

Development of Budget Deficits in Turkey (2016-2021)

By

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Abstract

The aim of this study is to analyze the development of budget deficits in the period of 2016-2021 from the perspective of Turkey. It is seen that the budget deficit has increased over the years in Turkey with the effect of the economic crisis and covid-19. Along with the budget deficits, there is a negative effect on the economic growth and stability of the country.

Keywords: Budget, Budget Deficit, Primary Balance, Türkiye.

Introduction

The budget is a document that shows the income and expenses of the countries in the fiscal year, ensures their realization and implementation, and has many financial, legal, social and economic functions. A budget is actually a schedule and a planning. Budget deficits are the difference between budget revenues and budget expenditures in these plans. Since the internal and external dynamics of each economy are different from each other, their budgets and budget deficits are also different from each other. In today's conditions, budget deficits are one of the main problems of not only developing countries but also developed countries. In this study, firstly, the concept of budget and budget deficit is explained. Afterwards, the state of the budget deficit in Turkey between the years of 2016-2021 is explained with tables.

The Concept of Budget

The budget can be expressed as a financial document that covers the income-expenditure estimates of a state for a certain future period. Therefore, the budget is a management tool that enables efficiency and effectiveness in public administration by wisely using public funds and providing the necessary expenses to executive institutions in order to determine public needs and meet these needs. The budget sets forth the necessary expenses and the revenues to be earned in a certain period in a predictive manner. The specified process refers to the fiscal year. The budget is linked to economic, political and legal issues. It has important functions in issues such as establishing stability in the economy, balancing the balance of payments, fairing the income distribution, and realizing economic development. Budget law is drawn up by the executive branch and enters into force upon its adoption by the legislature. Therefore, with the newly enacted budget law, the old budget law in force loses its validity.

Budget Deficit and Causes of Budget Deficit

The budget deficit determines the difference between the government's budget revenues and expenditures during a given fiscal year. Budget deficit is the situation where public expenditures are more than public revenues. If public expenditures are more than public revenues, it creates a negative difference. Especially today, the ratio of public debt to national income is increasing in all developed or undeveloped countries. The reasons for the budget deficits in these countries differ.

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Decreases in the growth rate, policies implemented by public authorities, following inflation by budget expenditures more closely than tax revenues, or the fact that spending flexibility is higher than tax flexibility, and interest rates increased by public debt can be cited as the causes of budget deficits in developed countries. On the other hand, the structural factors that cause government budget deficits in developing or underdeveloped countries can be grouped into five groups as the level of economic development, increase in public expenditures, instability in public revenues, government control over expenditures, and the degree of government participation in economic activity.

The main reason for the budget deficits in Turkey is the growth of the structure and activity of the state and the inability of the public institutions related to the budget to fully meet these, in other words, having a deficit. When all public sector financing deficits are taken into account, they can also be extended as the free-riding problem of the median voter, rapid population growth, insufficient financing of the high growth rate of savings, the size of the public sector, excessive employment and subsidies, the existence of SEEs, the dominance of the economic policy that advocates state intervention in the market in Turkey (Yıldırım, 2005: 12).

Budget Deficit in Turkey in the Period of 2016-2021

The table includes the general government budget data of budget expenditure, budget revenue and budget balance between 2016 and 2021.

Table 1: 2016-2021 General Government Budget Balance

	(Thousand TL)			
Years	Budget Expenditure	Budget Revenue	Budget Balance	Budget Balance/Revenue
2016	904.584.664	859.621.908	-44.962.756	5,30%
2017	999.405.350	937.790.023	-61.615.327	7,50%
2018	1.223.123.090	1.118.965.017	-104.158.073	9,60%
2019	1.422.144.312	1.284.584.103	-137.560.209	14,10%
2020	1.640.409.252	1.495.761.890	-144.647.362	25,70%
2021	2.197.112.286	2.032.417.682	-164.694.604	8,20%

Source: <https://muhasebat.hmb.gov.tr/genel-yonetim-butce-istatistikleri>

As seen in Table 1, the most breakouts are seen in 2018 and 2019 periods. The ratio of budget balance to budget revenue was the lowest in 2016 with 5.30 percent, and the highest rate was experienced in 2020 with 25.70 percent.

