

Data Snapshot

Central Government Budget:

Deterioration in monthly budget not confined to capital expenditures

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The central government's monthly budget balances deteriorated significantly in December compared to previous months due to heightened investment expenditures as well as current transfers. However, the central government's budget deficit of TRY 17.9bn and primary deficit of TRY 16.7bn does not seem so drastic compared to December 2010. The surge in the primary expenditures was similar to the situation seen in December last year, when the budget registered a deficit of TRY 16.1bn and a primary deficit of TRY 14.3bn.

Table 1: Central Government Budget 2010-2011 (in billion TRY)

	Dec		Real growth (%)	Jan-Dec		Real growth (%)
	2011	2010		2011	2010	
Central Government Revenues	<u>23.1</u>	<u>21.7</u>	<u>-3.8</u>	<u>295.9</u>	<u>254.0</u>	<u>5.5</u>
o/w: General Budget Revenues	<u>22.1</u>	<u>21.1</u>	<u>-5.2</u>	<u>286.4</u>	<u>246.1</u>	<u>5.3</u>
Tax Revenues	<u>19.7</u>	<u>18.0</u>	<u>-0.9</u>	<u>253.8</u>	<u>210.5</u>	<u>9.1</u>
o/w: Corporation Tax	4.6	3.7	11.4	75.8	61.3	11.9
Tax on Income	0.5	0.2	121.9	27.0	20.9	16.8
Tax on Goods and Services	8.1	8.0	-7.6	103.4	91.7	2.0
o/w: VAT	1.6	1.8	-18.7	30.0	26.3	3.0
SCT	5.8	5.5	-5.2	64.2	57.3	1.5
Tax on Foreign Trade	5.3	4.7	1.4	53.5	39.5	22.4
Non-Tax Revenues	3.4	3.8	-17.9	42.1	43.5	-12.4
Central Government Expenditures	<u>41.0</u>	<u>37.9</u>	<u>-2.0</u>	<u>313.3</u>	<u>293.6</u>	<u>-3.4</u>
Non-Interest Expenditures	39.7	36.0	-0.1	271.1	245.3	0.0
o/w: Personnel	6.0	5.2	4.0	85.8	73.4	5.8
Government Prem. to Social Security Agen.	1.3	1.1	1.1	12.8	11.1	5.2
Good and Services Procurements	6.4	7.2	-20.2	32.4	28.8	1.9
Capital Expenditures	9.9	8.4	7.8	30.7	25.9	7.3
Current and Capital Transfers	16.2	11.8	24.4	116.8	108.6	-2.6
o/w: Social Security	4.2	3.7	4.8	54.5	56.4	-12.5
Transfers to Households	0.3	0.2	9.0	2.1	1.6	20.9
Agricultural Subsidy	0.6	0.4	32.8	7.0	5.8	8.4
Treasury Aid to Provincial Offices	0.2	0.1	25.4	2.6	1.7	37.7
Interest Expenditures	1.2	1.8	-39.6	42.2	48.3	-20.9
Overall Balance	<u>-17.9</u>	<u>-16.1</u>	...	<u>-17.4</u>	<u>-39.6</u>	...
Primary Balance	<u>-16.7</u>	<u>-14.3</u>	...	<u>24.8</u>	<u>8.7</u>	...

