

**Budget posted a deficit of 7.9 billion TRY in June.**

Budget expenditures rose at an annual pace of 43.1% in June while the increase in budget revenues stood at 11.4%. Having run 3.2 billion TRY surplus in June 2015, the budget registered a deficit of 7.9 billion TRY in the same month of this year. As a result, the figures showed a weaker budget outlook than recorded in the first 5 months of the year.

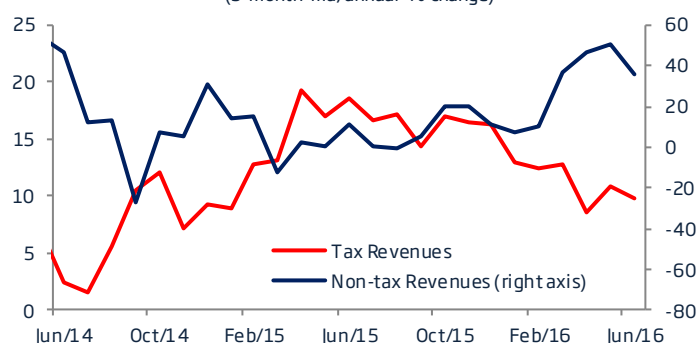
On the other hand, the budget posted 1.1 billion TRY surplus in the first half of the year, achieving a similar performance to that in the last year. However, 9.8% annual drop in the primary surplus was worthy of attention. Despite this unfavorable development, primary surplus has been equivalent to 105% of the year-end target.

**The rise in tax revenues lost momentum in June.**

After expanding at an annual pace of 17% in May, tax revenues decelerated somewhat and rose by 9.7% yoy in June. Constituting 75% of the total budget revenues, tax revenues found support mostly from the special consumption tax (SCT) and income tax. Having a share of more than 30% in tax revenues, revenues obtained from SCT went up by 13.1% yoy in June. This stemmed largely from the rise in tax revenues collected from tobacco products and motor vehicles. Income tax revenues, increasing by 16.2% yoy, also made a positive contribution to the budget balance. Value Added Tax on imports, however, followed a relatively flat path in the first half compared to a year earlier.

**Tax and Non-tax Revenues**

(3-month ma, annual % change)

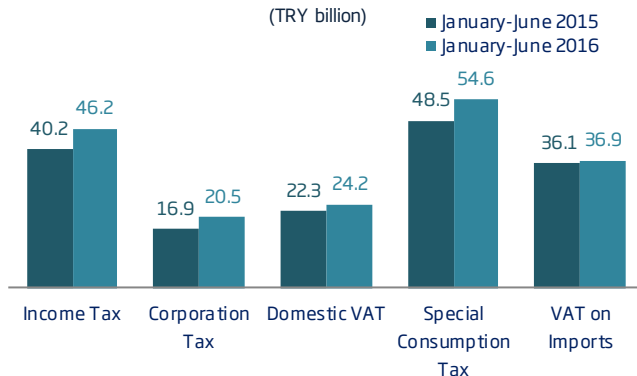
**Non-tax revenues provided a considerable boost to the budget.**

Having played a significant part in the better-than-expected performance of the budget revenues during January-May period, the growth in non-tax revenues lost some steam in June. This aside, the revenues through interest, shares and fines jumped fast in June as was the case in the January-May period.

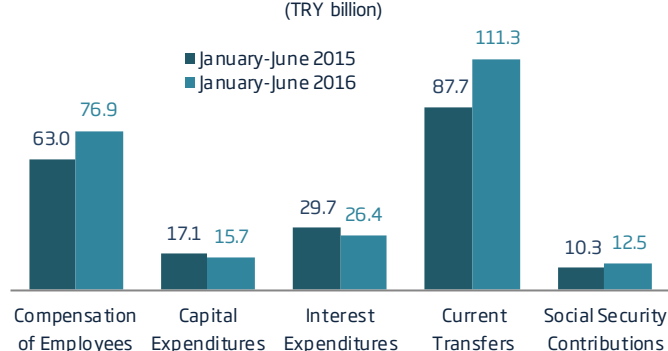
During the first six months of the year, tax revenues picked up by 11.2% yoy while the growth in non-tax revenues became 36.6% yoy. This strong outcome was mostly attributable to the Central Bank's profits transferred to Treasury, interest revenues of Treasury and privatization revenues.

