tepav

türkiye ekonomi politikaları araştırma vakfı

economic stability institute

Fiscal Monitoring Report

- 2008 January Budget Results

- Attempts to Formulate Legislation Aimed at Affecting Fiscal Discipline Negatively

I. January 2008 Budget Execution Results

A. A Brief Look at the Central Government Budget Implementation 2008 January Month End Results

Central government budget had a deficit of 524 million YTL as of end of January 2008. Primary balance had a surplus of 3.8 billion YTL.[1]

A considerable improvement in budget performance is salient in January 2008, compared to the same period of last year. This is primarily due to a nominal decrease in budget expenditures and a significant increase in budget revenues.

Table 1. Central Government January 2008 Realizations (Compared to 2007)

million YTL	Jan. 07	Jan. 08	Change (%)	Real. Com. to 2007 Year End	Real. Com. to 2007 Allow.
Expenditures	**18.488**	**16.306**	**-11,80**	**9,08**	**7,33**
1-Primary Expenditures	**11.467**	**12.023**	**4,84**	**7,41**	**7,22**
Employee Expenditures	4.361	4.841	11,02	10,01	9,95
Social Sec. Inst. Govnt Premium	547	622	13,73	9,43	9,71
Purchase of Goods and Services	838	1.059	26,35	3,78	4,62
Current Transfers	4.885	5.136	5,14	7,72	7,42
Capital Expenditures	146	16	-89,25	1,13	0,13
Capital Transfers	325	29	-90,93	9,16	1,41
Lending	366	319	-12,73	10,30	8,12
Auxiliary Allocations	0	0			
2-Interest Expenditures	**7.021**	**4.283**	**-38,99**	**14,41**	**7,65**
Revenues	**12.392**	**15.781**	**27,35**	**6,54**	**7,71**
1-General Budget Revenues	**12.306**	**15.581**	**26,61**	**6,68**	**7,81**
Tax Revenues	11.077	14.159	27,83	7,25	8,27
Enterprise and Property Revenues	388	406	4,74	4,90	4,52
Interests, Shares and Fines	802	982	22,41	5,13	6,95
Capital Revenues	9	8	-11,81	0,15	0,19
Received Donations and Aids	31	26	-14,33	1,72	3,30
2-Special Budget Revenues	81	109	**34,03**	**2,14**	**3,19**
3-Revenues from Reg. and Sup.	4	91	**2061,44**	**0,27**	**5,29**
Budget Balance	**-6.096**	**-524**	**91,40**	**43,91**	**2,91**
Primary Balance	**925**	**3.759**	**306,42**	**2,65**	**9,89**
Program Defined Primary Balance	**974**	**4.183**	**329,47**	**4,50**	**13,37**

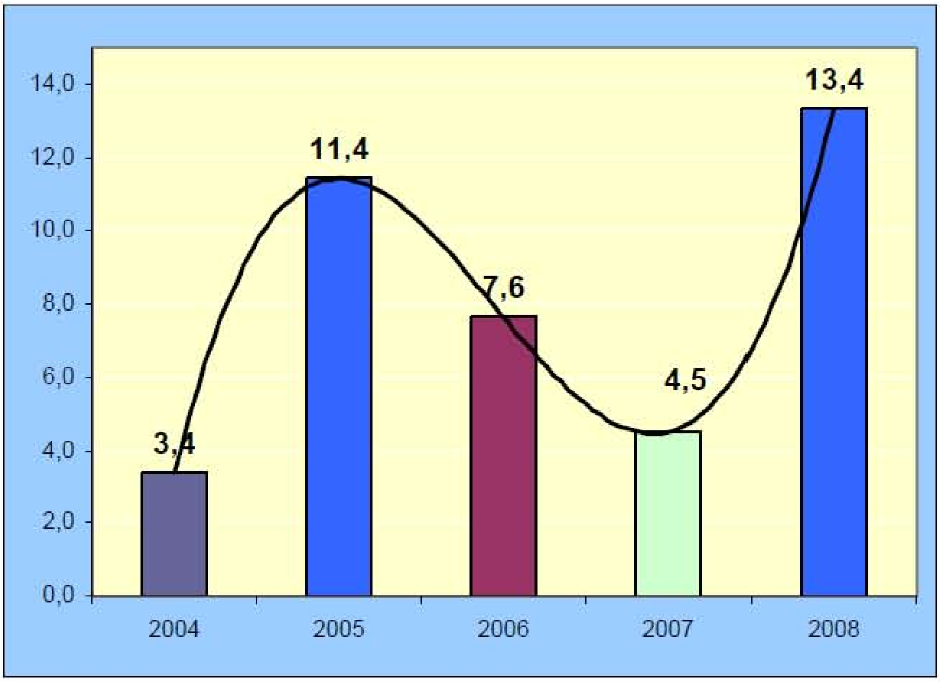
[1] In our previous reports, we had corrected for the difference in disclosed budget arising from booking of transfers of allocations to local governments and funds with a delay of one month. The impact of this practice on budget balance has decreased in 2008 since it has completed one year. For this reason, we decided not to make this calculation, starting with our January 2008 report.

When we take a closer look at the figures, we see that while budget expenditures decreased by 11.8%, primary expenditures increased by 4.8% in January 2008. This slow down in budget expenditures, especially when combined with the increase of 27.8% in budget revenues, budget performance turns out to be better than that of the same period last year. As a matter of fact, the usage of allowances decreased while realization of budget revenues increased significantly.

On the expenditure side, the most important reason for the decrease in budget expenditures is the decrease in interest expenditures, compared to January 2007. Thus, this development in interest expenditures also supported the improvement in budget performance through a base effect in the general sense. Nevertheless, we think that the negative effect of interest expenditures will be felt more in the second half of the year.

When we look at program defined primary balance figures, we see that 13.4% of the year end target is achieved as of end of January. Considering that this figure was 4.5% last year, program defined balance seems to have a better performance for January at first sight. Nevertheless, the fact that a complete mutual agreement with IMF on the expectations for the budget of 2008, as part of 7th Revision, has not been reached yet; the administration's keeping expenditures low by not freeing the allocations in the first month of the year; and the question about whether the increase in tax revenues will continue this trend necessitate a cautious perspective with respect to the improvement in budget.

Graphic 1. Central Government Program Defined Primary Surplus Performance Realizations (2004-2008)



B. Budget Expenditures

As we stated above, total budget expenditures in January 2008 decreased by 11.8% while primary expenditures increased by 4.8%, compared to the same period in 2007. The main reasons for this decrease are realization of interest expenditures by 2.7 billion YTL, compared to 2007, and the slow down in the rate of increase in primary expenditures.

