

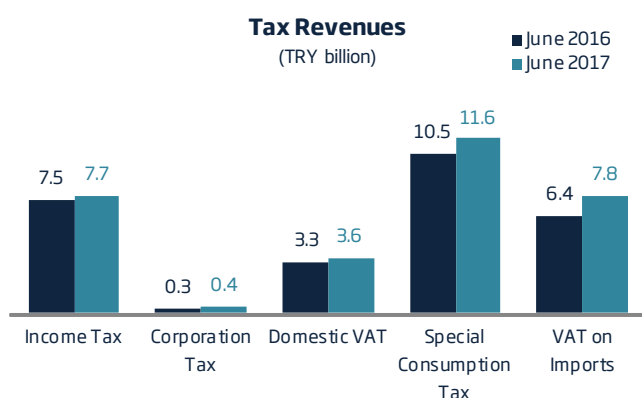
The central government ran a budget deficit in June.

In June, budget expenditures increased by 11% compared to the same month of the previous year. On the other hand, budget revenues decreased by 0.3% yoy due to the base effect stemming from the high level of privatization revenues in June last year. Thus, central government budget deficit which was 7.9 billion TRY in June 2016 became 13.7 billion TRY in the same month of this year.

In the first half of the year, budget expenditures expanded by 18.5% compared to the last year due to the economic stimulus measures. In this period, the increase in budget revenues was recorded as 8.8%. Hence, the budget, which posted 1.1 billion TRY surplus in the first six months of the year, gave a deficit of 25.2 billion TRY in the same period of 2017.

Recovery in tax revenues slowed down.

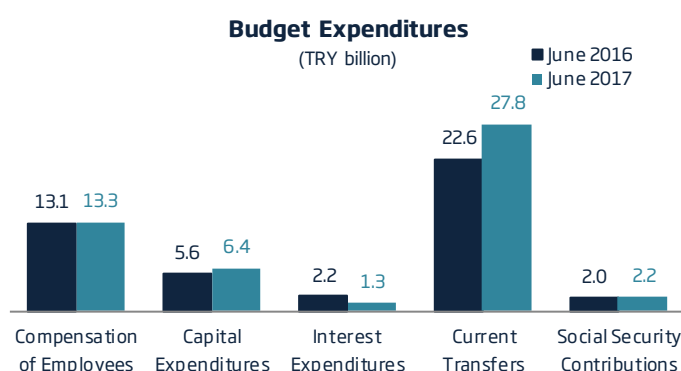
Tax revenues, which increased rapidly in April and May, lost momentum in June. Having come in at 9.7% in June, the rate of growth in tax revenues was below the 10-year average of 12.7% for the month. Import VAT revenues made the highest contribution to the increase in tax revenues in June expanding by 21.4% on an annual basis while special consumption tax and domestic VAT rose by 9.9% and 9.5%, respectively.



Revenues recorded under the Law on Restructuring of Certain Receivables (the Law No. 6736) provided limited support to the budget in June.

Budget expenditures...

In June, current transfers were the biggest contributors to the 11% rise in budget expenditures. This was largely led by the social security deficit financing which has tripled compared to the past year. On the other hand, goods and services purchases and capital expenditures were the other factors that put upward pressure on expenditures in June. Interest expenditures also declined in June after May and thus had a positive impact on the budget performance.

**Expectations**

The recovery in the economy is expected to support tax revenues in the second half of the year. However, current realizations indicate that tax revenues may be slightly below the budget target by the end of the year. On the expenditure side, although a more cautious stance will be taken in the rest of the year, the budget deficit is anticipated to expand due to the impact of fiscal stimulus. Indeed, Minister of Finance Naci Ağbal stated that the stimulus will bring an additional burden of 11.9 billion TRY on the budget throughout 2017. These developments suggest that the year-end budget deficit might surpass target.

Central Government Budget

(TRY billion)

	June			January-June			% 2017 Budget		Real./ Target (%)
	2016	2017	% Change	2016	2017	% Change	Target	Target (%)	
Expenditures	52.0	57.7	11.0	273.9	324.4	18.5	645.1	50.3	
Interest Expenditures	2.2	1.3	-41.9	26.4	27.0	2.3	57.5	46.9	
Non-Interest Expenditures	49.8	56.4	13.3	247.5	297.4	20.2	587.6	50.6	
Revenues	44.1	43.9	-0.3	275.0	299.2	8.8	598.3	50.0	
Tax Revenues	33.2	36.4	9.7	216.6	246.1	13.6	511.1	48.1	
Other Revenues	10.9	7.5	-30.9	58.4	53.1	-9.1	87.2	60.9	
Budget Balance	-7.9	-13.7	73.6	1.1	-25.2	-	-46.9	53.9	
Primary Balance	-5.7	-12.5	118.1	27.5	1.8	-93.6	10.6	16.5	

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

Source: Ministry of Finance, Datastream

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