**Tax Revenues**

(TRY billion)

**Budget Expenditures**

(TRY billion)

**Central Government Budget**

(TRY billion)

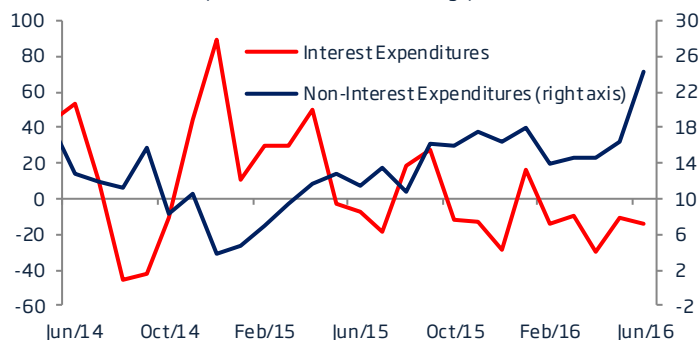
	June			January-June			% 2016 Budget	
	2015	2016	% Change	2015	2016	% Change	Target	Real./Target (%)
<b>Expenditures</b>	<b>36.3</b>	<b>52.0</b>	<b>43.1</b>	<b>236.7</b>	<b>273.9</b>	<b>15.7</b>	<b>570.5</b>	<b>48.0</b>
Interest Expenditures	1.7	2.2	30.3	29.7	26.4	-11.2	56.0	47.1
Non-Interest Expenditures	34.6	49.8	43.7	206.9	247.5	19.6	514.5	48.1
<b>Revenues</b>	<b>39.6</b>	<b>44.1</b>	<b>11.4</b>	<b>237.5</b>	<b>275.0</b>	<b>15.8</b>	<b>540.8</b>	<b>50.8</b>
Tax Revenues	30.2	33.2	9.7	194.7	216.6	11.2	459.2	47.2
Other Revenues	9.3	10.9	16.8	42.8	58.4	36.6	81.7	71.6
<b>Budget Balance</b>	<b>3.2</b>	<b>-7.9</b>	<b>-</b>	<b>0.8</b>	<b>1.1</b>	<b>42.9</b>	<b>-29.7</b>	<b>-</b>
<b>Primary Balance</b>	<b>4.9</b>	<b>-5.7</b>	<b>-</b>	<b>30.5</b>	<b>27.5</b>	<b>-9.8</b>	<b>26.3</b>	<b>104.7</b>

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

Source: Ministry of Finance, Datastream

### Interest and Non-interest Expenditures

(3-month ma, annual % change)



### Expectations...

Notwithstanding the severe rise in non-interest expenditures led by the minimum wage hike and the rise in personnel expenses, the improvement in non-tax revenues made it possible for the budget to present a balanced outlook in the first half of the year. Budget realizations for January-June period indicated that Turkey is likely to succeed in achieving the year-end targets despite the weak June data.

### Sharp rise in current transfers and personnel expenses...

Current transfers, which hold the highest share in budget expenditures in June, rose by 63% yoy during this period. Adding this figure to the picture, we see that the upward pressure from minimum wage hike on expenditures has become more evident. Personnel expenditures increased by 28.4% yoy and ranked second after current transfers in deteriorating the budget balance.

In the first half of the year, payments to social security system, which are classified among duty losses placed under current transfers, escalated by 32% yoy. Treasury aid to social security system also increased fast by 51% yoy.

Even though interest expenditures posted a rapid rise in June, they provided support to the budget balance in the first half of the year as a whole. The annual change in interest expenditures remained in negative territory in June, according to the 3-month trailing figures.

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