tepav

türkiye ekonomi politikaları araştırma vakfı

economic stability institute

Fiscal Monitoring Report

- Budget Results for June – July – August 2008

- Some Assessments on the Medium Term Programme (MTP) and the Medium Term Fiscal Plan (MTFP)

I. Budget Implementation Results for June, July and August 2008

A. A Glance at the Budget Results of the Central Government – Executive Summary

According to the budget implementation results announced by the Ministry of Finance, the budget of the central government run a surplus of 1.9 billion YTL by the end of June. Compared to the same period of the last year, a significant improvement is observed in the budget balance by the end of the first half of the year.

While the budget had a deficit of 1.4 billion YTL by the end of July, the positive development in the budget balance seemed to continue when compared to the same period of the last year.

By the end of August, the budget changed back from having a deficit to having surplus especially as a result of the income from privatisation that was recorded as revenue into the budget, and so a surplus of 4.6 billion YTL was achieved.

While the budget revenue has increased as a result of the positive performance observed in tax revenues and of the transfers from the Unemployment Insurance Fund and the Privatisation Fund, the fact that the budget expenditures nominally remained low until the end of June compared to the last year and that the rates of increase remained low in the following July and August have been the main determinants of the periodic improvement in the budget balance by the end of the first eight months of the year. On the other hand, the base effect of 2007 due to the fact that it had the worst budget performance of the recent years also caused the results of 2008 to seem much better.

Table 1. Budget Realisations of the Central Government (in Comparison to 2007)

million YTL	Haz.07	Haz.08	Change (%)	2007 Year-end Realization	2008 Real. Acc. to Approp.	Tem.07	Tem.08	Change (%)	2007 Year-end Realization	2008 Real. Acc. to Approp.	Ağu.07	Ağu.08	Change (%)	2007 Year-end Realization	2008 Real. Acc. to Approp.
Expenditures	**100.679**	**100.589**	**-0,09**	**49,47**	**45,20**	**119.887**	**121.826**	**1,62**	**58,91**	**54,74**	**135.818**	**142.263**	**4,75**	**66,74**	**63,92**
1-Non-Interest Expenditures	**73.786**	**79.849**	**8,22**	**47,67**	**47,94**	**87.226**	**93.650**	**7,37**	**56,36**	**56,23**	**98.839**	**105.947**	**7,19**	**63,86**	**63,61**
Personnel Expenses	21.974	24.506	11,52	50,45	50,35	25.743	28.677	11,40	59,10	58,92	29.164	32.263	10,62	66,96	66,29
State Cont. to Soc. Sec. Inst.	2.725	3.053	12,01	46,98	47,66	3.178	3.548	11,65	54,79	55,40	3.621	4.027	11,22	62,42	62,87
Purchase of Goods and Services	8.349	9.161	9,72	37,69	39,99	10.676	11.226	5,15	48,19	49,01	12.189	13.150	7,88	55,02	57,41
Current Transfers	32.776	35.226	7,47	51,82	50,90	37.690	39.876	5,80	59,59	57,62	42.370	44.333	4,63	66,99	64,06
Capital Expenses	4.466	4.679	4,76	34,58	39,74	5.721	6.334	10,72	44,30	53,79	6.766	7.775	14,91	52,39	66,03
Capital Transfers	1.877	1.126	-40,01	52,99	54,03	2.349	1.542	-34,35	66,30	73,98	2.422	1.813	-25,13	68,36	86,99
Lending	1.618	2.098	29,69	45,55	53,34	1.870	2.447	30,87	52,64	62,21	2.306	2.586	12,13	64,92	65,74
Contingency Appropriations															
2-Interest Expenditures	**26.893**	**20.740**	**-22,88**	**55,19**	**37,04**	**32.661**	**28.176**	**-13,73**	**67,02**	**50,31**	**36.979**	**36.316**	**-1,79**	**75,88**	**64,85**
Revenues	**94.795**	**102.506**	**8,13**	**49,99**	**50,11**	**107.931**	**120.426**	**11,58**	**56,92**	**58,87**	**127.391**	**146.873**	**15,29**	**67,18**	**71,80**
1-General Budget Revenues	**92.372**	**99.456**	**7,67**	**50,14**	**49,88**	**105.136**	**116.931**	**11,22**	**57,07**	**58,64**	**124.261**	**142.999**	**15,08**	**67,45**	**71,71**
Tax Revenues	70.588	82.752	17,23	46,19	48,33	81.576	96.530	18,33	53,38	56,38	99.322	115.450	16,24	64,99	67,43
Enterprise and Ownership Rev.	5.700	5.035	-11,66	72,12	56,08	6.143	5.560	-9,49	77,72	61,93	6.601	6.056	-8,25	83,51	67,46
Interests, Shares and Fines	8.754	9.171	4,77	56,04	64,96	9.935	12.086	21,65	63,60	85,61	10.781	12.581	16,69	69,01	89,11
Capital Revenues	5.954	2.030	-65,91	97,97	47,13	5.972	2.073	-65,28	98,27	48,14	5.992	8.073	34,73	98,60	187,45
Grants and Aids Received	1.377	356	-74,18	76,46	44,38	1.510	448	-70,32	83,80	55,90	1.566	560	-64,24	86,91	69,85
Receivable Collection		113					233					279			
2-Special Budget Revenues	1.564	1.847	**18,09**	**41,21**	**54,05**	1.767	2.196	**24,28**	**46,56**	**64,27**	1.949	2.508	**28,66**	**51,36**	**73,40**
3-Rev. of Reg. and Supervisory Ag	858	1.203	**40,12**	**54,10**	**69,59**	1.028	1.299	**26,31**	**64,80**	**75,13**	1.180	1.367	**15,80**	**74,38**	**79,07**
Budget Balance	**-5.885**	**1.917**	**132,58**	**42,39**	**-10,65**	**-11.956**	**-1.400**	**88,29**	**86,12**	**7,78**	**-8.427**	**4.610**	**154,71**	**60,70**	**-25,62**
Primary Balance	**21.009**	**22.657**	**7,85**	**60,29**	**59,62**	**20.705**	**26.776**	**29,32**	**59,42**	**70,46**	**28.552**	**40.926**	**43,34**	**81,93**	**107,69**
Programme-Defined Primary Balance	**9.532**	**15.977**	**67,62**	**44,00**	**51,06**	**8.838**	**19.162**	**116,82**	**40,80**	**61,24**	**16.569**	**26.828**	**61,91**	**79,49**	**85,74**

The following table presents the budget balance calculated by excluding the privatisation revenues and the revenues of the Unemployment Insurance Fund from the budget revenues and by including the payments made for Housing Benefits Scheme (KEY) to the expenditures (Please see Box 1 for explanations on this issue). Accordingly, the budget surplus that was declared as 4.6 billion YTL by the end of August turns into a deficit of 7.4 billion YTL as a result of these calculations. Taking into consideration that the same kind of deficit has increased from 8.4 billion YTL to 15.1 billion YTL in 2007, the positive effect caused by such applications on the budget figures in 2008 becomes much more greater.

Table 2. Budget Balance Excluding the Privatisation and Fund Revenues and Including the Payments made for Housing Benefits (KEY)

billion YTL	Aug.07	Aug.08	Change (%)
Budget Revenues	127.391	146.873	15.3
Budget Rev. (excluding privatisation)	120.750	138.956	15.1
Budget Rev. (excluding privatisation and fund revenues)	120.750	137.656	14.0
Budget Expenditures	135.818	142.263	4.7
Budget Expenditures (including the payments made for Housing Benefits (KEY)	135.818	145.063	6.8
Budget Balance	-8.427	4.610	
Budget Balance (excluding privatisation and fund revenues, including KEY	-15.068	-7.407	-50.8

When we look at the budget results in terms of the primary balance performance:

- It is observed that the officially defined primary surplus has increased by 43% compared to the same period of the last year and was realized at 40.9 billion YTL. Due to the base effect created by the high levels of privatisation revenues, which were included in the budget revenues also in last year, the reflection of the significant improvement realized in the budget balance to the officially defined primary balance happened to be rather limited within this framework.

- Programme defined primary balance[1] has increased by 62% compared to the same period of the last year as a result of a considerably better performance owing to the positive performance achieved especially in the programme defined budget revenues and because of the fact that the increase in the primary budget expenditures turned out to be lower than the inflation, around 7%. While realization is at the level of 85% of the target according to the programme, it increases to 102% of the target according to the revised programme.

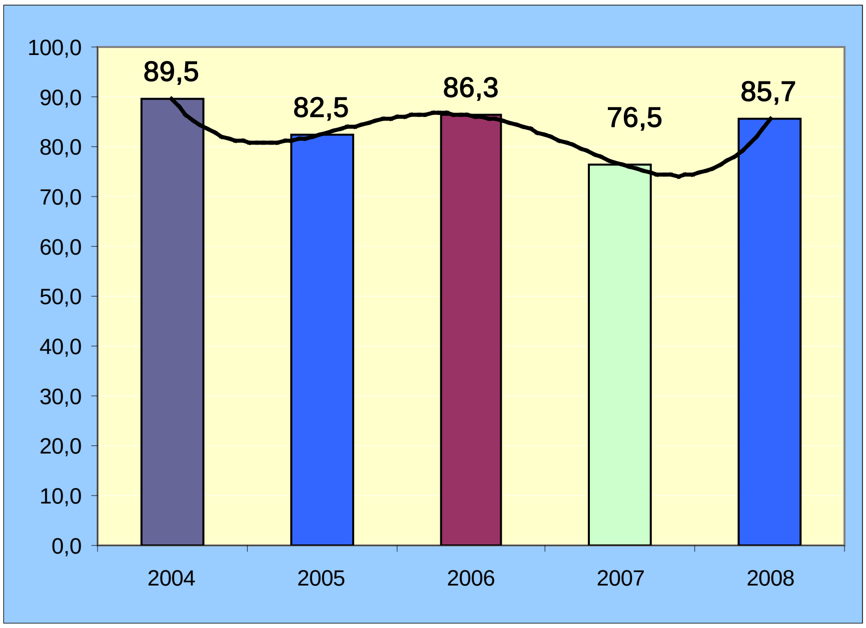
  Programme defined primary surplus turns out to be at a better level in 2008 compared to 2007, whereas it demonstrates a performance that is incomparably lower than the pre-2007 period. As of the end of August, the programme-defined balance even nominally remains lower than the level in 2006.

The periodic increase of the gap between officially defined primary surplus and the programme defined primary surplus is caused by the fact that privatisation revenues and the revenues transferred from the Unemployment Insurance Fund are included in the budget revenues within the officially defined balance. The application concerning the revenues transferred from the Unemployment Insurance Fund and the Privatisation Fund is separately addressed in the following sections (Please see Box 1). Therefore, it is seen that the budget balances, which

[1] While the stand-by agreement with the IMF is concluded, we keep monitoring it as it provides the opportunity to observe the programme defined primary balance not only in terms of debt dynamics but also to track the compositions of the revenue and expenditure items that the state can influence while applying fiscal policy measures, in other words to observe the financial performance of the government.

demonstrate an improvement at the end of the first eight months of the year relative to the same period of the last year, seem to have a lower performance than that is expressed in official declarations when assessed by excluding such applications.

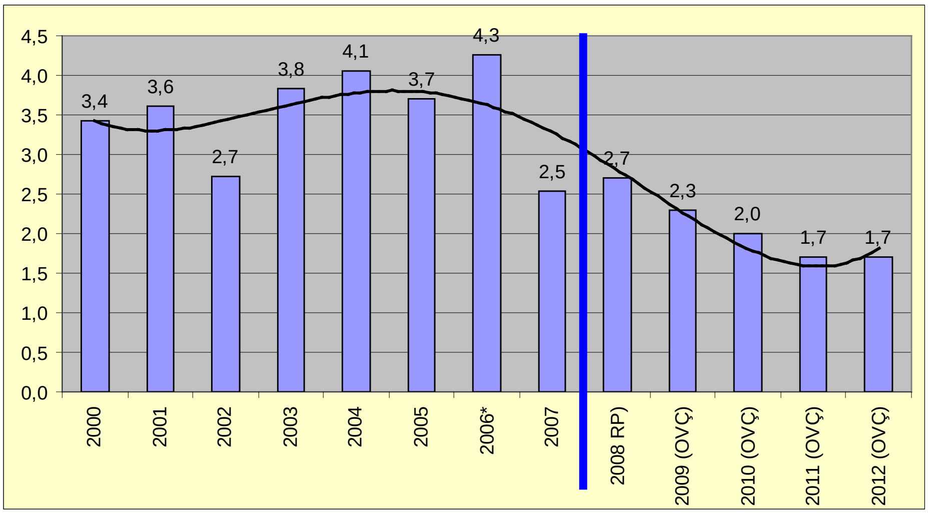
Chart 1. Realization Rates of the Programme Defined Primary Surplus Performance of the Central Government Budget (2004-2008) (end of August)



Nevertheless, the programme defined primary surplus has demonstrated a significant performance increase compared to the same period of the last year. At the end of August, 85.7% of the programme target and 102% of the revised programme target were achieved.

