

# The Causality Relationship between Government Revenues and Government Expenditures: The Case of Turkey for the Period of 2006-2015

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## Abstract

The government revenues and government expenditures are widely used as a means of public finance and eliminating budget deficits. However a change in the level of government expenditures or government revenues will create different effects on the economy depending on the relationship between the aggregates in question. The aim of this study is to exhibit the relationship between government expenditures and government revenues for Turkey in order to serve to determine the favourable policy. For that purpose, the relationship is tested by using Central Government Budget Revenue Realization and Central Government Budget Expenditure series from the Republic of Turkey Ministry of Finance with 2006 January - 2015 April monthly data. In addition, by employing government revenues and expenditures in a disaggregated manner, the relationships about general government revenues, the revenues of regulatory and supervisory foundations, the revenues of private budgeted foundations, interest payments and non-interest payments are tried to be presented. Granger causality test is preferred as we have stationary series and also as this methodology is reliable, simple and widely used in literature.

The findings of the study indicate one-way causality from government expenditures to government revenues. In case of employing government expenditures and revenues in a disaggregated manner, the findings are observed to be differentiated. Accordingly, while non-interest payments have an effect on government revenues, interest payments have no effect. In addition, while government expenditures have an effect on general government revenues and the revenues of regulatory and supervisory foundation, they have no effect on the revenues of private budgeted foundations. As the government expenditures in total have an effect on government revenues and the same is also true for general government budget, it is doubtful that if government expenditures in Turkey cause tax revenues to increase. As tax burden also tends to increase after 2002 in Turkey, this may also mean that government revenues cause tax rates to increase instead of generating income. Therefore, the findings of the study suggest a decrease in government expenditures in Turkey as a favourable policy recommendation.

**Keywords** : Budget Deficit, Government Expenditures, Government Revenues, Turkey.

**JEL Classification Codes** : H00, H60, H62.