Table 2. 2007-2008 January Comparative Budget Expenditures

(million YTL)	January				
	2007	2008	Increase (%)	2007 Real. (%)	2008 Real. (%)
Central Government Total Budget Exp.	**18.488**	**16.306**	**-11,8**	**9,1**	**7,3**
Primary Expenditures	**11.467**	**12.023**	**4,8**	**7,4**	**7,2**
I. Emp. and Soc. Sec. Ins. Gov. Pre. Exp.	**4.361**	**4.841**	**11,0**	**10,0**	**9,9**
II. Social Sec. Ins. Gov. Pre. Exp.	**547**	**622**	**13,7**	**9,4**	**9,7**
III. Purchase of Goods and Services	**838**	**1.059**	**26,3**	**3,8**	**4,6**
Health Expenditures	483	699	44,8	7,3	10,4
Medication Expenditures	1	76	12553,7	0,1	7,0
Treatment and Health Eq. Expenditures.	0	126	33313,5	0,0	7,0
Green Card	482	497	3,1	12,3	12,9
Defense and Security (Except Health)	69	89	30,4	0,9	1,1
Other Goods and Services Expenditures	286	270	-5,7	12,4	12,5
IV. Current Transfers	**4.885**	**5.136**	**5,1**	**7,7**	**7,4**
Duty Losses	**67**	**66**	**-2,3**	**4,8**	**4,2**
Treasury Aids	**3.155**	**3.571**	**13,2**	**8,7**	**8,9**
Social Sec. Inst.	65	74	14,5	8,1	8,0
Transfers to SSI	r	3.341	14,8	8,8	9,0
Unemployment Insurance Fund	2.911	3.007	3,3	11,3	10,4
Transfers to Non Profit Org.	**109**	**84**	**-22,8**	**16,0**	**25,1**
Transfers to Households	**65**	**47**	**-28,2**	**6,5**	**4,2**
Agricultural Transfers	**250**	**185**	**-26,1**	**4,5**	**3,4**
Other Transfers to Households	**2**	**6**	**280,5**	**0,2**	**0,9**
Social Transfers	**1**	**3**	**256,7**	**1,4**	**1,4**
Transfers to Overseas	**33**	**36**	**7,7**	**6,6**	**5,5**
Shares from Revenues	**1.203**	**1.138**	**-5,3**	**7,0**	**5,9**
V. Capital Expenditures	**146**	**16**	**-89,3**	**1,1**	**0,1**
VI. Capital Transfers	**325**	**29**	**-90,9**	**9,2**	**1,4**
Domestic Capital Transfers	325	29	-90,9	9,7	1,6
Foreign Capital Transfers	0	0		0,0	0,0
VII. Lending	**366**	**319**	**-12,7**	**10,3**	**8,1**
Domestic Lending	366	319	-12,7	11,2	8,6
Foreign Lending	0	0		0,0	0,0
VIII. Auxiliary Allowances	**0**	**0**			
Interest Expenditures	**7.021**	**4.283**	**-39,0**	**14,4**	**7,6**

Source: Ministry of Finance Directorate of Accounting and our calculations

The increase in primary expenditures is due to employee expenditures; expenditure items primarily for health and purchases of goods and services; and Treasury aids booked under Current Transfers. The rates of increase in these items are much higher than the general rate of increase.

It is understood that the lower than expected increase of 4.8% in primary expenditures is in part due to holding the allowances back and in part due to deferring the accrual process of expenditures. As a matter of fact, the Central Government Budget Application Circular of Ministry of Finance - General Directorate of Budget and Fiscal Control that is dated 01.31.2008 and numbered B.07.0.BMK.0.06.12/390, supports our conception. In this Circular, non-accrual of expenditures, primarily health expenditures (green card), which have been realized above their allowances because of the invoices made out last year is organized. In other words, budget expenditures are confined as a whole to the allocations sent, as stated in the circular of the Ministry of Finance, thus continuing the practice of deferring liabilities from last year.

T.R.

MINISTRY OF FINANCE

General Directorate of Budget and Fiscal Control

NUMBER: B.07.0.BMK.0.06.12/390 31.01.2008*01034

SUBJECT: CENTRAL GOVERNMENT BUDGET APPLICATION CIRCULAR about February 2008 Expenditures (List No: 2)

In accordance with related items of Central Government Budget Law number 5724 and Public Financial Management and Control Law number 5018, practicing of the 2008 Central Government Budget Application Circular, dated 31.12.2007 and numbered B.07,0.BMK.0.06.12/390/28832, List No: (1), will be continued in February, until the necessary arrangements for the usage of allocations are made.

With respect to the practice of the item numbered 26 of the aforementioned circular, the following explanation is deemed necessary upon hesitations that we were informed about, concerning certain services that are part of the implementation of green card.

The allocations for treatments and medications of individuals having green cards, which are booked under relevant arrays in Ministry of Health's budget, are released by our Ministry every month individually as necessary. Thus, payments for these accounts should be made within limits of allocations that are sent with allocation sending documents, and payments should not be made for services within the scope of green card which do not have sufficient allocations sent with allocation sending documents.

In addition, no payment will be made for services provided to individuals having green cards in health institutions and enterprises that belong to Ministry of Health, including invoices made out until (and including) 10.31.2007 and not paid until 12.31.2007 (including those booked under 323 - Budgeted Credit Accounts). *(Emphasis by authors.)*

I strongly request the necessary action.

(Signed)

Kemal Unakıtan

Minister of Finance

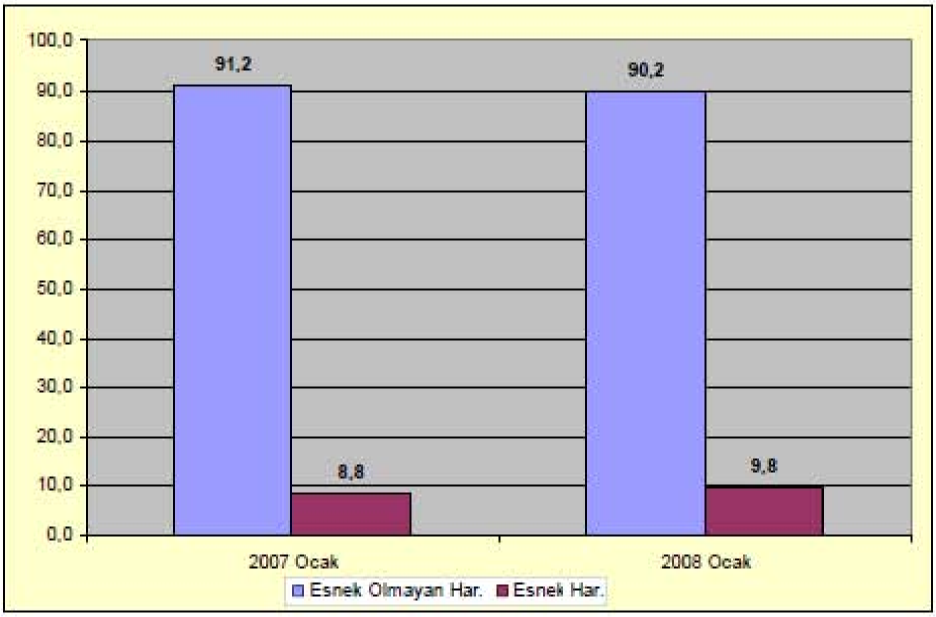
Table 3. Contribution of January Central Government Budget Primary Expenditures to Primary Expenditures

	Contribution to Increase	(%) Distribution
Primary Expenditures	**4,8**	**100,0**
Current Expenditures	**6,1**	**126,2**
Employee	4,2	86,5
Purchase of Goods and Services	1,9	39,7
Health	1,9	38,9
Defense and Security	0,2	3,7
Current Transfers	**2,2**	**45,2**
Treasury Aids to Social Security Inst.	0,1	1,7
Transfers to SSI	3,7	77,4
Agricultural Transfers	-0,6	-11,8
Shares from Revenues	-0,6	-11,6
Capital Expenditures	**-1,1**	**-23,5**
Capital Transfers	**-2,6**	**-53,1**
Other	**-0,4**	**-8,4**

When evaluated in the context of the table showing the contributing items to the increase in expenditures, we see that the share of inflexible expenditures, i.e. expenditures which -because of their nature- can not be discretionarily increased or decreased as a public policy tool[2], has gone up to as high as 90.2% of total expenditures this term.

[2] As is known, major inflexible expenditures are expenditures aimed at meeting liabilites like interest expenditures, employee expenditures, and transfers to social security institutions.

Graphic 2. Development of the Share of Flexible and Inflexible Expenditures in the Budget (2007-2008 January)



C. Budget Revenues

As of end of January, central government budget revenues had a significant jump, compared to the same period of last year, and increased by 27.35%. The main reason for that was the increase of 27.8% of general budget tax revenues in January 2008. In this context, tax revenue collections have reached at 8.7% of total tax revenue collections as of January. Considering that this figure was 7.3% last year, the increase in performance becomes more evident.

