REPUBLIC OF TURKEY
MINISTRY OF TREASURY AND FINANCE

PUBLIC FINANCE REPORT

2021-II

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REPUBLIC OF TURKEY
MINISTRY OF TREASURY AND FINANCE

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EXECUTIVE SUMMARY

The global economy, which contracted in 2020 due to the pandemic, is expected to grow by 6 percent in 2021. This year, global inflation increased amid strengthening economic activity, rising commodity prices, extraordinary developments resulting from the pandemic and temporary supply-demand mismatches. Because of the weakening in economic activity and increasing public expenditures during the pandemic, the global budget deficit and public debt stock increased. Despite the strengthening in economic activity and acceleration of vaccination, the existence of concerns about new variants of the Covid-19 causes uncertainties regarding the global economic outlook.

After contracting in the second quarter of 2020 with the effect of the pandemic, Turkish economy has recorded positive growth in the last four quarters including the second quarter of 2021. With the support of strong investments, private consumption and foreign demand, growth in the first quarter of 2021 realized as 7.2 percent y-o-y. In the second quarter of the year, economic growth realized as 21.7 percent y-o-y due to the contribution of strong domestic and foreign demand as well as the low base of last year. Leading indicators point out that economic growth trend will continue. In 2021, foreign demand is expected to support growth significantly, the growth composition is expected to display a balanced outlook and the economic growth is expected to be realized as 9 percent. While employment losses were registered in 2020 due to the pandemic, the labor market displays a positive outlook with the recovery in economic activity in 2021. Increases in food and core goods prices and the upward trend of global commodity prices especially oil led to inflationary pressures in 2021.

Fiscal discipline is resolutely being maintained and measures are being implemented to reduce the budget deficit. In this context, the budget deficit/GDP target for 2021 was updated from 4.3 percent to 3.5 percent. In the first half of 2021, the central government budget showed a strong performance in line with the year-end forecast, despite the measures taken during the pandemic to support the economy -especially employment and production- and taxpayers, and the expenditures made within the scope of combating the pandemic. As the normalization process in the economy continues, tax revenues are expected to exceed the budget revenue targets. In addition, with the implementation of the measures in the Economy Reform Program (Box 2), the tight stance especially in current expenditures will be maintained. In the upcoming period, in case that the pandemic continues, support for all needed areas will continue.

In debt management, a borrowing policy based on strategic criteria, which aims to reduce the sensitivity of the public debt stock to market conditions, is maintained. In this way, domestic borrowing in foreign currency was gradually reduced, while the average maturity of domestic borrowing was extended. In line with the borrowing strategy, the target of focusing on long-term and TRY-denominated borrowings will be maintained to improve the composition of the debt stock, to smooth the redemption profile and to reduce the risks. As of the first quarter of 2021, the central government debt stock/GDP realized as 34.6 percent. This figure is at a very low level compared to similar countries and it is considered that this course will continue in the upcoming period.

1. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

1.1. Global Economic Developments

Global economic activity has started to revive since mid-2020 with partial containment of the pandemic, the acceleration of the normalization steps of the countries and the support of expansionary policies. The recovery in the global economy continues in 2021, especially with the acceleration of vaccination in developed countries and the strong fiscal support provided.

The global economy, which contracted by 3.2 percent in 2020, is expected to grow by 6 percent in 2021. In this period, developed economies are expected to grow by 5.6 percent and emerging economies by 6.3 percent. The USA, the world's largest economy, is expected to be the driving force of global economic activity with a strong growth of 7 percent in 2021, with the effect of rapid vaccination and high amount of fiscal support packages. China's growth forecast for 2021 is 8.1 percent. The global growth forecast for 2022 was revised upwards by 0.5 points to 4.9 percent in the IMF World Economic Outlook report published in July 2021. World trade volume, which contracted by 8.3 percent in 2020 due to the pandemic, is expected to increase by 9.7 percent in 2021 despite some ongoing problems in supply chain and logistics (Table 1).

Table 1: Global Economic Outlook

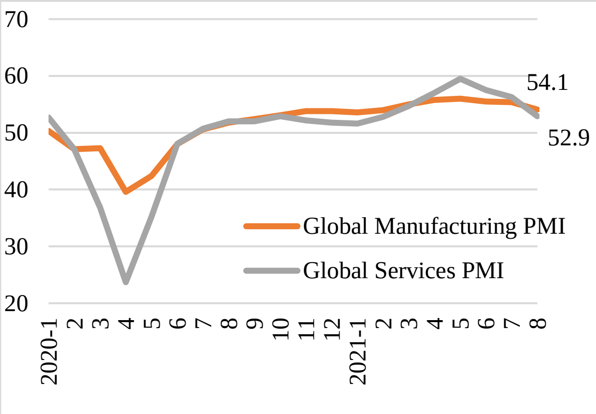
	2019	2020	2021T	2022T
Global Growth (%)	**2.8**	**-3.2**	**6.0**	**4.9**
Advanced Economies	**1.6**	**-4.6**	**5.6**	**4.4**
USA	2.2	-3.5	7.0	4.9
Euro Area	1.3	-6.5	4.6	4.3
Emerging Market and Developing Economies	**3.7**	**-2.1**	**6.3**	**5.2**
China	6.0	2.3	8.1	5.7
India	4.0	-7.3	9.5	8.5
World Trade Volume (% change)	**0.9**	**-8.3**	**9.7**	**7.0**
Global Budget Balance/GDP (%)	**-3.7**	**-10.3**	**-8.8**	**-**
Global Gross Public Debt Stock/GDP (%)	**83.7**	**98.7**	**98.8**	**-**
Advanced Countries Inflation (%)	**1.4**	**0.7**	**2.4**	**2.1**
Developing Countries Inflation (%)	**5.1**	**5.1**	**5.4**	**4.7**

(F): Forecast, Source:IMF

The global budget deficit and public debt stock increased as a result of increasing public expenditures and decreasing revenues with the pandemic. While the ratio of global budget deficit to GDP is expected to remain quite high with 8.8 percent, it is predicted that the global public debt to GDP ratio will reach 98.8 percent in 2021. Increasing public and private sector indebtedness on a global scale draws attention as an important risk.

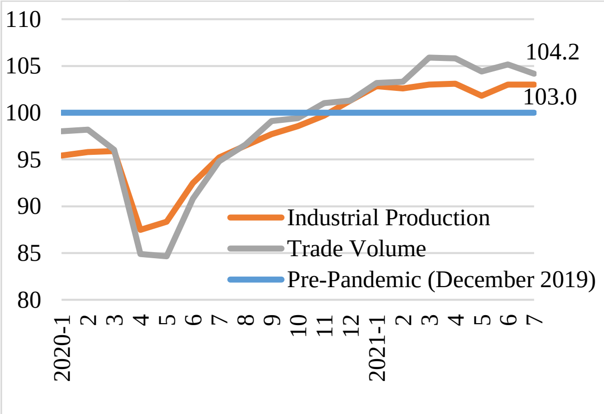
When evaluated on a sectoral basis, the manufacturing industry led the recovery in the global economy (Graph 1). Global industrial production and trade volume exceeded pre-pandemic levels (Graph 2). While the services sector that requires face-to-face and close contact was adversely affected by the pandemic, the recovery was comparatively limited at the first stage. With the acceleration of vaccination and the return of daily life to normal in 2021, an improvement was observed in the services sector as well. However, some slowdown has been observed in the services sector recently, due to the impact of new variants and increasing number of cases. It is predicted that it will take time for some service sectors, such as tourism, to reach pre-pandemic levels.

Graph 1: Global Manufacturing and Services PMI



Source: Bloomberg

Graph 2: Global Leading Indicators (December 2019= 100)

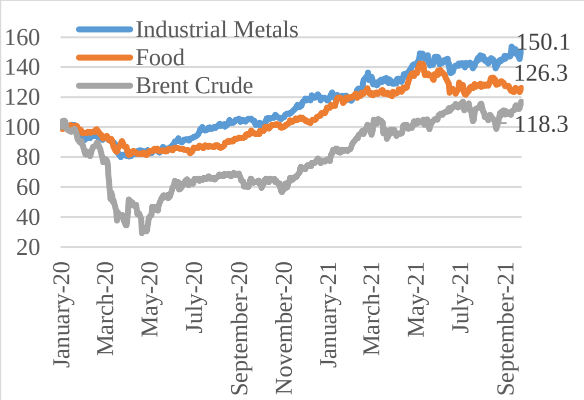


Source: Netherlands Bureau for Economic Policy Analysis (CPB)

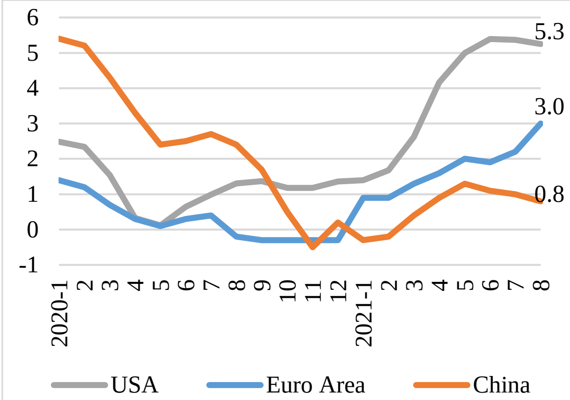
Commodity prices have risen subject to increasing demand after the recovery in economic activity and comparatively lagging supply. Oil and industrial metal prices have escalated following the strong demand while there has been a limited decline in food prices recently (Graph 3).

Global inflation has been surging in 2021 due to strengthening economic activity, increasing commodity prices, disruptions in supply chains and temporary supply and demand mismatches. Although the general expectation is that the rise in global inflation will be temporary and converge to reasonable levels throughout 2022, there is still high certainty about the direction of inflation (Graph 4).

Graph 3: Commodity Prices (31/12/2019=100)



Graph 4: Inflation (annual, % change)

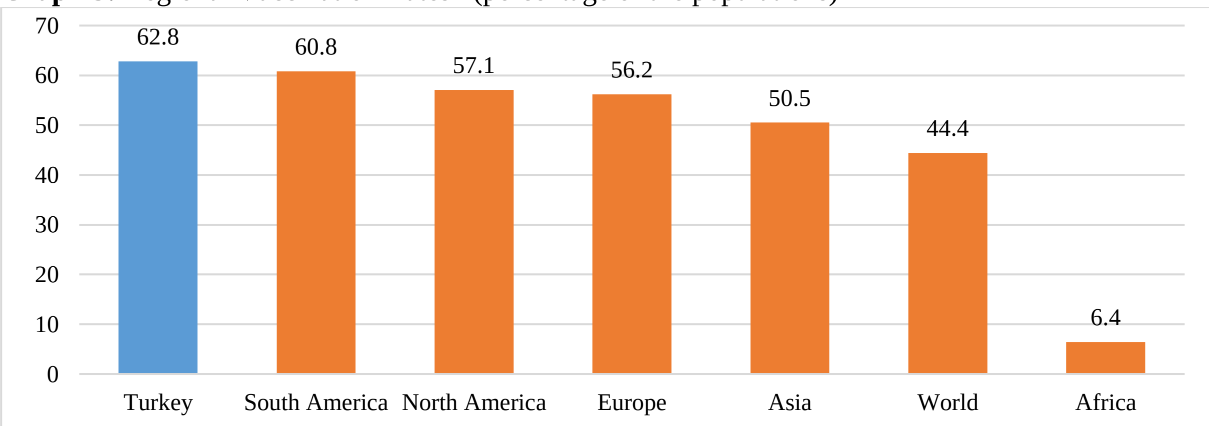


Source: Bloomberg

The consistent upsurge in commodity prices is assessed to be an essential risk factor. In the event of the ongoing upsurge in global inflation and rising inflation expectations, the monetary policies in the advanced economies will tighten. This might lead to more fragile global financial conditions.

The uncertainties on the economic outlook persist and the downside risks linger despite the strengthening global economic activity and acceleration of vaccination. The comparatively slow vaccination progress in many developing and less developed countries in addition to new virus variants depress the economic activity (Graph 5). Ensuring fairer and fast distribution of the vaccines on the global scale will serve as a factor to moderate downside risks.

Graph 5: Regional Vaccination Rates* (percentage of the populations)



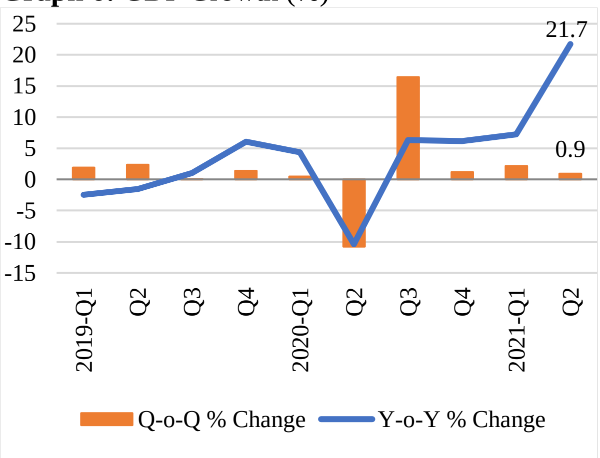
(*) Share of people who received at least 1 dose in total population, As of 25 September 2021.
Source: Our World in Data

1.2. Developments in Turkish Economy

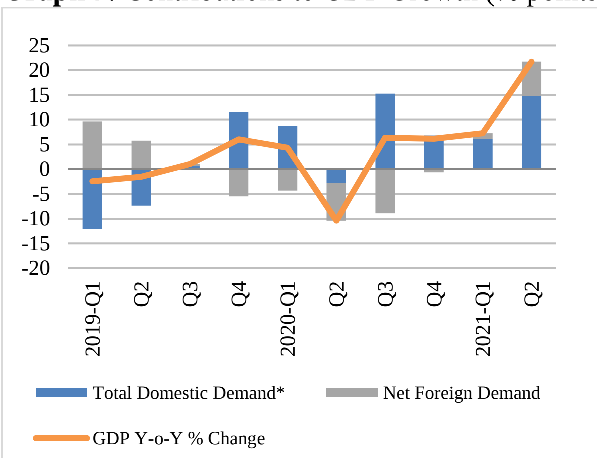
Growth

The Turkish economy, which contracted in the second quarter of 2020 due to the impact of the Covid-19 pandemic, has recorded positive growth in the last four quarters (Graph 6). In the second half of 2020, growth gained momentum thanks to the measures taken to reduce the negative impact of the pandemic and the support of credit expansion. Domestic demand was the main determinant of growth in 2020 (Graph 7). Supported by strong machinery and equipment investments, total investments contributed positively to growth despite the weak course of construction investments. The acceleration in the economy continued in the first quarter of 2021, and an annual growth rate of 7.2 percent was recorded in this period.

Graph 6: GDP Growth (%)



Graph 7: Contributions to GDP Growth (% points)



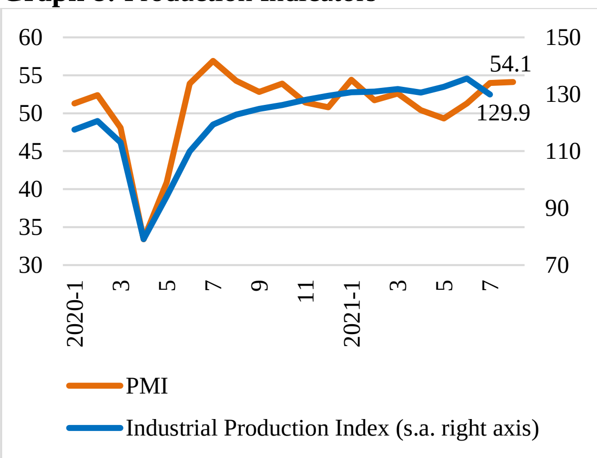
(*) Including Stocks, Source: TURKSTAT

In the second quarter of 2021, real GDP growth realized as 21.7 percent thanks to the strong domestic and foreign demand as well as the low base of the same period of 2020. In this period, the contribution of total domestic demand (including stock) to growth was 14.8 points, while the contribution of net foreign demand reached 6.9 points, the highest level since the first quarter of 2019. On the demand side, the contribution of private consumption and investments to the growth were 13.8 points and 5.4 points, respectively, while the public consumption made a limited contribution to the growth of 0.7 point. In this period, machinery-equipment investments, which have been growing positively for seven consecutive quarters since the third quarter of 2019, recorded a strong annual increase of 35.2 percent. Construction investments, however, increased by 12.2 percent because of the low basis effect. On the production side, the contributions of industry and services sectors to growth were 7.5 points and

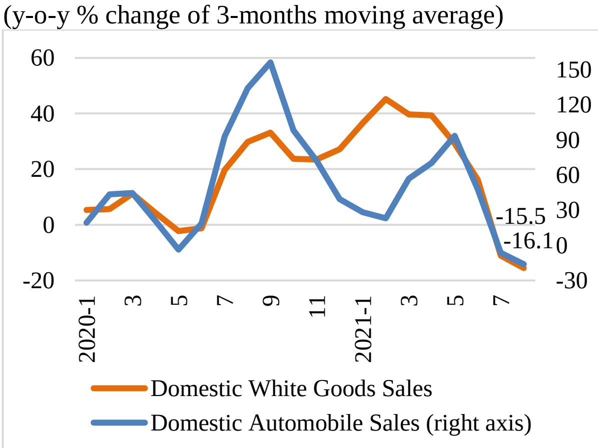
12.9 points, respectively, while the contributions of agriculture and construction sectors were 0.1 points and 0.2 points, respectively.

