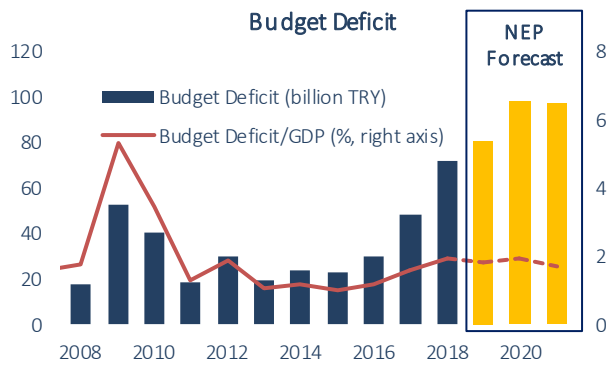


### Budget deficit was 72.6 billion TRY in 2018.

In December, central government budget deficit declined by 15.1% yoy to 18.1 billion TRY. In this period, budget revenues rose by 19.9% on an annual basis, while rise in expenditures was 10.2%

In the whole year, budget deficit widened by 24.8 billion TRY (52%) and was realized as 72.6 billion TRY, close to NEP projections. In 2018, budget expenditures increased by 22.4% to 830.4 billion TRY, while budget revenues recorded an increase of 20.2%.



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

Starting from August, rapid rise in interests, shares and fines have continued in December. This item, which increased more than 3 times on an annual basis, was the main driver of the budget revenues in the last month of the year by contributing 19.2 pp to the increase in budget revenues (19.9%). On the other hand, in parallel with the contraction in economic activity, tax revenues declined in December. While the decrease in domestic VAT and VAT on imports was prominent in this period, the decrease in SCT on motor vehicles due to tax cuts was noteworthy.

In 2018, the increase in tax revenues (15.8% yoy) remained below the inflation rate. Weak performance of tax revenues is attributed to the decline in domestic demand and tax cuts to support economic activity. SCT revenues, which accounted for about 25% of tax revenues, fell by

3.2% compared to 2017, limiting budget revenues by 0.7 pp. Privatization revenues, which had a weak course in 2018, contracted by 40.7% (3.8 billion TRY) compared to 2017. On the other hand, due to the one-off revenues such as tax amnesty and zoning amnesty, increase in other revenues has positively affected budget performance by rising 45.4% yoy.

### Budget expenditures...

In December, current transfers and personnel expenditures made the highest contribution to the annual rise in budget expenditures, which was 10.2%. Transfers to the Defense Industry Support Fund, which tripled in 2018, played an important role in the contribution of current transfers by 3.2 pp. Parallel to the rise in interest rates, annual increase in interest expenditures by 45.3% was also noted.

In the whole year, due to the increase in pension and social aid expenditures, current transfers contributed by 7.7 pp to the 22.4% increase in budget expenditures. The contribution of expenditures of immovable capital produces, which raised budget expenditures throughout the year, was 2.3 pp. In 2018, the contribution of interest expenditures to budget expenditures was 2.5 pp.

### Expectations...

Despite the pressure on tax revenues due to slow down in economic activity and an increase in interest expenditures, the budget deficit completed year close to NEP target thanks to the one-off revenues like tax amnesty and zoning amnesty. In the first half of 2019, tax revenues will possibly remain under pressure due to the weak domestic demand and the extended tax cuts. In addition, the high level of interest rates indicates that interest expenditures will remain elevated. In this context, we think that the course of non-interest expenditures will be the determinant in budget performance in 2019.

### Central Government Budget

	December			January-December			(billion TRY)		
	2017	2018	% change	2017	2018	% change	2018 Budget Target	NEP Target	Real/NEP Target (%)
<b>Expenditures</b>	<b>77.2</b>	<b>85.1</b>	<b>10.2</b>	<b>678.3</b>	<b>830.4</b>	<b>22.4</b>	<b>762.8</b>	<b>821.8</b>	<b>101.1</b>
Interest Expenditures	1.4	2.1	45.3	56.7	74.0	30.4	71.7	76.4	96.8
Non-Interest Expenditures	75.8	83.0	9.6	621.6	756.5	21.7	691.1	745.4	101.5
<b>Revenues</b>	<b>55.9</b>	<b>67.0</b>	<b>19.9</b>	<b>630.5</b>	<b>757.8</b>	<b>20.2</b>	<b>696.8</b>	<b>749.6</b>	<b>101.1</b>
Tax Revenues	47.3	45.5	-3.8	536.6	621.3	15.8	599.4	630.5	98.5
Other Revenues	8.6	21.5	151.2	93.9	136.5	45.4	97.4	119.1	114.6
<b>Budget Balance</b>	<b>-21.3</b>	<b>-18.1</b>	<b>-15.1</b>	<b>-47.8</b>	<b>-72.6</b>	<b>52.0</b>	<b>-65.9</b>	<b>-72.1</b>	<b>100.8</b>
<b>Primary Balance</b>	<b>-19.9</b>	<b>-16.0</b>	<b>-19.5</b>	<b>8.9</b>	<b>1.3</b>	<b>-84.9</b>	<b>5.8</b>	<b>4.3</b>	<b>31.1</b>

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

Source: Datastream , Ministry of Treasury and Finance

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