

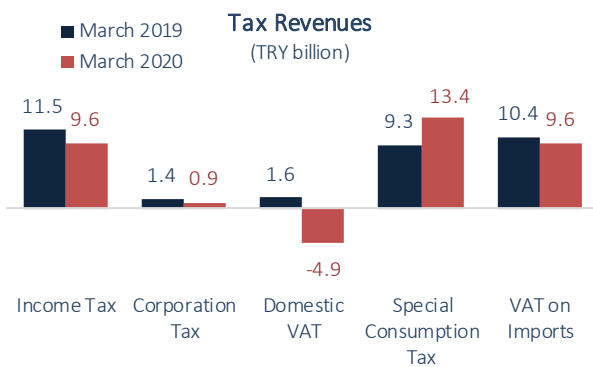
Budget deficit widened rapidly in March.

In line with the spread of coronavirus in Turkey, central government budget started to deteriorate in March. In this period, central government budget deficit increased by 78.6% yoy (19.2 billion TRY) and reached 43.7 billion TRY. In March, budget revenues contracted by 12.7% yoy due to the rapid decline in tax revenues. Budget expenditures, on the other hand, expanded by 15.6% in this period.

Thanks to the relatively positive performance in January-February period, the budget deficit decreased by 18.2% yoy (6.6 billion TRY) and became 29.6 billion TRY in the first quarter of 2020. On the other hand, primary balance, which posted 2.8 billion TRY deficit in the first quarter of 2019, gave 8.7 billion TRY surplus in the same period of this year.

Sharp decline in tax revenues...

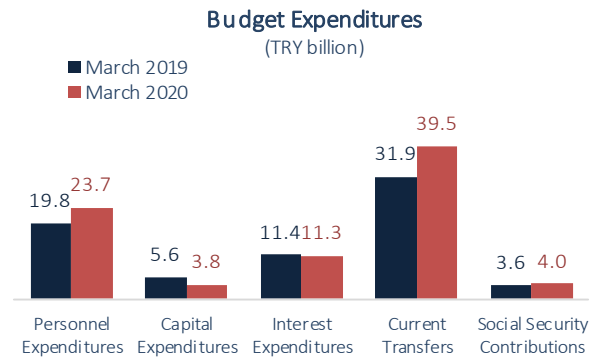
In addition to the weakening trend in supply and demand conditions, deferral of tax payments to limit the impact of the epidemic on economic activity led tax revenues to decline by 10.1% in March compared to the same period of last year. During this period, domestic VAT has reduced tax revenues by 4.9 billion TRY due to deferral and the refund mechanism. Decreases in income tax and portfolio revenues of Treasury also affected budget revenues negatively in March. On the other hand, the annual increase in SCT revenues by 43.4% limited the decrease in budget revenues in this period.



Despite the negative performance in March, tax revenues expanded by 14.2% in the first quarter of the year. In this period, SCT, provisional corporation tax and VAT on imports also contributed significantly to the increase in budget revenues. In addition, portfolio revenues of Treasury and interest revenues stood out as the main figures that supported budget revenues in the first quarter.

Budget expenditures continued to increase rapidly in the first quarter.

Increases in current and personnel expenditures in March led budget expenditures to rise rapidly. In this period, 2.6 billion TRY amount of increase in other Treasury aids, being monitored under current transfers, contributed 3.3 pts to the increase in budget expenditures. On the other hand, decrease in immovable capital expenditures by 35.9% yoy (1.6 billion TRY) limited the increase in budget expenditures by 2 pts.



In the first quarter of the year, expansion in current transfers and personnel expenses came to the fore in the rise in budget expenditures.

Expectations...

While negative effects of coronavirus outbreak on economic activity lead tax revenues to weaken in Turkey, it also necessitates public expenditures to support economic activity. Under these circumstances, we expect the budget indicators to remain under pressure for the rest of the year.

Central Government Budget

	March			January-March			(billion TRY)	
	2019	2020	% Change	2019	2020	% Change	2020 Budget Target	Real./ Target (%)
Expenditures	78.8	91.2	15.6	254.4	285.3	12.1	1,095.5	26.0
Interest Expenditures	11.4	11.3	-0.4	33.4	38.2	14.6	138.9	27.5
Non-Interest Expenditures	67.5	79.8	18.3	221.1	247.1	11.8	956.5	25.8
Revenues	54.4	47.4	-12.7	218.3	255.7	17.2	956.6	26.7
Tax Revenues	41.1	37.0	-10.1	154.3	176.1	14.2	784.6	22.4
Other Revenues	13.3	10.5	-21.0	64.0	79.6	24.4	172.0	46.3
Budget Balance	-24.5	-43.7	78.6	-36.2	-29.6	-18.2	-138.9	21.3
Primary Balance	-13.1	-32.4	147.2	-2.8	8.7	-	0.1	8,667.4

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

Source: Datastream , Ministry of Treasury and Finance

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

İlker Şahin
Economist
ilker.sahin@isbank.com.tr

Alper Gürler
Unit Manager
alper.gurler@isbank.com.tr

Gamze Can
Economist
gamze.can@isbank.com.tr

Dilek Sarsın Kaya
Asst.Manager
dilek.kaya@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş., accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.