

**Budget deficit became 874 million TRY.**

In August, budget expenditures increased by 22.4% compared to the same month of the previous year while budget revenues rose by 12.0%. Thus, the central government budget, which gave a surplus of 3.6 billion TRY in August 2016, gave a deficit of 874 million TRY in the same month of this year. The primary surplus decreased from 8.4 billion TRY to 4.6 billion TRY, falling by 46.1%.

In January-August period, the budget which posted a surplus of 4.9 billion TRY in 2016, gave a deficit of 25.2 billion TRY in the same period of this year. Budget expenditures expanded by 19.3% annually while budget revenues rose by 10.9% in this period.

**Weak outlook in domestic taxes...**

In August, tax revenues rose by 13.1% yoy. In the same period, corporate and income taxes expanded by 17.2% and 15%, respectively. Value added tax (VAT) on imports climbed by 31.2% also due to the upsurge in FX rates. The weak performance of domestic tax on goods and services in August was worthy of attention. While domestic VAT increased by 8.2% yoy in August, special consumption tax rose by only 4.3% over this period. The decrease in tax revenues collected from tobacco products played a role in this development.

In the first eight months of the year, especially corporate tax and VAT on imports have positive impacts on budget revenues. Domestic VAT rose by 5.5% yoy during January-August period. On the other hand, fall in portfolio revenue of Treasury limited the growth in budget revenues.

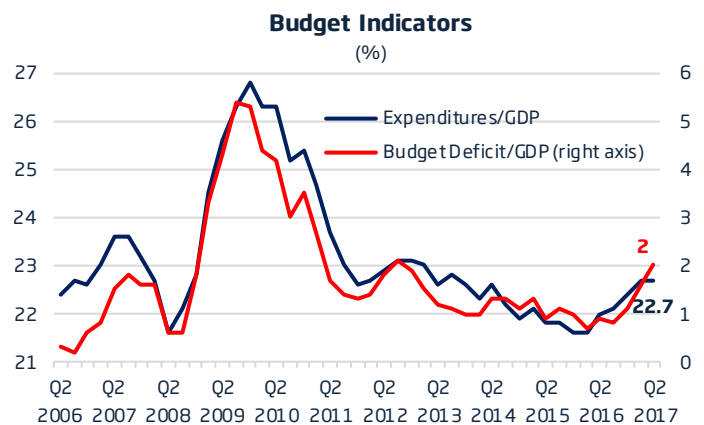
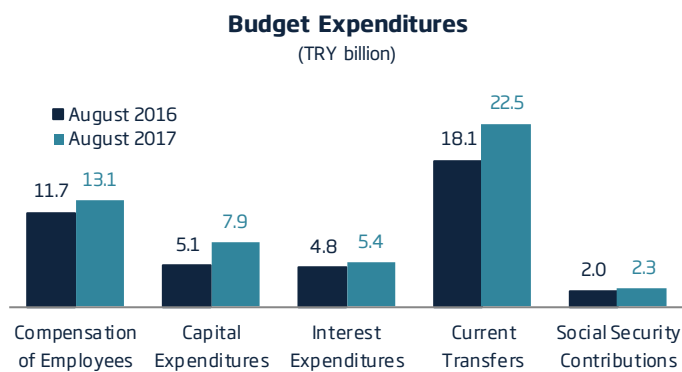
**Rapid pick-up in public expenditures...**

The upward impact of the measures taken to support economic activity was felt on budget expenditures in August. In this period, the expenditures rose by 22.4%, 9.4 points of this rise came from current transfers and 5.8 points from immovable capital produce.

**Expectations...**

Budget revenues expanded at a mild pace despite the strong outlook of economic activity. To what extent the recovery in the economy will be translated into tax revenues in the coming period matters to budget revenues.

According to the GDP growth figures for the 2nd quarter of 2017, the budget deficit recorded in the last 12 months reached 2% of GDP, the highest level in 5 years. In the 2nd half of the year, we expect that budget deficit/GDP ratio will remain broadly flat.

**Central Government Budget**

(TRY billion)

	August			January-August			2017 Budget	
	2016	2017	% Change	2016	2017	% Change	Target	Real./ Target (%)
<b>Expenditures</b>	<b>47.3</b>	<b>57.9</b>	<b>22.4</b>	<b>363.5</b>	<b>433.8</b>	<b>19.3</b>	<b>645.1</b>	<b>67.2</b>
Interest Expenditures	4.8	5.4	11.9	35.4	38.2	7.7	57.5	66.4
Non-Interest Expenditures	42.4	52.4	23.6	328.1	395.7	20.6	587.6	67.3
<b>Revenues</b>	<b>50.9</b>	<b>57.0</b>	<b>12.0</b>	<b>368.4</b>	<b>408.7</b>	<b>10.9</b>	<b>598.3</b>	<b>68.3</b>
Tax Revenues	45.4	51.4	13.1	298.1	343.5	15.2	511.1	67.2
Other Revenues	5.4	5.6	3.1	70.3	65.1	-7.4	87.2	74.7
<b>Budget Balance</b>	<b>3.6</b>	<b>-0.9</b>	<b>-</b>	<b>4.9</b>	<b>-25.2</b>	<b>-</b>	<b>-46.9</b>	<b>53.8</b>
<b>Primary Balance</b>	<b>8.4</b>	<b>4.6</b>	<b>-46.1</b>	<b>40.3</b>	<b>13.0</b>	<b>-67.8</b>	<b>10.6</b>	<b>122.0</b>

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

Source: Ministry of Finance, Datastream

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