Leading indicators point out that economic growth will also continue in the third quarter. The industrial production index increased by 8.7 percent annually in July, decreased by 4.2 percent in seasonally adjusted terms compared to the previous month. Although the official holidays were also effective in this decline, the determining factor was the 5 percent decline in manufacturing industry production. On the other hand, seasonally adjusted capacity utilization rate has increased by 1.1 points in the third quarter of 2021 compared to the second quarter and realized as 77.8 percent in September. Purchasing Managers Index (PMI) has increased by 3.7 points compared to the second quarter in July-August period and reached to 54.1 in August, the highest level of the last seven months (Graph 8). Strong foreign demand continues to support production in the second half of the year.

Graph 8: Production Indicators



Graph 9: Domestic Automobile and White Goods Sales (y-o-y % change of 3-months moving average)



Source: TURKSTAT, İSO-Markit, TÜRKBESD, ODD

The demand for durable goods decelerated in the second half of the year (Graph 9). Of the durable consumer goods, automobile sales and white good sales decreased by 28.8 percent and 20.8 percent, respectively in July-August period compared to the same period of the previous year. Consumer confidence index has declined by 0.6 points in the third quarter of 2021 compared to the second quarter and the slowing trend in consumer loans continued.

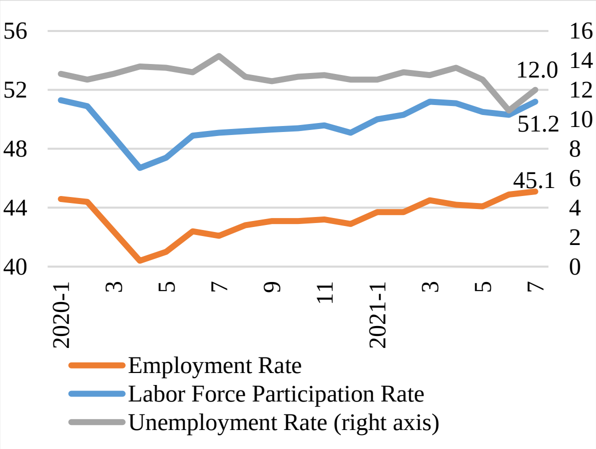
In the third quarter of 2021, the economic activity is expected to maintain its positive outlook with the contribution of industrial production supported by strong exports, the services sector that improved with the reduction of negative effects of the pandemic, and the domestic demand with a moderate upward trend. It is anticipated that the prudent and determined stance in monetary and fiscal policies will continue to support the sustainable and balanced growth trend in the rest of the year. **Real GDP growth in 2021 is estimated to be 9 percent.**

In 2021, when foreign demand is expected to make a significant positive contribution to growth, the growth composition is predicted to display a balanced outlook. While the positive course of the vaccination process and the partial normalization in tourism are expected to have a positive impact on the services sector and economic activity in the upcoming period, the risks that could arise due to new variants may suppress the economic activity.

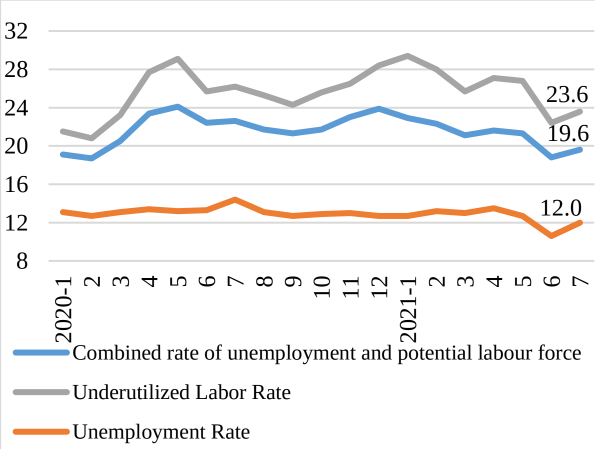
Employment

While employment losses were experienced in 2020 due to the Covid-19 pandemic, the labor market displays a positive outlook with the recovery in economic activity in 2021. 1 million 659 thousand new employment were generated in the January-July period of 2021. In this period, employment in the services sector, which was most affected by the pandemic, increased by 1 million 394 thousand people, of which 454 thousand was in July, and reached a historically high level with strong recovery. Employment in industry sector, on the other hand, followed a fluctuating course through the months, and the employment increase in this sector in the first seven months of the year realized as 87 thousand due to the 287 thousand employment loss in July. In the January-July period of 2021, the increase in employment was 125 thousand people in the agricultural sector and 53 thousand people in the construction sector (Graph 10).

Graph 10: Labor Market Indicators (%, seasonally adjusted)



Graph 11: Supplementary Indicators for Labor Force (%, seasonally adjusted)



Source: TURKSTAT

Despite a slight increase in July 2021, underutilized labor rate has recorded a significant decline since the beginning of this year after reaching its peak during the

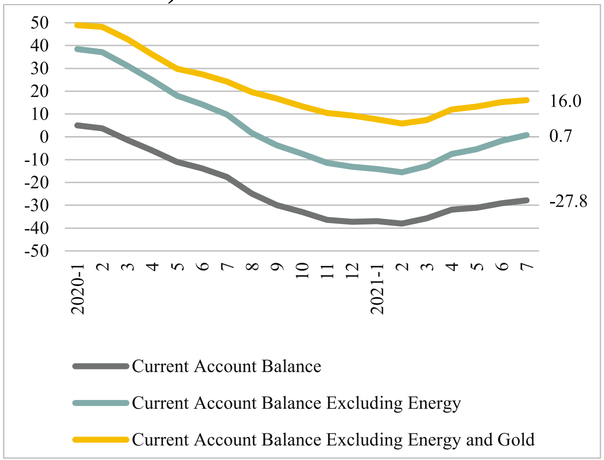
pandemic. The continuation of the economic recovery encourages the potential labor force to re-join the employment market (Graph 11).

The unemployment rate, which was 13.2 percent at the end of 2020, is expected to decrease to 12.6 percent in 2021 with the effect of the strong course of economic activity.

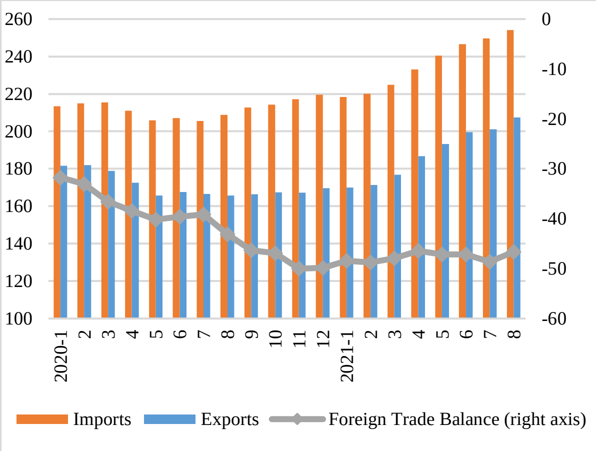
Current Account Balance

With the impact of the Covid-19 pandemic, the current account balance was negatively affected from weak goods exports and tourism revenues, as well as strong imports, mainly due to gold demand. As a result current account deficit realized as 37.3 billion dollars in 2020 (Graph 12).

Graph 12: Current Account Balance (annualized, billion dollars)



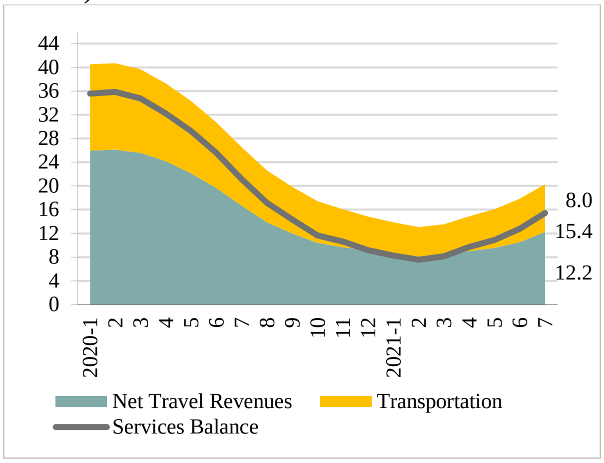
Graph 13: Foreign Trade Deficit (annualized, billion dollars)



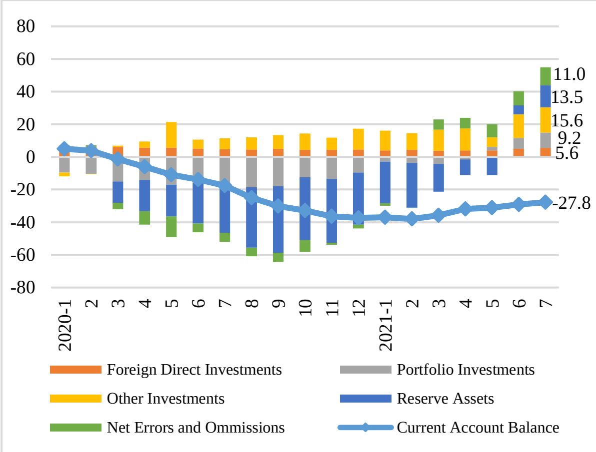
Source: TURKSTAT, CBRT

In 2021, exports of goods show a strong increase at both regional and sectoral levels. Increasing foreign demand with the effect of the positive outlook in global manufacturing industry activities also positively affected the export of goods to other countries and regions, especially to EU countries, which is the largest export market of Turkey. As of August, annualized exports of goods reached to 207.5 billion dollars. Despite the slowdown in gold imports in 2021, as a result of strong domestic demand and rising global commodity prices, annualized goods imports reached to 254.1 billion dollars as of August, and the foreign trade deficit realized as 46.6 billion dollars (Graph 13).

Graph 14: Services Balance (annualized, billion dollars)



Graph 15: Current Account Balance and Financing (annualized, billion dollars)



Source: CBRT

The weak trend in the number of foreign visitors limited the recovery in travel revenues due to the number of Covid-19 cases, which displayed an increasing trend at the global level in the second quarter of 2021. Net travel revenues realized at 12.2 billion dollars annually as of July 2021. On the other hand, the upward trend observed since the beginning of the year in transportation revenues, which is one of the most important items in the balance of services, has been continuing (Graph 14).

Despite the increase in commodity prices, the strong course of goods exports, the moderate trend in loans, the significant decline in gold imports and the partial recovery in tourism revenues accelerated the improvement in the current account balance, especially in the second quarter of 2021. As of July 2021, the annualized current account deficit realized as 27.8 billion dollars. The net contribution of direct investment, portfolio investment and other investment are 5.6 billion dollars, 9.2 billion dollars and 15.6 billion dollars respectively to the financing of the current account deficit on an annual basis (Graph 15).

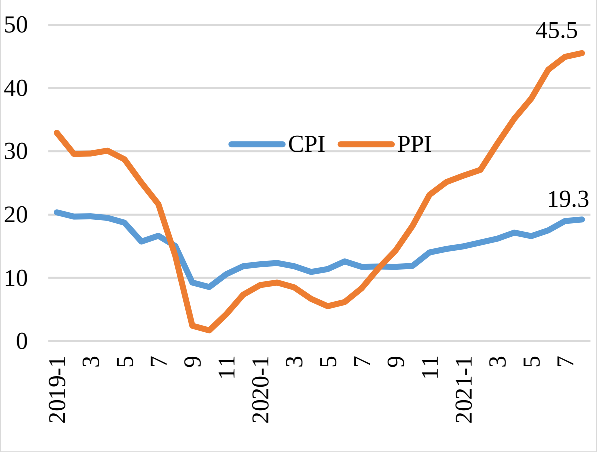
It is expected that goods exports will increase significantly in 2021 and reach a historically high level of 211 billion dollars. The positive course in vaccination activities, the recovery in tourism revenues and the increase in foreign demand in line with the increase in global growth are factors that will positively affect the current account balance. On the other hand, the high course of global commodity prices puts pressure on the current account balance. Considering the effects of these developments, the current account deficit is estimated to be 2.6 percent of GDP at the end of the year, and the decrease in the current account deficit is expected to ease the pressures on external financing needs.

Inflation

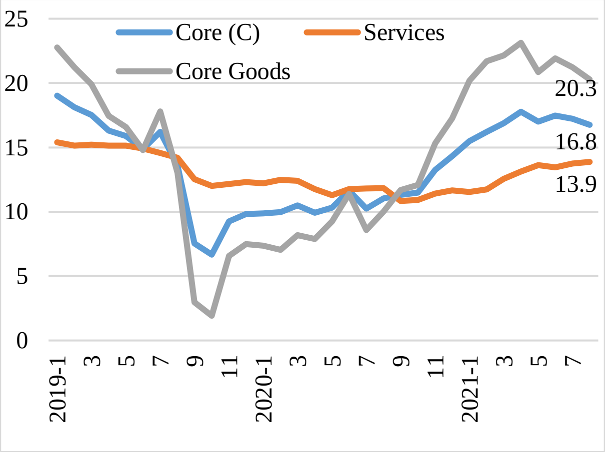
Inflationary pressures became more evident in the first half of 2021. In addition to the increase in food and core goods prices, the high course of global commodity prices, notably the oil prices, and the rise in inflation expectations were the main drivers of inflation. Besides, the gradual reopening of the economy as of the second half of May also put upward pressures on inflation, especially through the services (Graph 17). As a result, annual consumer inflation surged to 19.3 percent as of August 2021 (Graph 16).

The cumulative effects of the depreciation of the Turkish Lira, increases in input costs due to international conditions and supply constraints are decisive in the high course of producer prices. Producer inflation realized as 45.5 percent as of August 2021. On the other hand, it is observed that the spread between producer inflation and consumer inflation has widened, which persists to pose a risk on consumer inflation.

Graph 16: CPI and PPI (annual % change)



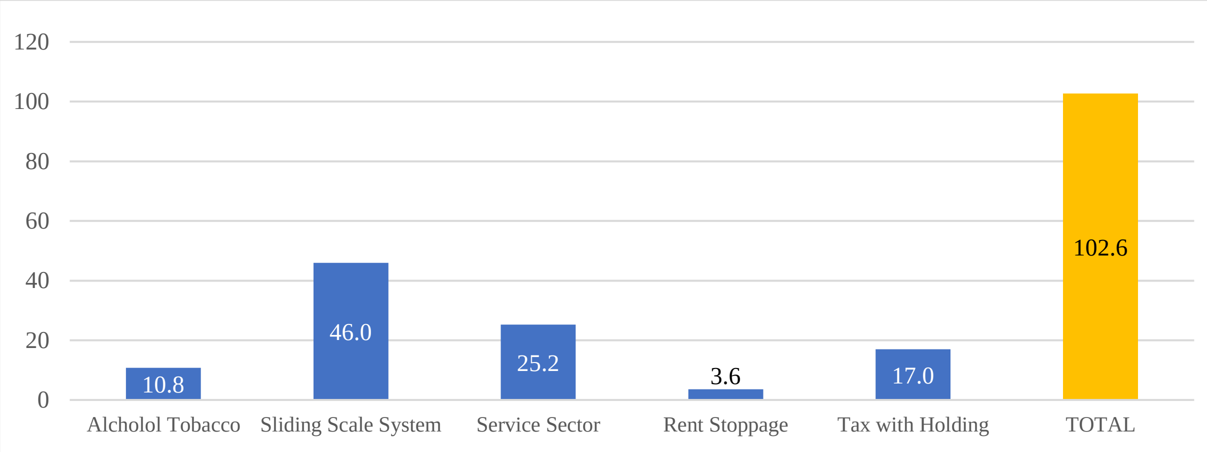
Graph 17: Inflation (annual % change)



Source: TURKSTAT

Important steps have been taken in the fight against inflation through fiscal policies (Box 1). In addition to administered/directed price adjustments, VAT reductions applied to certain service sectors in order to reduce the effects of the pandemic have played a reducing role in inflation. As a result of the discounts and price adjustments, TL 102.6 billion of public revenue has been waived (Graph 18).

Graph 18: Relinquished Public Revenues by Fiscal Policies (billion TL)



Source: MoTF calculations

As a result of all these developments, inflation is expected to be 16.2 percent by the end of 2021, as foreseen in the MTP. Within the scope of the Economy Reform Program, Price Stability Committee is established with an aim of achieving and maintaining the price stability. The Committee will focus on providing policy coordination within the scope of implementing structural measures for supply-induced price increases in the fight against inflation.

