

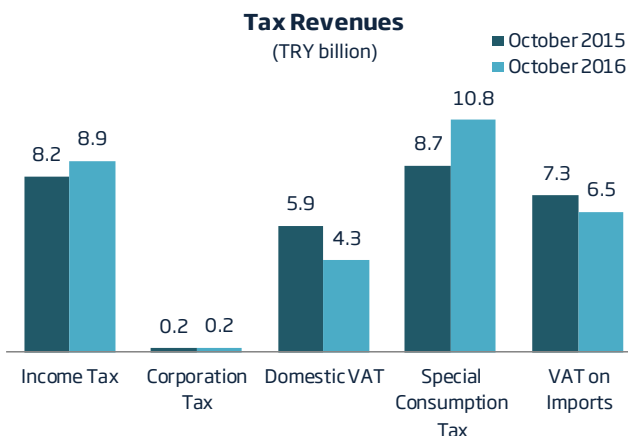
## Budget posted 104 million TRY deficit in October.

Budget expenditures increased by 18.9% yoy in October while budget revenues decreased by 1.0% yoy. Thus, budget, which gave a surplus of 7.2 billion TRY in October 2015, posted a deficit of 104 million TRY in the same month of this year.

In the first 10 months of the year, budget expenditures and budget revenues increased by 13.8% yoy and 12.5% yoy, respectively. Compared to the same period of the previous year, budget deficit almost doubled and became 12.1 billion TRY. Although primary balance fell by 21.2% yoy to 32.4 billion TRY, it stood above the MTP target.

## Fall in budget revenues...

Tax revenues kept losing momentum in October. Annual rise in tax revenues, which was 4.5% in September, dropped to 2.8% in October. Weak performance of tax revenues stemmed mostly from fall in revenues collected via domestic VAT and VAT on imports. On the other hand, the hike in special consumption tax imposed on petroleum and natural gas products affected the budget revenues positively.

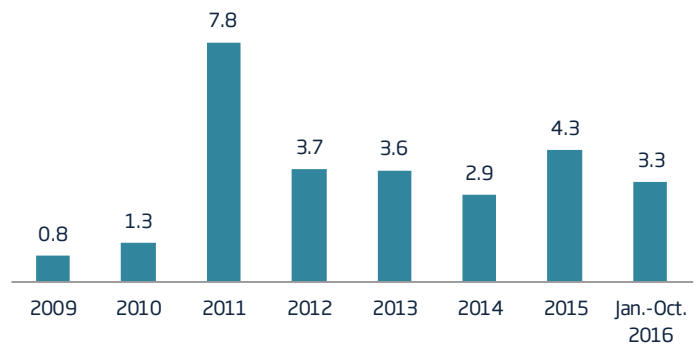


While a high level of income was generated from the Treasury portfolio and subsidiaries in October 2015, it was not the case in October of this year. This development also played a role in the weak performance of revenues. Tax

amnesty provided a revenue of 1.4 billion TRY in October and 3.7 billion TRY in the first ten months of the year.

The share of one-off budget revenues, which consist of tax amnesty and privatization revenues, in total revenues has been 3.3% in January-October period.

## One-Off Revenues / Budget Revenues \* (%)



## Budget expenditures...

Interest expenditures rose by 10.2% yoy in October. With the impact of the minimum wage hike on the public finance, non-interest expenditures also increased by 19.6% on an annual basis. The increase of 2.4 billion TRY recorded in health, retirement and social aid expenditures in October led the share of current transfers' in budget expenditures to increase. In line with the government's increasing support to growth through investments, road construction expenditures also surged in October.

For the first 10 months, non-interest expenditures increased by 16.4% on an annual basis, while current transfers surged by 21.2% in the same period.

## Expectations...

It is anticipated that the budget deficit will continue to expand as the government begins to use the policy space that it has to support growth. Furthermore, the views that tax reductions may come to the stage in order to stimulate domestic demand also signal that the budget revenues may remain under pressure in the period ahead.

## Central Government Budget

	October			January-October			(TRY billion)		
	2015	2016	% Change	2015	2016	% Change	2016 Budget Target	MTP Target	Real/MTP Target (%)
<b>Expenditures</b>	<b>36.6</b>	<b>43.5</b>	<b>18.9</b>	<b>404.2</b>	<b>460.0</b>	<b>13.8</b>	<b>570.5</b>	<b>581.1</b>	<b>79.2</b>
Interest Expenditures	2.6	2.9	10.2	47.4	44.6	-5.9	56.0	51.5	86.6
Non-Interest Expenditures	33.9	40.6	19.6	356.8	415.4	16.4	514.5	529.6	78.4
<b>Revenues</b>	<b>43.8</b>	<b>43.4</b>	<b>-1.0</b>	<b>398.0</b>	<b>447.9</b>	<b>12.5</b>	<b>540.8</b>	<b>546.5</b>	<b>81.9</b>
Tax Revenues	35.1	36.1	2.8	333.3	365.0	9.5	459.2	450.0	81.1
Other Revenues	8.7	7.3	-16.3	64.6	82.8	28.1	81.7	96.5	85.8
<b>Budget Balance</b>	<b>7.2</b>	<b>-0.1</b>	<b>-</b>	<b>-6.2</b>	<b>-12.1</b>	<b>94.9</b>	<b>-29.7</b>	<b>-34.6</b>	<b>35.1</b>
<b>Primary Balance</b>	<b>9.9</b>	<b>2.8</b>	<b>-71.6</b>	<b>41.2</b>	<b>32.4</b>	<b>-21.2</b>	<b>26.3</b>	<b>16.9</b>	<b>192.0</b>

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

(\*) One-off revenues includes tax and social security payment amnesties introduced in 2011, 2014 and 2016 as well as privatization revenues.

Source: Ministry of Finance, Datastream

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