Lowering the programme defined target of the central government budget for 2008 from 3.4% to 2.7% in proportion to GDP has been influential for the performance increase to reach to a much higher level at the end of the first eight months of the year.

Chart 2. Realizations of Programme Defined Primary Surplus (2002-2007) and Targets (2008-2012)



Sources: 2002-2005 IMF Expert Reports, * 2006 TEPAV Adjusted (The Amount Transferred to Local Governments and Funds is Adjusted)[2], 2007 Undersecretariat of the Treasury, 2008-2012 Medium Term Fiscal Framework

While the programme defined primary surplus performance turns out to be better than the revised target when compared to the previous years, the effect of lowering the target from 3.44% to 2.7% is apparent in here. If the target levels of the previous years had been maintained, the primary surplus performance at the end of the first eight months of this year would continue to remain below the performance of the past years (when 2007 is excluded as it has been an exceptional year).

As seen from the chart above, the revised target for 2008 actually corresponds to the lowest programme defined budget level of the last nine years excluding 2007.

With the Prospects Report that was announced in July, the size of the budget was revised upwards both in expenditures and also in expenses. It was estimated that the budget expenses would increase by 4.6% to 232.9 billion YTL in total and the primary expenditures would increase by 6.4% to 177.2 billion YTL. It was

[2] The Fiscal Monitoring Reports of 2006 can be referred to for a detailed assessment and the calculation method on this issue.

also envisaged that the total budget revenues would increase by 6.1% to 217 billion YTL, especially with the transfer of privatisation and Unemployment Fund revenues to the budget. As the revenue increase estimate was envisaged to be higher than the expenditure increase estimate, an improvement of about 2.1 billion YTL was expected in the budget balance.

Table 3. Budget Revisions within the scope of the Mid Year Up Date Report of July

	Initial Budget (Million YTL)	Realization Estimate of the Prospects Report (Million YTL)	Revision (%)	Realization by the end of August (Million YTL)	Realization Rates According to the Initial Budget (%)	Realization Rates within the framework of the Prospects Report (%)
Central Govt. Budget Expenses	**222.553**	**232.899**	**4.6**	**142.263**	**63.9**	**61.1**
Non-Interest Budget Expenses	166.553	177.149	6.4	105.947	63.6	59.8
Interest Expenses	56.000	55.750	-0.4	36.316	64.9	65.1
Central Govt. Budget Revenues	**204.556**	**216.990**	**6.1**	**146.873**	**71.8**	**67.7**
Tax Revenues	171.206	174.615	2.0	115.450	67.4	66.1
Non-Tax Revenues	33.350	42.375	27.1	31.423	94.2	74.2
Budget Balance	**-17.997**	**-15.909**	**-11.6**	**4.610**		
Primary Budget Balance	**38.003**	**39.841**	**4.8**	**40.926**	**107.7**	**102.7**

The assessments on the Mid Year Up Date report are presented in the following expenditure and revenue section however, to provide a general overview of the developments that had led to the increase in expenditure and revenue within the framework of this report:

- In the report, which items will cause the increase is not provided as a table in the expenditure details but the developments that cause the increase are enumerated in the text. Accordingly;
    - The effects of the inflation difference and the salary improvement on personnel expenses,
    - In the expenses for the purchase of goods and services; dissemination of family medicine, increasing the resource allocated to the training of the handicapped, price increases in other goods

and services and primarily in energy and petroleum, and the additional costs which will arise in the second half of the year,

- In current transfers; the additional costs that arise as a result of the Law No. 5510, which entered into force on 1 October.
- The effect of the 5% discount in the employers' contribution for the SSK (Social Insurance Institution).
- Indemnities paid to those who suffer from terror, cost increases for the home-care of the handicapped,
- The increase in the shares allocated from the revenue in parallel with the positive performance to be achieved in the general budget revenues and the increase in the shares allocated to local governments with the entry into force of the regulation on increasing the shares allocated to local governments from the general budget tax revenues,
- The drought support payments to be made to the farmers,
- In the capital expenses; increases in the investments to be made exclusively on economic and social development provided that priority is given to the investments within the scope of the South-eastern Anatolia Project within the framework of the South-eastern Anatolia Project Action Plan and the increases that arise in other investments.

- It is stated in the report that the high performance achieved in tax collection in the first half of the year together with the increases expected in non-tax revenues owing to the amounts to be transferred from the Unemployment Insurance Fund and the Privatisation Fund according to the Law No. 5763 have caused the year-end budget revenues estimate to be revised upwards.

In conclusion, it is seen that while the expenditures were expected to increase, recording the extra budgetary resources as revenue in the budget and the fact that tax performance turned out to be above expectations have led to the reduction in the budget deficit. Assessments on these issues are presented in the budget expenses and revenues sections however; **it is possible to make the following two assertions on the year-end budget expectations**:

- **The first is**; the risk of the increase in the budget expenses to become even more evident in the coming months as long as there are no practices on the budget like those faced in the previous periods such as the deferral of expenditures and the deferral of the use of the budget appropriations for investments such as the South-eastern Anatolia Project.

- **The second issue which is deemed to be significant is**; that the resources of the Unemployment Fund and privatisation which are recorded as revenue in the budget are not revenue in essence and that the positive performance achieved in tax collection cannot be fully explained with the macro developments and the developments in the parameters which determine tax collection (such as the average wage level and the development in the demand structure). From this perspective, the continuation of this performance in taxes is another risky issue for the coming periods.

Considering the present situation, as highlighted in the reports of the previous months, together with the slowing down whose signs have already started to be seen in the economy, the decline in the tax performance alongside the expectations on the increase of the purchase of goods and services which have been withheld so far and on the increase in current transfers can result in the reversal of the positive development in the budget performance in the following months.

In other words, together with the tendencies such as the expenditure intensifying regulations for the local government elections and accelerating the investments in the South-eastern Anatolia Project and other public investments as well as the possible problems in tax collection, there is the risk of increased propensity for the budget balances to turn to negative in the remaining part of the year. Especially, the possibility of resorting to the application of not recording the liabilities undertaken as expenditure and keeping them in extra-budgetary accounts so that the budget balances are not affected negatively anymore in 2008, as it has been done in the previous periods, is also not being overlooked. However, when such applications are considered together with the possible problems that can be faced in tax collection, then the possibility of the budget of 2009 to turn into much a more problematic budget is deemed to be higher.

B. Budget Expenses

While the total budget expenses decreased by 0.1% in the first half of the year, the budget expenditures started to rise again with the increase in interest expenses in July and August and the cumulative rate of increase turned out to be 4.7%. Nevertheless, the decrease in primary expenditures in July and the increase around 6% in August has been a development, which constrained the increase in budget expenditures.

The primary expenditures have increased by 8.2% in the first half of the year however, due to the fact that the rates of increase in July and August have been 2.7% and 5.9% respectively, the rate of increase at the end of August decreased to 7.2% cumulatively. The increase in primary expenses has been realized below the average inflation.

45.2% of the total budget expenses have been used by the end of the first six months and the use of appropriations in primary expenditures turned out to be 47.9%. These rates have been realized at 63.9% and 63.6% as of the end of August. When compared to the last year, the use of primary appropriations seems to be realized almost at the same level. In addition to that, with the Prospects Report announced in July, an upward revision was made to budget expenses by 4.6% and to primary expenses by 6.4%. According to the revised figures, the realization rate of total budget expenses turns out to be 61.1% while this rate decreases to 59.8% in primary expenses.

The reduction in primary expenditures, which has started in June, was replaced with relatively low rates of increase in July and August. The budgetary developments in the last three months have caused the reduction of the primary expenditures to the present level that is below the average inflation.

The main developments that have caused the primary expenditures to slow down as such can be listed as follows:

- Realization of the current transfers, which make up around 45% of the primary expenditures, at levels nominally below the level of the last year for the last three months. The sub-items, which have been the determinants of the current transfers to turn out as such, are the transfers to the social security institution and the agricultural support payments.

- o The transfers made to the Social Security Institution (SGK) for financing needs have decreased due to the additional estimate of 1.5 billion YTL acquired through the amnesty for the Bağ-Kur and SSK premiums together with the 901 million YTL paid to the SGK by the Ministry of Health as expropriation price. These revenues, which were in the nature of a one-time measure, and the writing off the debts on health also for 2008 have periodically reduced the financing need of the SGK.
- o The agricultural support payments have already been envisaged under the previous year in the budget appropriations for 2008. In addition to that, although 95% of the budget appropriations have been used in the first eight months of the year, the fact that a similar trend was observed in the last year caused the rate of increase to periodically remain limited.

- The fact that the health expenditures are not increased contrary to the previous years and in particular, the decrease in June and July. A similar development was also observed in health expenditures under the purchase of goods and services item. Although the health expenditures started to increase again in August, the increase for the eight months remained at the level of 2.6% due to the low level of usage in the previous months. It is estimated that the determining factors of this development are the partial waiver for the debts of the public institutions to the public hospitals (this issue has also been influential in the periodic decrease of the transfers made to the social security institutions) and the expenditure deferrals.

- The fact that the rate of increase in August for the personnel expenditures turned out to be at the level of 5% contrary to the expectations. The effects of the inflation difference paid in July and the additional increases paid at different levels to the civil servants according their occupational groups will become apparent in the following months.

Table 4. Comparative Budget Expenditures for end of June, July and August 2007-2008

