

Turkey-Central Budget

 15.04.2022
3:30 PM

March 2022 - 12-month budget deficit/GDP at 2.3%

In March, the central government budget balance yielded a deficit of TRY69.0bn and the primary balance a deficit of TRY42.0bn. The budget performance, which had improved in the first two months of the year, deteriorated in March compared to the previous year due to the continued acceleration in expenditure growth, the negative base effect created by the CBRT profit transfer and weakening tax revenues.

Despite the high budget deficit print in March, the 12-month budget deficit decreased compared to the end of 2021 with the contribution of the improved performance of the previous two months. We calculate the central budget deficit/GDP ratio, which was at 2.7% at the end of 2021, at 2.3% in 1Q22 based on the estimated GDP. While there was a primary surplus in 1Q22 on a 12-month basis, its ratio to GDP was 0.4%. The budget deficit target of 3.5% was set in the Medium Term Program (MTP) for 2022. Despite an improvement in the budget in 1Q22, there is a possibility that the budget deficit/GDP ratio will exceed the target due to the effects that the change in economic policies may have on the budget since the program was prepared.

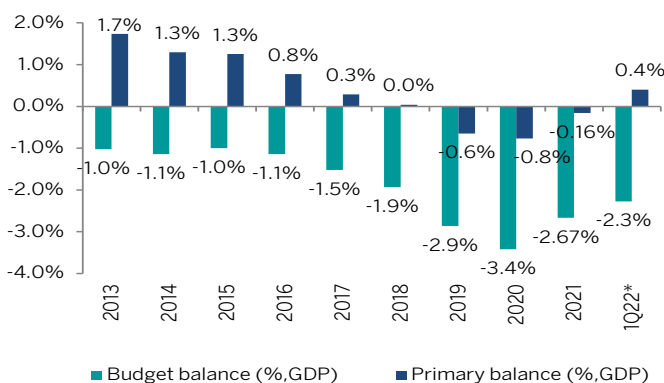
Budget deficit widens significantly in 12-month cumulative terms

- The budget deficit increased by TRY92.7bn to TRY184.2bn compared to the previous month (MTP 2022 estimate is a TRY278bn deficit)
- The primary balance decreased by TRY80.0bn to a TRY32.5bn surplus compared to the previous month (MTP 2022 estimate is a TRY38bn deficit)

Expenditure growth accelerates, revenue growth decelerates

- Tax revenue growth decelerated in March at 65% yoy. On a yoy basis, rises were below the headline in income and earnings tax (48%), VAT (35%) and Special Consumption Tax (39%) revenues, which depend on consumption. VAT on imports rose by 112%, making a significant contribution to revenues.
- The CBRT profit transfer, which had realized in March in 2021, registered in February in 2022, causing a 50% contraction in non-tax revenues in March 2022. Accordingly, the limited 16% yoy rise in total revenues led to a deterioration in budget performance.
- The yoy rise in non-interest expenditures continued to accelerate by 104% in March. The yoy rises were below the headline in investments (39%), goods&procurement purchases (66%), and current transfer expenditures (86%). Among the current transfers payment for FX-protected deposit scheme was TRY11.7bn in March. In addition, TRY39.2bn was lent to public enterprises (TRY37.8bn to BOTAS), leading a significant rise in expenditures.
- Interest payments have increased yoy by 89% in March and 73% in 1Q22.
- The rise in inflation rate is the main factor behind the acceleration of nominal increases in the budget data. In the MTP, CPI inflation was predicted at 16.2% for 2021 and 9.8% for 2022. Due to the high course of inflation, nominal expenditures as of March on a 12-month basis exceeded the MTP forecast for full-year 2022.

