

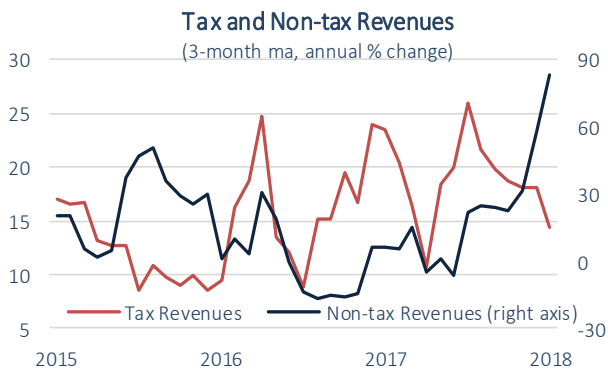
Budget deficit was realized as 5.4 billion TRY in October.

Central government budget deficit increased by 60.8% yoy to 5.4 billion TRY in October. Budget expenditures expanded by 20.2% yoy while rise in revenues was realized as 17.6%. In October, primary deficit was 1.2 billion TRY.

In the first ten months of the year, budget performance weakened compared to the same period of the previous year. In this period, budget expenditures surged up above the rise in revenues (19.5%) by 23.3%. Thus, in January-October period, central government budget deficit was recorded as 62.1 billion TRY. In this period, primary surplus declined to 2.5 billion TRY.

“Interest, shares and fines” revenues posted a rapid rise.

Interest, shares and fines which have been rising since August also continued to increase in October. This item more than tripled in this period and made the highest contribution to the annual increase in budget revenues with 13.2 points. Having displayed a strong outlook in 2018 due mainly to low base effect, tax revenues lost momentum in October, rising by 6.5% yoy. While income tax made the highest contribution to the annual increase in tax revenues by 5 points, VAT on imports followed it thanks to elevated exchange rates. On the other hand, annual decline in special consumption tax (SCT) on petroleum and natural gas products due to ‘échelle mobile’ system and suppressed SCT revenues on motor vehicles due the ongoing contraction in the automotive market limited the tax revenues.

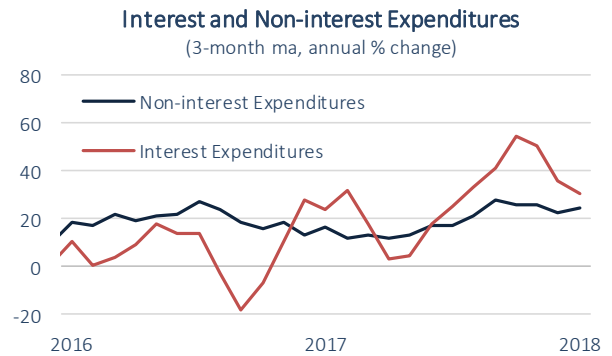


In January-October period, budget revenues increased by

99.5 billion TRY compared to the same period of the previous year. In this period, income and corporation tax supported the budget revenues. In addition, the rise in interest, shares and fines had a positive effect on budget performance.

Budget expenditures...

In October, current transfers made the highest contribution to the rise in budget expenditures (20.2%) by 7.7 points which was largely driven by the increase in the item of “financing of the social security deficit”. Rise in real estate, capital and production expenditures pulled expenditures up. Also, interest expenditures surged up by 19.2% yoy in October in parallel to the rising borrowing costs. In the first ten months of the year, all of the main expenditure groups lifted budget expenditures up. Current transfers and compensations of employees stood out in the rise in budget



expenditures.

Expectations...

In October, while tax revenues lost momentum in parallel with slowdown in economic activity, rapid rise in interest, shares and fines supported the budget balance. We expect that slowdown in economic activity will continue to put pressure on tax revenues in the last two months of the year. We anticipate that ‘échelle mobile’ system’s pressure on budget revenues may somewhat ease thanks to the appreciation of Turkish Lira and falling oil prices. On the other hand, the net effect of the tax cuts announced at the end of October on budget balance would be crucial for the performance of the budget in the rest of the year.

Central Government Budget

	October		%	January-October		%	2018 Budget		NEP	Real/NEP
	2017	2018		2017	2018		Target	Target		
Expenditures	56.2	67.5	20.2	544.4	671.1	23.3	762.8	821.8	81.7	
Interest Expenditures	3.5	4.2	19.2	50.1	64.6	29.0	71.7	76.4	84.6	
Non-Interest Expenditures	52.6	63.3	20.3	494.3	606.4	22.7	691.1	745.4	81.4	
Revenues	52.8	62.1	17.6	509.4	609.0	19.5	696.8	749.6	81.2	
Tax Revenues	45.6	48.5	6.5	430.9	507.9	17.9	599.4	630.5	80.5	
Other Revenues	7.3	13.6	87.5	78.5	101.1	28.7	97.4	119.1	84.9	
Budget Balance	-3.3	-5.4	60.8	-35.0	-62.1	77.7	-65.9	-72.1	86.1	
Primary Balance	0.2	-1.2	-	15.2	2.5	-83.3	5.8	4.3	58.9	

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

Source: Datastream , Ministry of Treasury and Finance

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