	June					July					August				
(million YTL)	2007	2008	Rate of Increase (%)	2007 Real. Rate (%)	2008 Real. Rate (%)	2007	2008	Rate of Increase (%)	2007 Real. Rate (%)	2008 Real. Rate (%)	2007	2008	Rate of Increase (%)	2007 Real. Rate (%)	2008 Real. Rate (%)
Central Government Total Budgetary Expenditures	**100.679**	**100.589**	**-0,1**	**49,5**	**45,2**	**119.887**	**121.826**	**1,6**	**58,9**	**54,7**	**135.818**	**142.263**	**4,7**	**66,7**	**63,9**
Primary Expenses	**73.786**	**79.849**	**8,2**	**47,7**	**47,9**	**87.226**	**93.650**	**7,4**	**56,4**	**56,2**	**98.839**	**105.947**	**7,2**	**63,9**	**63,6**
I. Personnel Expenses	**21.974**	**24.506**	**11,5**	**50,5**	**50,3**	**25.743**	**28.677**	**11,4**	**59,1**	**58,9**	**29.164**	**32.263**	**10,6**	**67,0**	**66,3**
II.State Contributions to Soc. Sec. Inst.	**2.725**	**3.053**	**12,0**	**47,0**	**47,7**	**3.178**	**3.548**	**11,7**	**54,8**	**55,4**	**3.621**	**4.027**	**11,2**	**62,4**	**62,9**
III. Expenses for the Purchase of Goods and Ser	**8.349**	**9.161**	**9,7**	**37,7**	**40,0**	**10.676**	**11.226**	**5,2**	**48,2**	**49,0**	**12.189**	**13.150**	**7,9**	**55,0**	**57,4**
Health Expenditures	3.225	3.102	-3,8	48,7	46,0	3.781	3.592	-5,0	57,1	53,3	4.226	4.336	2,6	63,8	64,3
Medicine Expenditures	428	424	-1,0	43,9	38,9	520	491	-5,6	53,4	45,1	580	559	-3,7	59,5	51,3
Treatment and Health Equipment Expenditures	763	715	-6,3	44,0	39,7	909	814	-10,4	52,4	45,2	1.014	1.187	17,0	58,4	65,9
Green Card	2.033	1.963	-3,5	52,0	51,0	2.352	2.286	-2,8	60,1	59,4	2.632	2.590	-1,6	67,2	67,3
Defence and Security (Excluding Health)	2.200	2.631	19,6	29,0	31,3	3.060	3.445	12,6	40,4	41,0	3.609	3.961	9,8	47,6	47,1
Other Expenditures for Goods and Services	2.924	3.427	17,2	52,1	50,5	3.835	4.189	9,2	60,1	58,9	4.355	4.853	11,4	67,4	66,5
IV. Current Transfers	**32.776**	**35.226**	**7,5**	**51,8**	**50,9**	**37.690**	**39.876**	**5,8**	**59,6**	**57,6**	**42.370**	**44.333**	**4,6**	**67,0**	**64,1**
Duty Losses	**511**	**770**	**50,9**	**36,4**	**49,7**	**568**	**958**	**68,6**	**40,5**	**61,7**	**682**	**1.187**	**74,0**	**48,7**	**76,5**
Treasury Aids	**18.030**	**19.305**	**7,1**	**49,7**	**48,4**	**21.106**	**22.076**	**4,6**	**58,2**	**55,3**	**24.468**	**23.732**	**-3,0**	**67,5**	**59,5**
Treasury Aids to Social Security Institutions	385	449	16,6	47,7	48,2	450	531	17,9	55,7	56,9	513	632	23,1	63,5	67,8
Health, Retirement and Social Benefit Exp.	16.491	17.594	6,7	49,9	47,5	19.300	20.094	4,1	58,4	54,3	22.408	21.470	-4,2	67,8	58,0
Social Security Deficit Financing	12.775	13.433	5,2	49,5	46,6	15.268	15.569	2,0	59,1	54,1	18.038	16.569	-8,1	69,9	57,5
Transfers to Non-Profit Organisations	**447**	**199**	**-55,4**	**65,6**	**59,3**	**493**	**239**	**-51,5**	**72,3**	**71,2**	**561**	**249**	**-55,7**	**82,3**	**74,0**
Transfers to Households	**504**	**533**	**5,8**	**50,7**	**48,4**	**605**	**644**	**6,3**	**60,9**	**58,4**	**636**	**679**	**6,8**	**64,0**	**61,7**
Transfers for Agricultural Purposes	**4.834**	**4.452**	**-7,9**	**87,0**	**82,4**	**5.106**	**4.513**	**-11,6**	**91,9**	**83,6**	**5.118**	**5.138**	**0,4**	**92,1**	**95,2**
Other Transfers to Households	**143**	**275**	**92,5**	**23,1**	**43,4**	**217**	**315**	**45,3**	**35,1**	**49,8**	**228**	**362**	**59,0**	**36,9**	**57,3**
Transfers for Social Purposes	**14**	**121**	**742,8**	**21,4**	**53,3**	**18**	**171**	**861,9**	**26,4**	**75,2**	**22**	**228**	**914,2**	**33,3**	**99,9**
Transfers Abroad	**227**	**255**	**12,4**	**45,3**	**39,0**	**292**	**306**	**4,8**	**58,3**	**46,8**	**331**	**352**	**6,5**	**66,0**	**53,8**
Shares Reserved from Revenues	**8.067**	**9.315**	**15,5**	**47,0**	**48,0**	**9.284**	**10.654**	**14,8**	**54,1**	**54,9**	**10.324**	**12.406**	**20,2**	**60,2**	**64,0**
V. Capital Expenses	**4.466**	**4.679**	**4,8**	**34,6**	**39,7**	**5.721**	**6.334**	**10,7**	**44,3**	**53,8**	**6.766**	**7.775**	**14,9**	**52,4**	**66,0**
VI. Capital Transfers	**1.877**	**1.126**	**-40,0**	**53,0**	**54,0**	**2.349**	**1.542**	**-34,4**	**66,3**	**74,0**	**2.422**	**1.813**	**-25,1**	**68,4**	**87,0**
Domestic Capital Transfers	1.855	1.107	-40,3	55,3	59,5	2.319	1.523	-34,3	69,1	81,8	2.382	1.789	-24,9	71,0	96,0
Foreign Capital Transfers	23	19	-16,4	12,0	8,5	30	19	-37,1	16,0	8,5	40	25	-38,6	21,3	11,1
VII. Lending	**1.618**	**2.098**	**29,7**	**45,5**	**53,3**	**1.870**	**2.447**	**30,9**	**52,6**	**62,2**	**2.306**	**2.586**	**12,1**	**64,9**	**65,7**
Domestic Lending	1.529	2.000	30,8	46,8	53,9	1.771	2.294	29,5	54,2	61,8	2.185	2.427	11,1	66,9	65,5
Foreign Lending	89	98	10,6	31,2	43,7	99	153	55,1	34,7	68,1	121	158	31,0	42,4	70,4
VIII. Contingency Appropriations	**0**	**0**				**0**	**0**				**0**	**0**			
Interest Expenses	**26.893**	**20.740**	**-22,9**	**55,2**	**37,0**	**32.661**	**28.176**	**-13,7**	**67,0**	**50,3**	**36.979**	**36.316**	**-1,8**	**75,9**	**64,8**

Source: Ministry of Finance General Directorate of Public Accounts and own calculations

In summary, these developments have brought the fiscal discipline to a more risky position in terms of budget expenses for the rest of the year. It is deemed to be useful to enumerate the risk factors once more in this report regarding the expenditures to be in a tendency of upward increase, which have been expressed in the previous reports but with new additions as follows:

- The inflation loss at the rate of 1.9% that was given to the employees in addition to the normal increase in the second half of the year due to the fact that the consumer price index inflation has turned out to be higher than the rate of increase given to the civil servants in the first half of the year and the increases paid in August at different levels to various occupational groups will increase the personnel expenses above the programmed level.

- Due to the fact that the deferral made in health expenditures cannot be continued at the same level in the rest of the year and because of the family medicine applications, the use of appropriations will accelerate.

- The need for additional appropriation can arise as a result of the insufficiency of the appropriations for goods and services items on consumer goods due to the increases in input costs and primarily in petroleum, natural gas and electric.

- The fact that the applications of the last policy decisions taken (Please see the Fiscal Monitoring Report for May) that are reflected on 2008 will be realized in the second half of the year. As emphasized in the report of the last month, the total effect on 2008 was calculated as around 8.2 billion YTL. The effect of this on budget expenses is estimated approximately at the level of 4.5 billion YTL.

An example to this situation can be the fact that the revenue share transferred to the local governments under the current transfers item as well as the capital expenses and capital transfers will be increased. In order to keep the budget low, resorting to accounting applications such as the Account No. 323 towards the end of the year, which allow the transfer of the expenditure records of a significant part of all these additional expenditure needs to the next year, is also a high probability as seen in the previous years.

- Public investments will be on the rise especially due to the legislation enacted recently and that continue to be enacted. In this sense, investment expenditures will exhibit a significant leap in the rest of the year with the use of the resources transferred from the Unemployment Insurance Fund and the Privatisation Fund.

- Lastly, there is the risk of increase in the transfer to be made to the social security institutions due to the reduction of the effect of the one-time measures in the following months and with the entry into force of the new law on 1 October.

Table 5. Contribution of the Primary Expenditures of the Central Government Budget at the End of June, July and August to the Increase in the Primary Expenditures

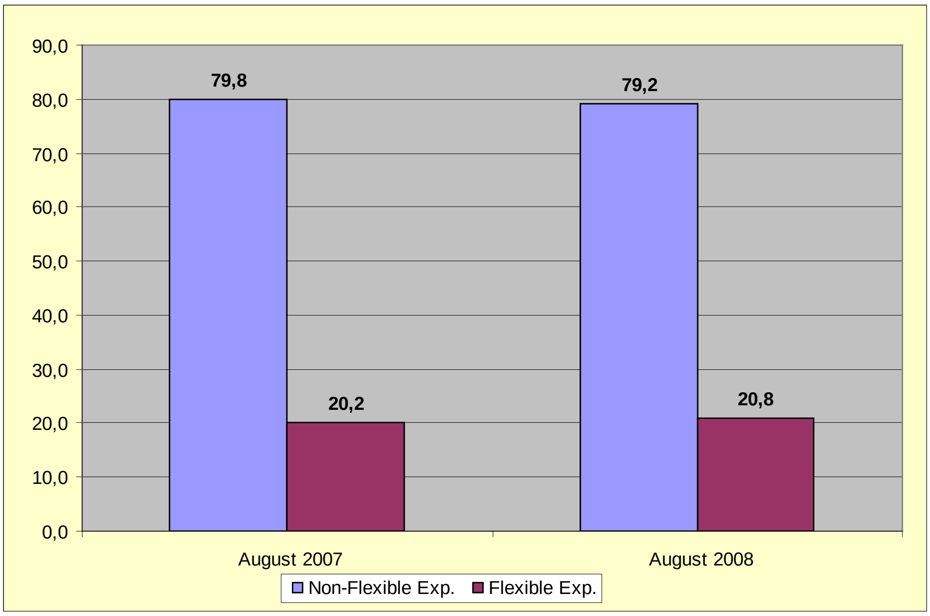
June	**Cont. to the Rate of Increase**	**(%) Dist.**
Primary Expenditures	**8,2**	**100,0**
Current Expenditures	**4,5**	**55,2**
Personnel	3,4	41,8
Purchase of Goods and Services	1,1	13,4
Health	-0,2	-2,0
Defence and Security	0,6	7,1
Current Transfers	**3,3**	**40,4**
Treasury Aids to Social Security Institutions	0,1	1,1
Health, Retirement and Social Benefit Exp.	1,5	18,2
Transfers for Agricultural Purposes	-0,5	-6,3
Shares Reserved from Revenues	1,7	20,6
Capital Expenses	**0,3**	**3,5**
Capital Transfers	**-1,0**	**-12,4**
Other	**0,7**	**7,9**
July	**Cont. to the Rate of Increase**	**(%) Dist.**
Primary Expenditures	**7,4**	**100,0**
Current Expenditures	**4,0**	**54,2**
Personnel	3,4	45,7
Purchase of Goods and Services	0,6	8,6
Health	-0,2	-3,0
Defence and Security	0,4	6,0
Current Transfers	**2,5**	**34,0**
Treasury Aids to Social Security Institutions	0,1	1,3
Health, Retirement and Social Benefit Exp.	0,9	12,4
Transfers for Agricultural Purposes	-0,7	-9,2
Shares Reserved from Revenues	1,6	21,3
Capital Expenses	**0,7**	**9,5**
Capital Transfers	**-0,9**	**-12,6**
Other	**0,7**	**9,0**
August	**Cont. to the Rate of Increase**	**(%) Dist.**
Primary Expenditures	**7,2**	**100,0**
Current Expenditures	**4,1**	**57,1**
Personnel	3,1	43,6
Purchase of Goods and Services	1,0	13,5
Health	0,1	1,5
Defence and Security	0,4	5,0
Current Transfers	**2,0**	**27,6**
Treasury Aids to Social Security Institutions	0,1	1,7
Health, Retirement and Social Benefit Exp.	-0,9	-13,2
Transfers for Agricultural Purposes	0,0	0,3
Shares Reserved from Revenues	2,1	29,3
Capital Expenses	**1,0**	**14,2**
Capital Transfers	**-0,6**	**-8,6**
Other	**0,3**	**3,9**

When the increase in the primary expenditures at the end of August is examined, it is seen that the items, which demonstrate an increase higher than the general rate of increase, are the expenditures in the nature of current expenditures. Contrary to the last year, current expenditures had a contribution rate above than that of current transfers. When it is examined by sub-items of expenditure, the highest contribution to the increase was made by the personnel expenses that take place under the current expenditures item and the revenue shares including the tax shares transferred to the local governments that take place under current transfers. Capital expenses turned out to be an item that has increasingly made positive contribution to the increase since June.

It is observed that at the end of August, the share of non-flexible expenditures, in other words the share of those expenditures whose discretionary increase or decrease as a public policy instrument is either not possible or very limited due to their nature[3], in total expenditures has reduced to 79%. While almost the same rate comes out with the last year, this development was caused by the periodic reduction in the transfers made to the social security institutions and by the reduction in health expenses.

[3] As is known, the main non-flexible expenditures are made to meet the liabilities such as interests, personnel payments and transfers to social security institutions.

Chart 3. The Development of the Shares of Flexible and Non-Flexible Expenditures in Budget Expenditures (2007 - 2008 August)



C. Budget Revenues

While the total budget revenues have increased by 8.1% in the first half of the year compared to the previous year, this increase was at important levels with 11.6% in July and 15.3% in August. When examined by leaving out the revenues in the form of privatisation revenues and those transferred from the Unemployment Insurance Fund, the increase in total budget revenues drops down to 14%.

As of the end of August, total budget revenues have increased to 146.9 billion YTL. This level corresponds to 71.8% of the initial target and to 67.7% of the year-end estimate revised by the Prospects Report.

The increase in tax collection, which remains above the target has been the main item determining the positive performance achieved in adjusted budget revenues excluding privatisation and fund revenues.

Box 1: Recording the Resources Transferred from the Unemployment Insurance Fund and the Privatisation Fund as Revenue to the Budget and the Payment of Housing Benefits (KEY) without Appropriation

“Even more than Two Fleeces out of One Sheep?”

There have been two important developments that can render the budget figures declared in the past months debatable:

1.**The first is,** recording the resource transferred from the revenues of the Unemployment Insurance Fund and Privatisation Fund to the budget, according to the Law No. 5763 on “Amendment of the Labour Law and Certain Laws” that entered into force after being published in the Official Gazette on 26 May 2008, as revenue to the budget. The resource transferred from the Unemployment Insurance Fund to the budget is including an amount in budget revenues by recording once more what was held by the Fund as stock and was recorded as revenue in public sector revenues in the previous periods. In other words, the same resource is being recorded as revenue twice in different periods within the total public sector revenues (first as Unemployment Fund, then at a later period as budget revenue). The resource transferred from the privatisation returns was also subject to a similar application. Repeated recording of an item that was previously recorded in public accounts as revenue by means of asset sales is at issue but this time as budget revenue.