Table 4. Central Government Budget Revenues (January-August)

(million YTL)	Jan. 07	Jan. 08	Incr. (%)
Central Government Revenues	**12.392**	**15.781**	**27,35**
A. General Budget Revenues	**12.306**	**15.581**	**26,61**
I-Tax Revenues	**11.077**	**14.159**	**27,83**
1. Taxes from Income and Earnings	**2.777**	**3.853**	**38,76**
a) Income Tax	**2.979**	**3.737**	**25,43**
Income Tax Collection	2.938	3.700	25,93
b) Corporate Tax	**-203**	**116**	**157,17**
Prepaid Corporate Tax	-61	66	209,39
2. Taxes from Properties	**682**	**929**	**36,10**
b) Motor Vehicles Tax	678	923	36,23
3. Domestic Goods and Services Tax	**5.114**	**6.213**	**21,50**
a) Domestic VAT	**1.743**	**2.057**	**18,03**
b) Special Consumption Tax	**2.757**	**3.352**	**21,57**
c) Bank and Insurance Transactions Tax	**307**	**355**	**15,47**
d) Lottery Games Tax	**31**	**43**	**38,64**
e) Special Communications Tax	**275**	**406**	**47,51**
4. Tax From Int. Trade and Trans.	**1.746**	**2.334**	**33,62**
b) VAT From Imports	1.580	2.130	34,78
5. Stamp Duty	**299**	**332**	**11,08**
6. Fees	**406**	**496**	**22,17**
Taxes Not Classified Elsewhere	**53**	**3**	**-94,46**
II- Enterprise and Property Revenues	**388**	**406**	**4,74**
III- Received Donations, Aids and Special Rev.	**31**	**26**	**-14,33**
IV- Interests, Shares, Penalties	**802**	**982**	**22,41**
1. Interest Revenues	34	47	36,72
V- Capital Revenues	**9**	**8**	**-11,81**
B. Revenues from Special Budget Organizations	**81**	**109**	**34,03**
C: Revenues from Reg. and Superv. Agencies	**4**	**91**	**2061,44**

As can be seen in the following table, 72% of the increase in total tax revenues was due to the increases in the following three items: prepaid income tax, special consumption tax, and total VAT collections.

Table 5. ***2007-2008 January Budget Tax Revenue Realizations and Contribution to Increase***

million YTL	January		Increase (%)	Contribution to Increase (%)
	2008	2007		
Tax Revenues	**14.159**	**11.077**	**27,8**	**100,0**
Taxes from Income and Corp. Revenues	**3.853**	**2.777**	**38,8**	**34,9**
Income Tax Collection	3.700	2.938	25,9	24,7
Prepaid Corporate Tax	66	-61	209,4	4,1
Special Consumption Tax	**3.352**	**2.757**	**21,6**	**19,3**
Spec. Cons. Tax for Petr. and Nat. Gas. Prod.	1.993	1.456	36,9	17,4
Cokes, Sodas, Alcoholic Bev. and Tobacco	1.000	1.059	-5,5	-1,9
VAT Collection	**4.187**	**3.323**	**26,0**	**28,0**
VAT from Imports	2.130	1.580	34,8	17,8
Domestic VAT	2.057	1.743	18,0	10,2
Other Taxes	**2.767**	**2.220**	**24,7**	**17,8**
Stamp Duty	332	299	11,1	1,1
Fees	496	406	22,2	2,9
Banking and Insurance Transactions Tax	355	307	15,5	1,5

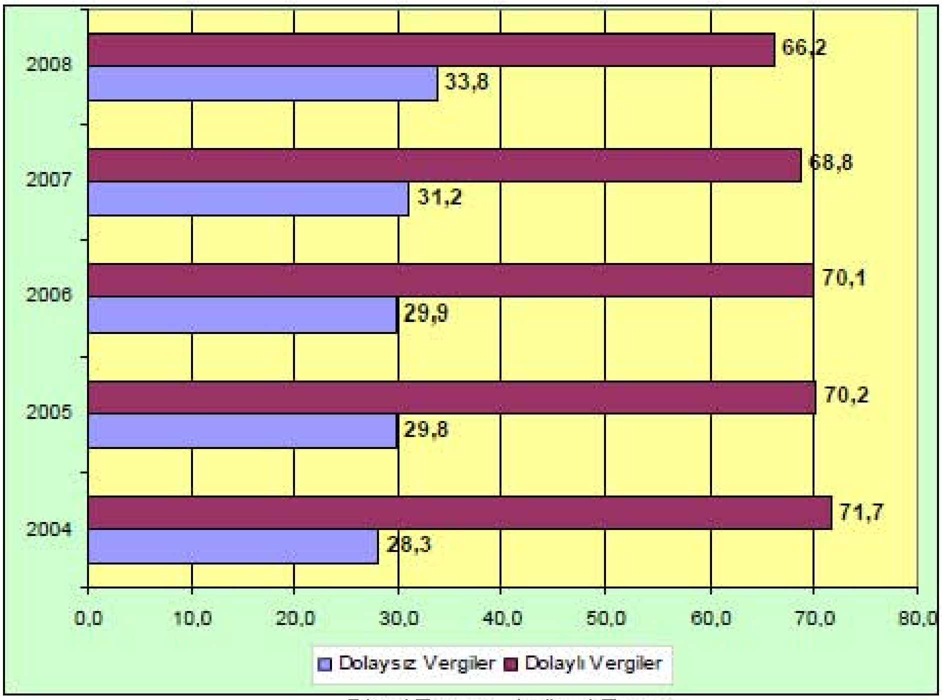
In an economic environment where 12 month inflation figure is 8.6%, growth expectation is 4% and there has not been a significant periodical change in other parameters like wage levels or interests, an increase of about 28% in tax collections can be attributed to the tax collection efforts observed during the last few months.

At this point, it is important to ask whether this increase in tax collection efforts is due to one time measures or structural changes. The biggest constraint in answering this question is that collection details, primarily details of prepaid income tax, are not disclosed in financial reports showing tax results. For example, assuming that about 50% of prepaid income tax is collected from wages, the fact that the raise in public sector wages was 11% in January, and the increase in private sector manufacturing industry wages in 2007 were less than 10% makes it more crucial to know about the details of the components causing a 25% increase in tax collections. This is also important with respect to forecasting developments in tax collections in the next period. At this stage the perception that this increase in tax revenues is due to the impact of seasonal components prevails. At this point in time, the possibility that withholdings which especially public institutions (primarily SEE's and municipalities) did not pay by deferring them could increase in this month comes to mind.

For this reason, we think that tax results for January do not provide a sufficient data set to make a detailed evaluation from the perspective of continuity of tax efforts and application results of next months should be waited.

As of January 2008, 66.2% of general budget tax revenues were indirect taxes and 33.8% of were direct taxes.

Graphic 3. Direct and Indirect Tax Shares of 2004-2008 January General Budget Revenue Collections



Direct Taxes Indirect Taxes

II. Budget Financing and Developments in Debt Stock

Cash balance of the Treasury had a surplus of about 1.1 billion YTL as of end of January 2008.