After the contraction in the last quarter of 2016, an expansionary fiscal policy was implemented to ensure the revival of the economy, and in this context, both cash and tax incentives were provided to support production, investment and employment. Economic growth was supported by the fiscal measures taken and the incentives given by the expansionary fiscal policy. With the economic crisis, the effects of which became visible in 2018, the Turkish lira depreciated, and high inflation occurred with increasing debts and corresponding credit defaults (Sürmen, 2020: 21). Borrowing determined by financing the general budget deficit with an application initiated in 2020.

A limit is determined by the budget laws for the amount of these bonds to be issued. This limit was 3 percent of the general budget initial appropriations in the 2020 budget. In 2021, a bag of laws was enacted and this rate was increased to 5 percent. In addition, at the

beginning of the epidemic period, an alternative program was announced under the name of “Declaration of Independent Social Scientists”, which also included the budget policy. There are three important budget policy recommendations in this announced program. In the first of the policy proposals, it is suggested that budget expenditures should be met with CBRT advances, if necessary, with the thought that the concern of budget deficit cannot be valid as long as the pandemic continues. In the second proposal, it is suggested that a real wealth tax should be taken, drawing attention to the fact that while budget revenues decrease, large jumps will occur in expenditures. In the third proposal, it is said that the projects called Public Private Partnership should be expropriated, and then it is suggested that the dues for these projects should be converted into TL and that the guarantee payments that may occur due to the crisis-induced poor performances should be cancelled. In this process where the pandemic continues, these three recommendations are still valid today (Demirkent & others, 2021).

Table 2: Targeted Budget Deficit and Realized Budget Deficit for the 2016-2021 Period

Years	Targeted Budget Deficit (billion TL)	Actual Budget Deficit (billion TL)
2016	29.7	29.3
2017	46.8	47.4
2018	65.9	72.6
2019	80.6	123.7
2020	138.9	172.7
2021	244.9	192.2

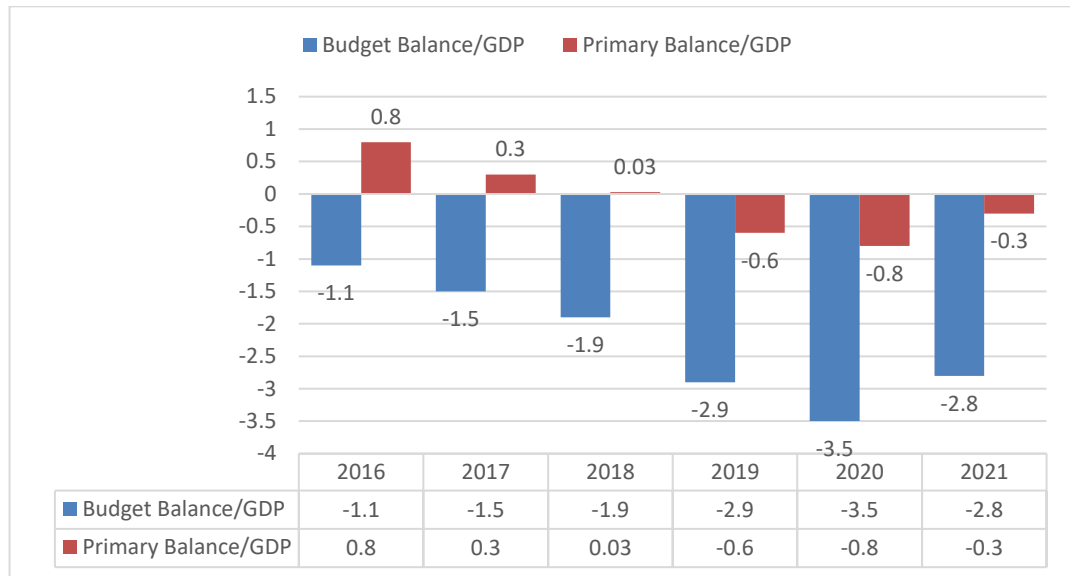
Source: T.C. Hazine ve Maliye Bakanlığı Aylık Bütçe Gerçekleşme Raporu