Both applications are transactions that are deemed to be misleading principally in terms of accounting principles and in terms of the periodicity principle. The moment they are first acquired, these revenues are being recorded as the revenue of the Unemployment Fund and the Privatisation Fund and they are stored in the balance sheets and the safes/bank accounts of these institutions. At a later period, when these resources are recorded again as revenue to the budget, an item of the balance sheet is shown like new budget revenue acquired above the line by converting the flow into a variable. However, these transactions are a financing resource provided to the Treasury by the Unemployment Fund or the

Privatisation Fund and they should be shown as a below-the-line financing item, not as the revenue of the Treasury. As a result of this, the budget balance should have a deficit as much as these amounts in any case. On the other hand, in our opinion, these items do not have the characteristic of one-time revenue. Since these transactions solely have the characteristic of cash transferred from the account of one public institution to another as a balance sheet movement, they do not come out as the result of a revenue generating new economic activity. Therefore, deduction of these from the budget revenues is not due to their one-time-revenue characteristic (besides, this application will continue from 2009 to 2012 according to the law) but due to the transfer of an amount which has already been included in the accounts of one institution to another institution (to the central government budget) and that these are not revenues in nature. What is more, the revenues acquired in return for privatisation are already not even being accepted as revenue in international classification since they mean the replacement of fixed assets with cash assets in the public sector balance sheet. (GFS-Government Finance Statistics Manual 2001,paragraph 4.20).

On the other hand, not providing adequate information to the public on the content of the transactions that these resources are subject to and on their amount together with the fact that these regulations are enacted through complicated packs of laws have a worrying nature in terms of financial transparency. As a matter of fact, while the amount to be transferred from the Privatisation Fund was limited to **1 billion YTL** for 2008 according to the Law No. 5763 accepted on 26 May 2008, after two months, with the Article 46/5 the of Law No. 5793 which amends a lot of laws and which was accepted on 24 July 2008 right before the closure of the TGNA and published in the Official Gazette on 8 August 2008, a regulation was made to remove the restriction on the amount to be transferred in 2008. Right after this regulation, an additional resource of **4 billion YTL** was transferred from the Privatisation Fund to the Treasury by means of recording as revenue. According to the cash balance data of the Treasury, the amount of resources transferred as such from the Unemployment Fund and the

Privatisation Fund and recorded as revenue has reached to around 8 billion YTL.

2. The second is related to the Housing Benefits (KEY). As is known, as regards the Housing Benefits, a payment of around 2.8 billion YTL was made to the right holders from the Treasury through the T.C. Ziraat Bank during the period monitored. According to the GFS definition, the transactions, which decrease net worth in the government balance sheet, are classified as expenditure (GFS 2001, paragraph 4.25). Therefore, such transactions need to be carried out by taking appropriations from the budget. However, the payments for Housing Benefits were made without appropriation. Though, the cash for these payments were taken from the Treasury's account, which therefore means that a transaction decreasing the net worth in the government balance sheet was created. KEY is a transaction related to the financing of the deductions made previously from the employees for construction of housing through the Emlak Bank. The system did not work out later on and when Emlak Bank was liquidated, recovery of the employees' accounts was not possible and as a result, the burden was placed on the Treasury. Therefore, since the payments to be made to the right holders have turned into a kind of a transfer expenditure, it was necessary to make this expenditure against appropriation but this method was not chosen. Then, this means the calculation of the budget deficit was lower as much as this amount.

3. Finally; we believe that a transaction of around 11 billion YTL was kept out of the accounts in the budget at the end of August due to the amounts that were recorded as revenue while they should not have been and the amounts that were not recorded as expenditure while they should been. As a result of this, we estimate that the budget was concluded as of August not with a surplus of around 4 billion YTL as declared but at least with a deficit of around 7 billion YTL. As accurate and analytical data usage is necessary to carry out an accurate analysis, we want to call attention to the importance of such applications and therefore to the importance of financial transparency once more.

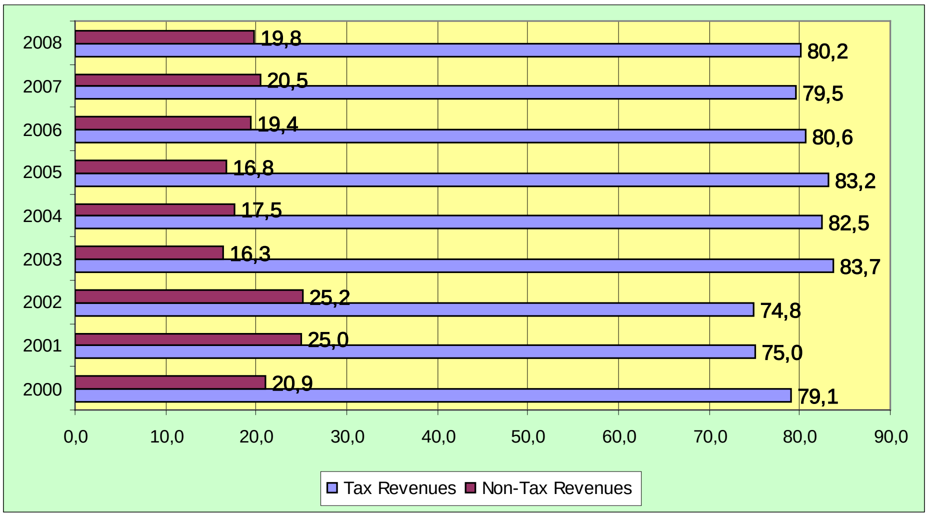
The increase at the rate of 16.2% achieved in tax collection at the end the first eight months has been the source of the positive performance achieved in the adjusted budged balance. When the taxes collected on international trade are set aside, income tax withholding and the acceleration in the collection of provisional corporate tax have been the two main tax items dynamically determining this increase.

Table 6. Central Government Budget Revenues

(million YTL)	June 07	June 08	Rate of Increase (%)	July 07	July 08	Rate of Increase (%)	August 07	August 08	Rate of Increase (%)
Central Government Revenues	94.795	102.506	8,13	107.931	120.426	11,58	127.391	146.873	15,29
General Budget Revenues	92.372	99.456	7,67	105.136	116.931	11,22	124.261	142.999	15,08
I-Tax Revenues	**70.588**	**82.752**	**17,23**	**81.576**	**96.530**	**18,33**	**99.322**	**115.450**	**16,24**
1. Taxes Collected on Income and Gains	**21.826**	**26.628**	**22,00**	**24.154**	**29.775**	**23,27**	**31.177**	**37.760**	**21,11**
a) Income Tax	**15.701**	**18.914**	**20,46**	**18.011**	**21.984**	**22,06**	**21.723**	**25.633**	**18,00**
Income Tax Withholding	14.253	17.227	20,87	16.288	19.906	22,22	19.430	22.920	17,96
b) Corporate Tax	**6.125**	**7.714**	**25,95**	**6.144**	**7.791**	**26,82**	**9.454**	**12.126**	**28,27**
Provisional Corporate Tax	6.016	7.090	17,85	6.044	7.136	18,07	9.345	11.460	22,63
2. Taxes Collected on Wealth	**1.756**	**2.071**	**17,90**	**2.478**	**2.975**	**20,03**	**3.062**	**3.526**	**15,17**
b) Motor Vehicle Tax	1.691	2.016	19,22	2.407	2.914	21,08	2.986	3.460	15,88
3. Taxes Collected on Domestic Sale of Goods and Servi	**29.399**	**32.393**	**10,18**	**34.129**	**38.313**	**12,26**	**40.900**	**45.175**	**10,45**
a) Domestic Value Added Tax	**8.064**	**8.442**	**4,68**	**8.555**	**9.550**	**11,63**	**10.881**	**11.607**	**6,68**
b) Special Consumption Tax	**17.684**	**19.775**	**11,82**	**21.217**	**23.788**	**12,12**	**24.976**	**27.868**	**11,58**
c) Banking and Insurance Transactions Tax	**1.530**	**1.796**	**17,36**	**1.828**	**2.153**	**17,76**	**2.091**	**2.430**	**16,21**
d) Lottery Taxes	**179**	**201**	**11,84**	**201**	**227**	**13,28**	**221**	**253**	**14,33**
e) Special Communication Tax	**1.941**	**2.180**	**12,30**	**2.328**	**2.595**	**11,45**	**2.731**	**3.016**	**10,46**
4. Taxes Collected on International Trade and Transactio	**13.486**	**17.086**	**26,70**	**16.041**	**20.128**	**25,48**	**18.635**	**22.862**	**22,68**
b) Value Added Tax on Imports	12.260	15.590	27,16	14.606	18.368	25,76	16.958	20.879	23,12
5. Stamp Duty	**1.778**	**1.979**	**11,29**	**2.033**	**2.294**	**12,84**	**2.398**	**2.665**	**11,15**
6. Fees	**2.319**	**2.573**	**10,93**	**2.715**	**3.018**	**11,18**	**3.122**	**3.431**	**9,89**
7. Other Non-Classified Taxes	**23**	**22**	**-6,29**	**26**	**27**	**1,40**	**29**	**32**	**9,52**
II-Enterprise and Ownership Revenues	5.700	5.035	-11,66	6.143	5.560	-9,49	6.601	6.056	-8,25
III-Grants and Aids Received and Special Revenues	1.377	356	-74,18	1.510	448	-70,32	1.566	560	-64,24
IV-Interests, Shares and Fines	8.754	9.171	4,77	9.935	12.086	21,65	10.781	12.581	16,69
1.Interest Revenues	3.047	1.943	-36,23	3.423	2.994	-12,53	3.530	3.389	-3,98
V-Capital Revenues	5.954	2.030	-65,91	5.972	2.073	-65,28	5.992	8.073	34,73
VI-Receivable Collection		113			233			279	
Revenues of Special Budget Administrations	1.564	1.847	18,09	1.767	2.196	24,28	1.949	2.508	28,66
Revenues of Regulatory and Supervisory Agencies	858	1.203	40,12	1.028	1.299	26,31	1.180	1.367	15,80

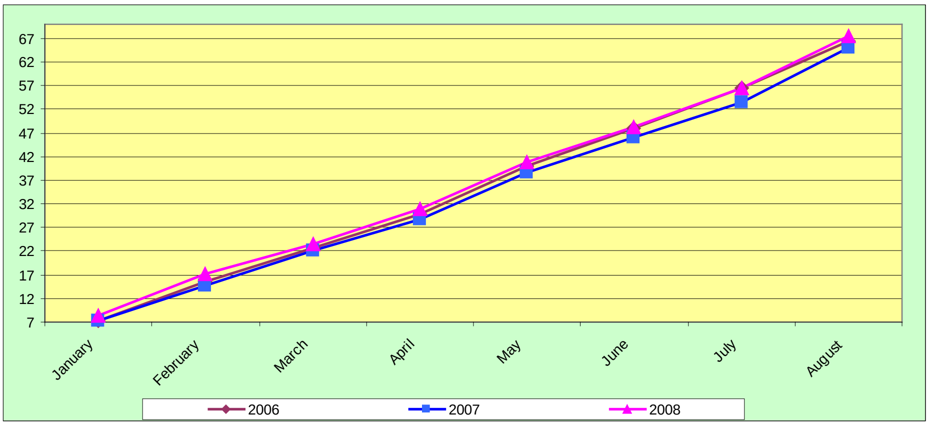
Within this framework, the share of taxes is increased to 79% in central government budget revenue collection and to 80.2% in the general budget revenues. When examined within the framework of the adjusted budget revenues, these shares are increased to 84% and to 85.2%, respectively. This means that the share of tax revenues in the budget has reached to the highest level in the last nine years as seen in the following chart as well.

Chart 4. Tax Revenues in General Budget Total Revenue Collection and the Development in the Shares of Non-Tax Revenues (End of August) (%)



The realization rates of tax revenue collection according to the year-end targets and realizations within the framework of the results of the first six and the first eight months of 2008 exhibits a better performance relative to the previous two years. The increase achieved in tax revenues by the end of August at the rate of 16.2% was accompanied by another positive development that is the realization rate of 67.4% according to the target. According to the estimate in the Prospects Report, the realization rate turns out to be 66.1%. While the total revenue estimate was increased by 6.1% within the scope of the Prospects Report, the expected additional increase in tax collection according to the target was envisaged at the rate of 2%.