Table 6. Treasury Cash Balance (January)

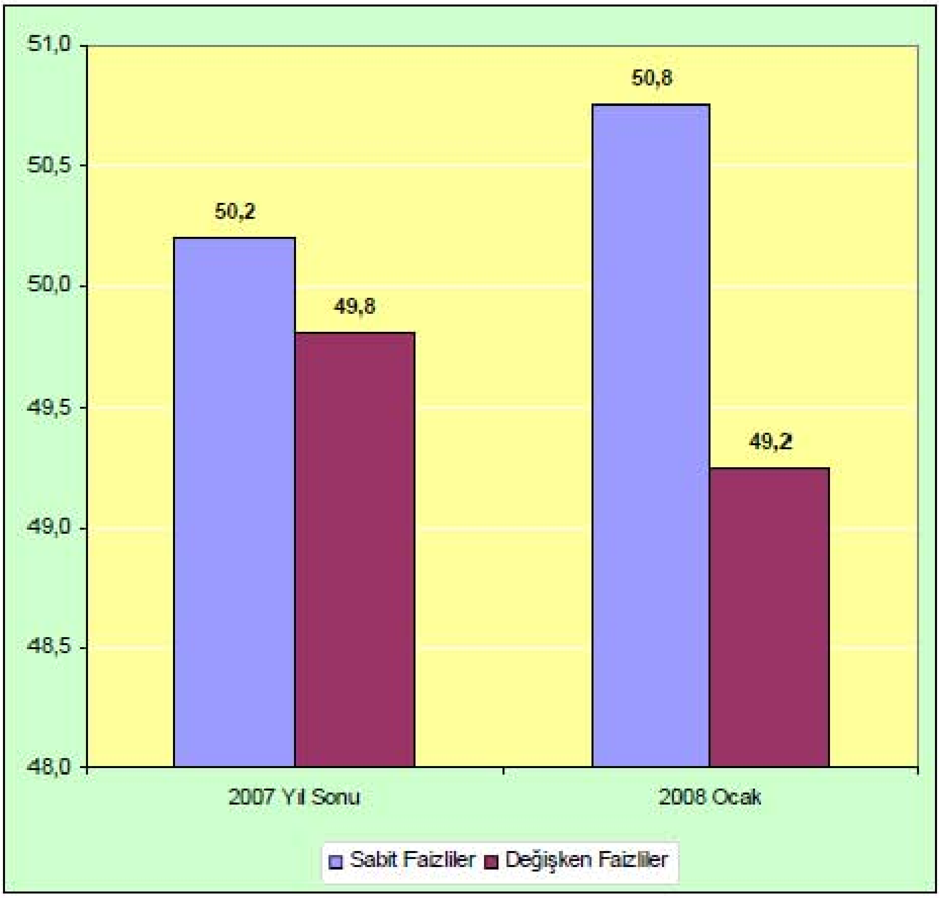
(million YTL)	Jan.*
REVENUES	16.520
EXPENDITURES	15.344
Primary Expenditures	11.374
Interest Payments	3.970
PRIMARY BALANCE	5.146
CASH BALANCE	1.176
FUNDING	-1.176
BORROWING (NET)	1.597
EXTERNAL BORROWING NET	-998
Utilization	1.214
Payment	2.212
DOMESTIC BORROWING NET	2.594
Utilzation	5.726
Payment	3.132
PRIVATIZATION REVENUE	52
TRANSFER FROM SDIF	0
ASSG.-GUARANT DEBT RETURNS	
BANK UTILIZATION	8
	-2.833
EXCHANGE RATE DIFF.	129
BANK UTILIZATION NET	-2.962

* Temporary

The Treasury has taken on 1.6 billion YTL of net debt in the same period[3]. Thus, it is observed that cash surplus and additional debt proceeds have been transferred to cash accounts of the Treasury and reserve is being accumulated.

[3] Central Government Budget Balance and Financing as well as General Budget Balance and Financing tables were not disclosed by the Treasury while we were preparing our report. Thus, we limit our analysis with the Treasury Cash Balance table.

Graphic 4. Central Government Domestic Debt Stock Interest Composition

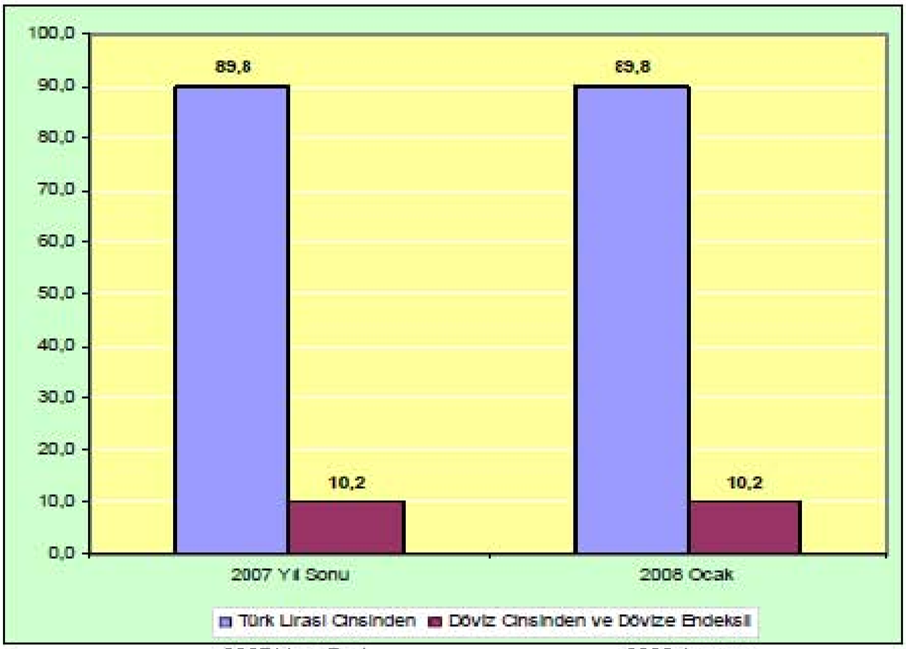


2007 Year End 2008 January

Fixed Interest Variable Interest

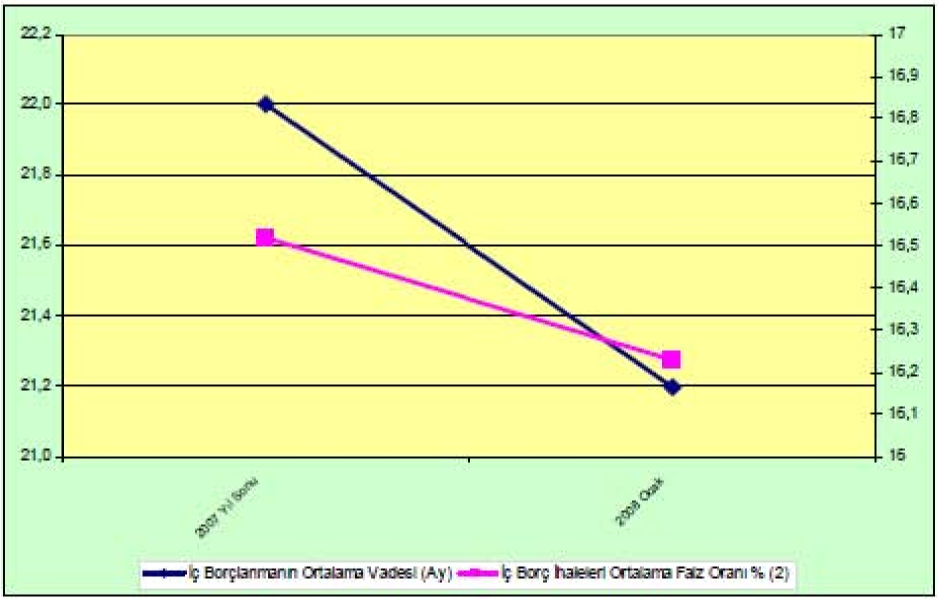
In the interest composition of the central government debt stock, we see a decrease of 0,6 points in the share of variable interest bills by the end of January 2008, compared to year end 2007.

