

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

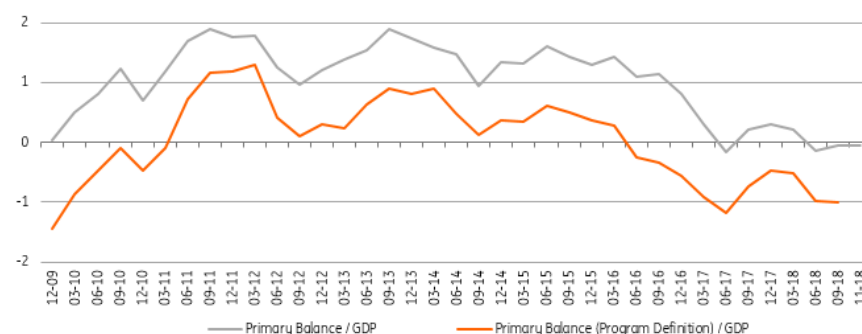


Source: Shutterstock

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

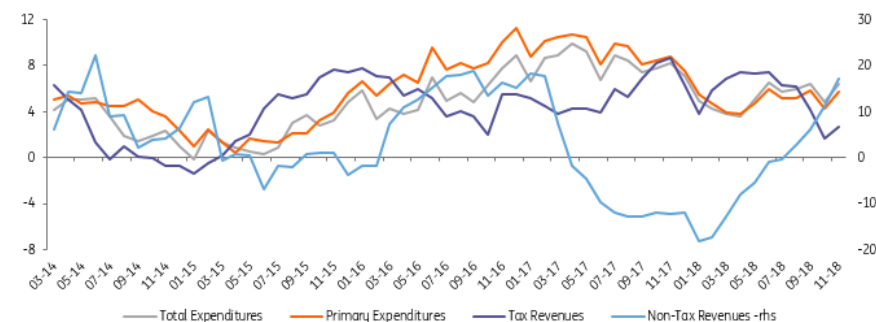
The first month of the year usually has strong seasonality and generally sees a budget surplus, but last January attracted considerable attention with its 24% YoY jump in expenditures, while revenue generation turned out to be broadly even when compared to previous years. The primary deficit, on the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

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>.