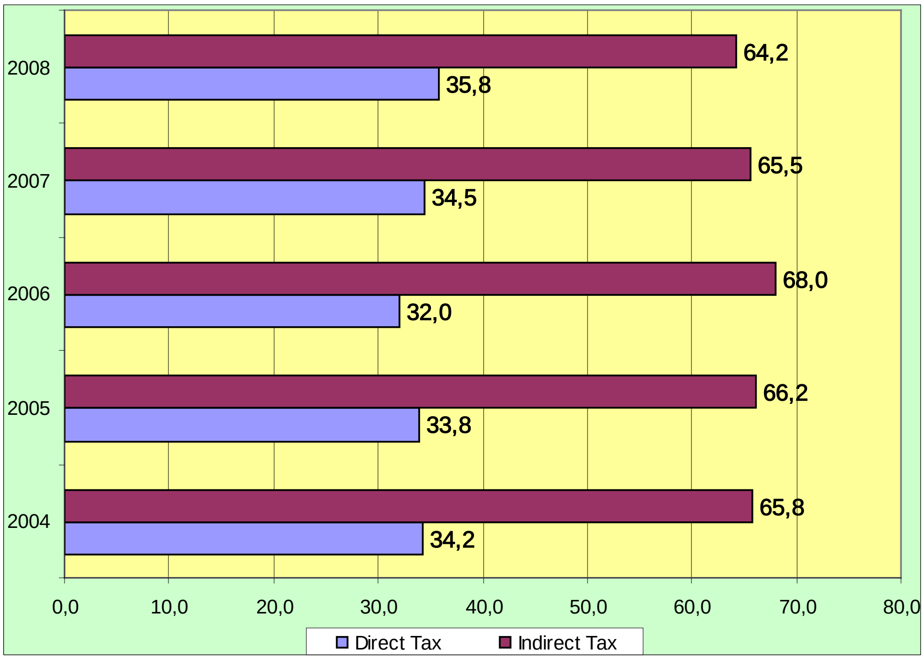
Chart 5. Monthly Cumulative Budget Realization Rates of Tax Revenues (%)



The tax group that has been determining in the realization of the tax performance above expectations this year was the direct taxes, contrary to the past years. As of the end of August 2008, 64.2% of the general budget tax revenues consisted of indirect taxes and 35.8% of it consisted of direct taxes. In the last five-year period, 2008 has been the year in which the indirect taxes periodically had the highest share in total tax collection.

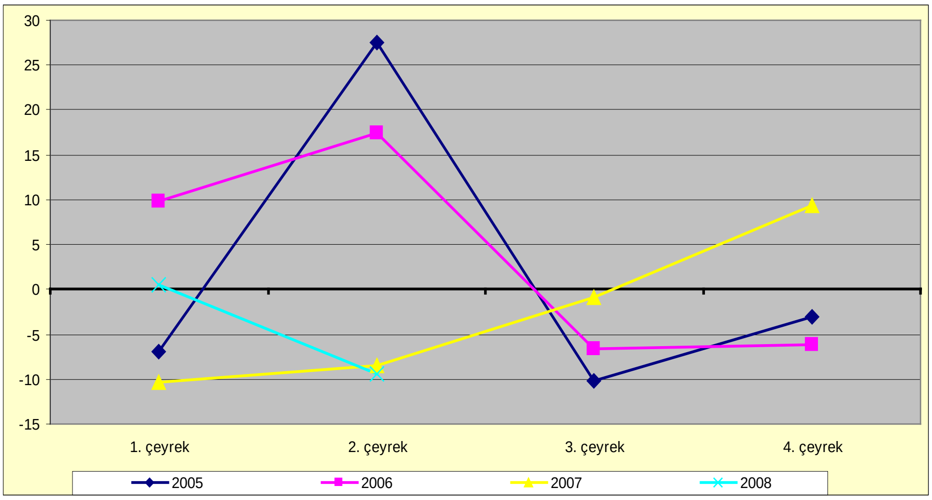
The declining trend in the increase in taxes collected on income and gains that has started in May and June continued in August although at a lower rate. Despite this development, the cumulative rate of increase was realized at the level of 21.1%. Considering that the increase in the budget target of 2008 was at the level of around 9%, it can be said that the taxes collected on and income and gains at the end of the first half of the year exhibits a significant performance especially with the effects of the income tax withholding and the provisional corporate tax.

Chart 6. The Development of the Direct and Indirect Tax Shares of the General Budget Tax Revenue Collection at the end of August 2004 - 2008



While the direct taxes have increased by 20.6% at the end of August, the rate of increase in indirect taxes was at the level of 114%. The rate of increase in indirect taxes reduces to 10.7% when the VAT collected on imports is excluded.

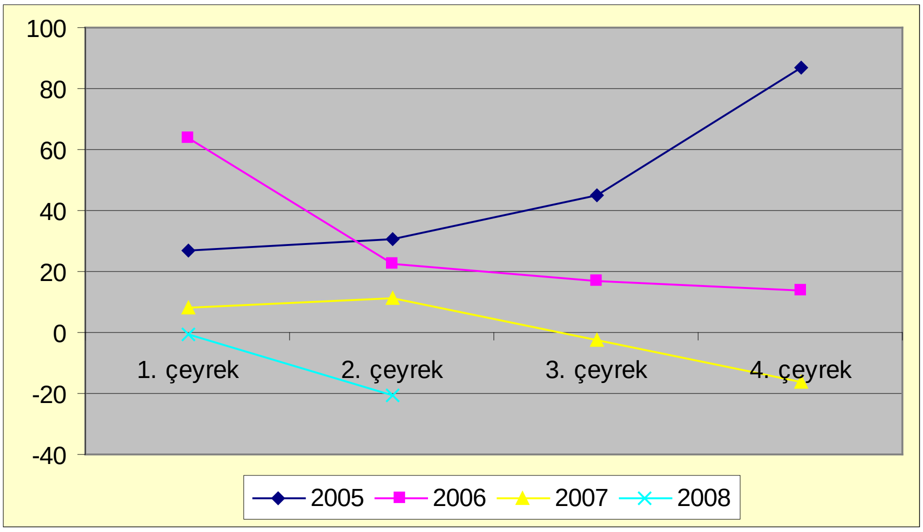
Chart 7. Quarterly Rates of Increase in the Domestic VAT (2005-2007, on Collection Basis and Real)



As highlighted in the previous reports, when the VAT collected on imports and the VAT and the special consumption tax collected on petroleum are excluded, the low performance faced in indirect taxes which is due to the changes in the level of total demand becomes more apparent each month.

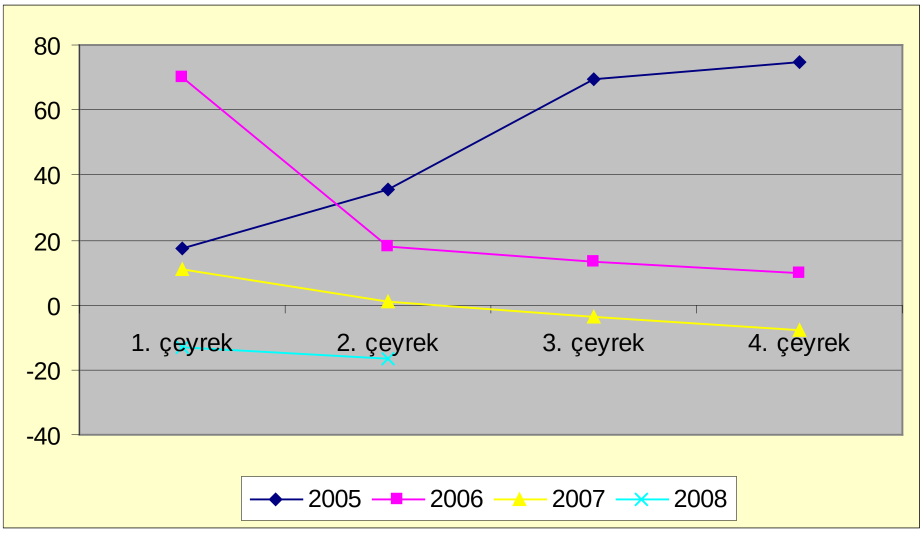
It is also possible to examine the rate of increase in the special consumption tax collected on durable consumer goods to see the effect of the change in the level of total demand on tax collection. The following chart presents the quarterly development of the special consumption tax collected on durable consumer goods net of inflation. It is clearly observed that special consumption tax collection has declined in real terms in 2007 and in 2008. The decline in 2008 has become even more striking.

Chart 8. Quarterly Rates of Increase in the Special Consumption Tax Collected on Durable Consumer Goods (2005-2007, on Collection Basis and Real)



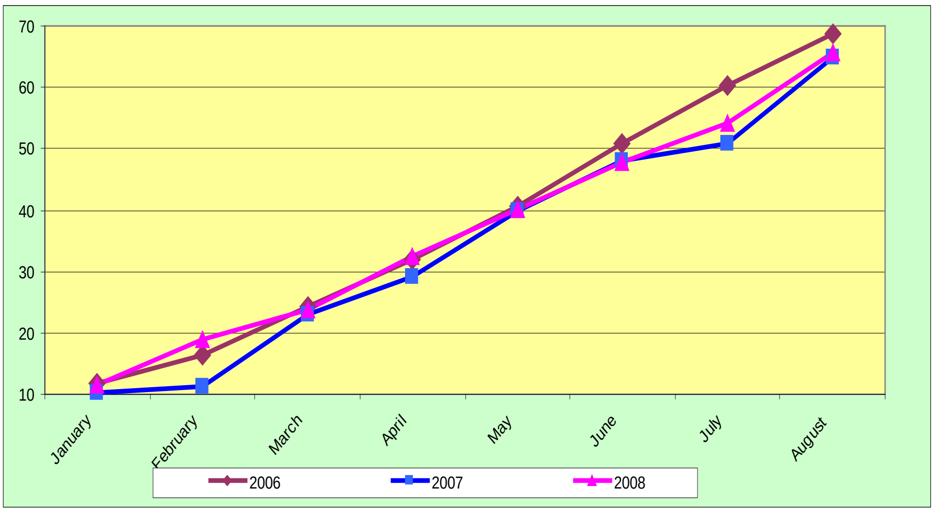
When the calculation is made by considering the quarterly periods not as January-March but as February-April (in accordance with the collection accruing to the next month) the real rates of increase turn out to be as follows.

Chart 9. Quarterly Rates of Increase in the Special Consumption Tax Collected on Durable Consumer Goods (2005-2007, on Collection Basis - with the assumption of the collection being made in the next month - Real)



When these developments that have taken place in the first half of the year are taken into consideration, it seems to be a high possibility for the budget realization rates of the domestic VAT collection to turn out to be lower, in particular starting from the second half of the year, as seen in 2007.

Chart 10. Monthly Cumulative Budget Realization Rates of Domestic Value Added Tax (%)



40% of the increase observed in tax revenues at the end of the first six months was obtained from the taxes collected on income and gains, and 62% of this contribution (24.5% in total) was obtained solely from income tax withholding. 41% of the increase observed at the end of the first eight months was obtained from taxes collected on income and gains. The performance of the provisional corporate tax started to accompany the income tax withholding in this month as well.

According to the data presented in the 2007 Activity Report of the Revenue Administration, it is observed that about 60% of the withholding was made on wages. As stated in the previous report, when the fact that taxable wages have increased by around 10% on average is taken into consideration, which items have caused the 21.6% increase observed in the collection of withholdings becomes an important question mark. It is estimated that this increase was mainly caused by the increase in the withholdings made on bond interest revenues, which are among the primary components of non-wage withholdings.[4]

[4] Fiscal Monitoring Report for May 2008 can be referred to for the detailed assertions on this issue.

Table 7. Tax Revenue Realizations of Budget and its Contribution to the Rate of Increase

million YTL	June		Rate of Increase (%)	Cont. to the Rate of Inc. (%)
	2008	2007		
Tax Revenues	**82.752**	**70.588**	**17,2**	**100,0**
Taxes on Income and Corporate Gains	**26.628**	**21.826**	**22,0**	**39,5**
Income Tax Withholding	17.227	14.253	20,9	24,5
Provisional Corporate Tax	7.090	6.016	17,9	8,8
Special Consumption Tax	**19.775**	**17.684**	**11,8**	**17,2**
SCT on Petroleum and Natural Gas Pr.	11.354	9.946	14,2	11,6
Carb. Bev., Alch. Bev. and Tobacco Pr.	5.895	5.533	6,6	3,0
VAT Collection	**24.032**	**20.325**	**18,2**	**30,5**
Value Added Tax on Imports	15.590	12.260	27,2	27,4
Domestic Value Added Tax	8.442	8.064	4,7	3,1
Other Taxes	**12.317**	**10.753**	**14,5**	**12,9**
Stamp Duty	1.979	1.778	11,3	1,7
Fees	2.573	2.319	10,9	2,1
Banking and Insurance Transactions Tax.	1.796	1.530	17,4	2,2
million YTL	July		Rate of Increase (%)	Cont. to the Rate of Inc. (%)
	2008	2007		
Tax Revenues	**96.530**	**81.576**	**18,3**	**100,0**
Taxes on Income and Corporate Gains	**29.775**	**24.154**	**23,3**	**37,6**
Income Tax Withholding	19.906	16.288	22,2	24,2
Provisional Corporate Tax	7.136	6.044	18,1	7,3
Special Consumption Tax	**23.788**	**21.217**	**12,1**	**17,2**
SCT on Petroleum and Natural Gas Pr.	13.524	11.993	12,8	10,2
Carb. Bev., Alch. Bev. and Tobacco Pr.	7.361	6.604	11,5	5,1
VAT Collection	**27.918**	**23.161**	**20,5**	**31,8**
Value Added Tax on Imports	18.368	14.606	25,8	25,2
Domestic Value Added Tax	9.550	8.555	11,6	6,7
Other Taxes	**15.049**	**13.044**	**15,4**	**13,4**
Stamp Duty	2.294	2.033	12,8	1,7
Fees	3.018	2.715	11,2	2,0
Banking and Insurance Transactions Tax.	2.153	1.828	17,8	2,2
million YTL	August		Rate of Increase (%)	Cont. to the Rate of Inc. (%)
	2008	2007		
Tax Revenues	**115.450**	**99.322**	**16,2**	**100,0**
Taxes on Income and Corporate Gains	**37.760**	**31.177**	**21,1**	**40,8**
Income Tax Withholding	22.920	19.430	18,0	21,6
Provisional Corporate Tax	11.460	9.345	22,6	13,1
Special Consumption Tax	**27.868**	**24.976**	**11,6**	**17,9**
SCT on Petroleum and Natural Gas Pr.	15.872	14.053	12,9	11,3
Carb. Bev., Alch. Bev. and Tobacco Pr.	8.651	7.790	11,1	5,3
VAT Collection	**32.486**	**27.839**	**16,7**	**28,8**
Value Added Tax on Imports	20.879	16.958	23,1	24,3
Domestic Value Added Tax	11.607	10.881	6,7	4,5
Other Taxes	**17.335**	**15.330**	**13,1**	**12,4**
Stamp Duty	2.665	2.398	11,2	1,7
Fees	3.431	3.122	9,9	1,9
Banking and Insurance Transactions Tax.	2.430	2.091	16,2	2,1

