

## January 2007 Central Government Budget Results: We Told You So<sup>1</sup>

In January, central government budget showed a deficit of 6.1 billion YTL. January budget balance transformed from a 2 billion YTL budget surplus same period last year to a record 6.1 billion YTL deficit.<sup>2</sup> Primary surplus (defined by Ministry of Finance) decreased by 78 % in this period from 4,3 billion YTL to 925 million YTL..

**Table 1. Central Government January 2007 Realizations (2006 Comparison)**

million YTL	Jan.06	Jan.07	Difference(%)
<b>Expenses</b>	<b>11.604</b>	<b>18.488</b>	<b>59,3</b>
<b>1-Primary Expenses</b>	<b>9.342</b>	<b>11.467</b>	<b>22,7</b>
Employee Expenses	3.485	4.361	25,1
Social Sec. Inst. Govt. Premium	471	547	16,2
Purchases of Goods and Services	479	838	75,1
Current Transfers	4.086	4.885	19,5
Capital Expenses	294	146	-50,4
Capital Transfers	0	325	
Lending	527	366	-30,6
Auxiliary Allowances			
<b>2-Interest Expenses</b>	<b>2.261</b>	<b>7.021</b>	<b>210,5</b>
<b>Revenues</b>	<b>13.619</b>	<b>12.392</b>	<b>-9,0</b>
<b>1-General Budget Revenues</b>	<b>13.477</b>	<b>12.306</b>	<b>-8,7</b>
Tax Revenues	10.134	11.077	9,3
Non-Tax Revenues	3.289	1.190	-63,8
Capital Revenues	21	9	-55,5
Received Donations and Aids	33	31	-6,9
<b>2-Special Budget Revenues</b>	<b>89</b>	<b>81</b>	<b>-9,1</b>
<b>3-Revenues from Reg. and Sup. Agencies</b>	<b>53</b>	<b>4</b>	<b>-92,0</b>
<b>Announced Budget Balance</b>	<b>2.015</b>	<b>-6.096</b>	<b>-402,5</b>
- Local Govt and Fund Share Payments	1.078	-20	-101,9
<b>Corrected Budget Balance</b>	<b>937</b>	<b>-6.076</b>	<b>-748,6</b>
<b>Announced Primary Balance</b>	<b>4.277</b>	<b>925</b>	<b>-78,4</b>
<b>Corrected Primary Balance (Local Govt and Fund Shares deducted)</b>	<b>3.198</b>	<b>945</b>	<b>-70,5</b>
<b>Program Defined Primary Balance</b>	<b>2.557</b>	<b>958</b>	<b>-62,5</b>
<b>Program Defined Corrected Primary Balance</b>	<b>1.479</b>	<b>978</b>	<b>-33,9</b>

Source: TEPAV January Fiscal Monitoring Report, March 2007

When we get a closer look at these adverse developments in the budget balance and primary balance, the effect of the developments that we continually emphasized in 2006 Fiscal Monitoring Reports and mentioned as a risk for 2007 can be clearly seen. If we recall these issues in the context of January 2007 realizations:

<sup>1</sup> Detailed assessments will be announced next week in January Fiscal Monitoring Report.

<sup>2</sup> In TEPAV January 2006 Fiscal Monitoring Report, it can be seen that the budget balance is actually 937 million YTL. (After local government and fund share corrections).

**“The fact that the one-time measures that influence the 2006 budget performance positively will not be present at the same level in 2007 will have an adverse effect on 2007 budget performance.”**

As a matter of fact, among the principle factors that caused the budget deficit to increase in 2007, the 9 % absolute decrease in budget revenues in comparison to 2006 comes first. The decrease this year is due to the lack of same or similar effect of the addition to the budget of TELEKOM cash surplus last year.

