

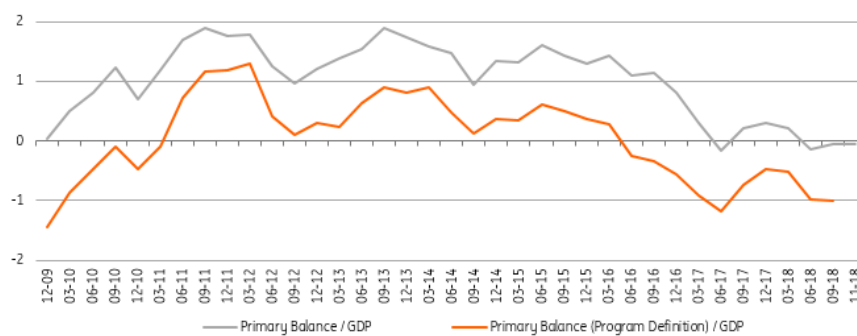
Turkey: Weak underlying performance in November

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)



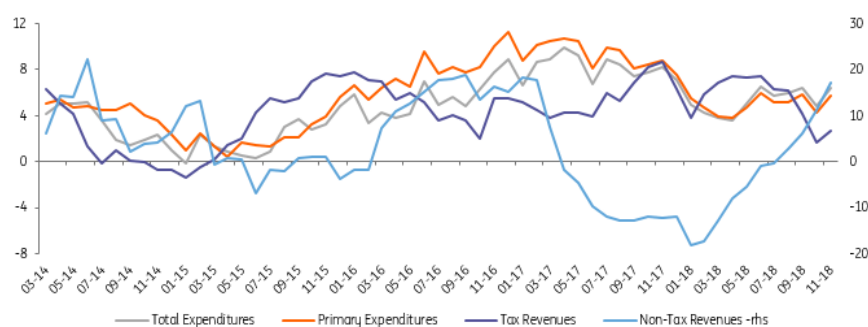
Source: Ministry of Finance, ING Bank

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.

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>.