

Budget posted 8.5 billion TRY surplus.

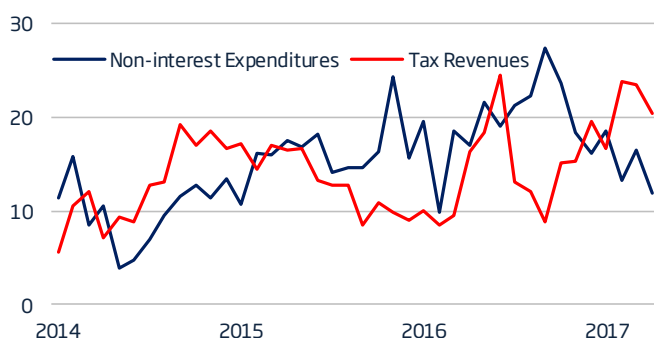
In November, budget expenditures increased by 11.8% compared to the same period of last year, while revenues increased by 7.3% yoy. Thus, central government budget surplus, which was 10 billion TRY in November 2016, was realized as 8.5 billion TRY in the same month of this year. Primary surplus came in close to last year's level with 13.6 billion TRY.

In the January-November period, while budget expenditures increased by 17.7% yoy, budget revenues rose by 13% yoy. In this period, budget deficit was realized as 26.5 billion TRY and primary surplus came in at 28.8 billion TRY. Budget deficit and primary surplus were 2.1 billion TRY and 46.3 billion TRY, respectively in the same period of 2016.

Tax revenues lost momentum.

Tax revenues, which had rapidly increased in September and October, lost momentum in November, rising by 8% on an annual basis. Due to increase in imports and in exchange rates, Value Added Tax (VAT) on imports increased by 27.8% yoy, thus contributing 4.1 percentage points to 8% expansion in tax revenues. In this period, income tax and Special Consumption Tax (SCT) revenues supported the tax revenues by surging 14.9% yoy and 11.1% yoy, respectively. On the other hand, 24% decrease in domestic VAT was noteworthy.

Non-interest Expenditures and Tax Revenues
(3-month ma, annual % change)



In the first eleven months, tax revenues expanded by 16.7% compared to the same period of the previous year. In this period, VAT revenues on imports picked up by approximately 30% yoy, recording the highest contribution to tax revenues. Rise in the SCT and income tax revenues was realized around 15% in this period. Corporate tax revenues also displayed a positive performance with a growth rate of 23.5%. On the other hand, in the first eleven months domestic VAT increased only 2.7% annually, which indicated somewhat poor performance of this item throughout 2017.

In the first 11 months of the year, decline in privatization revenues as well as revenues of state-owned enterprises and banks negatively affected budget performance.

Deceleration in budget expenditures...

In November, non-interest expenditures expanded by 9.9% year-on-year. Compensation of employees and purchase of goods and services were the main contributors to that expansion. In this period, 2.9% increase in current transfers seems to be the main driver behind the slowdown in non-interest expenditures. Rapid decline in current transfers for health, retirement and social aid played an important role in this development.

In January-November period, interest expenditures rose by 14.2% yoy. Almost half of the 18.1% increase in non-interest expenditures in the same period was due to current transfers.

Expectations...

In the first three quarters of the year, recovery in economic activity was reflected in tax revenues. Budget expenditures that had been expanding in 2017 on the back of measures taken to support the economy has started to show signs of slowdown. Given that the government's budget deficit forecast for the full-year was 61.7 billion TL, it is expected that budget will post a high deficit in December. However, we estimate that budget deficit to GDP ratio may stay below 2% considering that GDP growth in 2017 may exceed expectations following high growth rate in the third quarter.

Central Government Budget

(TRY billion)

	November			January-November			2017 Budget	MTP	Real/MTP
	2016	2017	% Change	2016	2017	% Change	Target	Target	Target (%)
Expenditures	50.7	56.7	11.8	510.7	601.1	17.7	645.1	673.7	89.2
Interest Expenditures	3.8	5.2	34.6	48.4	55.3	14.2	57.5	57.5	96.1
Non-Interest Expenditures	46.9	51.5	9.9	462.3	545.8	18.1	587.6	616.2	88.6
Revenues	60.7	65.2	7.3	508.6	574.6	13.0	598.3	612.0	93.9
Tax Revenues	54.1	58.4	8.0	419.1	489.3	16.7	511.1	520.5	94.0
Other Revenues	6.7	6.8	1.7	89.5	85.3	-4.7	87.2	91.6	93.1
Budget Balance	10.0	8.5	-15.4	-2.1	-26.5	1,149.5	-46.9	-61.7	42.9
Primary Balance	13.9	13.6	-1.6	46.3	28.8	-37.8	10.6	-4.2	-

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

Source: Ministry of Finance, Datastream

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