, showing likely booking of some last year expenses in 2018, while a steady 12.5% rise in personnel expenditures was another driver along with more than 40% jump in procurements.

According to the 2018 budget, the central deficit is targeted to be 1.9% of GDP. The government is likely to step-up the fiscal stimulus this year, in addition to a significant hike in the minimum wage and hiring sub-contractors as permanent employees employees.

The government has also prepared a new set of incentives with a focus of further stimulating investments in the form of tax cuts to keep growth competitive. However, tax adjustments and likely upward pressure in spending should widen pressures in the budget deficit.

Author

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

Disclaimer