Box 1: Tax Measures Taken Under the Fight Against Inflation

With the aim of the strengthening the coordination of monetary and fiscal policy and ensuring permanent price stability, measures have taken for managed/directed prices to limit the adverse impacts on inflation. Also, revenue policies have been implemented to support the fight against inflation. In this context,

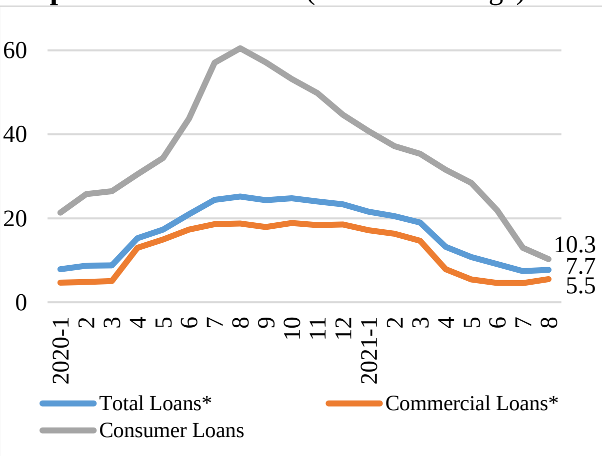
- As a result of automatic price adjustment mechanism, only for 2021 revenue from VAT and SCT amounting TL 46 billion has been waived. Effects of automatic price adjustment mechanism on inflation in the period of January-August 2021 is calculated as -1.42 points direct, -1.06 points indirect and -2.48 points in total.
- Temporary tax cuts in certain sectors within the context of fight against the pandemic have affected the price level downwards. With these regulations a total of TL 25.2 billion will be waived for the first nine months of 2021. Besides, there is a revenue loss of TL 3.6 billion with the withholding tax rate cut on workplace rental income from 20 percent to 10 percent.
- SCT rate on tobacco products has been reduced from 67 percent to 63 percent and specific taxes were not increased in the first and second half of the year for tobacco products and in the second half for alcoholic beverages. With these regulations VAT and SCT revenue losses of TL 8.8 billion from cigarettes, TL 2 billion from alcoholic beverages are calculated.
- It is expected that prices in automotive sector will be affected downwards by the updates in SCT base thresholds for motor vehicles. With this regulation a revenue loss of TL 340 million in the rest of the year is estimated.
- An indirect support have been provided for the fight against inflation by withholding tax cuts on income from TL products with the aim of encouraging TL denominated investments. With this regulation a revenue of TL 17 billion will have been waived for the first nine months of 2021.

Banking Sector

With the contribution of the regulatory flexibilities provided for the sector, banks continue to carry out their financial intermediation activities effectively. **Though annual aggregate loan growth maintained its moderate course, the rebalancing in loan types did not show a generalized pattern.** In the face of the acceleration trend that started especially in consumer loans in April 2021, additional macroprudential measures were implemented for vehicle loans and personal credit cards at the end of June. As of August 2021, the FX adjusted annual aggregate loan growth realized as 7.7 percent (Graph 19).

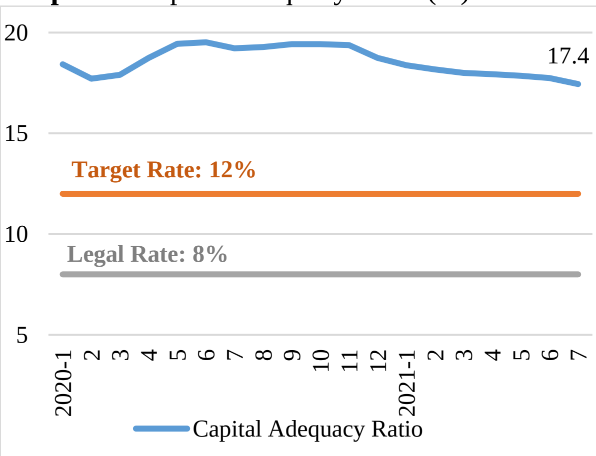
In order to implement the actions within the scope of the Economic Reform Program, a guarantee volume of TL 23 billion is created with the Treasury-Backed credit guarantee packages. Within the framework of the packages created with a selective approach, it is aimed to support companies contributing to additional employment, companies making manufacturing based on import substitution and companies investing in cold storage units with domestic goods certificate and on-vehicle refrigerated cases. (Box 2).

Graph 19: Loan Volume (annual % change)



(*) FX Adjusted., Source: CBRT

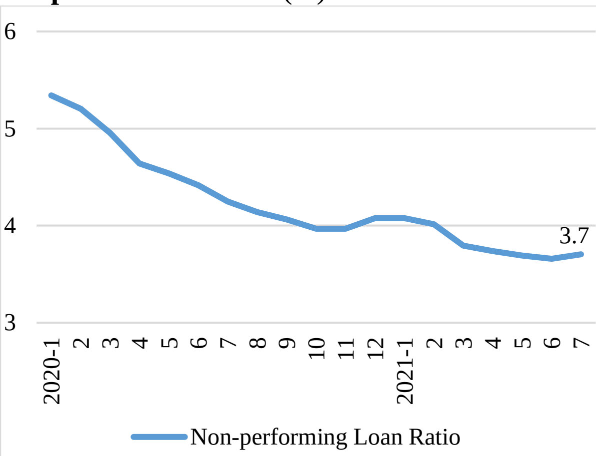
Graph 20: Capital Adequacy Ratio (%)



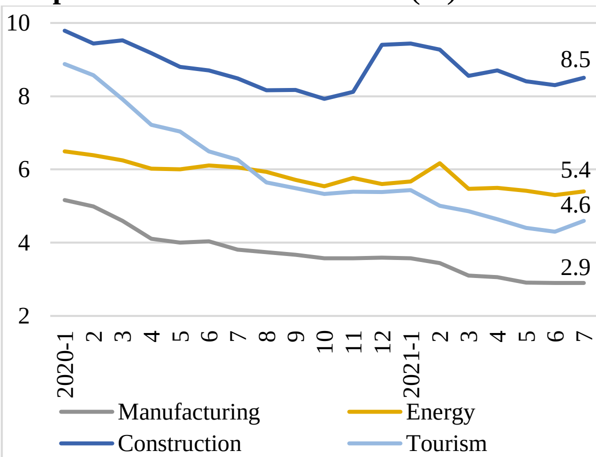
Source: BR

The banking sector continued to maintain its strong capital structure and asset quality. As of July 2021, the banking sector capital adequacy ratio, at 17.4 percent, is well above both the target rate and the legal minimum rate (Graph 20) while non-performing loans (NPL) ratio is at a low level of 3.7 percent with the contribution of the flexibility on the classification of loans provided by the BRSA (Graph 21).

Graph 21: NPL Ratios (%)



Graph 22: Sectoral NPL Ratios (%)



Source: BRSA

Although the general NPL ratio of the banking sector continues to be low, risks are concentrated in specific areas on a sectoral basis. The NPL ratios in the construction and energy sectors are at 8.5 percent and 5.4 percent, respectively, while the tourism sector NPL ratio is at 4.6 percent which was most affected by the pandemic (Graph 22). While the sectoral loans distribution and non-performing loans are closely monitored, the prudent approach that banks consistently maintain ensures that the risks in this area are well managed.

Considering the unfavorable conditions created by the pandemic, the debt restructuring arrangement, which expired in July 2021, was extended for 2 years to open up space for banks to maintain their asset quality.

In the Economy Reform Program, significant progress has been made within the framework of the policy steps determined to strengthen the financial sector. In this context, legal regulations regarding the Loan Lifecycle Project have been completed. Asset Management Companies were enabled to become members of the Association of Financial Institutions. Moreover, initiatives to strengthen their institutional capacities continue. Legal framework for operational restructuring and firm rehabilitation functions in the banking sector for loans under close monitoring have been completed.

Box 2: Economic Reforms Action Plan Developments

Within the scope of the Economic Reforms Action Plan[1] published in March 2021, 154 actions are planned. Of the 35 actions planned to be completed as of the end of June, 31 actions have been implemented and the technical and legislative works of 4 actions have been completed. 4 of 13 actions scheduled for the end of September and 5 of 75 actions scheduled for the end of December have already started to be implemented. By the end of 2021, 123 actions, which constitute 80 percent of the actions in the program, are planned to be implemented.

Actualized Actions Scheduled for June 2021					
Fiscal Discipline	Medium Term Program and Medium Term Fiscal Plan have been consolidated into a single document.	Public Finance Report has been published.	Strict limits were imposed on public expenditures.	It has been ensured that the works and transactions regarding public personnel are carried out by a single administration.	The accounts of more than 200 institutions were transferred to The Treasury Single Account System.
Employment	Preparations have been completed to provide our micro and small-scale enterprises, which provide additional employment, with access to low-cost financing with CGF guarantee.	Employers who benefit from the Cash Wage Support and re-engage their employees are included in the Additional Employment Financing Support if they meet the conditions.	In order to support the employment of women and youth, the duration of social security premium support in investment incentives has been increased.		
Current Account Balance	SMEs' access to finance is facilitated and their opening to foreign markets is supported.	Steps have been taken to provide long-term credit support in the 5th and 6th regions with the guarantee of CGF for investments based on manufacturing and prioritizing exports.	SMEs with high export potential are further encouraged to open up to foreign markets.	The legal infrastructure for the establishment of electrical energy storage facilities has been completed.	
Price Stability	The Price Stability Committee has been established.	In order to reduce food waste, guide documents have been prepared for the production, logistics and retail sectors.	In order to reduce the loss of fruit and vegetables, which is important for food inflation, cold air units and frigorific were supported to create a cold chain.		
Financial Markets	Financial Stability Committee has been established.	A surveillance mechanism has been established for the protection of financial consumers, market integrity and strengthening of competition.	Necessary regulations have been made regarding the project finance fund and project-based securities, enabling our citizens to participate in and finance projects in the areas of infrastructure, transportation, energy, communication, health, etc., which are public services.	It has been made possible for citizens under the age of 18 to be included in the Private Pension System (PPS). The savings kept in non-PPS (provident funds, foundations etc.) has been allowed to be transferred to PPS with attractive terms by the end of 2023.	TROY", the trademark of Turkey in the card payment systems, has been structured as a separate corporate entity.
Corporate Governance	Economy Coordination Board has been established.	The institutional structure of TURKSTAT has been strengthened by reforming it as a related institution.	The first step towards the digitalization of trade registry services and company transactions has been taken with the Circular Type Board Decision Implementation[2].		
Actualized Actions Scheduled as September and December 2021					
Employment	Transition supports has been put into effect, which will contribute to create new employment opportunities in the professions of the future[4].				
Price Stability	Products left on croplands and in marketplaces has been started to meet with buyers in a special section of the Digital Agricultural Market (DİTAP)[3].				
Current Account Balance	SMEs' receivables, which are secured by the State Supported Receivables Insurance System, are accepted as collateral by banks[4].	R&D activities are supported for development and dissemination of green production technologies[4].			
The Financial Markets	Loan Lifecycle Project has been implemented[3].	Operational restructuring and firm rehabilitation functions has been established in the banking sector for loans under close monitoring[3].	Trading of pension investment funds on the Turkey Electronic Fund Distribution Platform has been enabled so that citizens can buy and sell all funds in the private pension system[3].	Necessary measures and precautionary mechanisms has been established to derecognize the loans that do not have any possibility to be collected through methods such as sales to Asset Management Companies or write-off from assets[4].	Payment systems operated by the CBRT and public databases have been made accessible to Fintech institutions operating in the payment

(1) On 12 March 2021, the President of the Republic, Mr. Recep Tayyip Erdoğan announced the Economic Reforms Program, and the detailed action plan was published by the Ministry of Treasury and Finance (https://ms.hmb.gov.tr/uploads/sites/2/2021/05/Economic-Reforms-Action-Plan-1.pdf)
(2) The action consists of four phases. The first phase scheduled for June has been completed.
(3) Action scheduled for the end of September 2021
(4) Action scheduled for the end of December 2021

1.3. Public Finance Developments

Several countries, including Turkey, continue to use incentive and support mechanisms in the fight against the social and economic effects of the pandemic. As a result, there has been a significant increase in countries' budget deficits in 2020 compared to the previous year. However, significant improvement has been observed in the central government budget balance on a year-over-year basis due to the high increase in tax revenues and the limited increase in public expenditures as a result of the recovery in economic activity in the first half of 2021 (Table 3).

Support for the fight against the pandemic, additional costs related to the inflation accrual, income losses and additional expenditures within the scope of the automatic price adjustment mechanism[1] for the fight against inflation continue to create upward pressure on the budget deficit in 2021 as well (Box 5).

In this framework, it is decided to implement measures to reduce the budget deficit by considering both the additional costs and risks on the budget and maintaining the policy of fiscal discipline resolutely. In this context, the budget deficit/GDP target for 2021 was updated from 4.3 percent to 3.5 percent. In addition, **the fiscal space created in the budget will be used to meet the additional spending needs arising from the pandemic if necessary. Fiscal policies that have been or are likely to be adopted in the fight against the pandemic will be selective focused and temporary in nature and no deviations will be allowed on medium-term public finance balances.**

Together with the permanent measures to be implemented, the Economy Reform Program actions will be as follows.

- Further strengthening the coherence of monetary policy and fiscal policy,
- Continuing the fiscal discipline with determination,
- Focusing on permanent revenues rather than one-off revenues,
- Increasing voluntary compliance with tax,
- Implementing investment-friendly and more predictable fiscal policies,
- Increasing transparency and accountability in public finance.

[1] It is a system which ensures that the cost increase due to international prices and exchange rate changes in petroleum products (diesel, gasoline, LPG) used by the consumer is covered by the special consumption tax of these products and that the pump prices remain constant.

The implementation of these reforms and measures is being followed decisively, and **robust public finance will be created against risks.**

Box 3: Treasury-backed Credit Guarantee Package Actions Within the Scope of the Economic Reform Programme

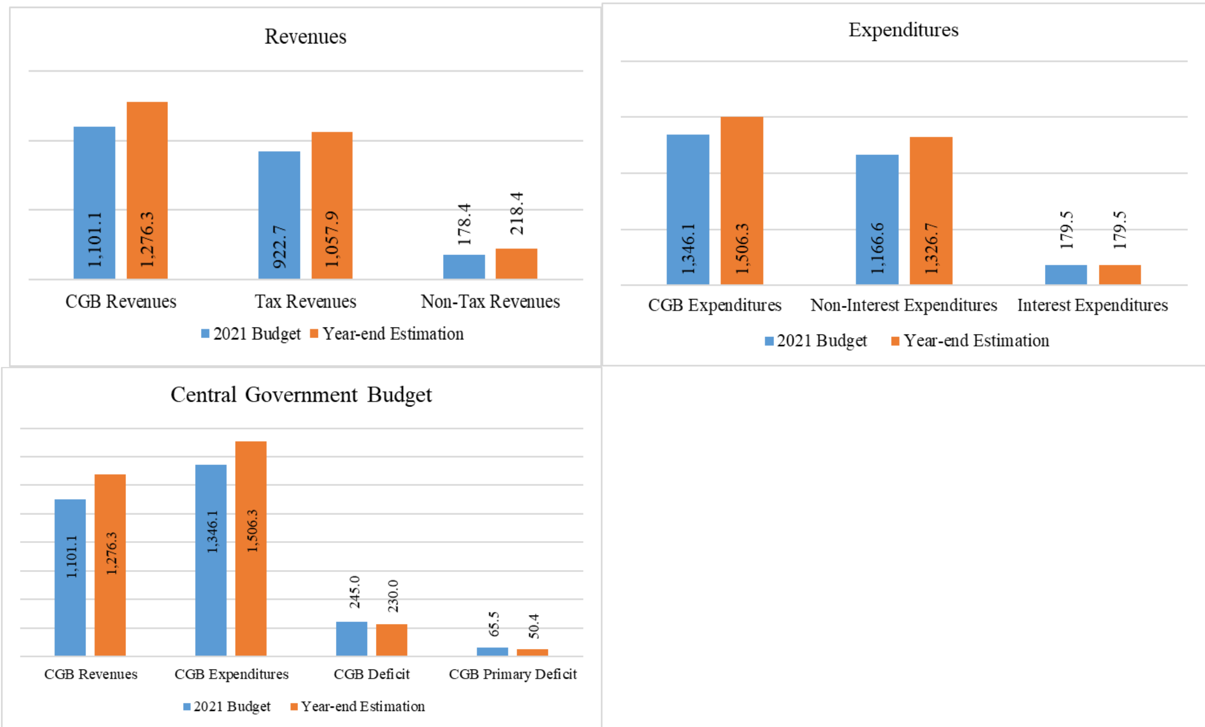
In order to lessen impacts of the pandemic, support packages of the Treasury-Backed Credit Guarantee System (the system) continue to be implemented within the scope of The Economic Reform Program. In this context;

- In order to provide financial support to long-term investments, Manufacturing Based Import Substitution Support Package with a guarantee limit of TL 10 billion within the system will be launched. With the package, long-term credit support will be provided to investments that prioritize manufacturing-based import substitution and export in the 5th and 6th regions. The package includes the guarantee support of the Ministry of Treasury and Finance and the interest/profit share support of the Ministry of Industry and Technology.
- In order to support employment, the "Additional Employment Support Package" with a guarantee limit of TL 10 billion will be put into use. With this package, access to a loan of TL 100 thousand will be provided for each additional person employed by micro and small-scale enterprises within the system. This package includes the guarantee support of the Ministry of Treasury and Finance and the interest/profit share support of the Ministry of Labor and Social Security. In this package, businesses will be provided with loans up to TL 500 thousand.
- With the Cold Chain Support Package with a guarantee limit of TL 3 billion, financial support will be provided to the investments of SMEs that invest in cold storage units and on-vehicle refrigerated cases. The package includes the guarantee support of the Ministry of Treasury and Finance and the interest/profit share support of the Small and Medium Enterprises Development and Support Administration (KOSGEB).

