

Budget posted a deficit of 16.9 billion TRY.

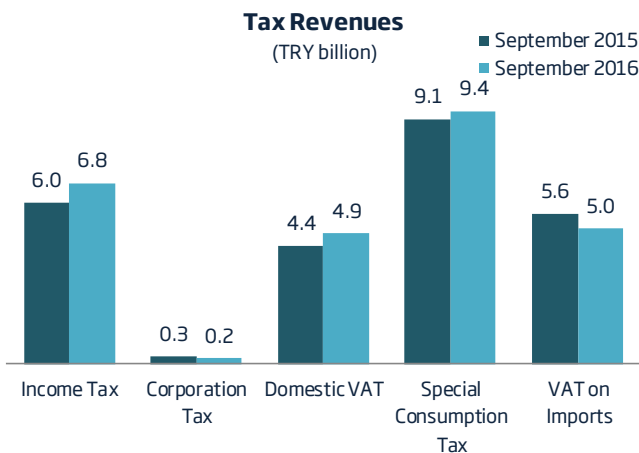
While budget expenditures increased by 10.5% yoy, budget revenues rose by 6.6% in September. Thus, budget deficit, which was 14.1 billion TRY in September of 2015, surged by 19.9% to 16.9 billion TRY in the same month of this year. This development stemmed mainly from the weak performance of budget revenues. Budget deficit had been larger than the previous months in September 2015 as well.

In the first 9 months, budget revenues grew faster than expenditures. In this period, revenues and expenditures rose by 14.2% yoy and 13.3% yoy, respectively. During January-September period, budget deficit declined by 10.6% yoy to 12 billion TRY.

Loss of momentum in revenues...

Deceleration in tax revenues put pressure on total revenues in September. Tax revenues, which had increased by 19.3% yoy in August, rose only by 4.5% yoy in September. Having contracted by 9.6% yoy in September, VAT on imports limited the increase in tax revenues. Besides, fall in special consumption tax (SCT) revenues collected from tobacco products led to a deceleration in SCT revenues.

During January-September period, sharp increases recorded in privatization revenues, revenues obtained from interest, shares and fines and property income stood out.



Budget expenditures...

Interest expenditures contracted by 2.2% yoy in September. Expenditures excluding interest, on the other hand, posted a rapid increase of 12.5% yoy. The effect of minimum wage increase over central government budget became more evident in this month. Indeed, along with increase in government social security contributions, which amounted to 1.1 billion TRY, 5 points deduction in social security payments created 0.9 billion TRY additional burden on government budget. This development led to a sharp rise in current transfers. Defense and security expenditures, despite their small amount, picked up by 36.2% yoy.

In the first 9 months of the year, interest payments together with capital expenditures and transfers contracted. It was worth mentioning that the other main expenditure items, on the other hand, rose steeply.

Expectations...

In parallel with the slowdown in economic activity since the second quarter of the year, Medium Term Program (MTP) covering 2017-2019 period was prepared with a perspective of prioritizing growth performance. It is expected that the fiscal policies will be supportive for economic activity, especially via investments. Accordingly, public sector is anticipated to make higher contribution to growth compared to the previous years. Budget deficit to GDP ratio, on the other hand, is projected to remain below 2%, indicating that budget discipline will be maintained in Turkey.

Taking into account that budget deficit will be at around 34.6 billion TRY according to the MTP, it is apparent that budget will give large deficits in the last quarter of the year as well.

Central Government Budget Balance (% GDP)

| | 2016 | 2017 | 2018 | 2019 |
|------------------|------|------|------|------|
| 2017-19 MTP Exp. | -1.6 | -1.9 | -1.6 | -1.3 |
| 2016-18 MTP Exp. | -1.3 | -1.0 | -0.8 | - |

Central Government Budget

| | September | | | January-September | | | 2016 Budget | | | MTP | Real/MTP |
|---------------------------|--------------|--------------|-------------|-------------------|--------------|--------------|--------------|--------------|--------------|-----|----------|
| | 2015 | 2016 | % Change | 2015 | 2016 | % Change | Target | Target | Target (%) | | |
| Expenditures | 47.9 | 53.0 | 10.5 | 367.7 | 416.5 | 13.3 | 570.5 | 581.1 | 71.7 | | |
| Interest Expenditures | 6.4 | 6.2 | -2.2 | 44.8 | 41.7 | -6.9 | 56.0 | 51.5 | 80.9 | | |
| Non-Interest Expenditures | 41.6 | 46.7 | 12.5 | 322.9 | 374.8 | 16.1 | 514.5 | 529.6 | 70.8 | | |
| Revenues | 33.8 | 36.1 | 6.6 | 354.2 | 404.5 | 14.2 | 540.8 | 546.5 | 74.0 | | |
| Tax Revenues | 29.5 | 30.9 | 4.5 | 298.3 | 329.0 | 10.3 | 459.2 | 450.0 | 73.1 | | |
| Other Revenues | 4.3 | 5.2 | 20.9 | 55.9 | 75.5 | 35.0 | 81.7 | 96.5 | 78.2 | | |
| Budget Balance | -14.1 | -16.9 | 19.9 | -13.5 | -12.0 | -10.6 | -29.7 | -34.6 | 34.8 | | |
| Primary Balance | -7.7 | -10.7 | 38.1 | 31.3 | 29.6 | -5.3 | 26.3 | 16.9 | 175.4 | | |

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

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