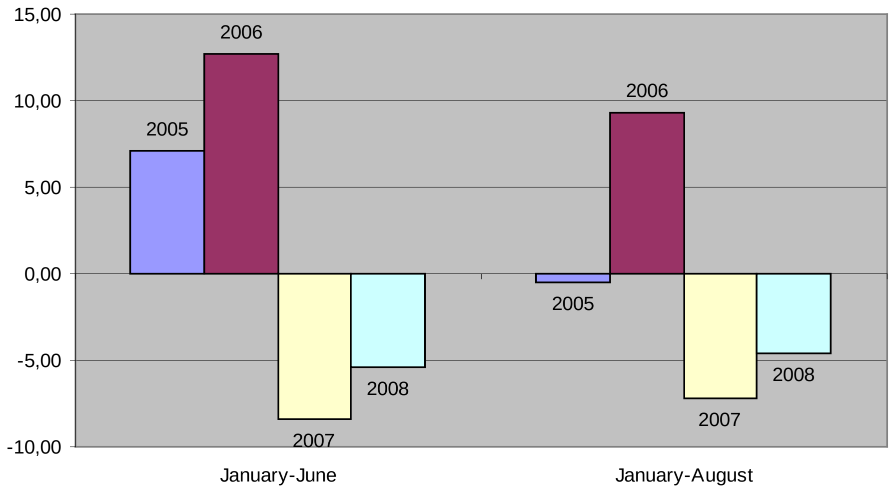
Despite the increase in direct tax collection, 53% of the total tax collection in the first half of the year is obtained from the collection of VAT and special consumption tax. This rate has not changed significantly at the end of the first eight months and decreased to 52.2%. The share of VAT collected on imports in the total tax collection has reached to 18.1% by the end of August and it increased to around twofold of the domestic VAT collection. Considering that this rate was around 60% more in the last year, it is more clearly seen that the relationship between tax collection and imports intensifies each day. This assertion becomes even more evident when the calculation (domestic VAT and special consumption tax collection) is made by taking the petroleum and petroleum products into account.

In fact, when the accrual and collection of the domestic VAT in 2008 is observed net of inflation:

- At the end of the first six months, a decrease at the rate of 5.4% is observed compared to the same period of the last year. This rate comes out as an increase of 2.6% for accrual.

- While the collection has decreased again by 4.6% in real terms at the end of the first eight months compared to the same period of the last year, the increase in accrual turns out to be at the rate of 2.2% in real terms.

Chart 11. The Increase in the Collection of Domestic VAT in Real Terms (%, Cumulative)

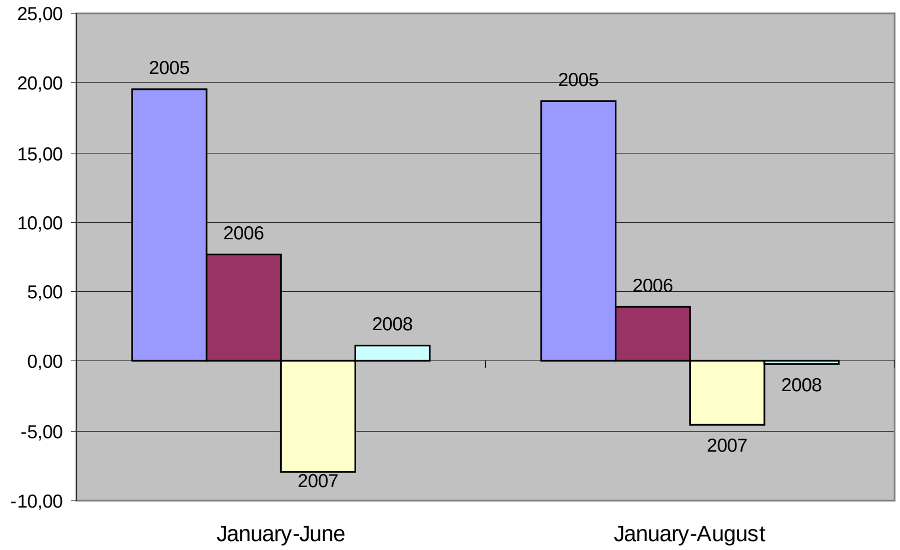


A similar situation is observed in the collection and accrual of special consumption tax as well. When the developments in collection and accrual are examined net of inflation:

- While the collection of special consumption tax has increased at the end of the first six months by 1.1% compared to the same period of the last year, this rate comes out as 2.3% for accrual.

- At the end of the first eight months, collection has decreased by 0.2% compared to the same period of the last year in real terms, while the increase in accrual in real terms turns out to be at a considerably low rate of 0.08%.

Chart 12. The Increase in Special Consumption Tax Collection in Real Terms (%, Cumulative)



When the development in the collection and accrual of the special consumption tax in real terms is observed within the framework of the special consumption tax collected on durable consumer goods:

- While the collection of the special consumption tax has decreased at the end of the first six months by 12.1% compared to the same period of the last year, his rate comes out as 11.1% for accrual.

- At the end of the first eight months, collection has decreased by 16.5% in real terms, which is a rate that is higher than that of the same period of the last year, and the decrease in accrual turns out to be at the rate of 13.3% in real terms.

Chart 13. The Increase in the Special Consumption Tax Collected on Durable Consumer Goods in Real Terms (%, Cumulative)

Despite the fact that 2008 came after such a year like 2007 which had a negative performance, the continuation of the decrease in real terms in the collection of domestic VAT and the special consumption tax can be considered as a concrete indicator of the slowing down of the economic growth.

II. Developments in Budget Financing and Debt Stock

The cash balance of the Treasury had a deficit of approximately 4.5 billion YTL at the end of August. As mentioned in the previous sections, the revenues of privatisation and the Unemployment Insurance Fund have had a significant contribution to this situation.

The cumulative net borrowing realized by the Treasury at the end of August has reached to 6.1 billion YTL. With the effect of the additional 4 billion YTL transferred from the Privatisation Fund as a result of the legislative amendments enacted in July, a significant amount of cash surplus was created in the

Treasury's account. As mentioned in the budget section, dissolving of this cash surplus through miscellaneous expenditures will be at issue in the future.

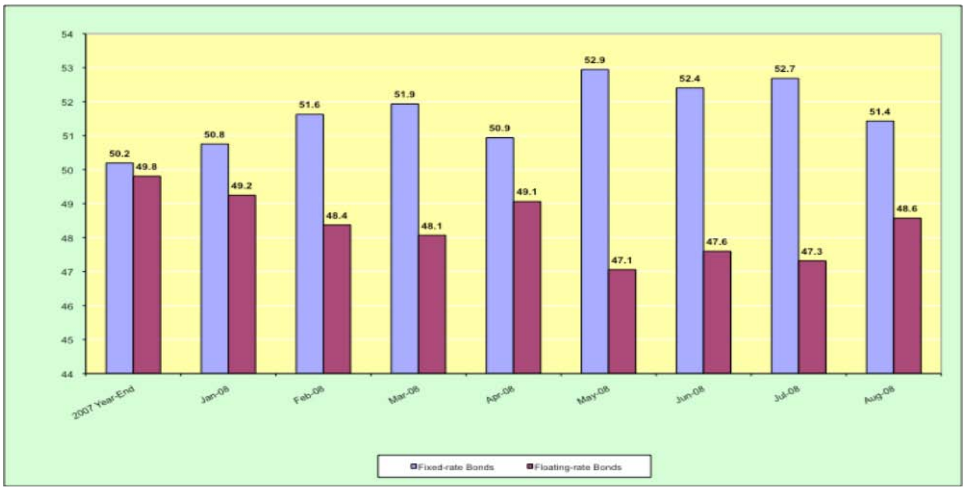
Table 8. Cash Balance of the Treasury (August)

(million YTL)	January*	February*	March*	April*	May*	June*	July*	August*	Total*
REVENUES	16.520	17.281	12.286	13.568	23.214	11.757	16.631	24.506	135.763
REVENUES FROM PRIVATISATION AND FUNDS	0	0	0	0	1.992	1.404	995	3.987	8.378
EXPENSES	15.344	17.742	17.680	18.223	15.251	14.620	19.981	20.808	139.649
Non-Interest Expenses	11.374	12.943	13.702	13.954	13.677	13.390	12.684	12.536	104.260
Interest Payments	3.970	4.799	3.979	4.269	1.573	1.230	7.297	8.272	35.389
PRIMARY BALANCE	5.146	4.339	-1.416	-386	9.537	-1.633	3.946	11.970	31.503
CASH BALANCE	1.176	-461	-5.394	-4.655	9.955	-1.459	-2.355	7.685	4.492
FINANCING	-1.176	461	5.394	4.655	-9.955	1.459	2.355	-7.685	-4.492
BORROWING (NET)	1.597	2.214	1.003	1.902	-1.801	-689	-1.057	3.000	6.168
NET FOREIGN BORROWING	-998	-587	-930	-396	4.267	37	391	-533	1.252
Borrowing	1.214	4	1.203	158	4.678	738	520	70	8.585
Payment	2.212	591	2.132	554	411	701	130	602	7.333
NET DOMESTIC BORROWING	2.594	2.801	1.933	2.297	-6.068	-726	-1.448	3.532	4.916
Borrowing	5.726	4.970	4.212	11.338	2.586	3.719	17.171	14.540	64.262
Payment	3.132	2.169	2.279	9.040	8.654	4.445	18.619	11.008	59.346
PRIVATISATION REVENUE	52	0	0	0	0	0	0	0	52
TRANSFERS FROM SDIF	0	0	0	0	0	0	0	59	59
RECEIPTS FROM ONLENDING	8	28	30	36	19	63	53	15	253
CHANGE IN BANK ACCOUNTS	-2.833	-1.782	4.361	2.718	-8.173	2.085	3.360	-10.758	-11.024
EXCHANGE RATE DIFFERENCES	129	132	1.205	0	-602	250	-519	-368	228
NET CHANGE IN BANK ACC.	-2.962	-1.914	3.156	2.717	-7.571	1.835	3.879	-10.391	-11.252

Table 9. Comparative Table of the General Budget Balance and the Budget Balance of the Central Government (August)