2. CENTRAL GOVERNMENT BUDGET ESTIMATIONS

In the Central Government Budget Law for 2021, budget revenues are foreseen as TL 1,101.1 billion, budget expenditures as TL 1,346.1 billion and budget deficit as TL 245.0 billion. However, taking the pandemic conditions, macroeconomic developments and the measures implemented/planned to be implemented into account, it is estimated that the budget revenues and expenditures will be TL 1,276.3 and, TL 1,506.3 billion respectively and the budget deficit will be TL 230.0 billion in 2021 (Graph 23).

Graph 23: Central Government Budget Figures (billion TL)



Source: MoTF

It is estimated that 2021 central government budget revenues will be realized as TL 1,276.3 billion, 15.9 percent above the amount stated in the Budget Law (TL 1,101.1 billion).

In this context, components of additional TL 175.1 billion revenues are:

- TL 108 billion due to the change in macro-economic variables[2], realizations, and impact of tax dynamics in 2021,

[2] It states the effect of realizations in basic macro indicators such as growth, inflation, foreign trade and employment defined in Medium Term Program (2021-23) and expectations.

- TL 39.4 billion within the scope of Law no. 7256/7326[3] in 2021 (as of August 2021 TL 24.3 billion have been collected),
- TL 37.7 billion from the implemented additional measures (Table 2),
- TL 35.8 billion from non-tax revenues.

Revenue loss in year-end estimation resulting from automatic price adjusment mechanism is considered as TL 39 billion from SCT and as TL 7 billion from VAT.

Besides following revenues were waived.

- TL 28.8 billion due to the temporary tax cuts in certain sectors under the pandemic measures (TL 25.2 billion VAT rate cuts, TL 3.6 billion workplace rental income withholding tax),
- TL 17 billion due to the reduction in income withholding tax rate to support local currency investments.

Table 2: Revenue Increasing Measures (billion TL)

Measure/Regulation	Revenue Effect
Implementation of corporation tax rate as 25 percent for 2021	18
Expanding the scope of VAT withholding implementation	9
Increasing income withholding tax rate in long term construction works	2.5
Implementation of finance expenses	4
Increasing SCT rates on electric vehicles	0.6
Increasing special communication tax rate from 7.5 percent to 10 percent	1.6
Regulation on Resource Utilization Support Fund implemented in gold imports	2
Total	**37.7**

Source: MoTF

It is foreseen that 2021 year-end expenditures will be at the level of TL 1,506.3 billion, 11.9 percent above the amount stated in the Budget Law (TL 1,346.1 billion). In this context, additional TL 160.1 billion expenditure is planned compared to the budget appropriations (total additional expenditure of TL 187.2 billion while improvement of TL 27.1 billion in social security premium from restructuring).

In this framework, components of the additional expenditure of TL 187.2 billion are as follows:

- TL 49.0 billion, for the additional expenditures foreseen within the scope of the Covid-19 outbreak,

[3] "Law on Restructuring of Certain Receivables and Amendments to Certain Laws" which was published in the Official Gazette dated 11.11.2020 and to come into effect and "Law on Restructuring of Certain Receivables and Amendments to Certain Laws" which was published in the Official Gazette dated 09.06.2021 and to come into effect.

- TL 42.6 billion, increase in personnel salaries and pensions due to inflation realizations,
- TL 31.0 billion within the scope of capital expenditures and capital transfers for additional investments and natural disaster-related housing and infrastructure needs,
- TL 24.7 billion, due to the increase in the shares from revenues to be transferred to local administrations and funds depending on the income estimation,
- TL 16.8 billion in order to meet the financing needs originating from railway investments and to strengthen the capital structures of enterprises operating in the energy sector,
- TL 23.1 billion, for additional employment and other essential needs.

However, a decrease of TL 27.1 billion is expected in budget expenditures with the effect of the Social Security Institution premium restructuring and the measures to be implemented.

The measures stated in the Economy Reform Program will be implemented elaborately. Firstly, the number of vehicles that can be purchased by public administrations has been limited. In addition, in accordance with the Savings Circular published by the Presidency, the number of vehicles rented by public administrations through service procurement will be reduced by 20 percent until the end of 2023.

It will be ensured that expenditures such as representation and presentation, immovable acquisition and rental, communication, personnel, press and publication, stationery and fixture purchase and personnel service will be made more efficiently.

In addition, in order to save on public expenditures, the central procurement process, which was initiated in 2019, is being implemented effectively. In order to reduce drug and treatment expenditures, studies are carried out to review the reimbursement list by disease groups and to establish rule sets.

Table 3: Central Government Budget Estimations

(million TL)	2020 Realisation	2021 Budget	2020 Realisation as of June	2021 Realisation as of June	Year-end Estimation/ MTP	Realisation Rate (%)*
CGB Revenues	**1,028,446**	**1,101,146**	**455,411**	**630,821**	**1,276,268**	**49.4**
Tax Revenues	833,251	922,744	335,948	496,940	1,057,913	47.0
Non-tax Revenues	195,195	178,402	119,463	133,881	218,354	61.3
CGB Expenditures	**1,202,236**	**1,346,139**	**564,862**	**663,360**	**1,506,283**	**44.0**
Expenditures Excluding Interest	1,068,274	1,166,596	493,605	572,490	1,326,741	43.2
Interest Expenditures	133,962	179,542	71,257	90,870	179,542	50.6
CGB Balance	**-172,743**	**-244,993**	**-109,450**	**-32,539**	**-230,016**	
CGB Primary Balance	**-38,781**	**-65,450**	**-38,193**	**58,331**	**-50,473**	

*2021 realisation as of June/Year-end estimation (MTP)
Source: MoTF

3. CENTRAL GOVERNMENT BUDGET DEVELOPMENTS

3.1. Central Government Budget Revenues

Revenue policy is implemented to ensure supporting investments, value added production, exports, domestic savings and employment and increasing competitiveness of the economy by taking economic and social effects of global pandemic into account. While designing tax policies, the needs and requests of the most vulnerable part of the population are prioritized.

On the other hand, with the revenue policies in implementation, it is aimed at contributing to the improvement of business and investment environment by improving predictability, supporting policies on price stability, increasing financial deepening.

In the second quarter of the year, central government budget revenues have been realized as TL 630.8 billion increasing by 38.5 percent year on year (Table 4). Therefore, 49.4 percent of year-end estimation has been realized in the first six months of the year and it is evaluated that the progress in this period is in line with the annual estimation (Table 3).

Table 4: 2021 Central Government Budget Revenue Realizations as of June

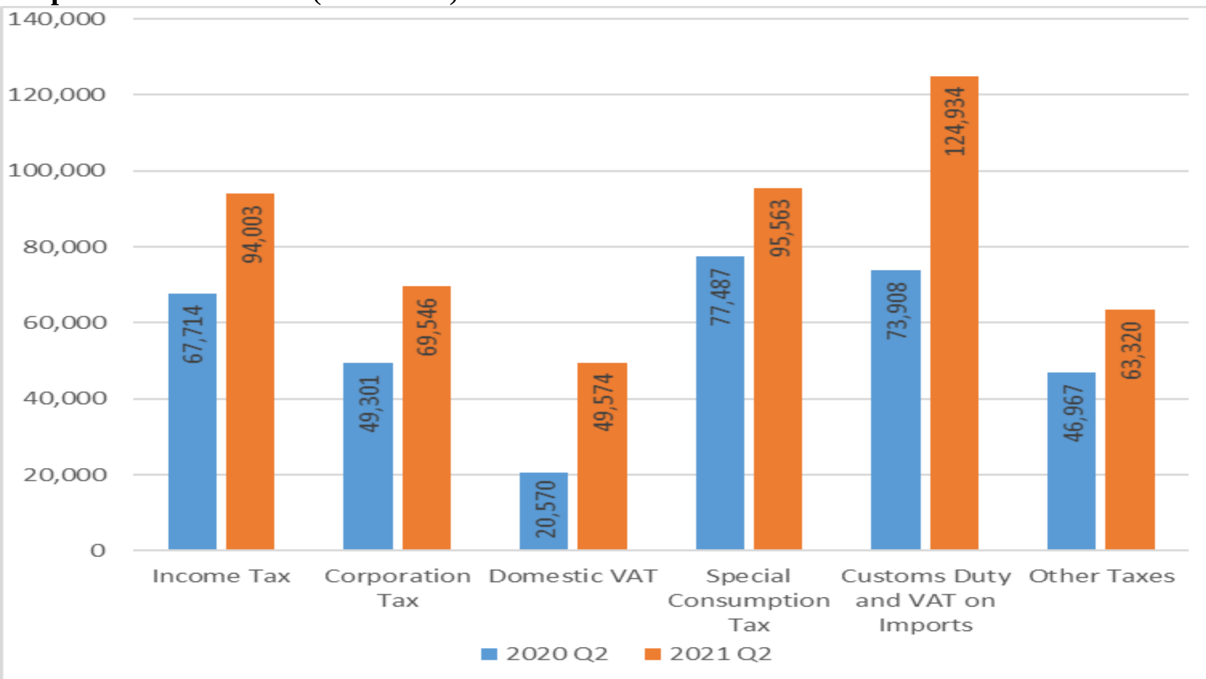
(million TL)	2020 as of June	2021 as of June	Change (million TL)	Change (%)
CGB Revenues	**455,411**	**630,821**	**175,410**	**38.5**
I-Tax Revenues	**335,948**	**496,940**	**160,992**	**47.9**
Income Tax	67,714	94,003	26,288	38.8
Corporation Tax	49,301	69,546	20,246	41.1
Motor Vehicle Taxes	7,908	9,501	1,593	20.1
Domestic VAT	20,570	49,574	29,004	141.0
Special Consumption Tax (SCT)	77,487	95,563	18,076	23.3
Petroleum and Natural Gas	29,448	20,671	-8,777	-29.8
Motor Vehicles	11,103	31,225	20,122	181.2
Beverages	5,846	8,001	2,155	36.9
Tobaccos	26,462	28,751	2,288	8.6
Coke	466	764	297	63.8
Durable Goods and Others	4,162	6,152	1,990	47.8
Banking and Insurance Transaction Tax	11,756	14,205	2,449	20.8
Taxes on International Trade and Transactions	74,170	125,398	51,228	69.1
Customs Duties	10,656	14,508	3,852	36.1
VAT on Imports	63,253	110,426	47,174	74.6
Other Taxes on International Trade	262	464	203	77.5
Other Taxes	27,041	39,150	12,109	44.8
II-Non-Tax Revenues	**119,463**	**133,881**	**14,418**	**12.1**

Source: MoTF

3.1.1. Tax Revenues

In 2021 January-June period, tax revenues have been realized as TL 496.9 billion, increasing by 47.9 percent year on year and tax revenues excluding international trade as TL 371.5 billion, increasing by 41.9 percent year-on-year. High realizations of domestic and import VAT, income tax, corporation tax and SCT on motor vehicles contributed to this performance. In this period, the three items having the highest contribution to the 47.9 percent increase in tax revenues are VAT on imports, domestic VAT, and income tax respectively (Graph 24).

Graph 24: Tax Revenues (million TL)



Source: MoTF

Despite the restrictive measures taken against the pandemic and tax incentives, in the second quarter of the year, the revenue performance has been realized above expectations as a result of the increase in production, the strong demand, the increase in e-commerce and expenditures by credit card, the revenue increasing measures and the revenues from restructuring.

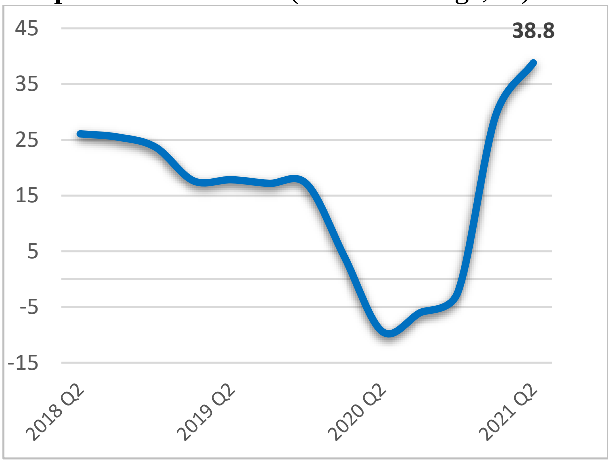
3.1.1.1 Income Tax: Income tax collection has been realized as TL 94 billion in January-June period, increasing by 38.8 percent year on year (Graph 25). In this period, revenue of income tax withholding is TL 85.3 billion, increasing by 38.9 percent.

In the first half of the year, withholdings from wages have been realized as TL 74.4 billion, increasing by 25.6 percent. The increase in the wage level and recovery in the labor market have been effective in this increase. In the global pandemic period, incentives in the first half of the year related to the employment have supported the formal employment. Moreover, regulation of stoppage related to long term construction works has contributed to the increase in income tax withholding[4].

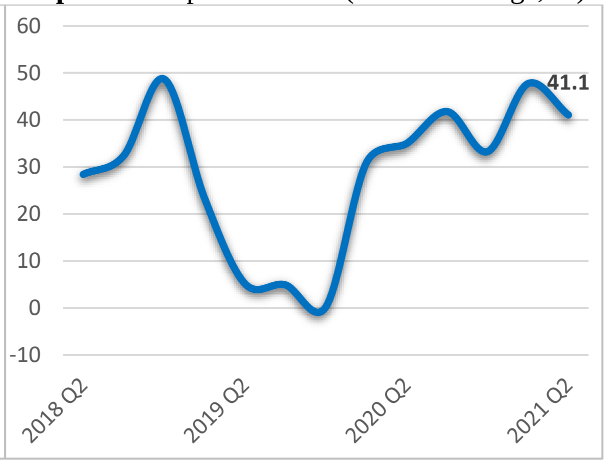
In 2021 January-June period, despite the year-on-year increase in the interest rates and the volume of deposits, prolonging the rate cut in income tax withholding on TL deposits until September 30, 2021 has resulted in a decrease in income tax withholding on deposit interests. Within this scope, in the first six-month period there has been a tax expenditure of TL 11.3 billion.

Moreover, deferring the final payment date of income tax declaration in certain sectors for six months due to the pandemic and the restructuring revenues have generated base effect.

Graph 25: Income Tax (Annual Change, %)



Graph 26: Corporation Tax (Annual Change, %)



Source: MoTF

3.1.1.2 Corporation Tax: In January-June period, corporation tax revenue has been realized as TL 69.5 billion, increasing by 41.1 percent year-on-year, depending on strong recovery in the economic activity and high profitability rates especially in the manufacturing sector (Graph 26). Corporation provisional tax collection amounting TL 67.3 billion, which has the most important share in this increase, has increased by 40.7 percent year-on-year. Growth and high profitability especially in the manufacturing sector and the wholesale and retail trade sector have been effective in the increase of corporation provisional tax.

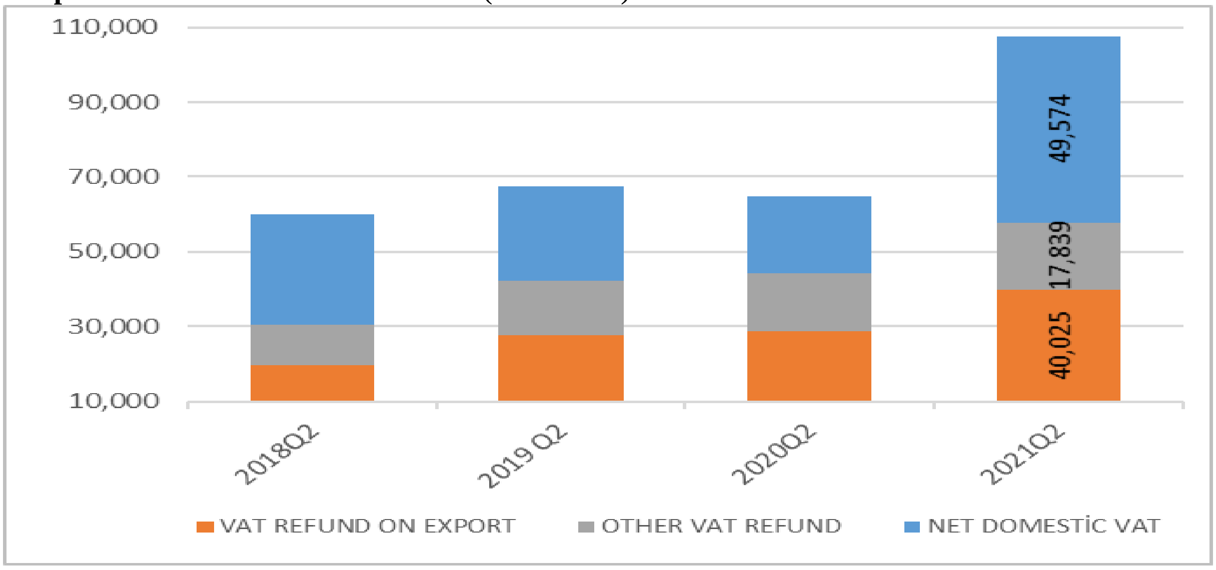
3.1.1.3 Motor Vehicle Tax: Motor vehicle tax has been realized as TL 9.5 billion, increasing by 20.1 percent year-on-year. The main reasons of this increase are the increase in

[4] It is estimated that there will be a revenue effect of TL 2.5 billion in 2021.

individual demand for automobiles because of the pandemic environment, the increase in the amount of motor vehicle taxes by the rate of revaluation and the restructuring revenues.

