

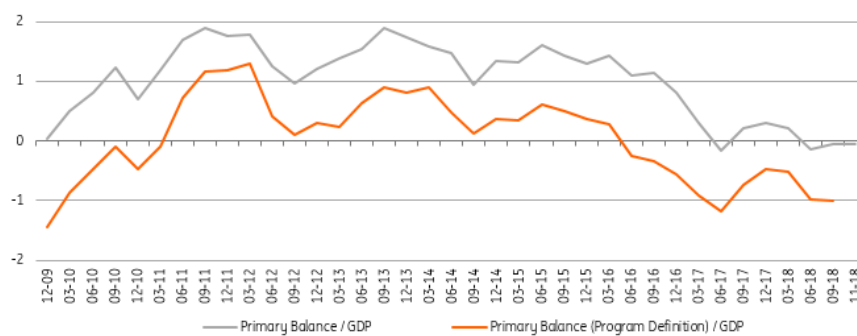
# Turkey: Weak underlying performance in November

Primary balance shows some nominal improvement with strong non-tax revenue generation despite the significant expansion in primary expenditures



Source: Shutterstock

## Primary balance (12 month-rolling, % of GDP)



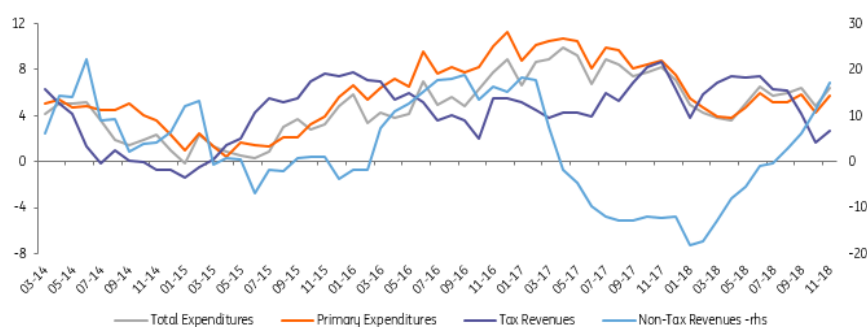
Source: Ministry of Finance, ING Bank

In November, the central administration primary balance was TRY 14.8 billion vs. TRY 13.6 billion in the same month of 2017 - an improvement in nominal terms, though the performance isn't satisfactory given double-digit real contraction at 10.7% YoY.

The monthly outcome shows strong revenues from non-tax items while primary spending maintained high growth with 30.2% YoY growth (7.0% in real terms). Budget balance, on the other hand, deteriorated in nominal terms to TRY 7.6 billion from TRY 8.5 billion, given the spike in interest expenditures by 40% YoY (translating into more than 15% real increase) on the back of uptrend in the yields.

## Evolution of revenues and expenses

(12-month rolling, CPI Adjusted, YoY Growth, %)



Source: Ministry of Finance, ING Bank

Surging inflation this year has created a significant boosting effect on major budget items, with close to 20% or higher nominal increases.

The monthly breakdown shows the pace of real increase in tax revenues has lost momentum with a -4.3% real contraction in November vs. +1.5% on a year to date basis, given the reflection of softening growth outlook in the second half of this year.

The large increases (more than 12% in current transfers, above 13% in social security premiums, 5% in personnel expenditures, etc.) are a concern for the fiscal outlook in the period ahead and the sharp recovery in non-tax revenues in recent months, maintaining the trend in November likely due to one-off impact from tax amnesty and asset restructuring.

Overall, monetary and fiscal policies will be key to restore investor and household confidence in the period ahead.

Implementation of the New Economy Program envisaging the central administration budget balance-to-GDP ratio remains under control, and the size of the primary surplus-to-GDP which is improving gradually will be under scrutiny next year.

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