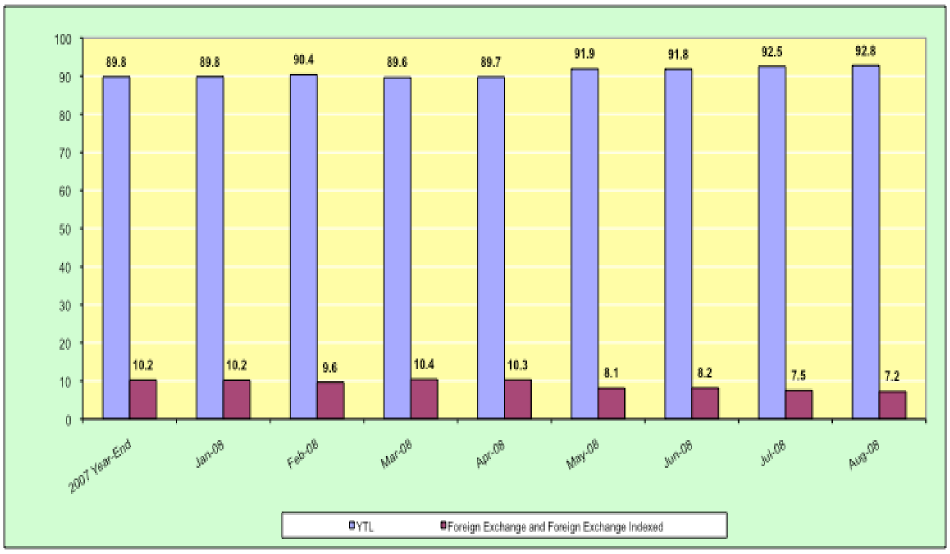
General Budget Balance		Central Government Budget Balance	
(million YTL)	End of August	(million YTL)	End of August
Budget Balance	4.950	Budget Balance	4.610
Deferred Payments	-3.057	Deferred Payments	-3.348
Advance Payments	361	Advance Payments	425
Cash Balance	2.253	Cash Balance	1.687
Financing	-2.253	Financing	-1.687
Total Net Borrowing	11.216	Total Net Borrowing	11.216
Net Lending (-)	1.143	Net Lending (-)	1.156
Privatisation Revenue	64	Privatisation Revenue	64
Change in Accounts and Other Items (-) In Payment (+) Out Payment	-12.389	Change in Accounts and Other Items (-) In Payment (+) Out Payment	-11.811

Chart 14. Interest Structure of the Domestic Debt Stock of the Central Government



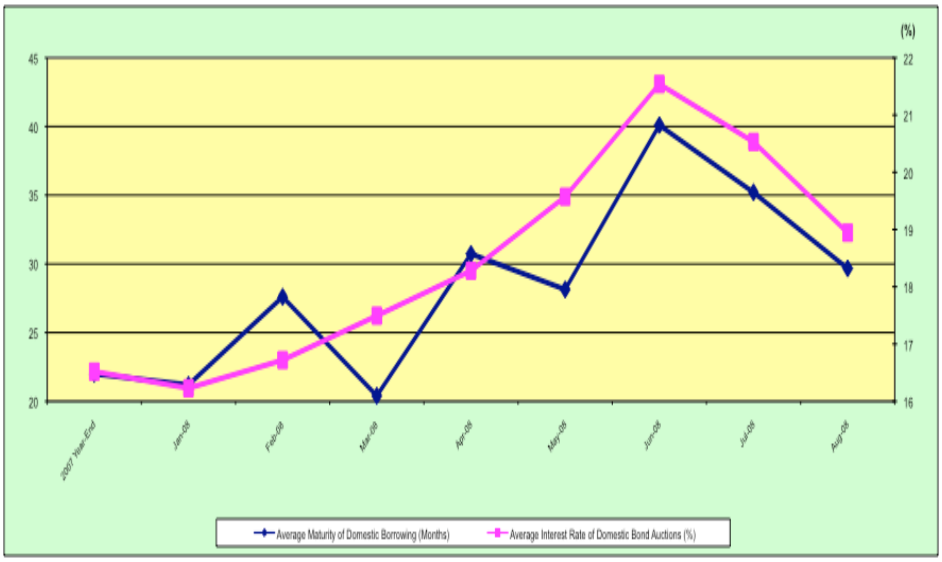
It is observed in the interest composition of the domestic debt stock of the central government that the share of the floating-rate bonds has decreased by about 1 point at the end of August 2008 compared to the end of 2007.

Chart 15. YTL - Foreign Exchange Structure of the Central Government Domestic Debt Stock



As to the YTL – foreign exchange composition of the domestic debt stock, a relative decrease is observed in the shares of bonds in foreign exchange and foreign exchange indexed bonds in the last three months, similar to the previous months.

Chart 16. Average Maturity and Interest Rate of Domestic Borrowing



Interests for domestic borrowing of the Treasury has continued to increase in June 2008 as well and fluctuated around 19% on average.

III. Some Assessments on the Medium Term Programme (MTP) and the Medium Term Fiscal Plan (MTFP)

Can the MTP be considered as a Programme Document for Economic Stability? MTFP and Fiscal Rules

Two documents were announced during the period examined which need to be dwelled upon and discussed. These are the MTP and MTFP that cover the period of 2009-2011 and they are the fourth term policy documents which need to be prepared in accordance with the Law No. 5018 on Public Financial Management and Control. Therefore, an overall assessment of these documents is intended to be presented in this section. Subsequently, some assessments will be made on the practicality of the expectations that are brought to the agenda during this period from MTP as an economic stability programme and from the MTFP as fiscal rules.

A. Assessments on the MTP

- It is envisaged in the Law No. 5018 that these documents are decided upon in certain periods and also published in the same periods. However, ever since these documents have first started to be prepared, they are being published late against the periods envisaged in the Law. From this perspective, the late publication of the MTP and the MTFP creates a significant “accountability” problem in terms of informing the public. In addition to that, since these documents are a type of a guide for the spending institutions for the preparation of their budgets, their late publication causes a delay for about at least 3 weeks to one month for these institutions in initiating the budget preparation. The following table provides sufficient idea on this issue.

Table 10. Dates of Acceptance and Publication of the Medium Term Programmes and the Medium Term Fiscal Plans

MEDIUM TERM PROGRAMME				
Term	**Legal Period**	**Date of Acceptance by the Council of Ministers**	**Date of Publication in th Official Gazette**	**Paragraph 2 of Article 16 of the Law No. 5018 on Public Financial Management and Control** The preparation process of central government budget begins with the Council of Minister's meeting to be held until the end of May, where the Council adopts the medium term program prepared by the Undersecretariat of State Planning Organization and including basic macro policies, principles, and economic figures as targets and indicators in line with the development plans and strategic plans of the institutions and the requirements of general economic conditions. Medium term program shall be published in the Official Gazette within the same term.
2006-2008	By the end of May	23 May 2005	31 May 2005	
2007-2009	By the end of May	30 May 2006	13 June 2006	
2008-2010	By the end of May	28 May 2007	21 June 2007	
2009-2011	By the end of May	25 June 2008	28 June 2008	
MEDIUM TERM FISCAL PLAN				
Term	**Legal Period**	**Date of Acceptance by the High Planning Council**	**Date of Publication in th Official Gazette**	**Paragraph 3 of Article 16 of the Law No. 5018 on Public Financial Management and Control** As consistent with the medium term program, the medium term fiscal plan prepared by the Ministry of Finance and including deficit and borrowing positions targeted, total revenue and expenditure projections for the following three years and the ceilings of appropriation proposals of the public administrations shall be determined by The High Planning Council until the fifteenth of June, and published in the Officia Gazette.
2006-2008	By June 15	14 June 2005	2 July 2005	
2007-2009	By June 15	14 June 2006	15 July 2006	
2008-2010	By June 15	15 June 2007	3 July 2007	
2009-2011	By June 15	1 July 2008	8 July 2008	

- The first point that attracts attention when making an assessment on the MTP is the predominance of its characteristic of basically being a guide and a prioritization document.
- Nevertheless, comments on this document that it should function as an economic stability programme are also witnessed recently. In our opinion, attributing such a function to this document recently, which did not attract much attention and was not discussed throughout the four terms since 2005, is actually not a realistic approach. We believe that this situation arises from the “pleading” approach from the MTP due to the completion of the stand-by agreement with the IMF.
- In order for this document to take the place of an economic stability programme, the objectives and assessments on the issues of macro economy, privatisation, financial sector and monetary

policies should be laid down in detail in a concrete and time-bound manner, and convincing alternatives should also be presented on what will be done in case the commitments concerning their realization are not fulfilled. The MTP for the period of 2009-2011 does not have the characteristic of such a document, furthermore, we believe that it seems to be a revised repetition of the figures of the last three terms as explained below in detail.

- From this perspective, it is more logical to discuss what the MTP should be in its existing form. According to the Article 16 of the Law No. 5018, the MTP is envisaged to be prepared by the State Planning Organisation "in a way to encompass the development plans, strategic plans and, in line with the requirements of the general economic conditions, macro policies, principles, objectives and the main economic indicators". Therefore, it would be a more appropriate approach to discuss the form this document takes in implementation a little bit more.
- So far, the MTP gives the impression of a structure based on some prospective macro indicators (growth, inflation) and some repeated sector-based recommendations.
- However, the MTP should at the same time be a document in which the results of the policies implemented in the past are discussed. In other words, the MTP should evaluate its own performance.
- At the same time it should shed light on the issue of to what extent the forecasts made in the past have been realized.

- o Accordingly, it should elucidate the issue of which policies will be continued to be implemented in the next three years and why, and what other types of new policies and measures will be implemented. In other words, it should link the past to the future.
- o The explanations on the assumptions (how these are calculated) related to the rates foreseen for macroeconomic parameters should also be included. Only under these conditions it would be possible to test the internal consistency of the programme through the assumptions that lie behind the figures.

Table 11. Forecasts of the Medium Term Fiscal Plans and their Realization

MEDIUM TERM PLAN: FORECASTS AND REALIZATIONS								
TERM	**Growth (%)**		**Unemployment (%)**		**Current Balance / GDP (%)**		**Inflation** (CPI year-end) (%)	
	Forecast	Realization	Forecast	Realization*	Forecast	Realization	Forecast	Realization
2006-2008								
2006	5.0	6.9	10.0	10.5	-3.0	-5.9	5.0	9.6
2007	5.0	4.5	9.8	10.6	-2.6	-5.8	4.0	8.2
2008	5.0	-	9.6	10.7	-2.3	-	4.0	-
2007-2009								
2007	7.0	4.5	10.5	10.6	-5.9	-5.8	4.0	8.2
2008	7.0	-	10.6	10.7	-5.5	-	4.0	-
2009	7.1	-	10.4	-	-5.0	-	-	-
2008-2010								
2008	5.5	-	9.6	-	-4.8	-	4.0	-
2009	5.7	-	9.5	-	-4.7	-	4.0	-
2010	5.7	-	9.5	-	-4.7	-	-	-
2009-2011								
2009	5.0	-	9.8	-	-6.8	-	7.5	-
2010	5.5	-	9.7	-	-6.8	-	6.5	-
2011	6.0	-	9.7	-	-6.5	-	5.5	-

* GNP rates are adapted to the new series.

- When observed from this perspective, since the date the MTP was first published:
    - o It was not able to demonstrate the characteristic of a document that evaluates its own performance. It expressed the aspirations for the future using the classic programme writing logic of the State Planning Organisation. In other words, the

institutional and sectoral policies laid out in the MTP are a reflection of our traditional planning concept. The rhetoric of the MTP has not changed much in the past four terms.

- In fact, the recommendations and measures expressed as regards certain sectors have continuously been repeated in the meantime however; the issue of what has been the result of these was never mentioned. In this sense, the programme started to turn into a document with a repetitious text and which falls behind the developments that continue to take place. Many examples can be given on this in the field of health, education and social policy.