3.1.1.4 Domestic VAT: Net revenues of domestic VAT have been TL 49.6 billion in the first half of 2021 increased by 141 percent (Graph 27). In this period, gross revenues of VAT have been realized as TL 107.4 billion, increased by 66 percent, VAT refunds as TL 57.9 billion increased by 31.1 percent. Besides the strong progress in manufacturing sector, the increase in e-commerce and expenditures with credit card have been effective in this increase. The base effect generated by the deferral in April-June period of the last year due to Covid-19 and by the revenues from restructuring have contributed to this increase.

Graph 27: Domestic VAT and Refunds (million TL)



Source: MoTF

3.1.1.5 Special Consumption Tax: In 2021 January-June period, SCT collection has been realized as TL 95.6 billion increased by 23.3 percent year-on-year.

In this period, revenue from **SCT on petroleum and natural gas** has been realized as TL 20.7 billion, decreased by 29.8 percent year-on-year (Graph 28). Revenue loss of TL 14.3 billion due to the automatic price adjustment mechanism in the first half of the year has been effective in this decrease, despite more than 10 percent increase in fuel consumption in the same period of 2020.

Revenue from **SCT on motor vehicles** has been realized as TL 31.2 billion, increased by 181.2 percent year-on-year (Graph 29). Main reasons for this increase are the increase in the individual demand for automobiles due to the pandemic environment and the increase in average tax base and effective tax rates related to the automobile sales. In January-June period, the sale of automobiles subject to SCT has been increased by 68.6 percent year-on-year.

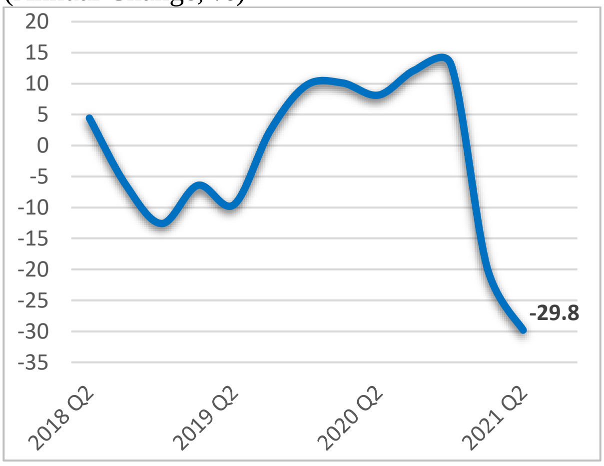
On the other hand, as of 13.08.2021, tax base limits for SCT on the sale of vehicles with engine size up to 1.600 cm^3 and hybrid vehicles having electric motor up to 50 kW and with engine size up to 1.800 cm^3 have been increased.

Accordingly, SCT base for vehicles with engine size up to 1.600 cm^3 and under SCT rate of 45 percent

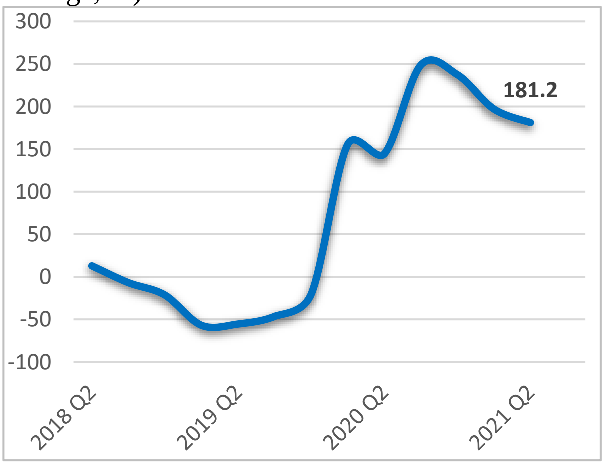
- having SCT base of TL 85 thousand has been increased to TL 92 thousand,
- having SCT base between TL 85 thousand and TL 130 thousand has been increased between TL 92 thousand and TL 150 thousand.

Besides, SCT base for hybrid vehicles having electric motor up to 50 kW, with engine size up to 1.800 cm^3, subject to SCT rate of 45 percent and having SCT base of TL 85 thousand has been increased to TL 114 thousand; subject to SCT rate of 50 percent and having SCT base between TL 85 thousand and TL 135 thousand has been increased between TL 114 thousand and TL 170 thousand. It is considered that along with this base adjustment there would be price reductions in some vehicles.

Graph 28: SCT on Petroleum and Natural Gas (Annual Change, %)



Graph 29: SCT on Motor Vehicles (Annual Change, %)



Source: MoTF

Revenue from **SCT on beverages** in January-June period has been realized as TL 8 billion, increased by 36.9 percent year-on-year. Despite the recession in tourism and entertainment sector in the first half of the year, the increase in domestic PPI above expectations, which is taken as the basis for determining the special consumption tax specific amounts of these products to be implemented in January-June period of 2021, was the main reason for this increase.

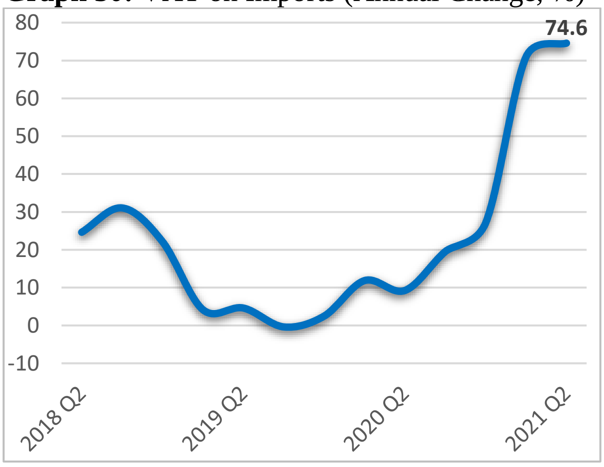
Revenue from **SCT on tobacco** in January-June period has been realized as TL 28.8 billion, increased by 8.6 percent. The reasons for this increase to have been limited are the SCT rate cut from 67 percent to 63 percent on cigarettes and some cigarette equivalent products and no increase in the specific amount of SCT on these products by the rate of domestic PPI for January-June 2021 period.

Revenue from **SCT on durable and other goods** has been realized as TL 6.2 billion, increased by 47.8 percent year on year. Main reasons for this increase are the ongoing strong growth in the sales of white goods and increasing tendency in the import amount of mobile phones.

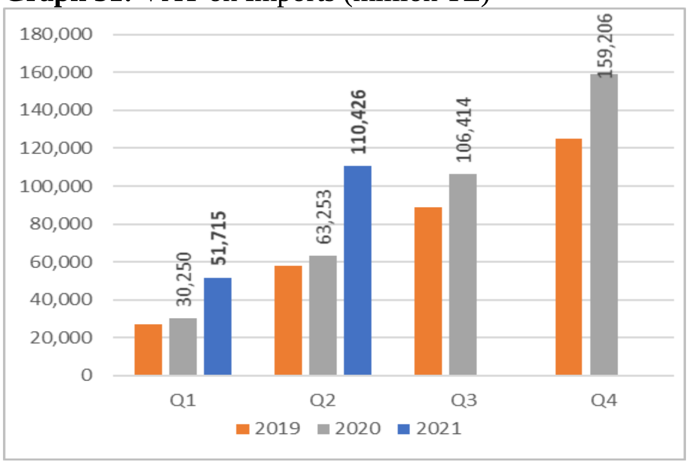
3.1.1.6 Banking and Insurance Transaction Tax (BITT): BITT revenues have been realized as TL 14.2 billion, increased by 20.8 percent year-on-year. The expansion in banking sector credit volume and insurance activities have been effective in this increase. In 2021 January-June period, the credit volume has been expanded by 20.1 percent year-on-year.

3.1.1.7 VAT on Imports: Revenue from VAT on imports has been realized as TL 110.4 billion, increased by 74.6 percent year-on-year (Graph 30 and Graph 31). The relatively strong growth in the domestic demand, the increase in exchange rate and commodity prices have been effective in this increase. In this period, imports in TL excluding gold have increased by about 68.8 percent year on year.

Graph 30: VAT on Imports (Annual Change, %)



Graph 31: VAT on Imports (million TL)



Source: MoTF

3.1.1.8 Other Taxes

Revenue from **gampling tax** has been realized as TL 2.9 billion, increased by 129.7 percent year-on-year. Main reasons of this increase are the increase in the diversity of the games and the change in the rate of prize allocation.

Revenue from **special communication tax** has been realized as TL 2.9 billion, increased by 39 percent year-on-year. Special communication tax rate increase from 7.5 percent to 10 percent since February and the increase in the usage of internet and other mobile devices due to the pandemic have been effective.

Revenue from **stamp duty** has been realized as TL 13.6 billion, increased by 39.4 percent year-on-year. In this period, the increases in the minimum wage and government employee salaries have raised the general level of wages and depending on that, stamp duty revenue has increased. Moreover, the increased transaction volume and the stamp duty collection on contracts as a result of relaxing the restrictions made under the pandemic conditions have been positively contributed to the total revenue.

Revenue from **fees** has been realized as TL 17.5 billion in this period, increased by 33.3 percent year-on-year. In 2021 January-June period, the sales of houses have decreased by 11.5 percent year-on-year. Despite this decrease, the increase in house prices has been effective in the increase of title deed fees by 26 percent year–on-year. In 2021 January-June period judicial fees have increased by 69 percent.

Moreover, in some provinces and counties force majeure was declared due to flood and fire disasters happened in our country in July and August of this year. Tax payments and social security contributions of individuals in these provinces and counties have been deferred (see Box 4).

Box 4: Tax Payments and Social Security Contributions Deferred due to Force Majeure

Tax liabilities and social security contributions of the tax payers, affected by the disasters in the following regions, have been postponed.

Floods happened in July and August of this year in

- 6 counties (Güneysu, Çayeli, Ardeşen, Fındıklı, Kalkandere ve Pazar) of Rize and Muradiye ve Salarha towns and their neigbouring villages,
- Arhavi and Murgul counties of Artvin,
- Akçakoca county of Düzce,
- 9 counties (Abana, Azdavay, Bozkurt, Çatalzeytin, Devrekani, İnebolu, Küre, Pınarbaşı ve Şenpazar) of Kastamonu, 6 counties (Merkez, Ayancık, Türkeli, Gerze, Boyabat ve Erfelek) of Sinop, Ulus county of Bartın

and fires broke out in

- 6 counties (Akseki, Alanya, Gazipaşa, Gündoğmuş, Manavgat, İbradı) of Antalya, 8 counties (Bodrum, Köyceğiz, Marmaris, Milas, Seydikemer, Kavaklıdere, Menteşe, Yatağan) of Muğla, 2 counties (Aydıncık, Silifke) of Mersin, 4 counties (Aladağ, İmamoğlu, Karaisalı, Kozan) of Adana and 2 counties (Centre and Kadirli) of Osmaniye.

3.1.2. Non-Tax Revenues

In the first half of 2021, non-tax revenues have been realized as TL 133.9 billion, increasing by 12.1 percent year-on-year. Increases in revenues from interest, shares and fines and from special budget agencies have significantly contributed to the increase in the non-tax revenues. Moreover, in the first half of the year, TL 3.2 billion has been collected from non-tax revenues within the scope of Law no. 7256.

In the first half of 2021, entrepreneurship and property income has been realized as TL 45.3 billion, decreasing by 13.5 percent year-on-year. In this period, grants and aids and special revenues have been realized as TL 8.4 billion, increasing by 33.5 percent year-on-year. Revenues from interest, shares and fines items have been realized as TL 58 billion, increasing by 36.3 percent year on year.

In the first half of 2021, capital revenues have been realized as TL 3.6 billion, increasing by 9.2 percent year-on-year. The main reason for this increase is that while TL 1 billion was collected from the sales of immovables in the first six months of the last year, in the same period of this year TL 1.6 billion was collected, increasing by 59.8 percent.

In this period TL 634 million of revenues have been derived from the collections from receivables item, increasing by 7.3 percent year on year.

In the same period revenues from special budget agencies and regularity & supervisory institutions have been realized as TL 18 billion, increasing by 24.9 percent year-on-year.

Conclusion: Despite the tax measures taken during pandemic to support the taxpayers and real economy, especially employment and production, strong revenue performance has been achieved in the first half of 2021. It is estimated that tax revenues will be realized above the budget revenue targets by the continuation of economic normalization in the period ahead. Moreover, implementing revenue-increasing regulations generates an additional fiscal space for central government budget.

On the other hand, in the period ahead; the risks such as a negative course of the global pandemic, the probability of slowdown in the economic activity, the revenue losses due to the automatic price adjustment mechanism, the increase in VAT refunds and lower privatization revenues than expected may affect the revenue performance negatively.

3.2. Central Government Budget Expenditures

The main approach to the budget expenditures is to eliminate the adverse effects of the Covid-19 pandemic on the economy, to meet public needs within the framework of fiscal discipline and savings approach of the government and to use resources to contribute to growth, employment, and the fight against inflation.

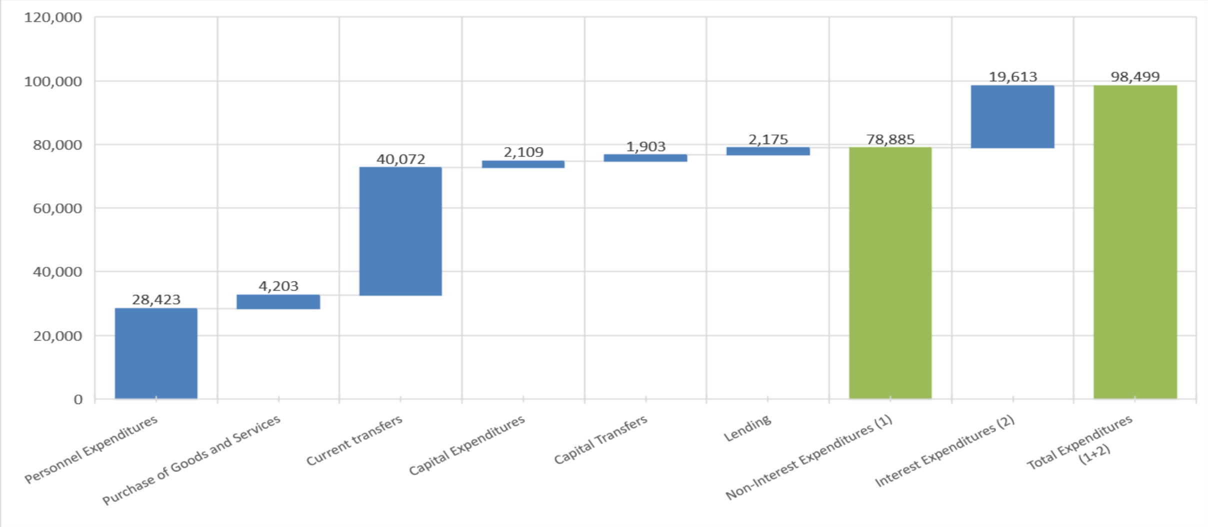
Table 5: Central Government Budget Expenditures Realizations

(million TL)	2020 As of June	2021 As of June	Difference (million TL)	Change (%)
CGB Expenditures (I+ II)	**564,862**	**663,360**	**98,499**	**17.4**
I-Non-Interest Expenditures	**493,605**	**572,490**	**78,885**	**16.0**
Personnel Expenditures*	170,206	198,629	28,423	16.7
Purchase of Goods and Services	35,588	39,791	4,203	11.8
Current Transfers	239,129	279,201	40,072	16.8
Capital Expenditures	32,642	34,751	2,109	6.5
Capital Transfers	2,286	4,189	1,903	83.2
Lending	13,754	15,929	2,175	15.8
II-Interest Expenditures	**71,257**	**90,870**	**19,613**	**27.5**

* State premium expenses to Social Security Institution are included.
Source: MoTF

In the first half of 2021, budget expenditures increased by 17.4 percent (TL 98.5 billion) (Graph 32) on a year-over-year basis (Table 5), therefore 44.0 percent of the year-end forecast was realized (Table 3). In this context, it is seen that the realizations in the first half of 2021 are in line with the year-end forecast.

