

### Budget gave TRY 6.4 billion deficit.

In September, budget expenditures recorded a limited increase by 2.6% compared to the same month of the previous year while budget revenues climbed by 32.9% yoy. Thus, the central government budget deficit, which was TRY 16.9 billion in September 2016, dropped to TRY 6.4 billion in the same month of this year. Despite the 34.6% increase in interest expenditures, the primary balance ran TRY 2 billion surplus in September thanks to the recovery in budget revenues.

During January-September period, the budget deficit which came in at TRY 12 billion in 2016, reached TRY 31.6 billion in the same period of this year. Budget expenditures expanded by 17.2% annually while budget revenues rose by 12.9% in this period.

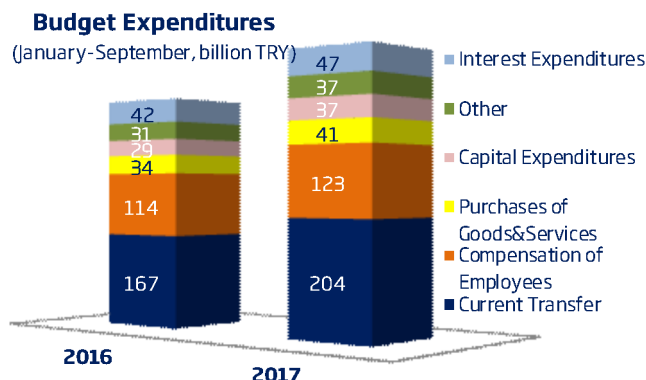
### Tax revenues gained momentum.

In September, tax revenues increased at an annual pace of 35.5%, the highest reading so far this year. About one-third of this growth came from the surge in SCT revenues. Especially, the 86.2% annual expansion in SCT revenues collected from tobacco products was noteworthy in September. Having surged by 63.7% yoy, VAT on imports contributed 10.4 pp to the growth in tax revenues. In addition, income tax revenues, rising by 30.3%, had a positive impact on budget figures. Domestic VAT, on the other hand, posted slower annual growth rate of 13.8% in September.

In the first nine months of the year, tax revenues went up by 17.1% yoy. While corporate tax revenues and VAT on imports had a strong performance in this period, domestic VAT rose by only 6.5% yoy.

### Deceleration in public expenditures...

Budget expenditures recorded a slight increase in September due to the 8.2% annual decrease in current transfers. The lack of the transfers for the social security deficit finance in September dragged down budget expenditures by 7.5 pp. Indeed, TRY 4 billion had been transferred by the Treasury for the social security deficit



finance in September 2016. The rapid increase in agricultural subsidy payments together with the considerable shrink in capital expenditures came to the forefront in September.

In January-September period, the current transfers made the highest contribution to the increase in budget expenditures. Capital expenditures also played an important role in the budget spending growth, particularly the increase in immovable capital produce. Interest expenditures, on the other hand, rose by 11.8% in this period.

### Expectations...

In the first three quarters of the year, it was seen that the recovery in economic activity was directly reflected in tax revenues. In fact, inflation adjusted annual increase in tax revenues became 5.3% in this period. Moreover, the rapid pick-up in imports in recent period supported the budget outlook particularly through the revenues collected from VAT on imports. Accordingly, we expect that the revival in budget revenues may continue in the forthcoming period and budget expenditures might continue to expand on the back of the measures taken to support economic activity. In this framework, we anticipate that the budget deficit will be TRY 61.7 billion at the end of this year, as projected in the MTP, and thus the budget deficit to GDP ratio will be around 2% in 2017.

### Central Government Budget

	September		%	January-September			2017 Budget			MTP	Real/MTP
	2016	2017		Change	2016	2017	Change	Target	Target		
<b>Expenditures</b>	<b>53.0</b>	<b>54.4</b>	<b>2.6</b>	<b>416.5</b>	<b>488.2</b>	<b>17.2</b>	<b>645.1</b>	<b>673.7</b>	<b>72.5</b>		
Interest Expenditures	6.2	8.4	34.6	41.7	46.6	11.8	57.5	57.5	81.0		
Non-Interest Expenditures	46.7	46.0	-1.6	374.8	441.6	17.8	587.6	616.2	71.7		
<b>Revenues</b>	<b>36.1</b>	<b>48.0</b>	<b>32.9</b>	<b>404.5</b>	<b>456.6</b>	<b>12.9</b>	<b>598.3</b>	<b>612.0</b>	<b>74.6</b>		
Tax Revenues	30.9	41.8	35.5	329.0	385.3	17.1	511.1	520.5	74.0		
Other Revenues	5.2	6.1	17.8	75.5	71.3	-5.6	87.2	91.6	77.8		
<b>Budget Balance</b>	<b>-16.9</b>	<b>-6.4</b>	<b>-62.0</b>	<b>-12.0</b>	<b>-31.6</b>	<b>162.7</b>	<b>-46.9</b>	<b>-61.7</b>	<b>51.2</b>		
<b>Primary Balance</b>	<b>-10.7</b>	<b>2.0</b>	<b>-</b>	<b>29.6</b>	<b>15.0</b>	<b>-49.5</b>	<b>10.6</b>	<b>-4.2</b>	<b>-</b>		

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

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