Turkey-Central Budget

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May 2021 - Budget deficit falls, and limited primary surplus registered

In May, the central government budget balance yielded a deficit of TRY13.4bn and the primary balance a surplus of TRY0.6bn. Despite the bonus payments for retired people paid in May 2021, the negative effects of Covid-19 on the budget performance last year and the high increase in tax revenues ensured continued improvement in the budget performance.

Despite the fact that the bonus payments for retired people, which had been paid in April last year, were paid in May in 2021 and accelerated investment expenditures caused a momentum gain in expenditures, the budget deficit continued to narrow as in the previous three months. The delay to several tax payments for 6 months as of March 2020 and a slowdown in activity, both due to Covid-19, had caused tax revenues to accumulate heavily in the second half of 2020. With the reversal of the base effect created by the deferral of tax payments and gradual deceleration in consumption-related tax income support, we estimate the budget deficit expanding to c.3.5% of GDP, which is the updated government target for 2021.

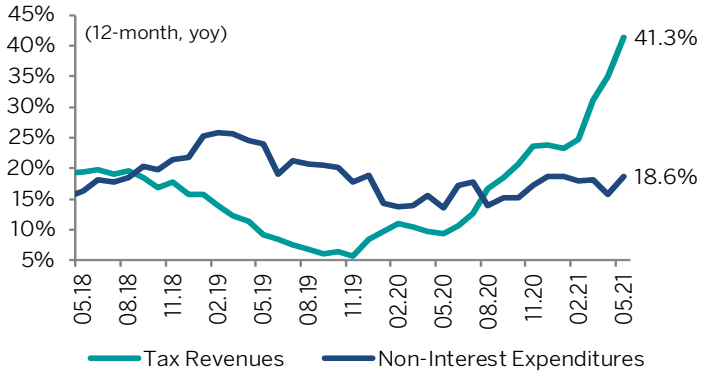
Budget deficit narrowed slightly in 12-month cumulative terms

- The budget deficit decreased by TRY3.9bn to TRY90.2bn compared to the previous month (Ministry 2021 estimate is TRY200bn deficit)
- The primary surplus increased by TRY8.2bn to TRY60.3bn compared to the previous month (Ministry 2021 estimate is TRY20.3bn deficit)

Tax revenues rose by 41% yoy in the past 12 months, supporting budget performance

- Strong consumption plus the base effect created by tax payments deferred in 2020 also supported the rise in tax revenues in May. Total tax revenue growth was 67% yoy in May. SCT revenues from motor vehicles (197% yoy) and durable consumer goods (73%), VAT (768%) and VAT on imports (123%) showed that consumption continued to rapidly accelerate tax revenues. Corporate tax revenues increased by 29% yoy. On the other hand, the SCT based on petroleum products decreased by 52% yoy due to sliding scale system.
- Non-interest expenditure yoy growth was 37% in May, accelerating relative to previous months. Bonus payment for retired people caused a rise in current transfers. In addition, goods and service procurements and investment expenditures gained momentum compared to previous months.
- Interest expenses rose by 25% yoy in January-May. According to Ministry data, interest expenditures, which are estimated to increase by 34% in 2021, will have an expanding effect on the budget deficit.

Tax Revenues & Non-Int. Expenditures (12M, yoy change)



Central Budget Details

bn TRY	May'20	May'21	Change (yoy)	Jan-May 20	Jan-May 21	Change (yoy)
Expenditures	85.4	117.9	38%	479.2	550.0	15%
1-Non-Interest Exp.	75.8	104.0	37%	414.3	468.5	13%
Personnel	23.3	27.4	18%	123.0	143.7	17%
Goods&Services	5.2	7.5	44%	30.2	31.0	3%
Current Transfers	35.4	50.6	43%	200.6	226.0	13%
Capital Exp.	5.7	11.2	98%	26.7	31.5	18%
Others	6.2	7.3	18%	33.6	36.3	8%
2-Interest Exp.	9.7	13.9	44%	65.0	81.5	25%
Revenues	68.1	104.6	53%	389.1	542.5	39%
Tax Revenues	55.3	92.3	67%	280.5	423.7	51%
Non-tax Revenues	12.9	12.3	-4%	108.6	118.8	9%
Budget Balance	-17.3	-13.4	-23%	-90.1	-7.5	-92%
Primary Surplus	-7.6	0.6	-108%	-25.1	73.9	-394%

Source: Ministry of Treasury and Finance, Garanti BBVA Securities

Please see the last page of this report for important disclosures.

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