Budget Performance (12M)



Central Budget Details

bn TRY	Mar'21	Mar'22	Change (yoy)	Jan-Mar 21	Jan-Mar 22	Change (yoy)
Expenditures	111.2	224.9	102%	321.3	571.7	78%
1-Non-Interest Exp.	96.9	198.0	104%	272.4	486.9	79%
Personnel	27.3	41.1	50%	87.8	130.4	49%
Goods&Services	8.3	13.8	66%	16.9	30.5	80%
Current Transfers	46.2	85.8	86%	133.8	224.0	67%
Capital Exp.	6.8	9.5	39%	11.2	17.3	55%
Others	8.2	47.8	481%	22.8	84.7	272%
2-Interest Exp.	14.2	26.9	89%	48.9	84.8	73%
Revenues	134.9	156.0	16%	344.1	602.5	75%
Tax Revenues	77.4	127.4	65%	255.1	455.2	78%
Non-tax Revenues	57.5	28.6	-50%	89.0	147.4	66%
Budget Balance	23.8	-69.0	-390%	22.8	30.8	35%
Primary Surplus	38.0	-42.0	-211%	71.7	115.6	61%

Source: Ministry of Treasury and Finance, Garanti BBVA Securities *estimated GDP

Nihan Ziya Erdem

Chief Economist

Research

Direct Tel :+90 212 384 11 31

Tel :+90 212 384 10 10

nihanz@garantibbva.com.tr

DISCLOSURES AND DISCLAIMER

Important Disclosures

This document is distributed by Garanti BBVA Securities, an investment services company supervised by the Capital Markets Board of Turkey (CMB).

Garanti BBVA Securities is subject to the Policy on Conduct in the Securities Markets which establishes common standards for activity in these entities' markets, but also specifically for analysis and analysts. This policy is available for reference at the following web site: www.garantibbvayatirim.com.tr

All Equity Analysts are subject to Garanti BBVA Securities Corporate Procedure for "Financial Research Activity and the Regime Applicable to Research Analysts." Material information about proprietary models used in ratings of securities in this report is available from the Head of Equity Research. Ratings on stocks are updated as analyst(s) views on the outlook for the business of their corporate issuers and/or valuations of the issuers' securities change in a meaningful way. Garanti BBVA Securities has established reasonable physical and informational barriers, along with compliance reviews and policies, to minimize potential conflicts of interest in preparing reports on corporate equities.

Garanti BBVA Securities owned a net short position exceeding 0.5% of the total issued share capital of the following companies covered in this report: NA

Garanti BBVA Securities owned a net long position exceeding 0.5% of the total issued share capital of the following companies covered in this report: NA

The research analyst or a member of the research analyst's household has a financial interest (including, without limitation, whether it consists of any option, right, warrant, future, long or short position) **in the securities of the following companies covered in this report, and the nature of such interest is having those securities in their accounts: N/A**

In the past twelve months, a member of a research analyst's household has received compensation from the following companies covered in this report: NA

The Analyst (or a household of an analyst) **holds an executive or board position** (please specify such as Director, Executive Manager or Manager) **in the following companies that may be covered in this report: NA**

The Analyst has received compensation for investment banking services from the following companies covered in this report: NA

Garanti BBVA Securities beneficially owned at least 1% of the common equity securities of the following companies covered in this report: NA

The analysed company beneficially owned more than 1% of the common equity securities of Garanti BBVA Securities (please specify the managerial prerogatives and other material financial relations as credit agreements or lease agreements between such parties): GARAN

In the past twelve months, Garanti BBVA Securities has had, or currently has, as corporate and investment banking clients the following companies covered in this report: ASELS, ENJSA, GARAN, MGROS, MPARK, SOKM, TAVHL, ZOREN, TTKOM

In the past twelve months, Garanti BBVA Securities managed or co-managed the public offerings of the following companies covered in this report: ASELS, SOKM

In the past twelve months, Garanti BBVA Securities has received compensation for investment banking services from the following companies covered in this report: ASELS, ENJSA, GARAN, MPARK, SOKM. In the next three months, Garanti BBVA Securities expects to receive or intends to seek compensation for investment banking services from the companies covered in this report: DOAS, GARAN