Looking at the data of the last 4 years in the table, it is observed that both the targeted budget deficits and the actual budget deficits have increased considerably compared to previous years. While a budget deficit of approximately 66 billion TL was targeted in 2018, a budget of 72.6 billion TL was announced at the end of the year. In 2019, these budget data were stated as 80.6 billion TL and 123.7 billion TL. While a budget deficit of approximately 139 billion TL was targeted in 2020, a budget of 172.7 billion TL was announced at the end of the year. The deficit recorded in 2021 with 192.2 billion TL exceeded the deficit in 2020. The ratio of budget deficit to national income showed a more positive performance than 2020. The years in which the budget deficit of the previous period increased proportionally the most were 2019 with 70% and 2020 with 62%.

There are 2 important indicators for a more qualified assessment of the budget deficit. The first of these is the ratio of the budget balance to the gross domestic product (GDP), and the second is the ratio of the primary balance to the GDP.

When the budget balance is mentioned, the formula to be understood is 'Budget Balance = Budget Revenues (tax revenues + other revenues) - Budget expenses (non-interest expenses + interest expenses)', while the primary balance should be understood as 'Primary balance = Budget revenues - non-interest expenses'.

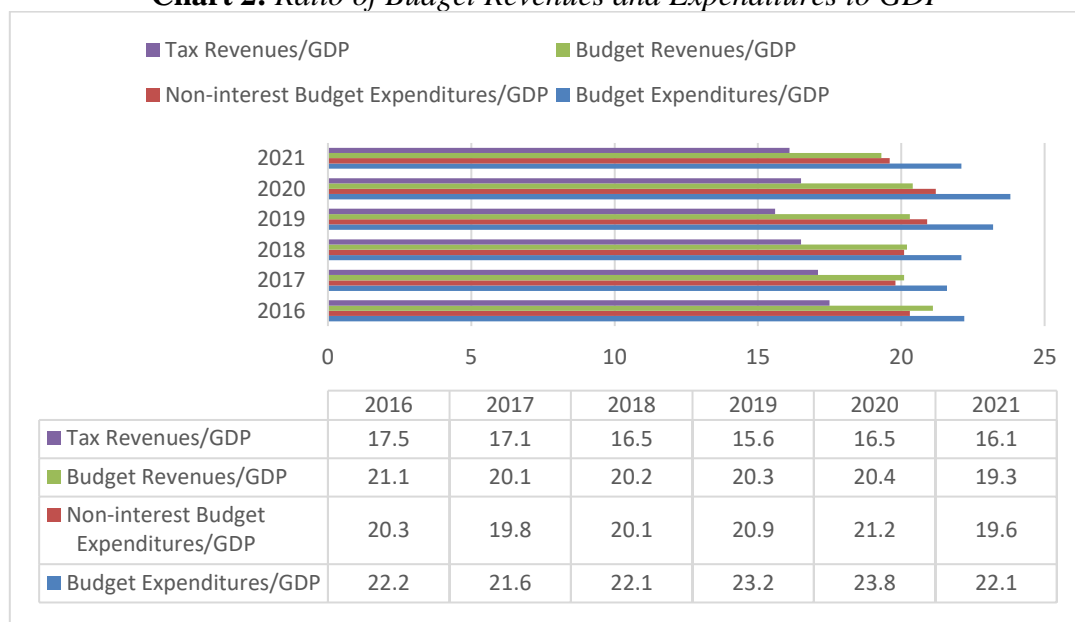
Chart 1: Ratios of Budget Balance and Primary Surplus to GDP (2016-2021)



Source: *Budget Rationale for 2023*

The ratio of budget deficit to GDP, which was 1.1% in 2016, reached 1.5% in 2017, 1.9% in 2018, 2.9% in 2019, and 3.5% in 2020. In 2021, it decreased to 2.8%. When we look at the primary surplus, it was 0.8% in 2016. In 2021, this rate was 0.3%.

