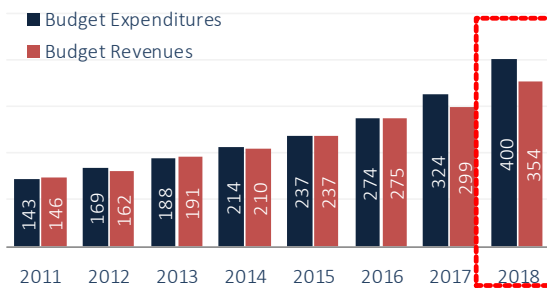


Budget deficit was realized as 25.6 billion TRY in June.

Central government budget deficit increased by 86.5% yoy to 25.6 billion TRY in June. Budget expenditures surged up by 33.8% yoy to 77.2 billion TRY while budget revenues expanded by 17.3% to 51.5 billion TRY in June. Primary budget deficit, which was 12.5 billion TRY in June 2017, increased by 86.5% yoy in the same month of this year to 23.2 billion TRY.

In the first half of the year, budget performance weakened compared to the same period of the previous year. In this period, budget expenditures and revenues expanded by 23.2% and 18.2%, respectively. Thus, central government budget deficit, which was 25.2 billion TRY in January-June 2017, was realized as 46.1 billion TRY in the same period of this year. Primary budget deficit reached 12.3 billion TRY in this period.

Budget Figures
(January-June, TRY billion)



Rise in tax revenues slowed down in June.

Having displayed a strong outlook in 2018, tax revenues lost some momentum in June, by increasing 17.4% yoy albeit supporting the budget revenues. VAT on imports made the highest contribution to the annual increase in tax revenues by 8.9 points in June thanks to high exchange rates. Income tax and domestic VAT continued to pull the budget revenues up, rising by 24.5% and 25.7%, respectively. On the other hand, Special Consumption Tax (SCT) declined by 3.6% in this period.

In January-June period, budget revenues increased by 54.4 billion TRY compared to the same period of the previous year due to the 19.8% annual rise in tax revenues. In the first half of the year, SCT and VAT on imports supported the budget revenues. On the other hand, privatization revenues, which remained at low levels compared to the same period of the previous year, limited the increase in total income.

Budget expenditures increased rapidly.

In June, current transfers made the highest contribution to the rise in budget expenditures (33.8%) by 21.2 points which was largely driven by rapid increase in health, retirement and social aid expenditures due to premiums given to retirees before Ramadan Eid. Also, rapid rise in interest expenditures due to increasing borrowing costs was noteworthy in June.

In the first half of the year, all of the main expenditure groups lifted the budget expenditures up compared to same month of the previous year. In this period, capital expenditures and capital transfers were effective on the rise in budget expenditures, surging up by 69.6% and 81.4% yoy, respectively.

Expectations...

In the first half of the year, especially in June, budget indicators deteriorated rapidly, compared to the same period of the previous year. This was led by rapid rise in government expenditures during the pre-election period as well as rising interest expenditures driven by increasing borrowing costs.

After the elections, we anticipate that increase in budget expenditures will lose some momentum in the second half of the year. On the other hand, we think that slowing down in economic activity will put a pressure on budget revenues. These developments indicate that new measures should be taken in order to re-establish fiscal discipline.

Central Government Budget

| | June | | | January-June | | | 2018 Budget | |
|---------------------------|--------------|--------------|-------------|--------------|--------------|-------------|--------------|-------------------|
| | 2017 | 2018 | % Change | 2017 | 2018 | % Change | Target | Real./ Target (%) |
| Expenditures | 57.7 | 77.2 | 33.8 | 324.4 | 399.7 | 23.2 | 762.8 | 52.4 |
| Interest Expenditures | 1.3 | 2.4 | 86.7 | 27.0 | 33.8 | 25.3 | 71.7 | 47.2 |
| Non-Interest Expenditures | 56.4 | 74.8 | 32.6 | 297.4 | 365.9 | 23.0 | 691.1 | 52.9 |
| Revenues | 43.9 | 51.5 | 17.3 | 299.2 | 353.6 | 18.2 | 696.8 | 50.7 |
| Tax Revenues | 36.4 | 42.7 | 17.4 | 246.1 | 294.8 | 19.8 | 599.4 | 49.2 |
| Other Revenues | 7.5 | 8.8 | 17.0 | 53.1 | 58.8 | 10.6 | 97.4 | 60.3 |
| Budget Balance | -13.7 | -25.6 | 86.5 | -25.2 | -46.1 | 82.6 | -65.9 | 69.9 |
| Primary Balance | -12.5 | -23.2 | 86.5 | 1.8 | -12.3 | - | 5.8 | - |

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

Source: Datastream , Ministry of Finance

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