Graph 32: 2021-2020 Q2 Realization Differences (million TL)

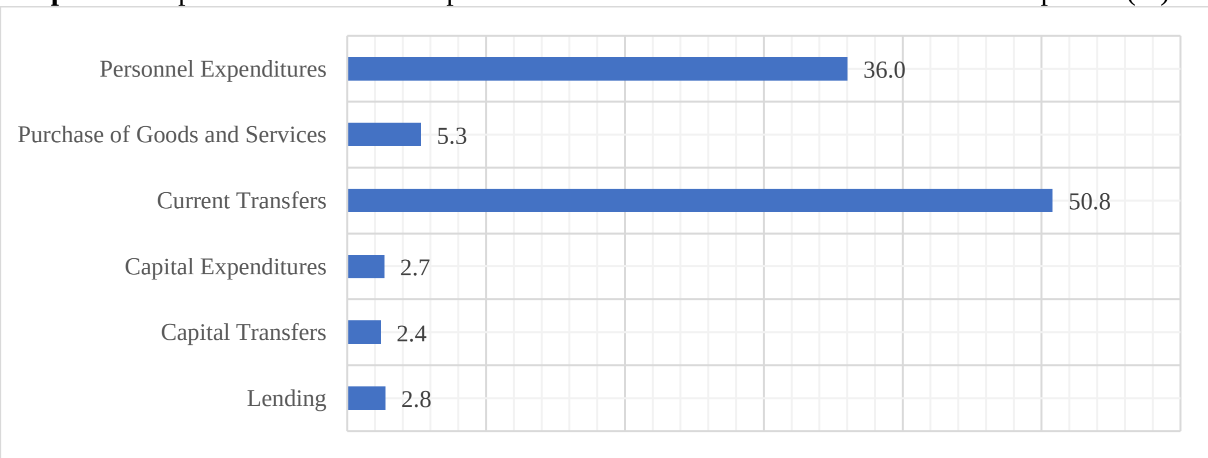


Source: MoTF

3.2.1. Non-Interest (Primary) Expenditures

In the first half of 2021, non-interest expenditures increased by 16 percent y-o-y, and 43.2 percent of the year-end forecast has realized (Table 3). In summary, personnel expenditures, expenditures made within the scope of combating the Covid-19 pandemic, incentives to tradesmen and craftsmen, and the increase in the shares transferred to local administrations and funds due to income realizations were influential in this increase in non-interest expenditures (Graph 33).

Graph 33: Proportional Effects of Expenditure Items on the Increase in Non-Interest Expenses (%)



Source: MoTF

3.2.1.1 Personnel Expenditures: In the first half of 2021, total personnel expenditures, including State contributions to social security institutions, increased by 16.7 percent on a year-over-year basis.

In general, the following has been effective in this increase in personnel expenditures:

- Salary increases determined in the Public Employees' Arbitration Board Decision for civil servants and other public employees,
- Increases in workers' wages determined by collective bargaining agreements,
- Inflation compensation payments in addition to salary and wage increases,
- Minimum wage increase,
- The additional cost of the personnel newly employed to public administrations as of the second quarter of 2020, especially the additional employments for the Ministry of Health and university hospitals due to the Covid-19 pandemic,
- Legislative arrangements for the financial and social rights of public personnel.

3.2.1.2 Purchase of Goods and Services: In the first half of 2021, expenditures on the purchase of goods and services increased by 11.8 percent on a year-over-year basis.

This increase in the purchase of goods and services is generally due to purchases of vaccines, drugs and medical supplies and unit price increases in order to combat the pandemic.

3.2.1.3 Current Transfers: Changes in current transfers, which have the largest share in the central government budget, have a significant impact on total budget expenditures. Current transfers, which constituted 48.8 percent of non-interest expenditures in the first half of 2021, increased by 16.8 percent on a year-over-year basis.

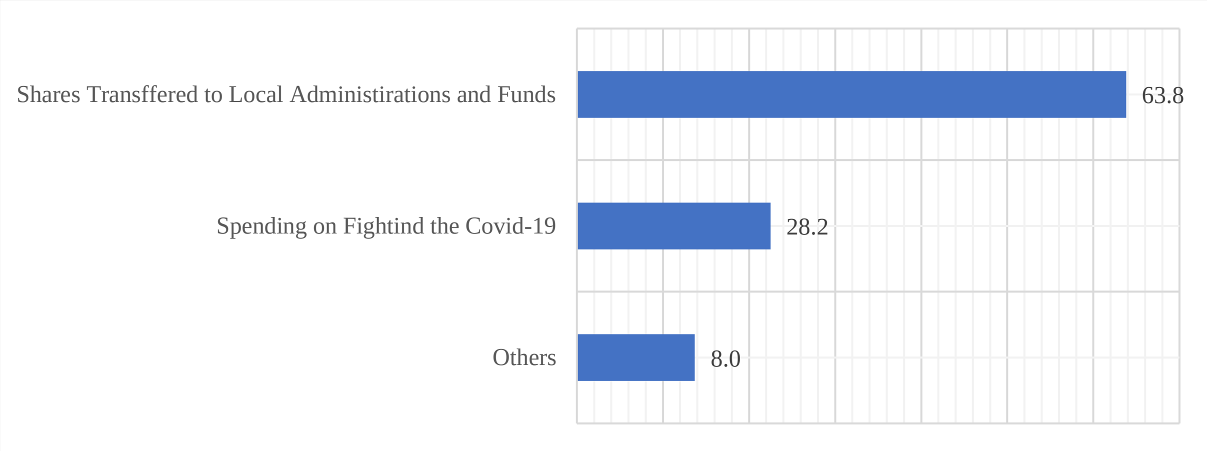
This increase in current transfers is mainly due to the following (Chart 34):

- Because of the Covid-19 pandemic; the payments within the scope of the tradesman support package and the expenses to cover the income loss[5] caused by the decrease in applications to university health services in 2020,
- The increase in the revenue shares transferred to local administrations and funds due to revenue realizations[6].

[5] These are the amounts covered from the Treasury within the scope of the temporary article 82 of the Social Security and General Health Insurance Law No. 5510.

[6] Depending on the revenue realizations, the shares allocated from the revenue increased by TL 25.6 billion compared to the previous year. 78.8 percent of this amount was transferred to local administrations and 21.2 percent was transferred to funds.

Graph 34: Proportional Effects of Expenditures on the Increase in Current Transfers (%)



Source: MoTF

3.2.1.4 Capital Expenditures: In 2021, the resources allocated to investments that are expected to contribute to the growth potential and the employment have been increased. In fact, while TL 56.6 billion was allocated from the budget to capital expenditures in the previous year, it increased by 83 percent to TL 103.7 billion in 2021 budget.

In the first half of 2021, capital expenditures increased by 6.5 percent on a year-over-year basis. Capital expenditures, which are affected by many factors such as pandemic conditions and seasonal expenditure distribution, are expected to be realized in line with the year-end expectations.

3.2.1.5 Capital Transfers: In the first half of 2021, capital transfers increased by 83.2 percent on a year-over-year basis.

This increase (366 million TL) is mainly due to the expenditures made by TÜBİTAK (The Scientific and Technological Research Council of Turkey) within the scope of conducting and supporting R&D projects and the payments made by Village Infrastructure Support Project (KÖY-DES) in the first half of the year, unlike the previous year.

3.2.1.6 Lending: Within the scope of lending, there are expenditure items such as capital transfers to SOEs serving as capital contributions and student loans extended to higher education students.

In the first half of 2021, lending expenditures increased by 15.8 percent on a year-over-year basis. This increase mainly based on two sub items: expenditures made for state-owned institutions and businesses and credit guarantee fund payments.

3.2.2. Interest Expenditures

Interest expenditures, which were TL 71.3 billion in the first half of 2020, realized as TL 90.9 billion in the same period of 2021. The main reasons of this increase are the increase in exchange rates, inflation, and interest rates. On the other hand, in the first half of 2021, the higher amount of CPI-indexed government bonds was amortized compared to the same period of the previous year, and while the principal inflation difference of TL 11.8 billion was paid in the same period of last year, this amount was TL 18.7 billion in the first half of 2021.

Conclusion: As of June 2021, budget expenditures increased by 17.4 percent on a year-over-year basis and 44 percent of the year-end forecast was realized. Despite the expenditures made within the scope of combating the Covid-19 pandemic, it is seen that the first half budget realization of 2021 is in line with the year-end forecast.

However, the course of the pandemic, inflation realizations, changes in exchange rates and commodity prices pose upside risks on expenditures.

With the implementation of the Economy Reform Program, the tight stance in fiscal policy will be maintained resolutely, especially in current expenditures. **In the upcoming period, if the pandemic maintains its negative effects contrary to general expectations, supports for all areas in need will continue.**

Box 5: Measures Taken Under Covid-19 and Economic Size of Measures

The economic size of the measures implemented within the scope of struggling Covid-19 in order to reduce the economic effects of the pandemic reached TL 705.5 billion (10.6 percent of GDP) in total as of August 2021. The part covered from the Central Government Budget, Unemployment Insurance Fund and Social Assistance and Solidarity Incentive Fund is TL 177 billion (2.7 percent of GDP) and also the part covered from the Extended and Deferred Credit is TL 528.5 billion (7.9 percent of GDP)*.

A) Supports Provided from the Central Government Budget	Number of Beneficiary Person/Household/ Businesses	2020-2021 Amount Provided (Billion TL)(1)	2021 Additional Planned	2021 Year-end Forecast	2020-2021 Year-end Realization Forecast
Medicine. Medical Equipment. Health Personnel Payments	-	19.4	19.8	25.1	39.3
Additional Payments for Treasury Interest Supported Loans Given to Agricultural Producers and Tradesmen(2)	-	1.2	0.8	0.9	2
Social Security Premium Effect of Short-time Work. Unpaid Leave Application	-	28.9	0.0	12.7	28.9
Increasing the Minimum Retirement Salary to 1.500 TL	645,823	0.9			0.9
Grant Payments to Tradesmen (3)	2,548,968(4)	9.0	0.1	9.2	9.2
SMEDO World Bank and JICA Loans			0.8	0.8	0.8
Social Support Program(5)		4.4			4.4
Others		0.2	0.1	0.3	0.3
Sub Total		**64.1**	**21.7**	**49**	**85.8**
Tax Deductions (Waived Income Tax)(6)	-	40.6	3.2	28.8	43.8
Financing cost of Tax and SSP Deferrals	-	4.0			4.0
Total (A)		**108.7**	**24.9**	**77.8**	**133.6**
B) Unemployment Insurance Fund and Social Assistance and Solidarity Encouragement Fund Payments	**Number of Beneficiary Person/Household/ Businesses**	**2020-2021 Amount Provided (Billion TL)(1)**	**2021 Additional Planned**	**2021 Year-end Forecast**	**2020-2021 Year-end Realization Forecast**
Cash Aid Support(7)	3,089,703	14.0	0.0	6.8	14
Short-time Work allowance(8)	3,773,086	36.7	0.5	11.7	37.2
Unemployment Benefits(9)	1,341,293	7.3	3.1	5.2	10.4
Normalization Support(10)	6,191,391(10)	4.8	0.5	1.2	5.3
Social Support Program(5)	-	5.5	0.0	0.0	5.5
Total (B)		**68.3**	**4.0**	**24.7**	**72.2**
Total (A+B)		**177.0**	**28.8**	**102.5**	**205.7**
C) Deferred and Granted Loans	**Number of Beneficiary Person/Household/ Businesses**	**2020-2021 Amount Provided (Billion TL)(1)**	**2021 Additional Planned**	**2021 Year-end Forecast**	**2020-2021 Year-end Realization Forecast**
Tax. Social Security Premium Deferrals	2,300,000	70.2			70.2
Loan Deferrals	-	143.2	0.0	7.9	143.2
Loans Granted (11)	9,503,881	315.1			315.1
Total (C)		**528.5**	**0.0**	**7.9**	**528.5**
GRAND TOTAL (A+B+C)		**705.5**	**28.8**	**110.4**	**734.2**

* The GDP data of 2021 foreseen in the MTP(2022-24) are used.
(1) As of August 2021.
(2) Additional payments arising from the President's Decision, which ensured that the interest burden arising from the increase in the demand for treasury interest-supported loans given to agricultural producers and tradesmen due to the changing market conditions during the pandemic period, the loan delays made in this period and the interest increase in the loans extended before 2021, is covered by the Treasury, limited to 2021.
(3) Includes rental support. cash support and loss of turnover payments granted to tradesman. Rental and cash support grant as of December 14 2021; Turnover Support February 6. 2021; Cash Support to Tradesmen was announced to the public on May 17. 2021.
(4) Includes information on "Loss of Income, Rent and Turnover Support" as of April 2021.The number of approved applications for Income Loss Support is 1,077,506; the number of approved applications for rental support is 171,203; number of application for Loss of Turnover Support is 8,232; the number of approved applications for the New Tradesmen Support is 1,292,027. Loss of income support and loss of turnover support are not paid at the same time, and if any beneficiaries of loss of income support, they are paid by deducting from the loss of turnover support.
(5) Support Program and additional periodic shares transferred within the scope of Covid-19 expenditure has been made. Of this amount, TL 4.4 billion is treasury support, TL 2.1 billion is the donations collected within the scope of Donation Campaign, and the remaining TL 5.5 billion is used from the SASI Fund. As of 01.09.2021, the number of single households benefiting from the assistance within the scope of the Pandemic Social Support Program, Donation Campaign and Total Closure Social Support Program is 7.2 million.
(6) All segments of the society benefited from tax rate reductions.
(7) The termination restriction expired on 30/6/2021.
(8) The Short- Time Working Allowance, which was applied due to the epidemic in the current legal framework, ended on 30/6/2021.
(9) It is assumed that the monthly Unemployment Allowance amount will return to the usual trend before pandemic, after the Termination Restriction and Short-time Working application ends on 30/6/2021.
(10) The total number of people who receive uncombined support on the basis of insured is 6,191,391. An insured person who returns to his normal working order can benefit from this support for 6 months.
(11) The number of disbursement from corporate loan packages is 1,285,020; The number of individual consumer loan packages made available is 6,961,000.
Source: MoTF. MLSS. MC. MoFSS

4. RISKS

In this part of the report, possible risks on the central government budget are evaluated and the sensitivity of the debt stock to various macroeconomic shocks are analyzed. In this context, the course of the global pandemic, macroeconomic and financial developments, which are the biggest risk factors on the budget, have been taken into consideration.

Under the assumption of decreasing impact of the Covid-19 pandemic; a positive impact on central government budget is expected due to the increase in;

- consumption-based tax revenues with the recovery in the tourism sector and positive expectations in the services sector,
- personnel income tax revenues via positive developments in employment,
- corporation tax revenues through real sector profitability.

Moreover, assuming that upward trend in oil prices will not resume in the rest of the year, it is considered that the loss of income due to automatic price adjustment mechanism will decrease.

Besides, pandemic-related expenditures may decrease with mitigating effect of the pandemic.

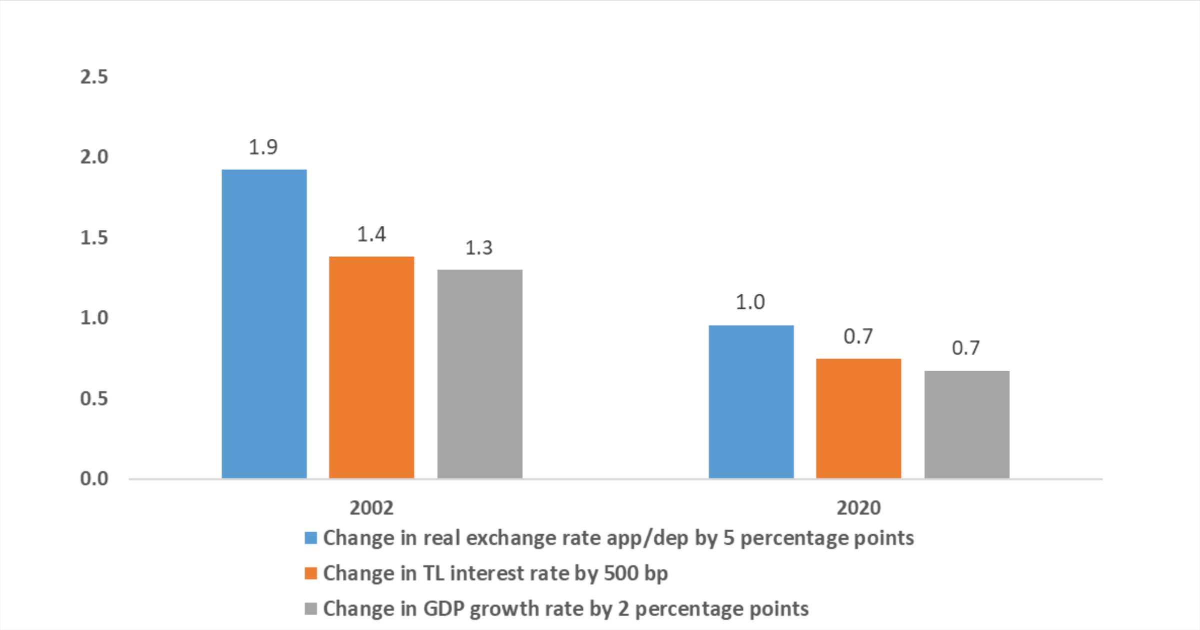
In case of lower growth, import, private consumption and investment expenditures, depending on the factors such as the increase in the impact of the Covid-19 pandemic, the rise in global food and commodity prices, and FED's decision to reduce asset purchases; it is expected a decrease in;

- consumption-based tax revenues and
- personnel income tax and corporation tax revenues due to lower profit realizations in the real sector and finance sector than expected.

Moreover, in this scenario, it is anticipated a negative impact on SCT revenues from petroleum and natural gas products due to the automatic price adjustment mechanism and on income collection performance due to the deterioration of the economic outlook. In addition, it is expected an increase in expenditures due to the emergence of additional needs for the fight against the pandemic and other essential reasons.

The central government debt stock, which was 30.8 percent (TL 1,329.1 billion) of GDP as of the end of 2019, rose to 35.9 percent (TL 1,812.8 billion) of GDP at the end of 2020. According to sensitivity analysis, as of the end of 2020, the central government debt stock to various macroeconomic shocks, 5 percent depreciation in TL, 500 bp interest rate hike and 2 pp growth shock add 1.0 points, 0.7 points and 0.7 points to debt-to-GDP ratio, respectively. The effects of shocks have declined significantly, compared to 2002 (Graph 35).

