

Budget deficit became 29.3 billion TRY in 2016.

Central government budget deficit stood at 27 billion TRY in December, rising by 50% yoy mainly due to periodic increase observed in budget expenditures. During the last month of the year, budget revenues and expenditures surged by 11.9% yoy and 23.5% yoy, respectively.

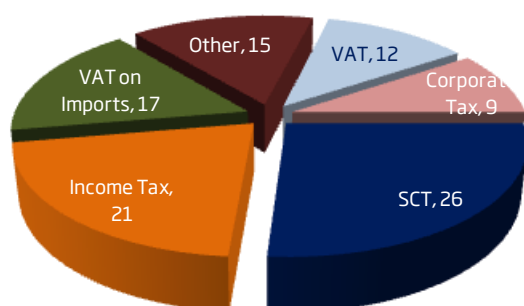
In 2016 as a whole, revenues picked up by 14.8% on an annual basis. Thus, budget revenues exceeded the targeted amount by 13.6 billion TRY. This was chiefly attributable to the funds transferred from the privatization fund amounting to 11 billion TRY. It was noteworthy that tax revenues remained below the year-end target despite obtaining 13.7 billion TRY revenues from tax amnesty. Budget expenditures came in above the year-end target, expanding by 15.3% yoy. Interest expenditures fell by 5.2% yoy in 2016 and thus the share of interest expenditures in total expenditures declined to 8.6%.

Owing to the surge in expenditures in 2016, budget deficit grew by 24.4% compared to the previous year and amounted to 29.3 billion TRY. Nevertheless, fiscal discipline was maintained as budget deficit came in 430 million TRY less than the year-end target. The primary surplus, which dropped in 2016 compared to the previous year, remained below the year-end target by 5.3 billion TRY in 2016 while exceeding the MTP target.

Budget missed its tax revenues target.

Tax revenues increased by 12.5% yoy in 2016, slightly below the year-end target. This development stemmed from income tax revenues that fell short of target by 2.3 billion TRY in the face of the weak economic activity in 2016. On the other hand,

Composition of Tax Revenues (% , 2016)

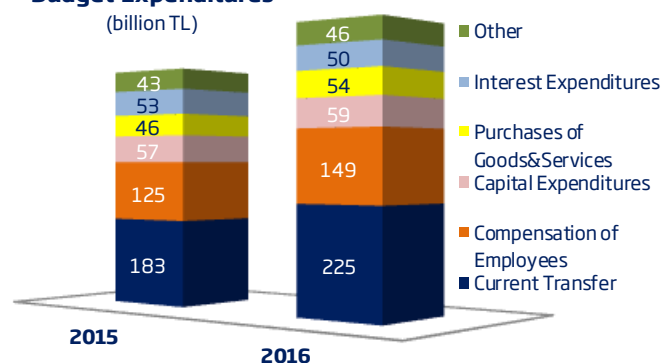


the upsurges in the revenues collected from domestic VAT, corporate tax and SCT on tobacco products considerably limited the downward impact of income tax.

15.3% rise in budget expenditures...

The annual increase of 23.1% in current transfers played a big role in surpassing the yearly budget expenditure target in 2016. In this period, widening of social assistance expenditures by more than 30% had an upward impact on increase of budget expenditures by 5.3 pp. It was noteworthy that the total amount of 20.4 billion TRY transferred for the social security deficit exceeded the year end target by 9.1 billion TRY. In this period, purchases of goods and services also surpassed the target. On the other hand, no use of funds from reserve appropriations and the decrease in interest expenditures affected positively budget figures in 2016.

Budget Expenditures



Expectations...

According to the central government budget figures, fiscal discipline was maintained in 2016. Thus, we anticipate that the budget deficit to GDP ratio has been realized as 1.1% in the previous year taking in the consideration the revision of GDP calculation methodology. Under the MTP projections, the annual increases in revenues and expenditures for 2017 are expected to be 9.5% and 11%, respectively with a budget deficit target of 46.9 billion TRY. Against this backdrop, we foresee that the budget deficit to GDP ratio will be 1.6% in 2017.

Central Government Budget

	December		%	January-December		%	(TRY billion)		
	2015	2016		Change	2015		2016	Change	2016 Budget Target
Expenditures	59.1	73.0	23.5	506.3	583.7	15.3	570.5	581.1	100.4
Interest Expenditures	1.7	1.8	5.8	53.0	50.2	-5.2	56.0	51.5	97.6
Non-Interest Expenditures	57.4	71.2	24.1	453.3	533.4	17.7	514.5	529.6	100.7
Revenues	41.0	45.8	11.9	482.8	554.4	14.8	540.8	546.5	101.5
Tax Revenues	35.1	39.6	12.8	407.8	458.7	12.5	459.2	450.0	101.9
Other Revenues	5.9	6.3	6.3	75.0	95.8	27.8	81.7	96.5	99.2
Budget Balance	-18.1	-27.1	50.0	-23.5	-29.3	24.4	-29.7	-34.6	84.6
Primary Balance	-16.4	-25.3	54.6	29.5	21.0	-28.8	26.3	16.9	124.2

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

Source: Ministry of Finance, Datastream

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