



Central government budget gave a surplus in July.

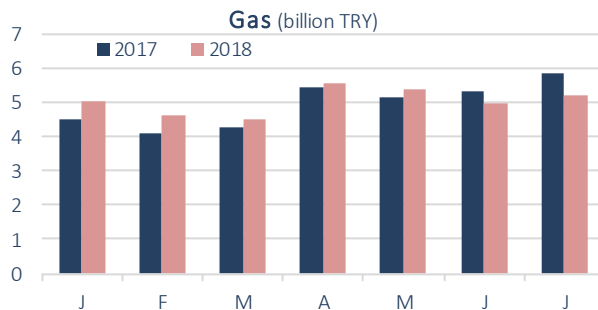
In July, budget revenues increased by 17.9% yoy to 61.8 billion TRY, while expenditures expanded by 17.8% in the same period and were realized as 60.7 billion TRY. Thus, the central government budget surplus, which was 926 million TRY in 2017 July, became 1.1 billion TRY in the same month of this year. As the rise in interest expenditures limited the budget surplus, the primary surplus in July expanded by 38.6% yoy and was realized as 9.3 billion TRY.

Deterioration observed in the budget outlook compared to the last year continued in the January-July period. Despite budget revenues increased by 18.1% yoy in the first seven months, budget expenditures expanded by 22.5% in the same period. Thus, budget deficit, which was 24.3 billion TRY in January-July period of last year, expanded by 20.7 billion TRY in the same period of this year and reached 45 billion TRY. The primary balance, which gave 8.4 billion TRY surplus in the first 7 months of 2017, gave a deficit of 3 billion TRY in the same period of this year.

Loss of momentum in SCT revenues...

Due to the exchange rate and foreign trade developments, VAT on imports continued to be decisive factor in tax revenues. In July, while tax revenues increased by 8.3 billion TRY, VAT on imports expanded by 52.4%, contributing 4.1 billion TRY to the increase in tax revenues. On the other hand, in order not to reflect the increase in oil prices to the consumers, the amount covered from the Special Consumption Tax (SCT) is calculated to be close to

SCT Revenues from Petroleum and Natural



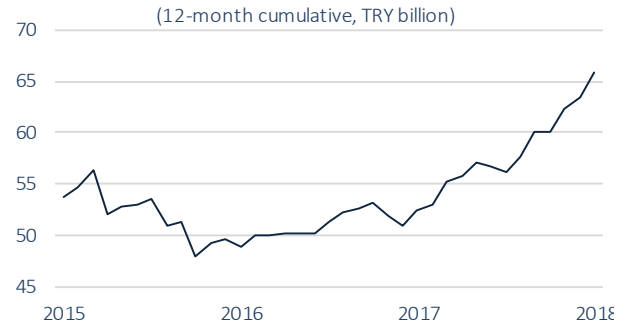
0.9 TRY per liter. This implementation, starting in mid-May, has limited the increase in budget revenues since June. The SCT on motor vehicles also suppressed the increase in budget revenues due to the contraction in the automotive market.

In the January-July period, thanks to annual rise in tax revenues by 19.5%, budget revenues increased by 63.8 billion TRY compared to the same period of last year. In this period, the increase in income tax and VAT on imports supported the budget performance. On the other hand, limited privatization revenues in this period compared to the previous year, put a downward pressure on the increase in total revenues.

Interest expenditures rose sharply.

In July, the increase in budget expenditures slowed down in line with the decline in capital transfers. On the other hand, defense and security expenditures and rising interest expenses affected the budget performance negatively.

Interest Expenditures



Expectations...

We anticipate that the slowing trend foreseen in economic activity in the second half of the year will exert pressure on tax revenues and that the expected increase in fuel prices due to depreciation in TRY will continue to be compensated from SCT, which in turn, enhance the pressure on revenues. On the other hand, revenues stemming from tax restructuring and housing peace together with the tight fiscal policy could improve budget outlook.

Central Government Budget

	July			January-July			2018 Budget		Real./ Target (%)
	2017	2018	% Change	2017	2018	Change	Target		
Expenditures	51.5	60.7	17.8	376.0	460.4	22.5	762.8	60.4	
Interest Expenditures	5.8	8.1	41.3	32.8	42.0	28.1	71.7	58.5	
Non-Interest Expenditures	45.8	52.6	14.8	343.2	418.5	21.9	691.1	60.6	
Revenues	52.5	61.8	17.9	351.7	415.4	18.1	696.8	59.6	
Tax Revenues	46.1	54.4	18.0	292.1	349.2	19.5	599.4	58.3	
Other Revenues	6.4	7.5	16.9	59.5	66.3	11.3	97.4	68.0	
Budget Balance	0.9	1.1	22.0	-24.3	-45.0	85.0	-65.9	68.2	
Primary Balance	6.7	9.3	38.6	8.4	-3.0	-	5.8	-	

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

Source: Datastream, Ministry of Finance

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