



Budget Balance - February 2016

Economic Research Division

TÜRKİYE İŞ BANKASI

Favorable budget performance in the first two months of the year...

Having posted a deficit of 2.4 billion TRY in February 2015, central government budget registered a surplus of 2.4 billion TRY in February 2016. Primary surplus also expanded by 44.4% yoy and became 6.5 billion TRY.

During the first two months of the year, budget surplus came in at 6.6 billion TRY, significantly exceeding the figure recorded in the same period last year (1.4 billion TRY). This favorable performance mostly stemmed from the falls in capital and interest expenditures along with the strong surge in tax revenues.

Tax revenues continued to support the budget balance.

Tax revenues increased annually by more than 10% in February. The composition of the 3.7 billion TRY rise in tax revenues during this period revealed that 37% of the increase came from income taxes. Another 36% of the rise stemmed from expansion in value added tax (VAT) on imports. VAT revenues also grew by 11.4% yoy in line with the moderate outlook in domestic demand. Having backed the budget revenues in January, special consumption tax revenues slid in February.

A sharp fall in interest expenditures...

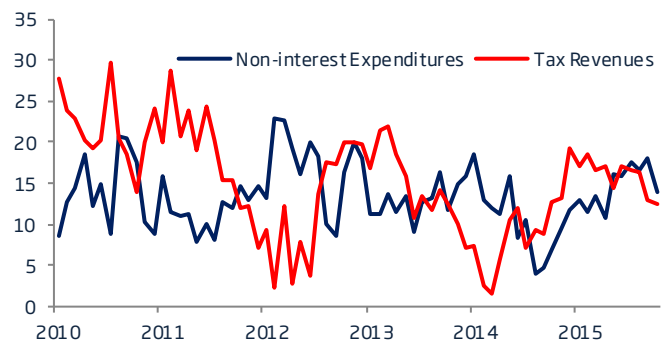
Interest expenditures, which stood at high levels in February 2015, dropped by 40.1% yoy in February 2016.

Capital expenditures also painted a similar picture. Along with the 1.1 billion TRY decline in "immovable capital produce" expenses, the contraction in total capital expenditures bolstered budget performance. However, the surges in current transfers and personnel expenditures raised the budget expenditures. Non-interest expenditures, having expanded by 21% in February 2015, posted a mild increase of 7.2% in February 2016

Against this backdrop, the recent steps that are expected to widen the expenditures, such as the minimum wage hike, had a limited impact on budget balance as of February 2016. Indeed, the courses of tax revenues and non-interest expenditures followed a similar pattern in the first two months of the year. In 2015 as a whole, on the other hand, tax revenues had outperformed the non-interest expenditures.

Non-interest Expenditures and Tax Revenues

(3-month ma, annual % change)

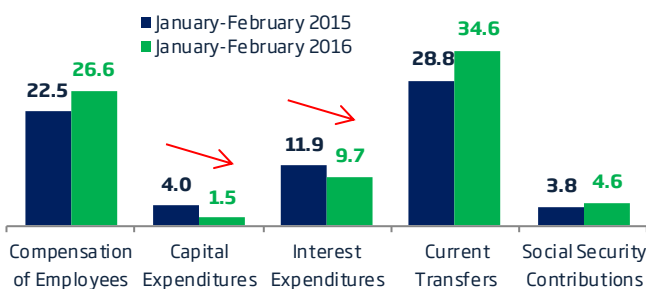


A better-than-expected outlook...

As the election promises are coming into effect, non-interest expenditures are expected to increase. Even though this implies that the budget deficit may grow in the upcoming period, no sign of deterioration was observed during the first two months of 2016.

Budget Expenditures

(TRY billion)



Central Government Budget

(TRY billion)

	February		%	January-February		%	2016 Budget		Real./
	2015	2016		Change	2015		2016	Change	
Expenditures	42.5	42.3	-0.5	78.9	84.8	7.6	570.5	14.9	
Interest Expenditures	6.9	4.1	-40.1	11.9	9.7	-18.2	56.0	17.4	
Non-Interest Expenditures	35.6	38.2	7.2	66.9	75.1	12.2	514.5	14.6	
Revenues	40.2	44.7	11.4	80.3	91.4	13.9	540.8	16.9	
Tax Revenues	34.6	38.4	10.8	69.5	78.0	12.3	459.2	17.0	
Other Revenues	5.5	6.4	14.8	10.8	13.4	24.4	81.7	16.4	
Budget Balance	-2.4	2.4	-	1.4	6.6	369.2	-29.7	-	
Primary Balance	4.5	6.5	44.4	13.3	16.4	22.8	26.3	62.1	

Numbers may not add up to total value due to rounding.

Source: Ministry of Finance, Datastream



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Türkiye İş Bankası A.Ş. - Economic Research Division

İzlem Erdem - Division Head

izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager

alper.gurler@isbank.com.tr

Hatice Erkiletlioğlu - Asst. Manager

hatice.erkiletlioglu@isbank.com.tr

İlker Şahin - Economist

ilker.sahin@isbank.com.tr

Eren Demir - Asst.Economist

eren.demir@isbank.com.tr

M. Kemal Gündoğdu - Asst.Economist

kemal.gundogdu@isbank.com.tr

Gamze Can - Asst.Economist

gamze.can@isbank.com.tr

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