



Central government budget posted a deficit of 23.6 billion TRY in September.

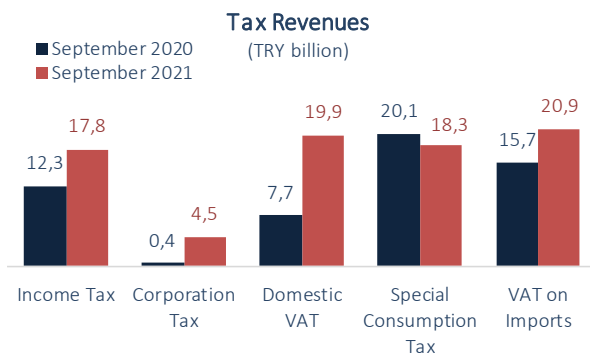
In September, central government budget deficit narrowed by 20.5% yoy thanks to the positive performance of budget revenues and was realized as 23.6 billion TRY. In this period, budget revenues increased by 49.4% yoy to 117.9 billion TRY, while expenditures expanded by 30.3% to 141.5 billion TRY. The primary deficit decreased by approximately 4 billion TRY yoy to 9.5 billion TRY in September.

The improvement in the budget outlook in the January-September period is notable.

Central government budget deficit, which was 140.6 billion TRY in the first 3 quarters of last year, narrowed by 56.5% yoy to 61.1 billion TRY in the same period of this year. The strong trend in economic activity appears to have been positively reflected in budget performance by supporting budget revenues.

Tax revenues rose rapidly in September.

Tax revenues showed a positive performance in September thanks to the low base of the tax collections that were postponed due to the pandemic conditions in September 2020, as well as the strong course of domestic economic activity this year. In this period, the first three items that made the highest contribution to the 40% increase in tax revenues were respectively; domestic VAT, income tax and VAT on imports. The rise in interest, shares and fines in August also continued in September. The said item contributed to the rise in budget revenues by 11.3 points. On the other hand, annual decline in special consumption tax (SCT) on motor vehicles (due to the base effect and the regulation changes), and annual decline in SCT on petroleum and natural gas products due to the 'échelle mobile' system limited budget revenues by 4.4 points in September.



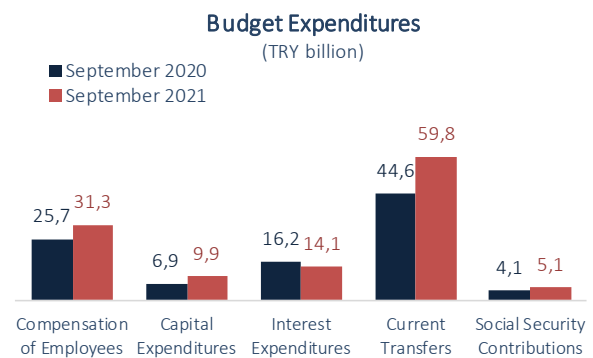
In the first nine months of the year, domestic VAT and VAT on imports revenues displayed a strong outlook, while SCT revenues,

suppressed by the "échelle mobile" system, expanded at a limited rate of 5.6% on an annual basis. In January-September, the strong trend in economic activity reflected positively on tax revenues. The tax reductions applied in some services have expired as of the beginning of October. We think that "échelle mobile" system which is applied on diesel and LPG taxes and limits total tax revenues, has also come to its limit with the effect of increasing energy prices and exchange rate developments.

Budget expenditures...

In September, budget expenditures expanded by 30.3% yoy, while significant portion of the increase in expenditures stemmed from the rise in current transfers and compensation of employees. Said items pushed up budget expenditures by 14 and 5.2 points, respectively. In addition, due to the rise of 2.6 billion TRY in medical supplies purchases, the purchase of goods and services item increased budget expenditures by 4.6 points in this month. On the other hand, the 13% annual decline in interest expenditures in September limited the expansion of budget expenditures.

In January-September period budget expenditures expanded by 20.9% yoy, while current transfers and the rise in interest expenditures played an important role in this increase. Moreover, in the third quarter of the year, capital transfers, which went up by 79.3% yoy, increased budget expenditures.



Expectations...

In general, budget realizations show a better performance compared to the year-end budget targets in the Medium-Term Program announced in September. The data shows that the central government has sufficient room to support the economy if needed, without exceeding the 3.5% budget deficit/GDP target for the full year.

Central Government Budget

| | September | | % | January-September | | % | (billion TRY) | | |
|---------------------------|--------------|--------------|--------------|-------------------|----------------|--------------|----------------|----------------|--------------------|
| | 2020 | 2021 | | Change | 2020 | | 2021 | Change | 2021 Budget Target |
| Expenditures | 108.6 | 141.5 | 30.3 | 681.1 | 1,051.6 | 54.4 | 1,346.1 | 1,506.3 | 69.8 |
| Interest Expenditures | 16.2 | 14.1 | -13.0 | 79.7 | 142.3 | 78.5 | 179.5 | 179.5 | 79.3 |
| Non-Interest Expenditures | 92.4 | 127.4 | 37.9 | 762.2 | 909.4 | 19.3 | 1,166.6 | 1,326.7 | 68.5 |
| Revenues | 78.9 | 117.9 | 49.4 | 729.4 | 990.6 | 35.8 | 1,101.1 | 1,276.3 | 77.6 |
| Tax Revenues | 68.3 | 95.6 | 40.0 | 578.7 | 808.4 | 39.7 | 922.7 | 1,057.9 | 76.4 |
| Other Revenues | 10.6 | 22.3 | 110.3 | 150.7 | 182.1 | 20.9 | 178.4 | 218.4 | 83.4 |
| Budget Balance | -29.7 | -23.6 | -20.5 | -140.6 | -61.1 | -56.5 | -245.0 | -230.0 | 26.6 |
| Primary Balance | -13.5 | -9.5 | -29.6 | -32.8 | 81.2 | - | -65.5 | -50.5 | - |

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

Source: Datastream, Ministry of Treasury and Finance

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

İlker Şahin
Economist
ilker.sahin@isbank.com.tr

Alper Gürler
Unit Manager
alper.gurler@isbank.com.tr

İlkim Bengisu Tuncer
Asst. Economist
bengisu.tuncer@isbank.com.tr

Dilek Sarsın Kaya
Asst. Manager
dilek.kaya@isbank.com.tr

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