Graphic 5. Central Government Domestic Debt Stock YTL-FX Structure



2007 Year End 2008 January
Denominated in YTL Denominated in FX and FX Indexed

There has not been an apparent change in the domestic debt stock structure.



2006 Year End 2008 January
Average Term of Domestic Debt Domestic Debt Tender Interest Rates

Domestic borrowing interest rates of the Treasury decreased by 0,3 points in January 2008, compared to December 2007. Nevertheless, it should be stated that the long lasting rigidity of borrowing interest rates continued this month as well.

III. Some Arrangement Attempts Aimed at Deviating from Fiscal Discipline:

In our Fiscal Monitoring Reports we essentially evaluate budget application results and policies of the public authority primarily from a perspective of financial transparency, and aim at creating public awareness about the issues we observe in these contexts. For this purpose, we see it adequate to consider certain arrangements some of which have been presented to the Turkish Grand National Assembly and some are in the phase of legal preparation. An issue we need to point out immediately is that the issues which we bring up in this report have been brought to the attention of the public via printed media by various newspaper columnists prior to the release of our report. The fact that this sensitivity and inclination towards monitoring is becoming more widespread should be noted as a positive development with respect to social monitoring of the usage of public resources by administrations.

The practices we will evaluate briefly below currently consist of three new legislations:

a) Draft Law on Realization of Some Investments and Services through Models of Partnerships between Public and Private Sectors: This draft is still on the web site of State Planning Organization[4]. The most important aspect of this law, which basically aims at the consolidation of regulations concerning investment models like build-operate-transfer or Transfer of Operating Rights that have been legislated before and are still in effect into the context of a single law and the carrying out of its application by a Directorate General to be formed inside the State Planning Organization, is guarantee practices. Our statements about certain items of this law are as follows:

[4] http://ekutup.dpt.gov.tr/haber/ahd/ahd.asp

1. In accordance with related items of the draft law, guarantees that will be given under names like purchase guarantee, payment guarantee, etc. from now will be shared among the related ministry, the Ministry of Finance and the Undersecretariat of Treasury.

2. This sharing hints at a situation which seriously harms the function of the Undersecretariat of Treasury, which represents the legal personality of the government, as the representative of governmental liabilities. The principle that the Undersecretariat of Treasury has to know and follow up all financial risks (like the guarantees) that can be the source of a liability for the government and it has to be the sole authority that can give guarantees for them is neglected in this draft.

3. The fact that the administration that will provide guarantees will be in the forefront and intervention by the Ministry of Finance or Treasury would cause serious disadvantages in practice and has the potential to lead to clashes of authority as well as arbitrary practices.

4. Arrangement of the authorities and responsibilities related to providing guarantees in such a way that would incorporate numerous, distributed, and different agencies would lead to a dilution of administrative and criminal responsibilities and negating accountability mechanisms.

5. Whoever gives the guarantee, ultimately the responsibility will rest upon the Undersecretariat of Treasury and the Treasury will have the responsibility, on behalf of the public, for some processes which it can not be part of. That would seriously harm fiscal discipline, in the case of realization of those fiscal risks. It is unreasonable to expect limiting the allowances, which will be provided in the budget for this purpose every year as part of the law, would solve this problem.

6. From a legal perspective, the law which should arrange these liabilities should be law number 4749 on Public Finance and Debt Management[5]. Contrary to law, the arrangement of them with a separate regulation contradicts with the law number 4749 and thus harms one of the fundamental principles of fiscal discipline and debt management, "The Treasury's being the single authority for debt and liability generation."

b) Law on Having Some Investment and Services Performed through the Model of Build-Operate-Transfer and Draft Law for Changing the Law on Public Waterworks Administration General Directorate Organization and Duties: This draft is still in the agenda of the Turkish Grand National Assembly. The reason for the haste in trying to pass a legislation of such nature, aimed at enlarging the scope of the build-operate-transfer model as if this draft was nonexistent, while the aforementioned draft law was open for comments is hard to understand. The aspect of this law that causes concerns with respect to fiscal discipline is that it opens a vague area, without clearly defined borders, with respect to applications that will be considered in the scope of this law. Payment of utilization costs by the government to investors that it will not be possible for the investors to meet them, which will mean some kind of a duty loss in these areas means creation of new liabilities today, which would enlarge budget deficits in the future.

c) Proposal for Law on Procuring Additional Resources for Investments in Transportation Infrastructure: It is not clear as to whether this arrangement which was presented to the Turkish Grand national Assembly on January 29, 2008 is an initiative of the administration or it is an arrangement prepared through the

[5] The following expression in the 16. article of law number 4749 is especially worhtwile to mention: "All changes pertaining to the issyues in the scope of this law can only be changed by making amendments to or changes in this law. Arrangements made in other laws pertaining to these issues are deemed void with respect to the practices of this law."

initiative of parliamentary members of the ruling party. It is not presented to the Assembly as a "draft" by the administration, rather it is presented as a "proposal" by the parliamentary members. Nevertheless, considering that this proposal obtained the approval of the group leadership, it can be concluded that the administration also approves this proposal indirectly. The title page of the proposal for this law is given below:

... A PARTİSİ
Grup Başkanlığı
Tarih : 29.01.2008
Sayı : 95

...17512

TÜRKİYE BÜYÜK MİLLET MECLİSİ BAŞKANLIĞINA

Ulaştırma Altyapı Yatırımlarına İlave Kaynak Temini Hakkında Kanun Teklifimiz, genel ve maddelerin gerekçeleri ile birlikte ilişikte sunulmuştur

Gereğini arz ederiz. Saygılarımızla. 29/01/2008

Mustafa Demir
Samsun Milletvekili

Mustafa Ataş
Sivas Mv.

Selahattin Karahan
Erzincan Milletvekili

EKLER:
1-Kanun Telifi, genel ve madde gerekçeleri

T.B.M.M. BAŞKANLIĞI	
Tali Komisyon	Bayındırlık, İmar, Ulaştırma ve Turizm
Esas Komisyon	Plan ve Bütçe
Tarih: 29.1.2008	2/140
Md.Y.	
BAŞKAN	

As covered in the media, the proposal includes extremely problematic articles aiming at uncontrolled and arbitrary use of public resources, which completely disregard the fundamental budget principles (unity, generality, transparency, fiscal discipline). Even the following expressions which appear in the General Rationale of the arrangement, which we think is unnecessary to go into its content for the abovementioned reason, clearly displays the goal without leaving room for comment:

General Rationale

With the transfers that will be made from the accounts established by this law, and investments financed with these transfers and the expenditures that will be made by the institutions and enterprises making the investments financed from the account, it is intended that all of these projects would be completed as planned and as soon as possible, without being subject to arrangements, restrictions, and limitations that were or will be brought up by budget balance, financing decrees issued to achieve savings and similar goals, enactments, statutes, regulations, notices and by-laws.

The most important aspect of the Account for Providing Additional Support for Investments in Transportation Infrastructure is that it does not have function or duty of being directly involved in running a project or opening a tender. Rather, it will allow for allocation of an additional, non budgetary fund for investments in transportation infrastructure which are or will be initiated by respective institutions within the working mechanisms of government and which are subjects of his law.

As a result, the aforementioned regulations which are intended to be passed includes items that can create significant risks in the future, that can impact expenditure priorities negatively, and that can have negative effects on the ambiguous environment in which fiscal discipline is needed increasingly by moving expenditures to out of the budget. From this perspective, we stress once again that the aforementioned attempts which mean a step back from the gains brought by Public Financial Management and Control Law, number 5018, and Public Finance and Debt Management Law, number 4749, should be given serious consideration by the public.

