

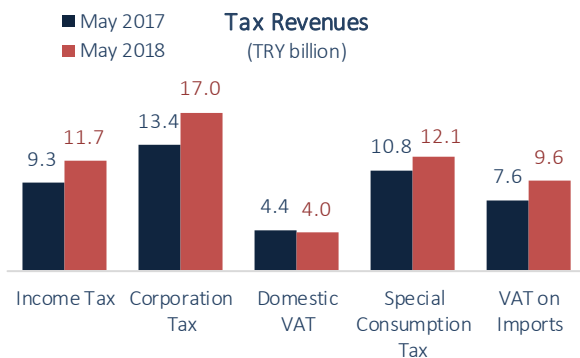
Central government budget gave a surplus in May.

In May, budget revenues increased by 21.8% yoy to 70 billion TRY. In this period, budget expenditures expanded by 31.7% and became 67.3 billion TRY. Thus, the central government budget surplus, which was 6.4 billion TRY in May 2017, contracted by 57.6% and was realized as 2.7 billion TRY in May 2018. Primary surplus was 8.7 billion TRY.

Regarding the first five months of the year, it is observed that the central government budget performance has also deteriorated compared to the same period of the previous year. While budget revenues expanded by 18.3% in this period, budget expenditures increased by 20.9%. Thus, the budget deficit expanded by 9 billion TRY (78.1%) compared to the first five months of 2017, reaching 20.5 billion TRY. As the rising financing costs pushed interest expenditures upward, the primary surplus decreased by 23% and became 11 billion TRY.

Provisional corporation tax supported the budget revenues.

The positive contribution of tax revenues to budget revenues continued in May. While tax revenues increased by 20.2% yoy during this period, provisional corporation tax expanding by 3.9 billion TRY (31.2%) and taxes on foreign trade increasing by 2.8 billion TRY (32.2%) were effective in this development. On the other hand, the increase in special consumption tax was seen to be relatively low in this period. In addition, due to the increase in VAT refunds in May, the net VAT collection decreased by 7.9%.

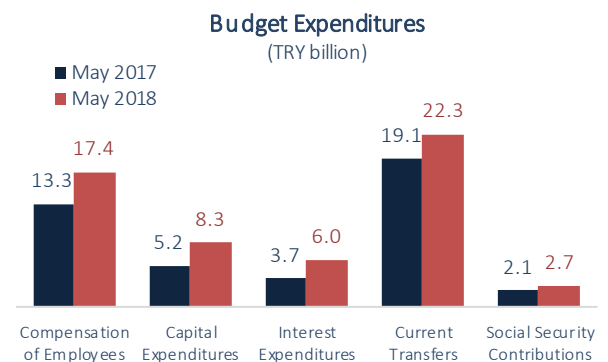


Rise in privatization revenues...

In May, privatization revenues, which also had positive impact on budget performance, gave the highest contribution to the increase in budget revenues with 2.5 percentage points; following tax revenues (having a contribution of 17.9 pp).

Rise in defense expenditures...

In May, budget expenditures expanded by 16.2 billion TRY compared to the same month of the previous year and almost all of the main expenditure groups supported this increase. In this period, the rapid increases in the subcategories of current transfers were noteworthy. On the other hand, the rapid decline in transfers of the government for the financing of the social security deficit has limited the increase in current transfers. Another important expenditure figure that emerged in May was goods and services procurements. Defense spending also increased significantly in May while expenditures for immovable capital produce continued to effect budget expenditures upwardly.



Expectations...

Budget indicators posted a limited deterioration in the first five months of the year. Although tax revenues show a positive outlook thanks to the strong economic activity, rising public expenditures has negative impact on the budget realizations. We expect the performance of the revenues to be decisive in the course of the budget balance in the second half of the year.

Central Government Budget

	May			January-May			2018 Budget	
	2017	2018	% Change	2017	2018	% Change	Target	Real./Target (%)
Expenditures	51.1	67.3	31.7	266.8	322.5	20.9	762.8	42.3
Interest Expenditures	3.7	6.0	64.8	25.7	31.4	22.2	71.7	43.8
Non-Interest Expenditures	47.4	61.3	29.2	241.0	291.1	20.8	691.1	42.1
Revenues	57.5	70.0	21.8	255.3	302.1	18.3	696.8	43.3
Tax Revenues	50.9	61.2	20.2	209.6	252.1	20.2	599.4	42.1
Other Revenues	6.5	8.8	34.6	45.6	50.0	9.6	97.4	51.3
Budget Balance	6.4	2.7	-57.6	-11.5	-20.5	78.1	-65.9	31.0
Primary Balance	10.0	8.7	-13.0	14.2	11.0	-23.0	5.8	189.6

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

Source: Datastream , Ministry of Finance

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