



Budget deficit was below MTP estimates in 2017.

Central government budget deficit in December was quite higher than previous months mainly due to periodic increase observed in budget expenditures. However, monthly budget deficit declined on annual basis. Budget revenues and expenditures surged up by 22.4% yoy and 4.5% yoy, respectively. Primary deficit decreased by 25% to 19.5 billion TRY during this period.

In 2017, budget indicators performed better than the Medium Term Plan (MTP) targets announced in October. Budget revenues exceeded MTP target by 18.3 billion TRY whereas budget deficit which came in 47.4 billion TRY in 2017 was 14.3 billion TRY below the MTP's year-end forecast. On the other hand, primary budget expenditures were higher than the year-end expectations to some extent. Except budget expenditures, budget realizations were also in line with the forecasts announced at the beginning of 2017.

Strong performance in tax revenues...

After losing some momentum in November, tax revenues accelerated in December thanks to the increases in Value Added Tax (VAT) on imports, income tax and Special Consumption Tax (SCT). VAT on imports increased by 29.3% yoy, thus contributing 6.6 percentage points to 17.2% expansion in tax revenues. On the other hand, corporate tax revenues declined by 3.5% limiting the tax revenues in December.

Regarding the whole year, tax revenues came in 25 billion TRY above from year-end target whereas 15.5 billion TRY above from MTP forecasts with the support of the revival in economic activity. The collection of 94% of the tax accruals pulled up tax revenues. In this period, due to the weak performance of Turkish lira, VAT on imports picked up approximately by 30% yoy, recording the highest contribution to tax revenues over the year. Also corporate taxes contributed considerably to the budget balance throughout the year contrary to its performance in December. On the other hand, domestic VAT displayed a poor performance throughout 2017.

Budget expenditures were higher than expectations.

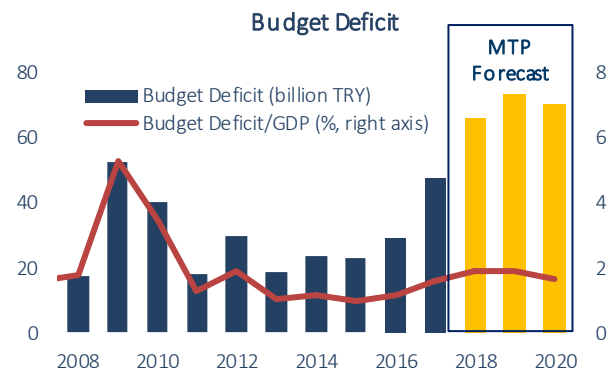
Current transfers which increased mainly due to the rises in health, retirement and social aid expenditures contributed to increase in budget expenditures significantly in December.

In 2017, budget expenditures were realized above the year-end target and MTP projections by 33 billion TRY and 4 billion TRY, respectively. In this period, current transfers and purchases of goods and services led budget expenditures to surpass the expectations.

Budget discipline is maintained.

According to 2017 year-end realizations, fiscal discipline was maintained despite the recent expansionary fiscal policies in 2017. Budget deficit to GDP ratio projections revised downwards after the announcement of December figures. Finance Minister Naci Ağbal stated that they expected the said ratio, which is expected to be 2% under the MTP projections, to be 1.5%. The ratio was 1.1% in 2016.

We do not expect any significant deterioration in budget indicators in the upcoming period. We anticipate that budget deficit/GDP ratio will remain at around 2% by the end of 2018. The statement of Finance Minister that there are no deferred expenditures in this year and they will support CBRT's monetary policy backs our expectations.



Central Government Budget

(billion TRY)

	December			January-December			2017 Budget Target	MTP Target	Real/MTP Target (%)
	2016	2017	% Change	2016	2017	% Change			
Expenditures	73.4	76.6	4.5	584.1	677.7	16.0	645.1	673.7	100.6
Interest Expenditures	1.8	1.4	-21.7	50.2	56.7	12.9	57.5	57.5	98.6
Non-Interest Expenditures	71.5	75.2	5.1	533.8	621.0	16.3	587.6	616.2	100.8
Revenues	45.6	55.8	22.4	554.1	630.3	13.8	598.3	612.0	103.0
Tax Revenues	39.9	46.8	17.2	459.0	536.0	16.8	511.1	520.5	103.0
Other Revenues	5.6	9.0	59.0	95.1	94.3	-0.9	87.2	91.6	102.9
Budget Balance	-27.8	-20.9	-24.9	-29.9	-47.4	58.4	-46.9	-61.7	76.8
Primary Balance	-26.0	-19.5	-25.1	20.3	9.3	-54.0	10.6	-4.2	-

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

Source: Datastream, Ministry of Finance

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