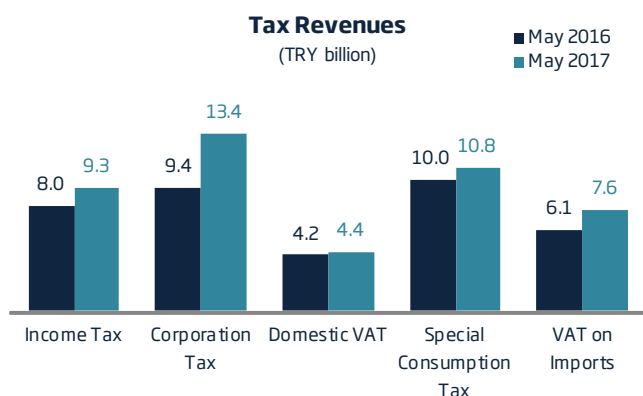


A favorable budget outcome in May...

In May, budget expenditures increased by 11.4% yoy and budget revenues rose by 16.1% yoy. The rapid growth in budget expenditures in the past three months has lost pace in May. Budget revenues recovered on the back of the strong tax revenues. Thus, the central government budget, which posted a surplus of 3.7 billion TRY in May 2016, gave a surplus of 6.4 billion TRY in the same month of this year.

Rapid increase in tax revenues...

Tax revenues continued to recover in May following April. Tax revenues expanded at an annual pace of 20.3% thanks to the pickup in corporate tax, VAT on imports and income tax. The revenues collected from these taxes climbed by 42.7%, 24.4% and 17.1%, respectively. In addition, revenues recorded under the Law on Restructuring of Certain Receivables (the Law No. 6736) provided significant support to the budget amounting to 2.5 billion TRY in May. Nearly one-third of the increase in budget revenues was led by the said revenues.



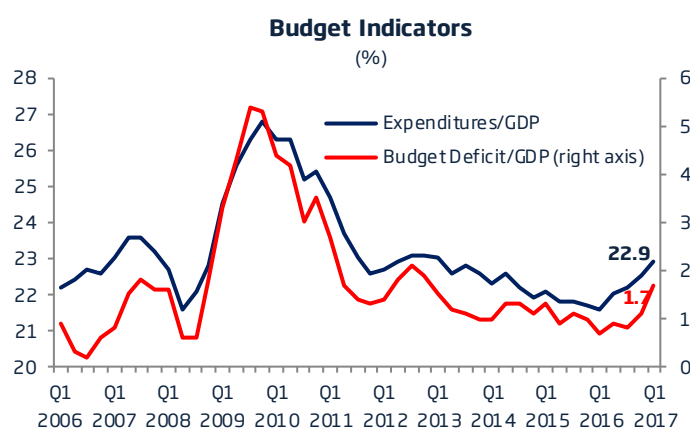
Budget expenditures lost momentum in May.

Expansion in budget expenditures continued in May, but the pace of growth slowed down. In this period, current transfers made the highest contribution to the increase in budget expenditures. Approximately half of the rise was led by current transfers. This was driven mainly by the rise in health, retirement and social aid expenditures. On the other hand, higher good and services purchases and capital

expenditures were the other factors that put upward pressure on expenditures in May. Interest expenditures, which displayed an upward trend since the beginning of the year, declined and thus had a positive impact on the budget balance in May.

Budget deficit to GDP ratio rose in the first quarter.

The data on growth announced at the beginning of the week showed that budget expenditures to GDP ratio for the first quarter of 2017 has picked up, according to the 12-month cumulative figures. Indeed, budget deficit to GDP ratio surged to 1.7% in this period. However, given 3.4 billion TRY budget surplus recorded during the April-May period, budget outlook in the second quarter might be better after posting a deficit of 14.9 billion TRY in the first quarter.



Expectations

Although tax revenues continued to recover thanks to the restructuring of receivables as well as the revival in economy, recent realizations indicated that tax revenues may come in slightly below the budget target in 2017. On the expenditure side, it seems that government takes a more cautious stance in the second quarter of the year. Nevertheless, budget expenditures are expected to surpass the initial target as the stimulus measures led to a higher than expected increase in this item so far this year. Yet, it is considered that the budget deficit to GDP ratio will not exceed 2% at the year-end.

Central Government Budget

	(TRY billion)								
	May			January-May			% 2017 Budget		Real./ Target (%)
	2016	2017	Change	2016	2017	Change	Target	Target (%)	
Expenditures	45.9	51.1	11.4	221.9	266.8	20.2	645.1	41.3	
Interest Expenditures	5.0	3.7	-27.3	24.2	25.7	6.3	57.5	44.7	
Non-Interest Expenditures	40.8	47.4	16.2	197.7	241.0	21.9	587.6	41.0	
Revenues	49.5	57.5	16.1	230.9	255.3	10.5	598.3	42.7	
Tax Revenues	42.4	50.9	20.3	183.4	209.6	14.3	511.1	41.0	
Other Revenues	7.1	6.5	-8.5	47.6	45.6	-4.1	87.2	52.3	
Budget Balance	3.7	6.4	74.4	9.1	-11.5	-	-46.9	24.5	
Primary Balance	8.7	10.0	15.5	33.3	14.2	-57.2	10.6	133.5	

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

Source: Ministry of Finance, Datastream

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