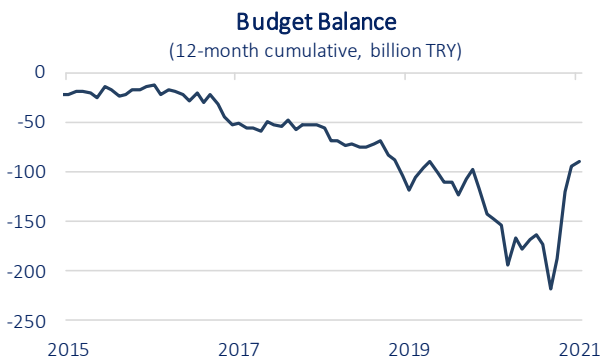




Central government budget posted a deficit of 13.4 billion TRY in May.

In May, budget revenues increased by 53.5% yoy to 104.6 billion TRY. In this period, budget expenditures expanded by 38% yoy and became 117.9 billion TRY. Thus, the central government budget deficit, which was 17.3 billion TRY in May 2020, decreased by 22.7% yoy and was realized as 13.4 billion TRY in May 2021. During this period, the primary surplus became 575 million TRY.

In the first five months of the year, the central government budget performance has improved compared to the same period of last year, when tax deferrals were at the forefront in the fight against the pandemic. In January-May 2021 budget revenues expanded by 39.4% yoy, while budget expenditures increased by 14.8% yoy. Thus, the budget deficit narrowed by 82.6 billion TRY (91.7%) compared to the first five months of 2020 and became 7.5 billion TRY in January-May 2021. The primary budget balance, which gave a deficit of over 25 billion TRY in the first 5 months of last year, posted a surplus of 73.9 billion TRY in the same period of this year.



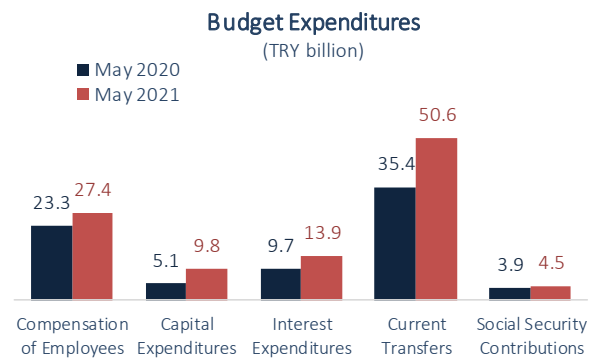
Tax revenues rose rapidly in May.

Following the recent months, the increase in tax revenues gained momentum in May. In this period, tax revenues expanded at an annual pace of 67% thanks to the pickup in income tax and VAT on imports. Income tax climbed by 69.2% yoy and reached 15.3 billion TRY, while VAT on imports rose by 122.5% yoy with the effect of the annual rise in foreign exchange rates and became 18.2 billion TRY. Corporate tax also went up by 29.3% yoy to 25.1 billion TRY. In May, special consumption tax (SCT) revenues increased by 17.6% yoy, driven by the rapid rise (197.3%) in the motor vehicle tax. During this period, domestic VAT rose by 633.2% yoy thanks to strong trend

in domestic demand as well as the low base effect.

Current transfers expanded by 42.7% yoy in May.

In May, interest expenditures went up by 44.3% yoy to 13.9 billion TRY, while non-interest expenditures increased by 37.2% yoy to 104 billion TRY. The current transfers, which account for 48.6% of primary expenses, went up by 42.7% yoy in May. This increase was driven by the rapid rise in unemployment fund aids, which is monitored under the Treasury aids item, and the invoiced payments which climbed by 11 times and became 13.5 billion TRY. During this period, the annual increase in capital expenditures came in at 92.6%, while capital transfers also rose rapidly.



Expectations...

In January-May period, the budget revenues increased faster than the expenditures thanks to low base effect and the restructuring of tax and administrative fines, thus the central government budget showed a relatively positive outlook. In the second half of the year, we expect the budget revenues to be positively affected by the general recovery in economic activity, in parallel with the slowdown in the pandemic thanks to the increase in vaccination access, while the pandemic-related expenditures will tend to decrease.

Within the framework of the targets in the Economic Reform Package, the Ministry of Treasury and Finance published the first Public Finance Report on May 31. According to the report, the budget deficit, which was forecasted as 245 billion TRY in the Central Government Budget Law for 2021, is estimated to be 199.9 billion TRY along with the changes in the pandemic conditions, macroeconomic developments and the measures implemented or to be implemented.

Central Government Budget

	May		%	January-May		%	2021 Budget Target	2021 Target*	Real./2021 Target* (%)
	2020	2021		Change	2020				
Expenditures	104.6	117.9	12.8	1,000.0	550.0	-45.0	1,346.1	1,454.5	37.8
Interest Expenditures	9.7	13.9	44.3	65.0	81.5	25.4	179.5	179.6	45.4
Non-Interest Expenditures	100.4	104.0	3.6	900.1	468.5	-47.9	1,166.6	1,274.9	36.8
Revenues	72.8	104.6	43.6	875.3	542.5	-38.0	1,101.1	1,254.6	43.2
Tax Revenues	60.6	92.3	52.3	673.9	423.7	-37.1	922.7	1,051.1	40.3
Other Revenues	12.2	12.3	0.7	201.4	118.8	-41.0	178.4	203.6	58.3
Budget Balance	-31.8	-13.4	27.9	-124.7	-7.5	-94.0	-245.0	-199.9	3.8
Primary Balance	-27.6	0.6	29.5	-24.8	73.9	56.3	-65.5	-20.3	-

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

(*) The estimates included in the Public Finance Report published by the Ministry of Treasury and Finance in May.

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	İlkin Bengisu Tuncer Asst. Economist bengisu.tuncer@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.