Chart 2: *Ratio of Budget Revenues and Expenditures to GDP*



Source: *Budget Rationale for 2023*

Looking at the development of the ratio of central government budget expenditures to GDP in the period covering the years 2016-2021, it is seen that the rate that was 22.2 percent in 2016 was 22.1 percent in 2021. The ratio of non-interest expenses to GDP, which was 20.3 percent in 2016, was 19.6 percent in 2021.

While the ratio of central government budget revenues to GDP was 21.1 percent in 2016, it was 19.3 percent in 2021. While the ratio of general budget tax revenues to GDP was 17.5 percent in 2016, it was 16.1 percent in 2021.

Table 4: 2021 Budget Balance and Primary Balance

Month/Year	Budget Balance	Primary Budget Balance
January,2021	-24.154	-2.211
February,2021	23.170	35.927
March,2021	23.764	37.992
April,2021	-16.917	1.666
May,2021	-13.371	575
June,2021	-25.031	-15.618
July,2021	-45.804	-22.166
August,2021	40.837	54.494
September,2021	23.586	-9.478
October,2021	-17.406	-3.106
November,2021	31.999	47.318
December,2021	-145.743	-136.783

Source: 2021 Central Government Budget Realizations and Expectations Report

When the primary budget balance and the overall budget balance are analyzed in detail in 2021, it is seen that interest expenditures constitute a significant part of the budget deficit in the months when the budget balance is negative. While the budget balance was negative in seven of the 12 months of 2021, the primary budget balance remained negative in six of them.

In December, it is seen that the central government budget balance gave a deficit of 145.7 billion TL and the primary balance gave a deficit of 136.8 billion TL. As seen in Table 2, the 12-month total budget deficit rose to 192.2 billion TL, more than double the previous month. Although the 2021 budget deficit remains below the year target of 230 billion TL, it is seen that the positive performance in the January-November period could not be maintained in the last month of the year.

Table 5: January-December Period Budget Realizations

January-December Period Budget Realizations	Million TL
Budget Expenditures	1.599.642
Non-Interest Expenses	1.418.790
Budget Revenues	1.407.399
Tax Revenues	1.164.809
Budget Balance	-192.244
Primary Balance	-11.391

Source: 2021 Central Government Budget Realizations and Expectations Report

In January-December 2021, central government budget expenditures were realized as 1,599.6 billion TL, budget revenues were 1,407.4 billion TL and budget deficit was 192.2 billion TL. In addition, primary budget expenditures were realized as 1,418.8 billion TL and primary deficit was 11.4 billion TL. The primary balance is negative. In other words, even when interest expenses are excluded, the budget runs a deficit.

Conclusion

A budget is a financial leave that covers the estimation and approval of public revenues and public expenditures during the fiscal year. The budget deficit is the difference between the mentioned public revenues and expenditures. The reasons for this difference vary depending on whether the countries are developed or underdeveloped. As the budgets of the countries are

different, the budget deficits are also different from each other. However, the budget deficit of a country may also differ from year to year. In this study, Turkey's budget development between the years 2016-2021 was examined.

When the determined budget deficit and the actual budget deficit are analyzed by years, it is seen that the targeted budget deficit in 2016 was 29.7 billion TL, while the actual budget deficit was 29.3 billion TL. In 2021, the targeted budget deficit is 244.9 billion TL, and the actual budget deficit is 192.2 billion TL. When the 2021 central government budget balance and the interest balance are examined by months, it is seen that there is a positive performance in general, but the positive performance could not be maintained in December and it was more than double that of November. Although the positive performance could not be sustained in December, the actual budget deficit was below the targeted budget deficit.

The ratio of budget deficit to GDP, which was 1.1% in 2016, decreased to 2.8% in 2021. While the primary surplus was 0.8% in 2016, this rate was realized as 0.3% in 2021.

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