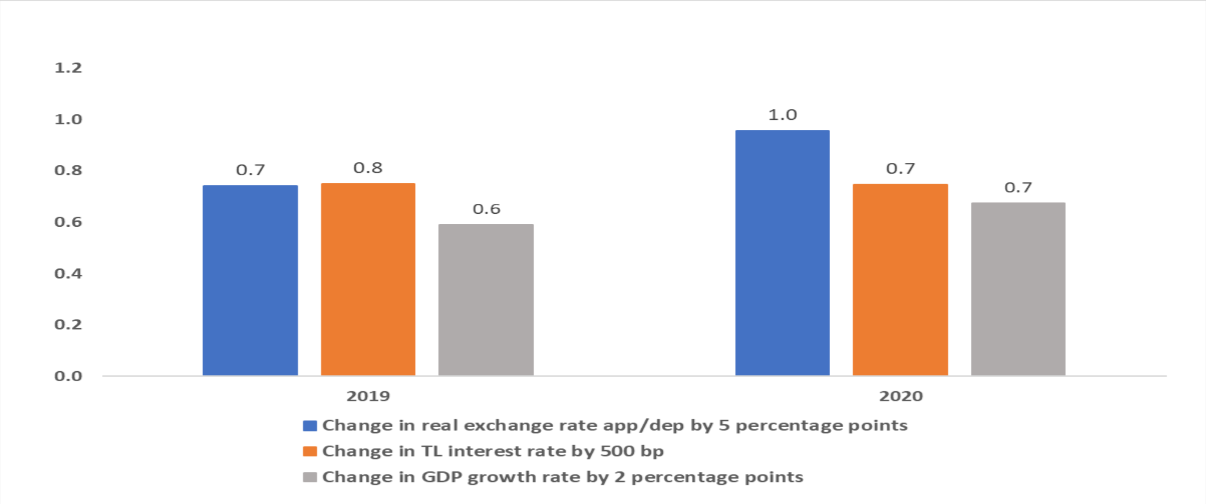
Graph 35: Sensitivity of Central Government Debt to GDP Ratio (%) (2002-2020)



Source: MoTF

When the analysis for 2020 is compared to 2019, it is seen that there is an increase of 0.3 points in the effect of exchange rate shock and an increase of 0.1 points in the effects of growth shocks. These increases are mainly due to the increase in the debt-to-GDP ratio and the change in the composition of the debt stock. Compared to 2019, debt stock is more sensitive to the exchange rate shock since the share of foreign currency debt in the central government debt stock increased from 49.7 percent in 2019 to 56.2 percent in 2020 (Graph 36).

Graph 36: Sensitivity Central Government Debt to GDP Ratio (2019-2020)



Source: MoTF

On the other hand, according to the sensitivity analysis based on the 2020 debt-to-GDP realization and corresponding assumptions, after macroeconomic shocks, the debt stock is expected to increase by;

- TL 63.5 billion as a result of 5 percent depreciation in TL,
- TL 49.6 billion as a result of 500 basis points increase in interest rate,
- TL 44.8 billion as a result of 2 points decrease in GDP growth rate (Table 6).

Table 6: Sensitivity of Central Government Debt to GDP Ratio

	(billion TL)
Change in real exchange rate app/dep by 5 percentage points	63.5
Change in TL interest rate by 500 bp	49.6
Change in GDP growth rate by 2 percentage points	44.8

Source: MoTF

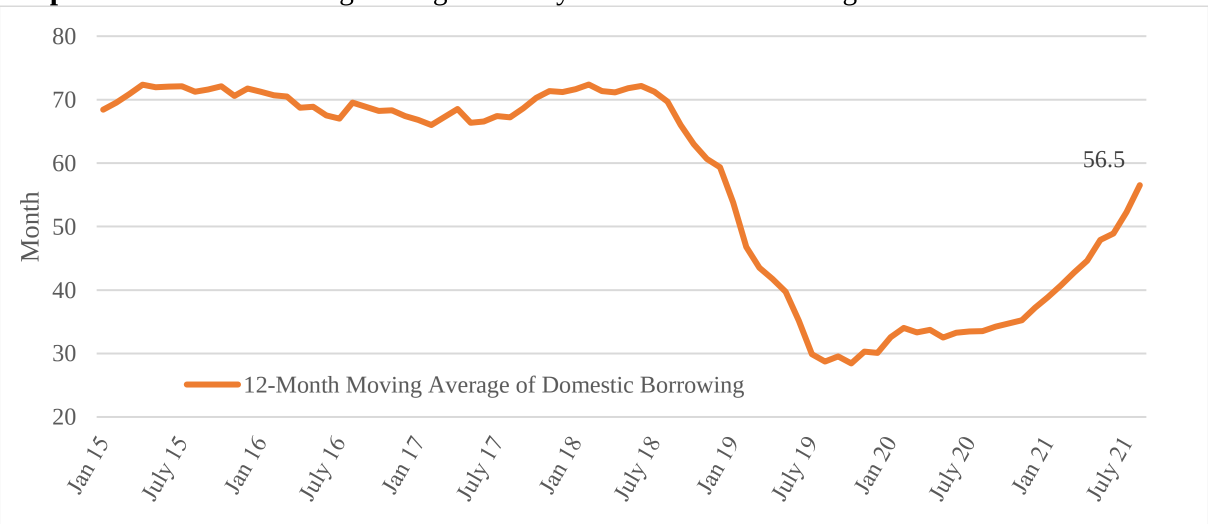
5. FINANCING[7]

The Ministry of Treasury and Finance has been implementing following strategies, which were announced in the 2021 Treasury Financing Program to manage the mid-term and long-term risks:

- To borrow mainly in TL,
- To keep the share of debt maturing within 12 months and the share of debt stock with interest rate refixing period of less than 12 months at a certain level, by considering appropriate instrument and maturity composition to optimize interest payments,
- Especially during the COVID-19 pandemic, to keep a strong level of cash reserve to reduce the liquidity risk associated with cash and debt management.

With the interest of non-residents on the debt instruments, the average maturity of domestic borrowing (switch auctions included) lengthened since the last quarter of 2020. Although the demand for the long-term securities has declined after March 2021, a relatively small non-resident demand has been observed especially in the last period of the second quarter. Despite the market conditions, 12-month moving average maturity of domestic borrowing, which was 44.6 months in April, has increased continuously in the second quarter and reached to 48.9 months as of June. Finally, as of August, this figure has been 56.5 months. (Graph 37).

Graph 37: 12-Month Moving Average Maturity of Domestic Borrowing

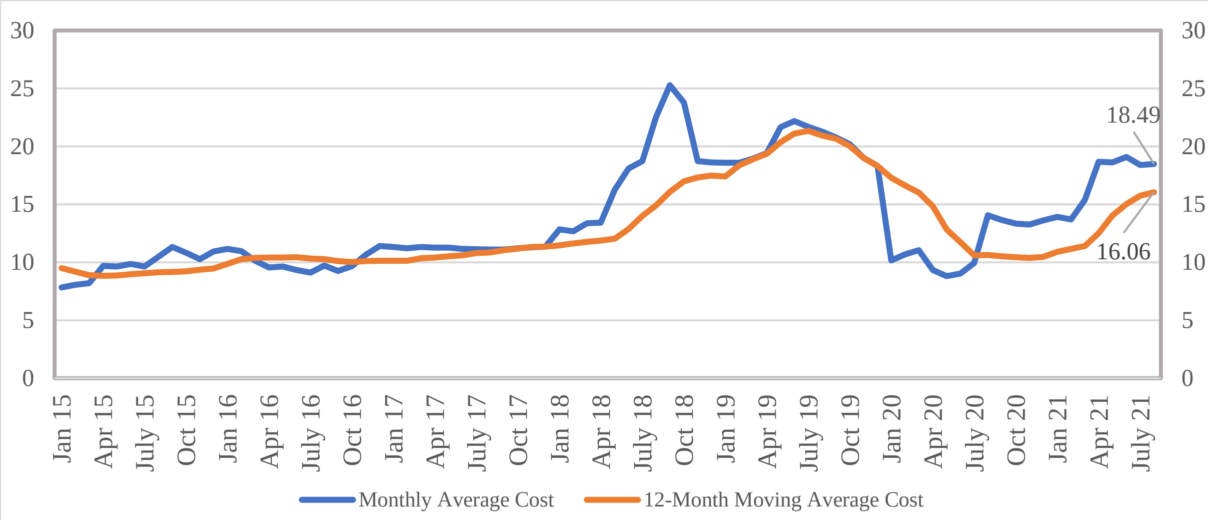


Source: MoTF

[7] Detailed data on financing are included in the monthly Public Debt Management Report (https://en.hmb.gov.tr/public-debt-management-reports).

Compared to the first quarter, the cost of borrowing has increased in the second quarter and borrowing cost of fixed rated bond reached to 19.10 percent as of June. This figure has decreased to 18.49 percent as of August. (Graph 38). As of August 12-month moving average cost of fixed rate bond has been 16.06 percent.

Graph 38: 12-Month Moving Average Cost of Domestic Borrowing (%)



Source: MoTF

According to Treasury Financing Program for 2021, one the main elements of borrowing strategies carried out in line with strategic benchmarks within the framework of debt management is to borrow mainly in TL.

As of August, 130.1 tons of gold-denominated domestic borrowing and principal payment corresponding to 101.8 tons of gold were carried out in 2021. By the end of 2021, 141.6 tons of gold-denominated debt will be paid in total and the total gold-denominated domestic borrowing for the year is not expected to surpass this level.

As of August 2021, the total domestic foreign currency principal payment has been 9.6 billion dollars and the total domestic foreign exchange-denominated borrowing has reached to 6 billion dollars. In this regard, the level of FX-denominated domestic borrowing has significantly been reduced compared to the FX-denominated domestic debt service and the rollover ratio for this type of debt has been 61.8 percent. By the end of the year, total domestic foreign currency borrowing is planned to stay at 6 billion dollar level while total foreign exchange principal payment will be 11.1 billion dollars.

In conclusion, the gradual reduction of domestic foreign exchange and gold-denominated borrowings in line with the market conditions in the upcoming period will continue to be one of the main strategic objectives of the borrowing policy.

As a result of borrowing policy, the foreign denominated debt of central government domestic debt stock reduced to 33.5 billion dollar as of 31 July 2021, while it was 36.2 billion dollar as of the end of 2020. The stock is expected to be below this level by the end of the year.

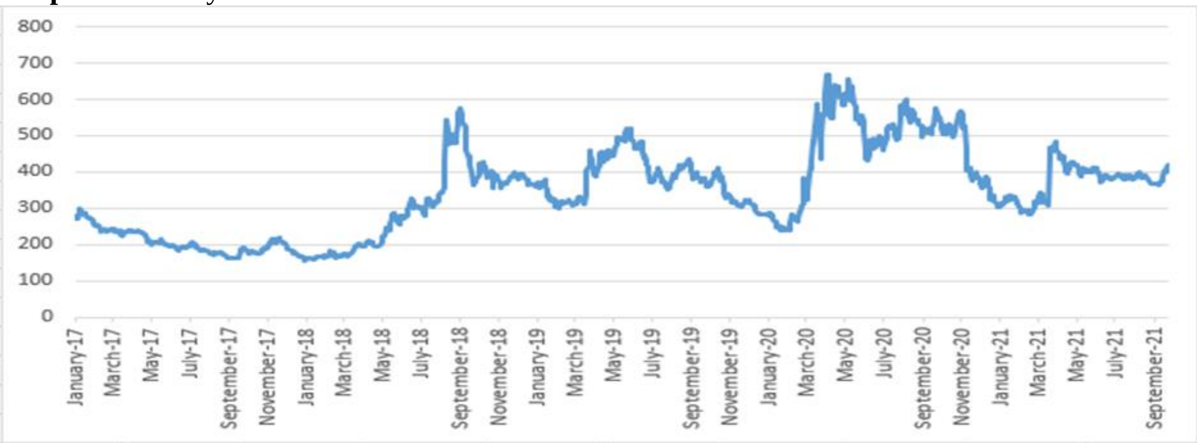
In order to have a smooth redemption profile and decrease the borrowing risks, switch auctions have been conducted regularly in 2021. In these auctions, short term bonds switched with long term bonds. On the other hand, as a reflection of the improvement in budget estimates and the decrease in financing needs in the rest of the year, the domestic debt rollover ratio for 2021 is expected to remain below the estimated ratio in the annual Treasury Financing Program announcement. By following these strategies, significant decrease in monthly and annual debt service amounts of the Treasury is expected, especially in the medium term, which will consequently mitigate the negative effects of inflation, exchange rate and interest risks on the central government debt stock.

On the other hand, downside risks in domestic financing are summarized as follows:

- Risks on the programmed borrowing amount and borrowing costs due to the need for additional financing which may arise from COVID-19 pandemic.
- Depending on pandemic situation, ongoing measures may continue to decrease the contribution of Unemployment Insurance Fund (ISF) to the Treasury auctions.
- The share of FX-denominated borrowing will decrease as long as there is a sustainable market demand for TL-denominated securities.
- If the CPI rate stays above the projections, the interest payments of the inflation-indexed securities may increase. Similarly, if the rise of CPI rate affects TL interest rates, the coupon payments of floating rate bonds in stock may increase.
- A rise in exchange rates may increase the principal and coupon payments of the foreign exchange denominated securities in stock and may have negative effects on the Treasury's redemption profile.

Developments in domestic and international markets significantly affect the risk appetite for Turkey’s assets, especially in the international capital markets. The 5-year CDS premium, which is an indicator of country risk, hovered around 300 basis points at the beginning of 2021; however, it increased sharply in March, exceeding 480 basis points. After March, it followed a relatively limited downward trend and traded in the 364-421 basis points range in September (Graph 39). This fluctuation in the CDS premium significantly affects borrowing costs from the international capital markets.

Graph 39: Turkey 5-Year CDS Premium



Source: Bloomberg

As of September 2021, USD 10 billion equivalent bond issuance target in international capital markets, which was envisaged in annual financing program, has been completed.

In the first half of 2021, inflation expectations increased in developed countries due to the recovery in global economic activity brought about by the post-Covid-19 opening, strong increase in commodity prices and pressures created by supply chain problems. Rising inflation expectations in developed countries adversely affect risk appetite by raising the bond yields in developed countries, especially in the US. Thus, the possibility of lower financial flows to developing countries in the international markets has increased. In addition, the possibility of US Federal Reserve adjusting its bond purchase program in the second half of the year stands out as another important factor affecting the markets. The reduction in the FED's bond purchase program may lead to a decrease in risk appetite, a decline in international fund flows to developing countries and a rise in our foreign currency borrowing costs from the international capital markets. In addition to these factors, geopolitics and international political developments may pose risks regarding access to the international bond markets and borrowing costs of potential issuances.

Domestic Borrowing Program: In the Domestic Borrowing Strategy, which was published on 31 March 2021, a total of TL 130.8 billion was planned to finance the domestic and external debt payments foreseen for the April - June 2021 period. Monthly breakdown of the quarterly borrowing was TL 33, 54 and 43.8 billion for April, May, and June, respectively. On the other hand, the Ministry borrowed TL 103.2 billion due to the market conditions and the amount of demand in the auctions (Table 7). The difference between the amounts realized domestic borrowing and the programmed borrowing is due to the low foreign investor demand for fixed coupon bonds on the long side of the yield curve.

In the Domestic Borrowing Strategy, which was published on 31 August 2021, a total of TL 107.4 billion was planned to finance the domestic and external debt payments foreseen for the September - November 2021 period. Monthly breakdown of the quarterly borrowing is TL 40, 47.4 and 20 billion for September, October, and November, respectively.

Table 7: End of 2021 Second Quarter Domestic Borrowing

Domestic Borrowing Realizations (million TL)	Domestic Borrowing Program* (million TL)	Difference** (%)	Domestic Debt Service Realizations (million TL)	Domestic Debt Rollover Ratio*** (%)
103,194	130,800	-21.11	125,812	82.02

*Total domestic borrowing projections for the following quarter. Announced on 31st March 2021
**[(Domestic Borrowing Realizations–Domestic Borrowing Program) / Domestic Borrowing Program] x100
*** [(Domestic Borrowing Realizations/ Domestic Debt Service) x100. Cash based domestic borrowing and domestic debt service, excluding switch auctions. Total amount of cash based domestic borrowing consists of nominal amounts for coupon bonds issued above par, net amounts for coupon bonds issued below par and for zero coupon bonds.
Source: MoTF

Domestic Debt Service Realizations: In the second quarter of 2021, TL 125.8 billion domestic debt service, of which TL 101.9 billion was principal and TL 23.9 billion was interest, was realized. As of the end of August 2021, a total of TL 299.5 billion domestic debt service, of which TL 213.9 billion is principal and TL 85.6 billion is interest, has been realized.

Domestic Debt Rollover Ratio: In the Domestic Borrowing Strategy, which was published on 31 March 2021, the domestic debt rollover ratio for the April - June 2021 period was estimated to be 107.3 percent. However, the domestic debt rollover ratio for the April - June period was 82.02 percent. As of June 2021, total domestic debt rollover ratio is 87.7. On the other hand, the domestic debt rollover ratios for June and August were realized as 105.3 and 203.2 respectively, and the domestic rollover ratio for September will be announced on October 8, 2021.