Garanti BBVA Securities makes a market/provides liquidity in the securities of the following companies covered in this report: NA

Garanti BBVA Securities or the Analyst is party to an agreement with regard to the preparation of recommendations for the following companies covered in this report: NA

Garanti BBVA Securities has received compensation for non-investment banking, securities related services or products within the past 12 months from the following companies covered in this report: AKSEN, DOAS, MGROS, PGSUS, TAVHL, TTKOM

Garanti BBVA Securities has received compensation for non-securities related services or products within the past 12 months from the following companies covered in this report: NA

Garanti BBVA Securities trades or may trade as a principal in the debt securities, or related derivatives, that are the subject of this report.

Garanti BBVA Securities is subject to a Code of Conduct and to Internal Standards of Conduct on the Security Markets, which details the standards of the above-mentioned overall policy. Among other regulations, it includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. This Code and the Internal Standards of Conduct on the Security Markets are available for reference in the 'Policies and Procedures' section of the following web site: www.garantibbvayatirim.com.tr

Equities - Rating System, Distribution and History

We have three ratings for stocks based on our current expectations of relative returns over a twelve month period:

(i) **OUTPERFORM (OP):** As of the first issuance date of the rating, the stock's return is expected to exceed the return of the BIST100 over the next 12 months

(ii) **MARKET PERFORM (MP):** As of the first issuance date of the rating, the stock's return is expected to be in line with the BIST100 over the next 12 months

(iii) **UNDERPERFORM (UP):** As of the first issuance date of the rating, the stock's return is expected to fall below the return of the BIST100 over the next 12 months

Factors which may influence our ratings include: current market prices and conditions, operating issues and financing needs, macroeconomic trends and outlook, mergers and acquisitions and valuation. Valuation methods used by Garanti BBVA Securities include multiples of comparable companies, discounted cash flows, sum of the parts and other generally accepted methods that may apply to a particular case.

Price targets are provided based on the methodology explained above. Note that actual outcomes and results could materially differ from what is expressed, implied or forecasted in these price targets, as these involve risks, uncertainties and assumptions that are beyond the ability of Garanti BBVA Securities to control or predict. Future actions, conditions or events (affecting both market and non-market conditions, including those of a political or macroeconomic nature) and future results of the operations of subject companies may cause stock prices to differ materially from those expressed in this document.

As of today, for all the companies which Garanti BBVA Securities has under its coverage there are 38% Outperform ratings, 50% Market Perform ratings and 5% Underperform ratings; 3% of the coverage is Under Revision and two stocks are Not Rated. Garanti BBVA Securities has rendered investment banking services or has participated as manager and/or co-manager in public offerings in 21% of the Outperform ratings, 0% of the Market Perform ratings and in 0 % of the Underperform ratings.

Over the past twelve months, for all the companies which Garanti BBVA Securities has under coverage, there has been an end of the month- average of 48% Outperform ratings, 45% Market Perform ratings and 3% Underperform ratings; 2% Under Revision and two stocks (3%) are Not Rated. Garanti BBVA Securities has rendered investment banking services or participated as manager and/or co-manager in public offerings for an end of the month average of 10% of the Outperform ratings, 4% of the Market Perform ratings and 0% of the Underperform ratings.

GarantiBBVA's ratings on equities over the past three years are available at:

http://rapor.garantibbvayatirim.com.tr/arastirma/Recommendation_History.pdf

Analyst Certification

The research analysts included on the front page of this report hereby certify that: (i) the views expressed in this report accurately reflect their personal views about the subject companies and their securities and (ii) no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Disclaimer

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Garanti BBVA Securities to provide its customers with general information and are current as of the date hereof and subject to changes without prior notice. Garanti BBVA Securities is not responsible for giving notice of such changes or for updating the contents hereof.