ANNEX

Annex Table 1. 2008 Central Government Budget Allowances and Expenditures (January)

	January	2008 Budget	(%) Realization	Expend. Dist. (%)
Expenditures	**16,305,696**	**222,256,21**	**7.34**	**100.00**
Primary Expenditures	**12,022,554**	**166,256,16**	**7.23**	**73.73**
I. Employee Expenditures	**4,841,110**	**48,672,049**	**9.95**	**29.69**
Civil Servants	4,289,467	40,520,597	10.59	26.31
Workers	153,846	3,707,208	4.15	0.94
Others	397,797	4,444,244	8.95	2.44
II. Social Security Inst. Govnt. Premium	**622,053**	**6,405,463**	**9.71**	**3.81**
Civil Servants	554,603	5,249,058	10.57	3.40
Workers	20,860	649,292	3.21	0.13
Others	46,590	507,113	9.19	0.29
III. Purchases of Goods and Services	**1,058,671**	**22,905,423**	**4.62**	**6.49**
Defense-Security	**89,447**	**8,410,568**	**1.06**	**0.55**
M.N.D.	67,348	6,783,580	0.99	0.41
Gendarmerie	4,837	1,033,708	0.47	0.03
Police	17,262	593,280	2.91	0.11
Health Expenditures	**699,281**	**6,741,000**	**10.37**	**4.29**
Health Expenditures Related to Green Card	496,929	3,850,000	12.91	3.05
Medication	76,049	1,089,414	6.98	0.47
Treatment and Health Equipment	126,303	1,801,586	7.01	0.77
Govnt. Debts General Expenditures	**0**	**130,000**	**0.00**	**0.00**
Other Goods and Services Expenditures	**269,943**	**7,623,855**	**3.54**	**1.66**
IV. Current Transfers	**5,136,224**	**68,909,600**	**7.45**	**31.50**
Duty Losses	**65,750**	**1,551,334**	**4.24**	**0.40**
SEE Duty Losses	20,000	733,000	2.73	0.12
SSI Duty Losses	39,000	611,000	6.38	0.24
Other Duty Losses	6,750	207,334	3.26	0.04
Treasury Subsidies	**3,571,197**	**39,912,216**	**8.95**	**21.90**
Treasury Subsidies to Soc. Sec. Inst.	**74,451**	**932,000**	**7.99**	**0.46**
Unemployment Insurance Fund	74,451	932,000	7.99	0.46
Health, Pension and Social Aid Expenditures	**3,341,001**	**37,031,000**	**9.02**	**20.49**
Financing Social Security Deficit	3,006,881	28,804,000	10.44	18.44
Local Governments	**109,123**	**1,235,100**	**8.84**	**0.67**
Subsidies to Municipalities	380	50,000	0.76	0.00
Other (special provincial adm. and villages)	108,743	1,185,100	9.18	0.67
Other Treasury Subsidies	**46,622**	**714,116**	**6.53**	**0.29**
SPSF	30,000	350,000	8.57	0.18
Other	16,622	364,116	4.57	0.10
Transfers to Non-Profit Organizations	**84,298**	**335,898**	**25.10**	**0.52**
Transfers to Households	**46,619**	**1,101,438**	**4.23**	**0.29**
Scholarships and Allowances	35,685	508,386	7.02	0.22
Other Transfers for Education	1,710	466,521	0.37	0.01
Transfers for Health	3,763	65,271	5.77	0.02
Transfers for Food	4,970	54,894	9.05	0.03
Transfers for Housing	491	6,366	7.71	0.00
Agricultural Subsidization Payments	**185,000**	**5,103,000**	**3.63**	**1.13**
Direct Income Support	0	2,554,000	0.00	0.00
Product Support Payments	50,000	1,758,000	2.84	0.31
Animal Husbandry Support Payments	105,000	731,000	14.36	0.64
Other	30,000	60,000	50.00	0.18
Other Transfers to Households	**5,833**	**632,826**	**0.92**	**0.04**
Social Transfers	**3,282**	**227,791**	**1.44**	**0.02**
Transfers to Overseas	**35,765**	**654,057**	**5.47**	**0.22**
Shares from Revenues	**1,138,480**	**19,391,040**	**5.87**	**6.98**
V. Capital Expenditures	**15,692**	**11,775,030**	**0.13**	**0.10**
VI. Capital Transfers	**29,463**	**2,084,420**	**1.41**	**0.18**
VII. Lending	**319,341**	**3,933,510**	**8.12**	**1.96**
Domestic Lending	**319,341**	**3,708,510**	**8.61**	**1.96**
SEE	229,000	1,577,500	14.52	1.40
Risk Account	0	590,000	0.00	0.00
Other	90,341	1,541,010	5.86	0.55
Foreign Lending	**0**	**225,000**	**0.00**	**0.00**
Cyprus	0	225,000	0.00	0.00
VIII. Auxiliary Allowances	**0**	**1,570,672**	**0.00**	**0.00**
Interest Expenditures	**4,283,142**	**56,000,050**	**7.65**	**26.27**
I. Domestic Debt Interests	**3,621,818**	**46,055,000**	**7.86**	**22.21**
II. External Debt Interests	**661,324**	**7,066,050**	**9.36**	**4.06**
III. Discounts and Short Term Transactions Insterests	**0**	**2,879,000**	**0.00**	**0.00**

Annex Table 2. 2007-2008 General Central Government Budget Expenditure Comparisons (January)