External Borrowing Realizations: On January 26, 2021, a dual tranche bond with maturities of 5 and 10 years was issued and a total of USD 3.5 billion of financing was raised, with USD 1.75 billion in each tranche. On June 22, 2021, a 5-year lease certificate was issued and USD 2.5 billion worth of external financing was raised. On July 8, 2021, a 6-year Euro-denominated bond was issued and a total of EUR 1.5 billion of financing was raised. On September 20, 2021, a dual tranche transaction including the reopening of October 2028 bond and a new 12-year bond was executed and a total of USD 2.25 billion of financing was raised, with USD 0.75 billion in the reopening of October 2028 and USD 1.5 billion in the new 12-year bond.

External Debt Service Realizations: In the first half of 2021, a total of TL 61.5 billion of foreign debt service, of which TL 42.6 billion was principal and TL 18.9 billion was interest, was realized. As of the end of August 2021, a total of TL 69.8 billion of foreign debt service, of which TL 44.3 billion was principal and TL 25.6 billion was interest, has been realized.

6. CENTRAL GOVERNMENT DEBT STOCK [8]

At the end of 2020, the central government debt stock increased by TL 483.8 billion compared to the previous year. TL 279.1 billion of the stock increase in 2020 is due to net borrowing and TL 204.7 billion is due to exchange rate differences (Table 8).

Table 8: Change in Central Government Debt Stock for the Years 2019-2020 (million TL)

Period	Outstanding Debt at Year-Beginning	Net Borrowing*	Exchange Rate Difference**	Outstanding Debt at Year-End
2019	1,067,115	194,740	67,199	1,329,054
2020	1,329,054	279,123	204,672	1,812,849

(*) Net premium income and net discount expense between the two periods are included in this item.
(**) It has been produced for statistical purposes and may differ from accounting records.
Source: MoTF

As of the first quarter of 2021, the central government debt stock increased by TL 137.2 billion compared to the previous quarter. TL 24.1 billion of the stock increase is due to net borrowing and TL 113.1 billion is due to exchange rate differences (Table 9).

While USD equivalent of the foreign currency debt stock was 138.5 billion dollars in 2020, this amount decreased to 135.5 billion dollars as of June 2021. Although USD equivalent of the foreign currency debt stock decreased in 2021 compared to the end of 2020, TL equivalent of the foreign currency debt stock increased due to the exchange rate differences.

At the end of the second quarter of 2021, the central government debt stock increased by TL 93.8 billion compared to the previous quarter. TL 35.6 billion of the stock increase in the second quarter of 2021 is due to net borrowing and TL 58.2 billion is due to exchange rate differences (Table 9).

Table 9: Change in Central Government Debt Stock in 2021 (million TL)

Period	Outstanding Debt at Year-Beginning	Net Borrowing *	Exchange Rate Difference **	Outstanding Debt at Year-End
2021 Q1	1,812,849	24,115	113,136	1,950,100
2021 Q2	1,950,100	35,626	58,161	2,043,886

(*) Net premium income and net discount expense between the two periods are included in this item.
(**) It has been produced for statistical purposes and may differ from accounting records.
Source: MoTF

[8] Detailed data on debt stock are available in the Monthly Public Debt Management Report (https://en.hmb.gov.tr/public-debt-management-reports).

7. TREASURY CASH REALIZATIONS

According to the Treasury cash realization statistics, based on the cash inflows and outflows from Treasury's bank accounts (the transactions of general budget institutions), at the end of the second quarter of 2021, revenues increased by 37.6 percent, non-interest expenditures increased by 17.5 percent and interest payments increased by 21.5 percent compared to the same period of the previous year. The primary balance, on the other hand, had a surplus of TL 36.1 billion with an improvement of TL 84.8 billion compared to the same period of the previous year.

Taking into account the interest payments and other revenues, the Treasury cash balance had a deficit of TL 38.3 billion in the first half of 2021, with an improvement of approximately TL 70.9 billion compared to the previous year. In the same period, net borrowing was TL 35.9 billion by decreasing TL 126.7 billion.

As a result, according to Treasury Cash Realizations statistics, Treasury cash reserve increased by TL 23.1 billion by the end of the first half of 2021, mainly due to the relatively high performance in revenues despite the increase in expenditures (Table 10).

Table 10: 2021 Treasury Cash Realizations (January-June)[1]

(million TL)	2020 January-June	2021 January-June	Change (million TL)	Change (%)
1. Revenues	**463,306**	**637,685**	**174,379**	**37.6**
2. Expenditures	**575,215**	**678,395**	**103,180**	**17.9**
Non-Interest Expenditures	512,010	601,572	89,562	17.5
Interest Payments	63,205	76,822	13,617	21.5
3. Primary Balance	**-48,704**	**36,112**	**84,816**	
4. Privatization and Funds Income [2]	**2,617**	**2,366**	**-251**	**-9.6**
5. Cash Balance (1+4-2)	**-109,292**	**-38,345**	**70,947**	
6. Financing (7+8+9+10)	**109,292**	**38,345**	**-70,947**	
7. Borrowing (Net)	**162,598**	**35,870**	**-126,728**	**-77.9**
Foreign Borrowing (Net)	**-8,961**	**6,517**	**15,479**	**172.7**
Borrowing	23,873	49,153	25,280	105.9
Payment	32,834	42,635	9,801	29.9
Domestic Borrowing (Net)	**171,559**	**29,353**	**-142,206**	**-82.9**
Borrowing	252,206	205,844	-46,362	-18.4
Payment	80,647	176,491	95,844	118.8
8. Transfers from SDIF	**15**	**0**	**-15**	**-100.0**
9. Receipts from Onlending	**675**	**2,099**	**1,424**	**210.9**
10. Change in Bank Accounts -(5+7+8+9)[3]	**-53,997**	**375**	**54,372**	
11. Effect of Change in Exchange Rate[4]	**10,222**	**23,469**	**13,246**	
12. Net Change in Bank Accounts (10-11)[3]	**-64,219**	**-23,094**	**41,126**	

(1) Treasury cash realization data includes the financial statistics reflected in the Treasury accounts of the public administrations within the scope of the general budget, included in the Schedule 1 of the Public Financial Management and Control Law No. 5018.
(2) Indicates the transfer made by Turkish Privatization Administration, 4,5G license payment, 2B land sales revenue and other income from share sales that will be recorded as budget revenue in the Public Accounts Bulletin
(3) A decrease / increase in bank accounts is denoted by + / - sign.
(4) Indicates the change in the value of the items held in foreign exchange as a result of the exchange rate movements.
Source: HMB

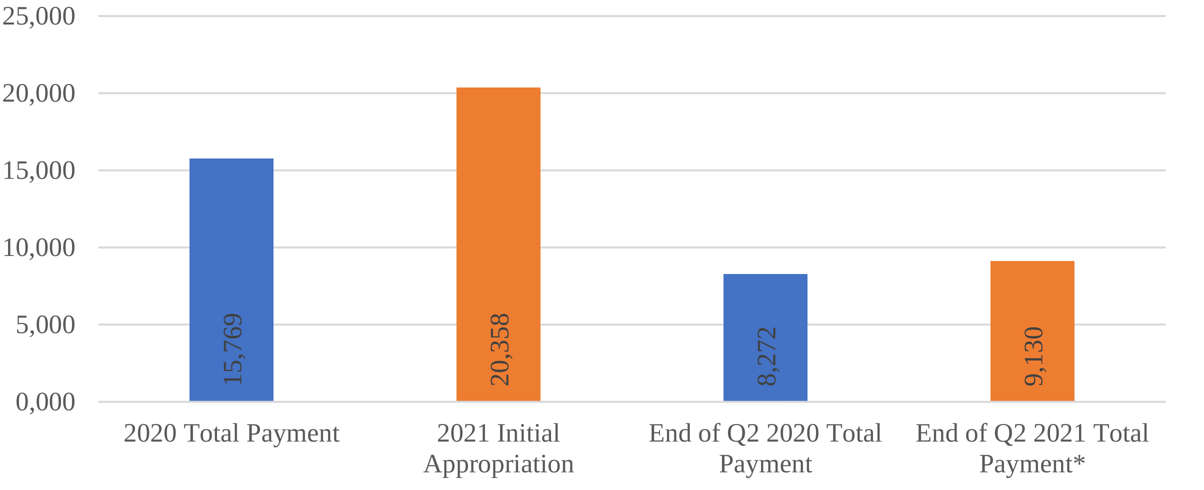
8. PUBLIC ENTERPRISES

Public enterprises are extremely important for increasing capital accumulation in the country, maintaining stable growth, supporting large infrastructure investments, ensuring competition, controlling strategic natural resources, and providing sustainable growth in the energy, agriculture, industry, and service sectors.

First, within the relationship between the SOE's and the central government budget, capital payments are made to the enterprises which have insufficient equity and income in order to provide that they meet their operating deficits and investment expenditures, the assignment receivables of some enterprises which occur due to the duties assigned within the framework of relevant legislations, are also covered by the central government budget.

The initial capital allowance for state-owned enterprises amounts to TL 20.4 billion in 2021. This figure is expected to reach TL 37.2 billion at the end of this year, due to additional financing needs for railway investments and strengthening of capital structures of state-owned enterprises in the energy sector (Graph 40).

Graph 40: Capital Injections (million TL)

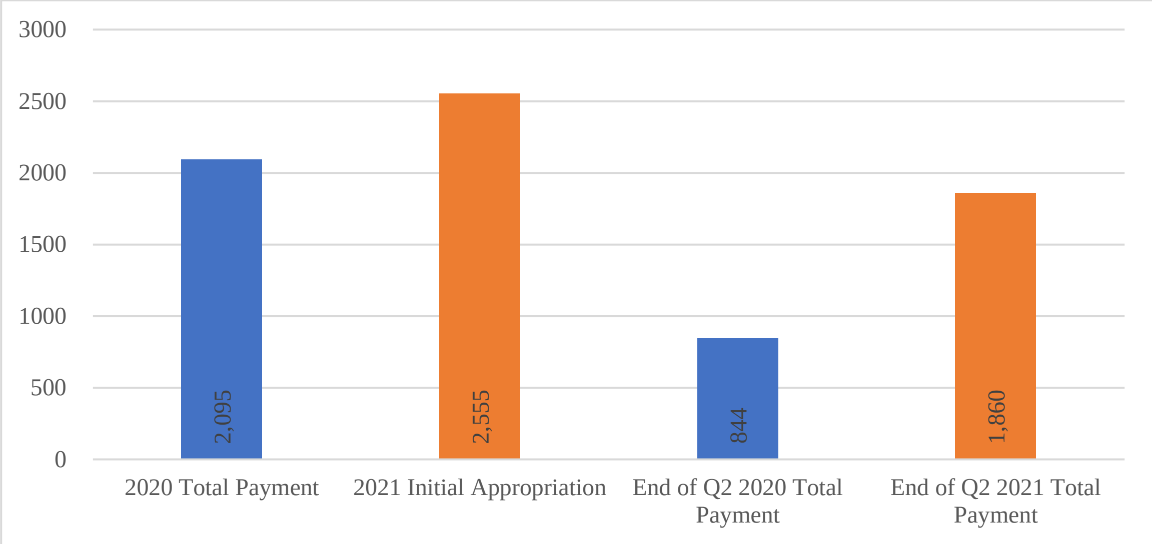


* TL 212 million was accrued in April for TCDD property cost and no cash outflow was realized.

Source: MoTF

The main reason for the increase in payments for duties assigned in the first half of 2021 is that such payments in the field of agriculture and livestock gained weight compared to the same period of the previous year (Graph 41).

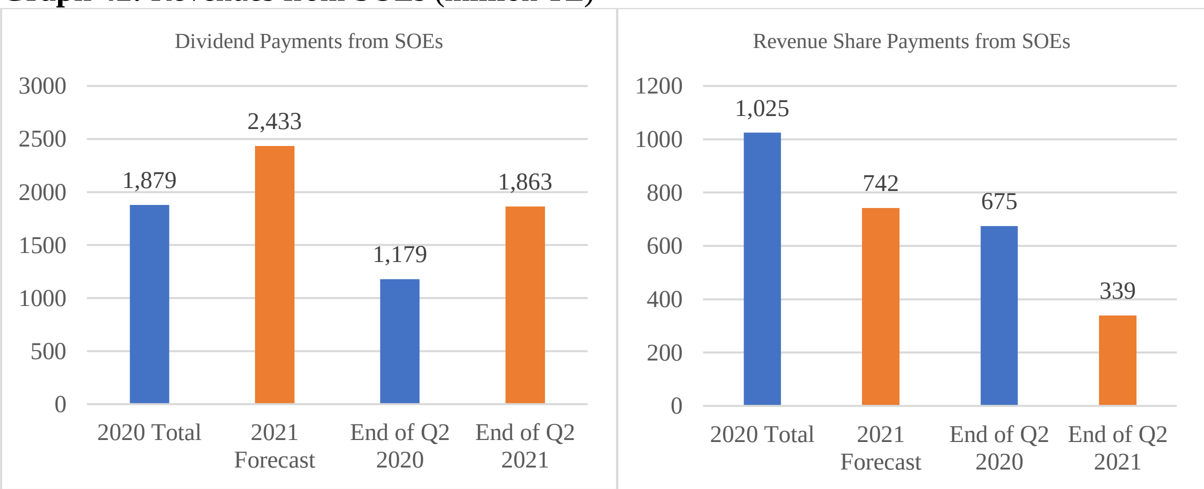
Graph 41: Payments for Duties Assigned (million TL)



Source: MoTF

Besides the transfers made by central government budget to the enterprises, dividend and revenue share transfers from the enterprises take place as a contribution to the central government budget. In the year 2020, a dividend amount of TL 1.9 billion was collected, a dividend amount for the year 2021 is expected to be around TL 2.4 billion. On the other hand, a dividend amount of TL 1.9 billion has been collected in the first half of 2021, compared to the same period of last year where a dividend amount of TL 1.2 billion collection had been occurred (Graph 42).

Graph 42: Revenues from SOEs (million TL)

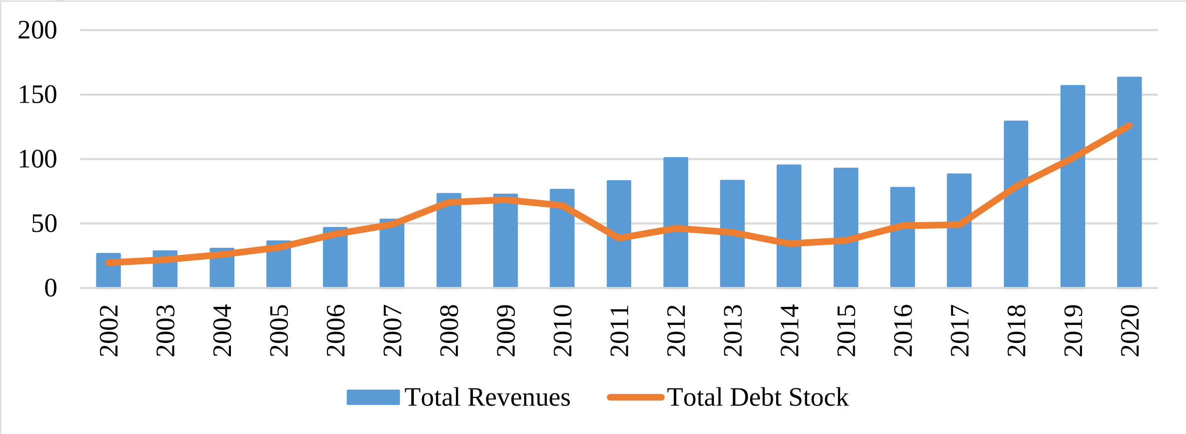


Source: MoTF

There is a decrease in the revenue share income in the first half of the year 2021 compared to the same period of the year 2020, the significant decrease of the operating income of the enterprises due to the pandemic constitutes the reason for this.

On the other hand, as of the end of the year 2020 the gross sales of SOE's reached to the amount of TL 160 billion (Graph 43). The biggest contribution to the gross sales of SOE's comes from the enterprises operating in the energy sector. Even though the ratio of debt stock to gross sales has slightly increased in the recent years, it still presents a more positive outlook compared to the period before 2010.

Graph 43: Total Revenues and Total Debt Stock of SOEs (billion TL)



Source: MoTF

Since SOEs play a pivotal role in critical sectors such as energy, agriculture, defense industry and transportation, it is important to increase the contribution of those SOEs to the economy and employment. In recent years, there is a worldwide general trend towards reforming public enterprises in the light of internationally accepted corporate governance principles. By considering current developments, several applications such as inner control, independent audit and consolidated reporting are also adopted in Turkey.

At the same time, in accordance with the Economic Reform Program, studies are carried out to increase the competitiveness of the enterprises, to strengthen their institutional capacities and to ensure their positive contribution to sustainable development in the long run.

9. DATA RELEASE CALENDAR

Public Finance Report will be published quarterly, and the dates of its publication are given in the table below.

Table 11: Data Release Calendar

Report	Publication Date
Public Finance Report 2021- III. Quarter	2021 November
Public Finance Report 2021- IV. Quarter	2022 February
Public Finance Report 2022 - I. Quarter	2022 May
Public Finance Report 2022 - II. Quarter	2022 August

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