The investment information, comments and advice provided herein are not part of the investment advisory activity. Investment advisory services are provided by authorized institutions to persons and entities privately by considering their risk and return preferences. The comments and advice included herein are of a general nature. Therefore, they may not fit to your financial situation and risk and return preferences. For this reason, making an investment decision only by relying on the information given herein may not give rise to results that fit your expectations.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The information in this report has been obtained by Garanti BBVA Securities from sources believed to be reliable. However, Garanti BBVA Securities cannot guarantee the accuracy, adequacy, or completeness of such information, and cannot be responsible for the results of investment decisions made on account of this report. To the extent permitted by law, Garanti BBVA Securities accepts no liability of any type for any direct or indirect losses or damages arising from the use of this document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

Garanti BBVA Securities or any of its salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, Garanti BBVA Securities' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be: (i) copied, photocopied or duplicated by any other form or means, (ii) redistributed, or (iii) quoted, without the prior written consent of Garanti BBVA Securities. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. More specifically, this document is in no way intended for, or to be distributed or used by an entity or person resident or located in a jurisdiction in which the said distribution, publication, use of or access to the document contravenes the law which requires Garanti BBVA Securities to obtain a licence or be registered. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

The remuneration system concerning the analysts responsible for the preparation of this report is based on multiple criteria, including the revenues obtained by Garanti BBVA Securities and, indirectly, the results of Garanti BBVA Securities in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

No information in this report may be copied, modified, republished or exploited in anyway without the prior consent of Garanti BBVA Securities. Additionally, with respect to our statements above, all our claims and plea rights are covered in the regulations which apply in the countries that this report has been sent to.

General Disclaimer for Readers Accessing the Report through the Internet

In the event that this document has been accessed via the internet or via any other electronic means which allows its contents to be viewed, the following information should be read carefully:

The information contained in this document should be taken only as a general guide on matters that may be of interest. The application and impact of laws may vary substantially depending on specific circumstances. Garanti BBVA Securities does not guarantee that this report and/or its contents published on the Internet are appropriate for use in all geographic areas, or that the financial instruments, securities, products or services referred to in it are available or appropriate for sale or use in all jurisdictions or for all investors or counterparties. Recipients of this report who access it through the Internet do so on their own initiative and are responsible for compliance with local regulations applicable to them.

Changes in regulations and the risks inherent in electronic communications may cause delays, omissions, or inaccuracy in the information contained in this site. Accordingly, the information contained in the site is supplied on the understanding that the authors and editors do not hereby intend to supply any form of consulting, legal, accounting or other advice.

All images and texts are the property of Garanti BBVA Securities and may not be downloaded from the Internet, copied, distributed, stored, re-used, re-transmitted, modified or used in any way, except as specified in this document, without the express written consent of Garanti BBVA Securities. Garanti BBVA Securities reserves all intellectual property rights to the fullest extent of the law.

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Garanti BBVA Securities Research Department, to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice.

The investment information, comments and advices given herein are not part of investment advisory activity. Investment advisory services are provided by authorized institutions to persons and entities privately by considering their risk and return preferences. Whereas the comments and advices included herein are of general nature. Therefore, they may not fit to your financial situation and risk and return preferences. For this reason, making an investment decision only by relying on the information given herein may not give rise to results that fit your expectations.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investor who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The information in this report has been obtained by Garanti BBVA Securities Research Department from sources believed to be reliable. However, Garanti BBVA Securities cannot guarantee the accuracy, adequacy, or completeness of such information, and cannot be responsible for the results of investment decisions made on account of this report.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks.

Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

This report is to be distributed to professional emerging markets investors only. This report is for private use only and intended solely for the individual(s). No information in this report may be copied, modified, republished or exploited in anyway without the prior consent of Garanti BBVA Securities. Additionally, with respect to our statements above, all our claims and plea rights are covered in the regulations which apply in the countries that this report has been sent to.