

Budget posted a deficit of 20.2 billion TRY.

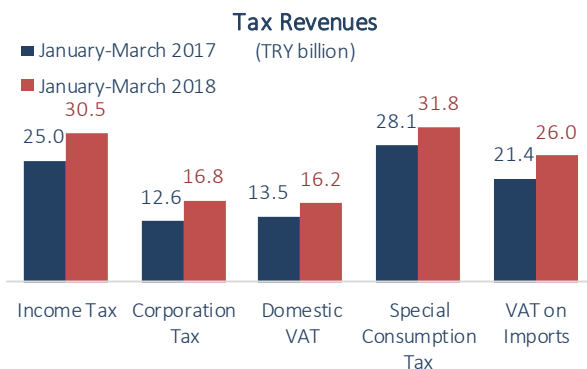
The central government budget deficit increased by 3.6% yoy in March and amounted to 20.2 billion TRY. Revenues expanded more than expenditures in this period. Budget revenues increased by 23.4% yoy to 48.2 billion TRY while budget expenditures rose by 16.8% to 68.4 billion TRY. The rapid rise of 34.1% recorded in interest expenditures stood out. Thus, the primary budget deficit, which was 12.4 billion TRY in March 2017, declined to 10.6 billion TRY in the same month of this year.

First quarter budget performance was also weaker compared to the same period of the previous year due partly to the lack of privatization revenues. The central government budget deficit, which was 14.9 billion TRY in the January-March period of 2017, surged by 36.9% yoy to 20.4 billion TRY in the same period this year.

Tax revenues continued to perform strongly.

Tax revenues, playing a key role in budget revenues, maintained a positive performance in March. Along with the recent expansion in import volume and the rise in exchange rates, it is seen that VAT on imports increased considerably. Rising by 32.2% compared to March 2017, this figure contributed 7.8 points to the increase in tax revenues. In line with the favorable performance of domestic demand, special consumption tax (SCT) and domestic VAT added 5.7 and 4.8 points to the increase in tax revenues, respectively.

In the first quarter of the year, the annual growth rate of tax revenues almost reached 20%. The lack of privatization revenues in the first quarter of this year limited the increase in total revenues. On the other hand, nearly 4 billion TRY was collected through debt and tax restructurings during this



Central Government Budget

	March			January-March			2018 Budget	
	2017	2018	% Change	2017	2018	Change	Target	Real./Target (%)
Expenditures	58.6	68.4	16.8	159.7	187.9	17.7	762.8	24.6
Interest Expenditures	7.2	9.6	34.1	18.8	22.3	18.3	71.7	31.1
Non-Interest Expenditures	51.4	58.9	14.5	140.8	165.6	17.6	691.1	24.0
Revenues	39.1	48.2	23.4	144.7	167.4	15.7	696.8	24.0
Tax Revenues	33.2	41.2	24.2	121.6	145.8	19.9	599.4	24.3
Other Revenues	5.9	7.0	18.9	23.1	21.6	-6.4	97.4	22.2
Budget Balance	-19.5	-20.2	3.6	-14.9	-20.4	36.9	-65.9	31.0
Primary Balance	-12.4	-10.6	-14.0	3.9	1.9	-52.5	5.8	32.1

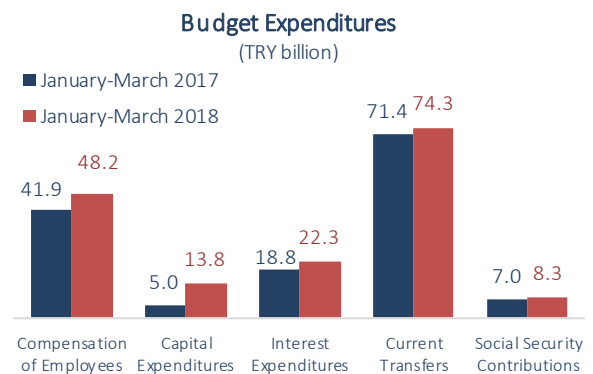
Numbers may not add up to total value due to rounding.

period. This amount provided a boost for the budget revenues.

Sharp increase in interest expenditures...

The upsurge in capital and interest expenditures stood out in the rise of overall expenditures. In March, capital expenditures expanded by 45.7% compared to the previous year due to the rapid growth in expenditures of immovable capital products. Interest expenditures increased by 34.1% in this period due to the rise in borrowing costs. On the other hand, the continued decline in the amount transferred for the social security deficit had a favorable impact on the budget performance in March.

Capital expenditures and capital transfers tripled in the first quarter compared to the same period of last year, causing upward pressure on budget expenditures. On the other hand, the fall in the amount transferred for the financing of social security deficit by 8.5 billion TRY from a year earlier limited the increase in budget expenditures as the allowance transferred to the social security institution (SSI) at the end of 2017 mitigated the need for transfers in the first quarter this year.



Expectations

Strong economic activity and tax adjustments continued to have positive repercussions on tax revenues. On the other hand, as capital expenditures and capital transfers have shown, public infrastructure investments push up budget expenditures. The increase in the interest expenditures also weighs on the budget performance. When we consider the expected normalization in the financing of social security deficit, we believe that budget expenditures will continue to expand.

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