	2007			2008			Increase
	January	Realization	Realiz. Ratio	January	Budget Pred.	Realiz. Ratio	January
Total Central Gov't Budget Expenditures	**18.487.861**	**203.500.684**	**9,1**	**16,305,696**	**222,553,217**	**7.3**	**-11.8**
Primary Expenditures	**11.467.005**	**154.769.069**	**7,4**	**12,022,554**	**166,553,167**	**7.2**	**4.8**
Employee Expenditures	**4.360.556**	**43.554.730**	**10,0**	**4,841,110**	**48,672,049**	**9.9**	**11.0**
Soc. Sec. Inst. Gov't. Prem. Expendit.	**546.960**	**5.800.916**	**9,4**	**622,053**	**6,405,463**	**9.7**	**13.7**
Goods and Services Purch. Expendit.	**837.912**	**22.154.275**	**3,8**	**1,058,671**	**22,905,423**	**4.6**	**26.3**
Defense-Security	68.614	7.576.376	0,9	89,447	8,410,568	1.1	30.4
Health Expenditures	482.965	6.624.064	7,3	699,281	6,741,000	10.4	44.8
General Treatm. and Health Equip.	378	1.735.246	0,0	126,303	1,801,586	7.0	
General Medical Expenditures	601	974.930	0,1	76,049	1,089,414	7.0	
Green Card Health Services	481.986	3.913.888	12,3	496,929	3,850,000	12.9	
Government Debt General Expendit.	10.772	59.111	18,2	0	130,000	0.0	-100.0
Other Purchase of Goods and Services	275.561	7.894.724	3,5	269,943	7,623,855	3.5	-2.0
Current Transfers	**4.885.015**	**63.249.159**	**7,7**	**5,136,224**	**69,206,600**	**7.4**	**5.1**
Duty Losses	**67.273**	**1.401.345**	**4,8**	**65,750**	**1,551,334**	**4.2**	**-2.3**
SEE Duty Losses	40.000	699.891	5,7	20,000	733,000	2.7	
Financial Institutions Duty Losses	6.527	376.432	1,7	39,000	611,000	6.4	497.5
Other Duty Losses	20.746	325.022	6,4	6,750	207,334	3.3	
Treasury Aids	**3.154.903**	**36.273.127**	**8,7**	**3,571,197**	**39,912,216**	**8.9**	**13.2**
Social Security Inst. Treasury Aids	65.031	807.545	8,1	74,451	932,000	8.0	14.5
Unemployment Insurance Fund	65.031	807.545	8,1	74,451	932,000	8.0	
Health, Retirement and Social Benefits	2.911.000	33.063.333	8,8	3,341,001	37,031,000	9.0	14.8
Financing Social Security Deficit	2.911.000	25.823.450	11,3	3,006,881	28,804,000	10.4	
Treasury Aid to Local Governments	158.109	1.706.350	9,3	109,123	1,235,100	8.8	-31.0
Other Treasury Aids	20.763	695.899	3,0	46,622	714,116	6.5	124.5
Transfers to Non-Profit Org.	**109.206**	**681.416**	**16,0**	**84,298**	**335,898**	**25.1**	
Transfers to Households	**64.913**	**994.286**	**6,5**	**46,619**	**1,101,438**	**4.2**	**-28.2**
Agricultural Transfers	**250.284**	**5.555.090**	**4,5**	**185,000**	**5,400,000**	**3.4**	**-26.1**
Product Support	120.000	1.708.455	7,0	50,000	1,758,000	2.8	-58.3
Animal Husbandry Support	130.000	740.690	17,6	105,000	731,000	14.4	-19.2
Other Agricultural Transfers	284	3.105.945	0,0	30,000	2,911,000	1.0	10.463.4
Other Transfers to Households	**1.533**	**617.967**	**0,2**	**5,833**	**632,826**	**0.9**	**280.5**
Social Transfers	**920**	**67.400**	**1,4**	**3,282**	**227,791**	**1.4**	**256.7**
Transfers to Overseas	**33.204**	**500.571**	**6,6**	**35,765**	**654,057**	**5.5**	**7.7**
Shares from Income	**1.202.779**	**17.157.957**	**7,0**	**1,138,480**	**19,391,040**	**5.9**	**-5.3**
Local Government Shares	973.432	13.285.805	7,3	1,026,328	15,059,000	6.8	5.4
Shares to Funds	198.065	3.223.685	6,1	216,706	3,822,378	5.7	9.4
Other Shares	31.282	648.467	4,8	-104,554	509,662	-20.5	-434.2
Capital Expenditures	**145.987**	**12.915.236**	**1,1**	**15,692**	**11,775,030**	**0.1**	**-89.3**
Capital Transfers	**324.667**	**3.542.631**	**9,2**	**29,463**	**2,084,420**	**1.4**	**-90.9**
Domestic Capital Transfers	**324.667**	**3.354.759**	**9,7**	**29,463**	**1,862,447**	**1.6**	**-90.9**
Foreign Capital Transfers	**0**	**187.872**	**0,0**	**0**	**221,973**	**0.0**	
Lending	**365.908**	**3.552.122**	**10,3**	**319,341**	**3,933,510**	**8.1**	**-12.7**
Domestic Lending	**365.908**	**3.267.122**	**11,2**	**319,341**	**3,708,510**	**8.6**	
Foreign Lending	**0**	**285.000**	**0,0**	**0**	**225,000**	**0.0**	
Auxiliary Allocations	**0**	**0**		**0**	**1,570,672**	**0.0**	
Interest Expenditures	**7.020.856**	**48.731.615**	**14,4**	**4,283,142**	**56,000,050**	**7.6**	**-39.0**

Annex Table 3. 2007-2008 General Budget Revenues (January)

	2008 Jan.	2007 Jan.	Increase (%)	2008 Budget Forecast	2007 Year End	Realization According to 2008 Budget	Realization According to Year End 2007
Central Government Revenues	**15,781,402**	**12,391,874**	**27.35**	**204,556,459**	**189,617,246**	**7.71**	**6.54**
General Budget Revenues	**15,581,088**	**12,306,360**	**26.61**	**199,410,938**	**184,235,392**	**7.81**	**6.68**
I-Tax Revenues	**14,158,887**	**11,076,715**	**27.83**	**171,206,312**	**152,831,736**	**8.27**	**7.25**
Taxes from Income, Profits, Capital Earnings	**3,852,886**	**2,776,738**	**38.76**	**52,600,000**	**48,197,403**	**7.32**	**5.76**
Income Tax	**3,737,053**	**2,979,336**	**25.43**	**38,100,000**	**34,446,780**	**9.81**	**8.65**
Declaration Based Income Tax	19,105	23,976	-20.32	1,512,910	1,505,819	1.26	1.59
Lump Sum Income Tax	3,669	8,356	-56.09	214,798	197,097	1.71	4.24
Income Tax Collection	3,700,243	2,938,331	25.93	35,141,082	31,678,554	10.53	9.28
Prepaid ıncome Tax	14,036	8,673	61.84	1,231,210	1,065,310	1.14	0.81
Corporate Tax	**115,833**	**-202,598**	**157.17**	**14,500,000**	**13,750,623**	**0.80**	**-1.47**
Declaration Based Corporate Tax	16,530	-17,418	194.90	220,000	156,122	7.51	-11.16
Corporate Tax Collection	33,097	-124,655	126.55	16,000	42,494	206.86	-293.35
Prepaid Corporate Tax	66,206	-60,525	209.39	14,264,000	13,552,007	0.46	-0.45
Taxes From Properties	**928,720**	**682,389**	**36.10**	**4,029,000**	**3,645,419**	**23.05**	**18.72**
Inheritence Tax	5,719	4,862	17.63	152,000	124,603	3.76	3.90
Motor Vehicles	923,001	677,527	36.23	3,877,000	3,520,816	23.81	19.24
Domestic Goods and Services Taxes	**6,212,808**	**5,113,564**	**21.50**	**71,382,312**	**63,589,293**	**8.70**	**8.04**
Domestic VAT	**2,056,862**	**1,742,719**	**18.03**	**17,652,000**	**16,792,632**	**11.65**	**10.38**
Special Consumption Tax	**3,352,177**	**2,757,374**	**21.57**	**44,719,366**	**39,110,505**	**7.50**	**7.05**
STC from Petroleum and Natural Gas Products	1,993,186	1,456,265	36.87	25,638,366	22,051,751	7.77	6.60
STC from Motor Vehicles	286,911	192,133	49.33	4,611,000	4,293,326	6.22	4.48
Cokes, Sodas, Alcholoic Bev. and Tobacco	1,000,029	1,058,698	-5.54	13,207,000	11,720,469	7.57	9.03
SCT fro Durable Goods and Other Goods	72,051	50,278	43.31	1,263,000	1,044,959	5.70	4.81
BITT	**354,570**	**307,079**	**15.47**	**3,975,946**	**3,149,139**	**8.92**	**9.75**
Other Taxes from goods and Services	**449,199**	**306,392**	**46.61**	**5,035,000**	**4,537,017**	**8.92**	**6.75**
Transaction Tax from International trade	**2,333,669**	**1,746,474**	**33.62**	**33,502,000**	**28,970,325**	**6.97**	**6.03**
Customs Taxes	200,216	163,643	22.35	2,952,000	2,440,591	6.78	6.71
VAT fro Imports	2,129,894	1,580,254	34.78	30,500,000	26,492,642	6.98	5.96
Other Foreign Trade Income	3,559	2,577	38.11	50,000	37,092	7.12	6.95
Stamp Duty	**332,219**	**299,077**	**11.08**	**4,200,000**	**3,641,947**	**7.91**	**8.21**
Fees	**495,661**	**405,715**	**22.17**	**5,400,000**	**4,741,541**	**9.18**	**8.56**
Other Taxes Not Otherwise Classified	**2,924**	**52,758**	**-94.46**	**93,000**	**45,808**	**3.14**	**115.17**
II-Enterprise and Property Incomes	**406,004**	**387,637**	**4.74**	**8,978,314**	**7,903,902**	**4.52**	**4.90**
Income From Sales of Goods and Services	**110,790**	**98,653**	**12.30**	**1,687,000**	**1,468,088**	**6.57**	**6.72**
SEE and State Bank Incomes	**20,137**	**26,722**	**-24.64**	**4,247,707**	**4,454,737**	**0.47**	**0.60**
Profits from Institutions	**171,060**	**157,343**	**8.72**	**1,715,807**	**918,321**	**9.97**	**17.13**
Rent Income	**53,621**	**55,002**	**-2.51**	**792,000**	**680,612**	**6.77**	**8.08**
Other Enterprise and Property Income	**50,396**	**49,917**	**0.96**	**535,800**	**382,144**	**9.41**	**13.06**
III-Received Donations and Aids and Spec. Income	**26,484**	**30,915**	**-14.33**	**801,520**	**1,801,328**	**3.30**	**1.72**
Foreign Donations and Aids	**0**	**0**		**0**	**51,820**		**0.00**
Special Income	**26,484**	**30,915**	**-14.33**	**801,520**	**1,749,508**	**3.30**	**1.77**
IV-Interests, Shares, Fees	**981,610**	**801,905**	**22.41**	**14,118,022**	**15,621,495**	**6.95**	**5.13**
Interest Income	**46,654**	**34,123**	**36.72**	**2,225,152**	**4,615,880**	**2.10**	**0.74**
Shares from Persons and Institutions	**573,088**	**497,789**	**15.13**	**6,393,236**	**5,438,273**	**8.96**	**9.15**
State Shares	17,255	14,689	17.47	240,000	216,235	7.19	6.79
Shares from General Budget Institutions	555,833	483,100	15.06	6,153,236	5,222,038	9.03	9.25
Fines	**246,166**	**166,343**	**47.99**	**3,399,900**	**3,675,028**	**7.24**	**4.53**
Judicial Fines	14,267	11,054	29.07	162,580	159,837	8.78	6.92
Administrative Fines	70,005	51,801	35.14	657,291	711,427	10.65	7.28
Tax Fines	156,213	95,035	64.37	2,557,218	2,687,174	6.11	3.54
Other Fines	5,681	8,453	-32.79	22,811	116,590	24.90	7.25
Other Various Income	**115,702**	**103,650**	**11.63**	**2,099,734**	**1,892,314**	**5.51**	**5.48**
V-Capital Income	**8,103**	**9,188**	**-11.81**	**4,306,770**	**6,076,931**	**0.19**	**0.15**
Immovable Sales Income	**8,211**	**9,228**	**-11.02**	**401,300**	**231,148**	**2.05**	**3.99**
Movables Sales Income	**-108**	**-40**	**-170.00**	**5,470**	**3,812**	**-1.97**	**-1.05**
Other Capital Sales Income	**0**	**0**		**3,900,000**	**5,841,971**	**0.00**	**0.00**
Revenues of Specially Budgeted Institutions	**108,950**	**81,287**	**34.03**	**3,417,133**	**3,795,238**	**3.19**	**2.14**
Revenues of Regulatory and Supervisory Institut.	**91,364**	**4,227**	**2.061.44**	**1,728,388**	**1,586,616**	**5.29**	**0.27**