Source: Ministry of Finance

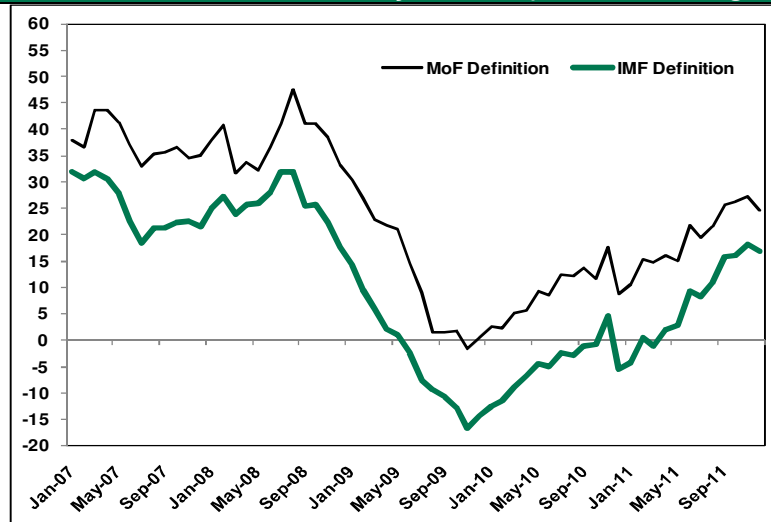
Primary expenditures surged to TRY 39.7bn (up 10.3% YoY) in December, compared to an average of TRY 22.1bn in July-November, as the government depleted almost the entire TRY 9.1bn additional appropriations for investment expenditures. Capital expenditures rose 19.1% YoY to TRY 9.9bn, despite the elevated expenditure base in December 2010. In addition, current transfers jumped by 47% YoY in December to TRY 13.2bn, and half of the deterioration came from financing duty losses of state economic enterprises.

On the revenue side, revenues rose only by 6.2% to TRY 23.1bn, while tax revenues rose 9.5% YoY to TRY 19.7bn. The positive effect of revenues from restructuring significantly decelerated to TRY 0.2bn in December from TRY 1.4bn in November. The deceleration in domestic economic activity is also visible in domestic taxes on goods and services as it only rose 2.1% to TRY 8.1bn in December.

Budget balances compare favorably to the revised budget targets for 2011. Budget deficit and primary surplus for 2011 were TRY 17.4bn (-1.4% of GDP) and TRY 24.8bn (1.9% of GDP), comparing favorably with both the revised targets (-1.7% of GDP and 1.6% of GDP respectively) and 2010 realizations (TRY 39.6bn budget deficit and TRY 8.7bn primary surplus). In 2011, primary expenditures as percentage of GDP declined to 21.3% down from 22.2% in 2010, while tax revenues rose to 20.0% of GDP from 19.1% registered in 2010, thanks to restructuring.

According to our forecasts, the 12-month rolling IMF-defined primary surplus edged down 0.1 pp to 1.3% of GDP in December, approving slight deterioration in the budget. However, looking at the full year figures, the program-defined primary surplus improved notably in 2011 compared to the primary deficit of 0.5% in 2010.

Graph 1: Central Government Primary Balance (12-month rolling; TL billion)



Source: Ministry of Finance, Seker Securities

Strong economic activity and revenues from restructuring were the main factors behind the forecasted improvement of some 1% of GDP in primary surplus in 2011, though the effect of these two will fade away this year. Low growth this year will likely press budget balances both through its effects on tax collection and potential government measures to support economic activity. We calculated the effect of a growth differential between our forecast and the

government's (1% vs. 4%) and incorporated our budget projections. In addition, due to inflation missing the target, the government will make a 2.7% additional increase in civil servant salaries, that will cost an additional TRY 2.5bn according to the Minister of Finance.

However, there will be one-off factors supporting the revenue side in 2012. Revenue from paid military service and the sales of state-owned land (known as 2-B), may behave as restructuring did in 2011. About 20% of the eligible 420,000 people will likely apply for paid military service as in the previous application in 1999, which may add around TRY 2.4bn to 2012 budget revenues. The law for the sale of state land (2-B) may come to parliament in late February at the earliest according to news. The land is expected to be sold for 70% of its market value, which corresponds to TRY 19bn in revenue for the government. However, as 20% will be paid in cash, others may be paid in installments and a 15% discount will be made if all payment are made in cash, we forecast around TRY 5.5bn additional revenue collection for 2012.

Taking all of these facts into account for 2012, we forecast the budget balance and primary surplus at -2.1% of GDP and 1.5% of GDP respectively, unfavorable compared to the targets of a -1.5% budget balance and 2.0% primary surplus.

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