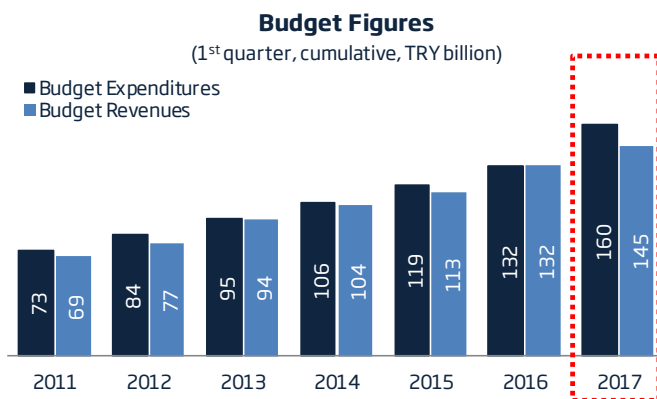


**Budget gave 19.5 billion TRY deficit.**

The central government budget recorded a deficit of 19.5 billion TRY in March. Except for the December's figures with periodic budget spending increases, the budget deficit reached record level. Budget expenditures surged by 25% yoy while budget revenues contracted by 3% yoy in March. Excluding privatization revenues that made 4 billion TRY contribution to the budget in March 2016, budget revenues expanded by 7.8% yoy. The budget, which gave a limited primary surplus of 160 million TRY in March of last year, recorded a deficit of 12.4 billion TRY in the same month of this year.

**Weak performance in budget indicators...**

Budget figures showed a weak performance during the first quarter of this year, largely due to the deterioration seen in March. Budget, which gave 46 million TRY surplus in the first quarter of 2016 period, recorded a deficit of 14.9 billion TRY in the same period of 2017.



Budget expenditures expanded by 21.3% yoy in the first quarter owing to the pick-up in current transfers. Increase in budget revenues, on the other hand, was realized as 9.9% yoy, below the average inflation rate during this period.

**Moderate course in tax revenues...**

Despite the relatively weak course in February and March, tax revenues surged by 12% yoy in the first quarter of the year mainly due to the strong performance in the first month of the year. Income revenues recorded a slight annual increase by 9.2% yoy while corporate tax revenues increased by 22.8% yoy in the same period. Tax revenues from tobaccos and beverages were influential in the 10.9% yoy increase in SCT revenues. A limited increase in domestic VAT revenues pointed out the moderate course in domestic economic activity in the first quarter of the year

The privatization revenues which were 6.1 billion TRY in the first quarter of 2016, remained 4.2 billion TRY in the same period of 2017. According to year-end target, privatization revenues are estimated to be approximately 9 billion TRY in the rest of the year. On the other hand, if the privatization revenues are started to be transferred to the Türkiye Wealth Fund, budget revenues may remain below the year-end target.

**More than 20% increase in budget expenditures...**

Personnel expenditures rose by 8.4% yoy in the first quarter while current transfers drove up the budget deficit, expanding by 31.7% yoy. The amount of 19.8 billion TRY transferred by the Treasury for the social security deficit finance and reduction made on the employer's insurance contribution constituted almost 40% of the increase in budget expenditures. 13% of the expansion in the total expenditures stemmed from agricultural subsidies and the shares of local government. Due to the increase in cost of

**Central Government Budget**

(TRY billion)

	March			January-March			2017 Budget	
	2016	2017	% Change	2016	2017	% Change	Target	Real./ Target (%)
<b>Expenditures</b>	<b>46.8</b>	<b>58.6</b>	<b>25.0</b>	<b>131.7</b>	<b>159.7</b>	<b>21.3</b>	<b>645.1</b>	<b>24.7</b>
Interest Expenditures	6.7	7.2	6.3	16.5	18.8	14.3	57.5	32.7
Non-Interest Expenditures	40.1	51.4	28.2	115.2	140.8	22.2	587.6	24.0
<b>Revenues</b>	<b>40.3</b>	<b>39.1</b>	<b>-3.0</b>	<b>131.7</b>	<b>144.7</b>	<b>9.9</b>	<b>598.3</b>	<b>24.2</b>
Tax Revenues	30.5	33.2	8.9	108.5	121.6	12.0	511.1	23.8
Other Revenues	9.8	5.9	-40.1	23.2	23.1	-0.2	87.2	26.5
<b>Budget Balance</b>	<b>-6.6</b>	<b>-19.5</b>	<b>197.0</b>	<b>0.0</b>	<b>-14.9</b>	<b>-</b>	<b>-46.9</b>	<b>31.9</b>
<b>Primary Balance</b>	<b>0.2</b>	<b>-12.4</b>	<b>-</b>	<b>16.5</b>	<b>3.9</b>	<b>-76.4</b>	<b>10.6</b>	<b>36.6</b>

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

borrowing, interest expenditures also increased by 2.4 billion TRY compared to the previous year.

### **Expectations**

A significant deterioration was recorded in budget indicators in March. A similar amount of the deficit in the first quarter of 2017 was given in the first quarter of 2009 as an expansionary fiscal policy was implemented during this period in order to support economic activity. But since then, the budget deficits for the first quarter were well below that level. Nonetheless, first quarter budget performance has been in harmony with the year-end targets. Besides, the budget spending for the full year is likely to exceed the year-end goal due to the unveiled measures to boost the economy. We think that the budget revenues might keep their weak course in the face of the extension of the tax reductions in white goods and furniture products unless there is a rapid recovery in domestic demand. Hence, the budget deficit might surpass the target level at the end of 2017. However, given the current low level of the budget deficit /GDP ratio (2016: 1.1%), we think that widening in the budget deficit might be manageable to the extent that budget expenditures support the economic activity.

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