Annex Table 4. % Distribution of 2008 Central Government Budget Expenditures Classified Functionally and Economically (January)

4 a)

	Employee Exp.	SSI Pre. Paym.	Purch. of G. and Serv.	Inter. Exp.	Curr. Trans.	Capital Exp.	Capital Trans.	Lending	Total
General Public Services	8.4	0.9	1.2	69.0	20.0	0.0	0.5	0.0	100
Defense Services	80.7	8.7	10.5	0.0	0.1	0.0	0.0	0.0	100
Public Order and Security Serv.	83.0	8.7	8.3	0.0	0.0	0.0	0.0	0.0	100
Economic Affairs and Services	32.1	4.3	2.8	0.0	34.0	0.1	0.0	26.7	100
Environmental Protection Serv.	83.6	11.6	4.9	0.0	0.0	0.0	0.0	0.0	100
Housing and Com. Welfare Serv.	1.1	0.1	0.4	0.0	98.3	0.0	0.0	0.0	100
Health Services	46.9	7.3	45.8	0.0	0.0	0.0	0.0	0.0	100
Vacation, Cultural and Relig. Serv.	72.1	9.6	12.0	0.0	5.5	0.8	0.0	0.0	100
Education Expenditures	74.5	10.8	8.1	0.0	2.1	0.5	0.0	4.0	100
Social Security and Social Benefits	0.6	0.1	0.4	0.0	98.9	0.0	0.0	0.0	100

4 b)

	Employee Exp.	SSI Pre. Paym.	Purch. of G. and Serv.	Inter. Exp.	Curr. Trans.	Capital Exp.	Capital Trans.	Lending
General Public Services	10.8	9.0	6.9	100.0	24.2	11.3	100.0	0.0
Defense Services	11.7	9.8	6.9	0.0	0.0	0.2	0.0	0.0
Public Order and Security Serv.	19.7	16.0	9.0	0.0	0.0	0.3	0.0	0.0
Economic Affairs and Services	5.7	5.9	2.2	0.0	5.7	7.0	0.0	71.7
Environmental Protection Serv.	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Housing and Com. Welfare Serv.	0.0	0.0	0.0	0.0	2.1	0.0	0.0	0.0
Health Services	11.8	14.2	52.5	0.0	0.0	0.7	0.0	0.0
Vacation, Cultural and Relig. Serv.	4.8	5.0	3.7	0.0	0.3	15.6	0.0	0.0
Education Expenditures	34.8	39.3	17.3	0.0	0.9	64.9	0.0	28.3
Social Security and Social Benefits	0.4	0.4	1.3	0.0	66.7	0.0	0.0	0.0
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Annex Table 5. Composition of the Central Government Debt Stock (January)

(million YTL)	Central Gov't Debt Stock (End of 2007)	%	Central Gov't Debt Stock (January	%
Structure of Domestic Debt Stock	**255,310**	**100.0**	**258,468**	**100.0**
In Term of Holders	255,310	100.0	258,468	100.0
To Public	66,876	26.2	67,423	26.1
To Market	188,434	73.8	191,044	73.9
In Terms of Interest Structure	255,310	100.0	258,468	100.0
Fixed Interest	128,148	50.2	131,184	50.8
Variable Interest	127,162	49.8	127,284	49.2
In Terms of FX Composition	255,310	100.0	258,468	100.0
YTL	229,168	89.8	232,109	89.8
FX	24,931	9.8	25,132	9.7
FX Indexed	1,211	0.5	1,226	0.5
Structure of External Debt Stock	**78,168**	**100.0**	**78,131**	**100.0**
In Terms of Interest Structure	78,168	100.0	78,131	100.0
Fixed Interest	57,731	73.9	57,668	73.8
Variable Interest	20,437	26.1	20,463	26.2
Structure of Total Debt Stock	**333,478**	**100.0**	**336,599**	**100.0**
In Term of Holders				
To Public	66,876	20.1	67,423	20.0
To Market (1)	266,602	79.9	269,176	80.0
In Terms of Interest Structure	333,478	100.0	336,599	100.0
Fixed Interest	185,879	55.7	188,852	56.1
Variable Interest	147,599	44.3	147,747	43.9
In Terms of FX Composition	333,478	100.0	336,599	100.0
YTL	229,168	68.7	232,109	69.0
FX	103,099	30.9	103,264	30.7
FX Indexed	1,211	0.4	1,226	0.4
Average Maturity of Domestic Debt Stock (Months)	25.7		24.9	
Average Maturity of Domestic Borrowing (Months)	22.0		21.2	
Average Interest Rate of Domestic Borrowing (2)	16.52		16.23	

(1) It is assumed that the total External Debt Stock is held by the market.
(2) Discounted sales
Source: www.hazine.gov.tr