**“The increase in deferred expenses compared to previous periods causes the 2006 budget performance to look better than it actually is.”**

Another issue that influences 2007 central government budget performance is the existence of deferred expenses. The existence of invoices of current expenses, especially health expenses, accumulated in capital expenses but not accrued in the 2006 budget will exert significant fiscal pressure on the 2007 budget. In January 2007 realizations, the effect of deferred expenses can especially be seen in purchase of goods and services item. Purchase of goods and services item increased by 75.1 % compared to the same month previous year. 75 % of this increase is due to the increase in green card expenses. When it is taken into consideration that last January the green card expenses increased greatly compared to previous years (1325 %), the increase in 2007 is important in displaying the cumulative effect of deferred expenses.

Green card expenses increased by 128 % compared to January previous year. The basic factor that caused this increase is the existence of 1 billion YTL of unpaid receivables originating from health services given to green card patients by public hospitals, waiting in the budgets of public hospitals as of the end of 2006. While these receivables are shown in the balance sheets of revolving funds, they not shown among budget expenses as liabilities accrued in the budget.

**“Primary expenses are increasing in real terms.”**

In January 2007, primary expenses increased by 22.7 % compared to the same period previous year. In an environment where the inflation and growth are approximately 15 %, an increase of 23 % in primary expenses indicates an upward trend in expense increases. When we look at the contributions to the increase, we can see that in January, this increase is mainly due to structural expenses such as employee expenses and transfers to social security institutions instead of deferred expenses. 92.1 % of the increase is caused by these two items.

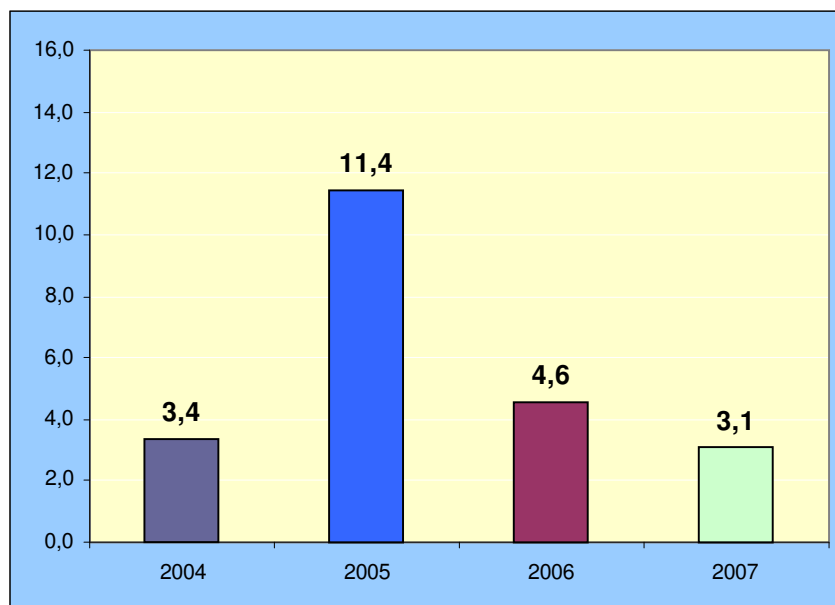
33 % increase in transfers to social security institutions carries the effect of both one-time measures and deferred payments.

**“Especially in 2007, the increase in interest rates will cause a substantial increase in interest expenses”.**

The greatest factor influencing the 59.3 % increase in expenses compared to the same month of last year is the interest payment item with a 210 % increase. As can be anticipated, the increase in interest payments is due to the unexpected increase in lending costs in the second half of last year.

When the program defined primary surplus performance with TEPAV correction<sup>3</sup> is taken into account, it can be seen that in January the surplus decreased by 33 % compared to the same period last year. As a result the monthly primary surplus fell to a four year low compared to the target. Without the TEPAV correction, the decrease in the program defined primary surplus performance is 62.5 %.

**Chart 1. January Consolidated Budget (2004-2005) and Central Government Program Defined Primary Surplus Performance (2006-2007)**



<sup>3</sup> Local government and fund share correction