Table12. The Policies Repeated in the Medium Term Programmes

	2006-2008	2007-2009	2008-2010	2009-2011
Health	* Preventive health services will be promoted by increasing their effectiveness with the aim of preventing economic losses and improving the quality of life within the framework of the principle of 'protection / prevention precedes treatment'. * National Healthcare Information System will be activated.	* Preventive health services will be promoted by increasing their effectiveness with the aim of preventing economic losses and improving the quality of life within the framework of the principle of 'protection / prevention precedes treatment'. * National Healthcare Information System will be activated.	* First-level healthcare services will be promoted principally by strengthening preventive healthcare and maternal-child health services. * National Healthcare Information System will be activated.	* Preventive health services will be strengthened and promoted. * National Healthcare Information System will be activated.
Social Inclusion and Fighting with Poverty	* Access of disadvantaged groups to education and healthcare services will be improved. * Activities that prevent the creation of a poverty culture, that increase employability and that enable the transformation from being in need to being productive and self-sufficient will be given priority. Necessary measures will be taken to reduce the unemployment risk of the unskilled and poor people that arise due to the structural change in agriculture. * Effective participation of women to economic and social life will be ensured, measures will be taken to overcome their disadvantaged position primarily in education. Especially, the efforts aimed at preventing violence against women will be increased.	* Education and healthcare services will be made more accessible and equitable for disadvantaged groups. In addition to that, access of these groups to employment and social insurance as well as to social services and benefits will be improved within the framework the equity principles. * The services aimed at the reduction of poverty will ensure the prevention of the creation of a poverty culture and will enable the poor to become productive. For the poor that arise due to the structural change in agriculture, projects that are aimed at the diversification of the economic activities, which increase the non-agricultural income, will be supported. Entrepreneurship will be promoted especially in rural areas and in less developed regions. * Effective participation of women to economic and social life will be ensured, measures will be taken to overcome their disadvantaged position primarily in education. In addition to that, activities to raise awareness and to provide information on issues related to violence against women will be increased.	* Basic services such as education, healthcare, employment and social security will be made more accessible and equitable for disadvantaged groups. * The services aimed at the reduction of poverty will be diversified according to the state of the poor and will be the type of activities, which prevent the creation of a poverty culture. Activities that increase the non-agricultural income and that encourage entrepreneurship will be supported for the poor that arise due to the structural change in agriculture. * Employability of women will be increased by developing occupational training opportunities in order to improve their participation to economic and social life. Necessary precautions will be taken to prevent violence against women.	* Basic services such as education, healthcare, employment and social security will be made more accessible and equitable for disadvantaged groups. * The services aimed at the reduction of poverty will be diversified according to the state of the poor and will be the type of activities, which prevent the protraction of poverty through generations and the creation of a poverty culture. In this context, it will be ensured that the poor who are not able to work benefit from regular aid mechanisms while the employability of those who can become productive will be increased. Taking the structural change in agriculture into consideration, activities that increase non-agricultural income and encourage entrepreneurship will be supported for the poor in rural areas. * Employability of women will be increased by developing occupational training opportunities in order to improve their participation to economic and social life. Necessary precautions will be taken to prevent violence against women.
Education	* The use of information technologies in education will be made more effective and it will be promoted.	* The use of information technologies in education will be promoted and it will be made more effective.	* The use of information technologies in education will be promoted and it will be made more effective.	* The use of information technologies in education will be promoted and it will be made more effective.
Env. and Urban Inf.	* Efforts to protect, develop and to add economic value to the biodiversity and genetic resources of Turkey will be accelerated.	* Efforts to protect, develop and to add economic value to the biodiversity and genetic resources of Turkey will be accelerated.	* Efforts to protect, develop and to add economic value to the biodiversity and genetic resources of Turkey will be accelerated.	* Efforts to protect, develop and to add economic value to the biodiversity and genetic resources of Turkey will be accelerated.
Transport	* Existing highway infrastructure will be improved by completing the construction of divided highways and improving their standards. * By benefiting from the EU resources at the highest level, efforts will be accelerated to integrate the national transportation networks that allow the access of EU countries to the countries of Caucasus, Central Asia, South Asia and the Middle East with the Trans-European transportation networks.	* Existing highway infrastructure will be improved by completing the construction of divided highways and improving their standards. * By benefiting from the EU resources at the highest level, efforts will be continued to integrate the national transportation networks that allow the access of EU countries to the countries of Caucasus, Central Asia, South Asia and the Middle East with the Trans-European transportation networks.	* Existing highway infrastructure will be improved by completing the construction of divided highways and improving their standards. * Efforts will be accelerated on integrating the national transportation network with the Trans-European transportation networks and on locating the Turkish seaports on the main axes of EU motorways of the sea.	* Existing highway infrastructure will be improved by completing the construction of divided highways and improving their standards. * By benefiting from the EU resources at the highest level, efforts will be continued on integrating the national transportation network with the Trans-European transportation networks and on locating the Turkish seaports on the main axes of EU motorways of the sea.
R&D	* R&D capacity of the private sector and increasing its R&D demand will be supported. * Support aimed at developing the cooperation of the private sector with universities and research institutions will be increased and will be made effective. * Support will be provided to address the problems and needs in public institutions through R&D.	* R&D capacity of the private sector and increasing its R&D demand will be supported. * Support aimed at developing the cooperation of the private sector with universities and research institutions will be increased and will be made effective. It will be ensured that R&D efforts are increased in universities and research institutions and that it is conducted in line with the market demand. * Support will be provided to address the problems and needs in public institutions through R&D and the public procurement system will be transformed into a structure that encourages R&D efforts and the development of local technologies.	* R&D capacity of the private sector and increasing its R&D demand will be supported. * Support aimed at developing the cooperation of the private sector with universities and research institutions will be increased and will be made effective. It will be ensured that R&D efforts are increased in universities and research institutions and that it is conducted in line with the market demand. * Support will be provided to address the problems and needs in public institutions through R&D and the public procurement system will be transformed into a structure that encourages R&D efforts and the development of local technologies.	* R&D capacity of the private sector and increasing its R&D demand will be supported. * Support aimed at developing the cooperation of the private sector with universities and research institutions will be increased and will be made effective. * Public procurement system will be transformed into a structure that encourages R&D efforts and the development of local technologies.

- Because of the fact that there is no clarification on how the macro parameters are calculated (what is the borrowing interest rate, what are the exchange rate assumptions), information-based analysis cannot be made on whether or not the envisaged targets will be achieved.
- In countries that have the best practice examples, the economic model is prepared under various scenarios (usually three scenarios) in such programmes aimed at macro fiscal discipline and the main points of these scenarios are explained. In that way, in case of unfavourable conditions, prediction by the economic actors on what type of a policy will be implemented by the public authority is made possible. (One of the best examples of this is New Zealand and it has been the country which overcame the Asian crisis of 1998 with the least damage on account of the management capacity created as such.)

    - The newly published MTP seems to encompass the objectives in the Medium Term Fiscal Framework (MTFF) with some minor changes. The question marks stated in the Fiscal Monitoring Reports published in the previous months concerning the MTFF published in May are also valid for the MTP.

To what extent and how the global crisis conditions of the world are taken into account in the MTP and to what extent this is reflected on the forecasts are also not very clear. From this point of view, the uncertainty concerning the policies to be implemented as regards the level of being affected from the crisis faced in the world markets recently is continued.

B. Assessments on the MTFP: Under Which Conditions and to What Extent the Fiscal Rules can be Valid?

- We believe that in terms of MTFP, the assessments made in the Fiscal Monitoring Report of March-April 2008 for the Medium Term Fiscal Framework (MTFF) are still valid.
- An additional point which is deemed to be important is the issue of whether or not the new investment decisions on the South-eastern Anatolia Project and the like as well as the operating costs of the investments to be completed are reflected on the future budget expenses with respect to the multi-year budgeting concept, in other words whether or not a relationship between the current budget and the investment budget is established. There is no clarification on this in the MTFP.
- However, in the present report, we would like to concentrate on the issue of the fiscal rules, which has started to be discussed recently, and which was mentioned in the plan as regards the MTFP covering the period of 2009-2011.
- The issue of the Fiscal Rules to be brought to the agenda is a result of the quest, which followed the completion of the stand-by agreement with the IMF. The basic instinct is the concern on determining which institution will be responsible for preventing the Government to go wrong in fiscal policy after the removal of the supervision of the IMF. This is because how to control the over spending tendency[5] of the politicians without the IMF is seen as a problem.

[5] The over spending tendency can be summarized as the fact that the political parties that compete for votes in representative democracies enjoy spending but they do not enjoy tax collection which places a burden on the electorate.

- Consequently, fiscal rules, on which a comprehensive literature is available, is a concept that is built upon the issue of (dis)trust in the politician essentially with regard to the budget[6].
- Therefore, as a result of the quest for a mechanism to replace the IMF supervision, discussions started to be made to change to the application of fiscal rules which would mean the determination of a <u>constant and concretely measured</u> financial indicator to ensure that the politicians take the results of their fiscal policy decisions into account and to limit these policy decisions. As a matter of fact, a statement with regard to this issue is included in the introductory section of the MTFP as "... it will be ensured that the fiscal policy is implemented within the framework of the fiscal rules to be determined."
- With respect to the implementation of the fiscal rules, there are two questions to be answered. These questions are;
    - Which indicator will be selected as fiscal rule, and
    - Which institution will supervise whether the indicator is conformed to or not?
- The practical answer to the first question can be given as the indicator being understandable by everybody, easily traceable and reflective of the financial performance of the government.
    - The fiscal rule within this framework,

[6] A detailed theoretical discussion on the issue of Fiscal Rules will not be presented in this report. Our aim will be limited to stating the main points, which will help the reader to follow the discussions on this issue. Our explanations on this issue basically draws upon "G. Lungman "Fiscal Rules-Beneficially Binding?, Feb 2008, http://blog-pfm.imf.org/pfmblog/2008/02/fiscal-rules--.html; B. Frenzel's testimony on Budget Discipline "at US House Committee on the Budget, April 2002, The Brookings Institution; Allen Schick's testimony on "Hearing on the Proposed Balanced Budget Amendment to the Constitution" Feb 1997, The Brookings Institution; S. Kennedy, J. Roberts "The Role of Fiscal Rules in Determining Fiscal Performance" , Dept. of Finance WP 2001-16 , Canada Department of Public Finance". Studies that take place in various issues of TEPAV Bulletins can also be referred to on this issue.

- Can be the rules that are brought to the budget balance – deficit and surplus. This is defined as balanced budget rule in general. A little more sophisticated version of this is borrowing only for investment expenditures, which is known as the "golden rule"
- Can be the restrictions on the debt stock.
- Can be the rules introduced to the revenue side. (Such as the taxes not dropping down below a certain base level nominally or a percentage of the GNP.)
- Can be the upper limits determined in the expenditure side (such as the expenditure ceilings). [7]

o On the other hand, whether or not this is conformed to can be supervised by;

- The Parliament
- Wisemen
- Civil Society Organisations
- An independently and officially organized Fiscal Committee (like the Monetary Policy Committee)

• Regarding the issue of which rule would be more appropriate for Turkey, it should be pointed out as the first thing to be kept in mind that a government convinced of spending and unbalancing the budget would have no barriers against breaking these rules regardless of which rule is legally introduced on this issue. This situation is a tendency that became evident in Turkey with the attempts of the governments to break the rules

[7] The expenditure ceilings mentioned here are not related to the expenditure ceilings assigned to the institutions in the MTFP. This is because the expenditure ceilings in the MTFP are not given as a rule but as an indicator and whether these have been conformed to or not is not supervised throughout the year. Nonetheless, they create a certain benefit in terms of fiscal discipline.

even under IMF supervision. Many examples on how fiscal transparency was violated have already been pointed out in the past with the Fiscal Monitoring Reports of TEPAV.

  - As long as this issue is kept in mind, if a fiscal rule will be implemented, we believe that the most practical indicator to be selected in this respect needs to be the rule of *putting a ceiling above spending*. We regard other indicators as more problematic both in terms of measurement and also in terms of being understood by the public.

- As regards the issue of who should supervise the fiscal rule; in our opinion, we do not consider it to have any noticeable benefit to exclusively embark on such a quest for “wisemen”, fiscal committees or independent expert civil society organisations. We consider that the only authority for this supervision needs to be the “Parliament”. It is a requirement of representative democracy for the parliament, which authorizes the governments to make spending and to collect revenue, to also supervise how this authority is being used. Undoubtedly, how this will be carried out by a parliament surrounded by the executive would be the most contentious debate.
  - However, the issues of “Parliamentary Supervision of the Budget Implementation Process” and in line with this “Civilian Oversight of the Budget” need to be discussed in Turkey at once.
  - The authority for the supervision of the implementation of the fiscal rule needs to be given to the Parliament and by being reinforced with the mechanisms to ensure the participation of trade unions, professional organisations and expert civil society organisations both to the preparation and also to the implementation stages of the budget,

the Parliament needs to establish the institutional structure that will curb the over spending tendencies of the governments within its own system.

- As the first step of ensuring this, the amendments envisaged for the internal regulations of the Parliament that are currently on the agenda of the TGNA need to be realized. With these amendments;
    - Establishment of a Final Accounts Commission chaired by the opposition party in addition to the Planning and Budget Commission, and
    - Openings such as the invitation of civil society organisations to the budget sessions are envisaged.
    - However, as foreseen in the MTFP, if an application of fiscal rule is considered, in addition to these amendments;
        - Periodic supervision (quarterly or semi-annually) of the budget implementation by the Parliamentary Final Accounts Commission within the context of conformity to the fiscal rule that is considered to be introduced,
        - In order for the Court of Accounts to give support to this process, instead of only providing the statement of conformance to the year-end final accounts law, assigning it

with the task of providing the necessary information support to the Parliament that will facilitate the supervision of the implementation of the fiscal rule throughout the year,

  - Regulations need to be taken into consideration to ensure that the trade unions, professional organisations and expert civil society organisations are also definitely included to this process.

- Otherwise, it would be unavoidable for the implementation of the fiscal rule in the absence of such a regulation to cause this opportunity to turn into a stillborn venture.

ANNEXES

Annex Table 1. Central Government Budget Appropriations and Expenses of 2008 (End of August)

	January	February	March	April	May	June	July	August	Total	2008 Budget	Realization (%)	Distribution of Expenditures (%)
Expenses	**16.305.696**	**16.607.569**	**18.648.608**	**18.637.973**	**15.822.827**	**14.565.859**	**21.237.248**	**20.437.402**	**142.263.182**	**222.553.217**	**63,92**	**100,00**
Non-Interest Expenses	**12.022.554**	**11.893.206**	**13.895.276**	**14.472.353**	**14.141.425**	**13.423.909**	**13.801.397**	**12.297.101**	**105.947.221**	**166.553.167**	**63,61**	**74,47**
I. Personnel Expenses	**4.841.110**	**3.855.601**	**3.815.917**	**4.013.661**	**3.995.886**	**3.983.843**	**4.170.804**	**3.586.089**	**32.262.911**	**48.672.049**	**66,29**	**22,68**
Civil Servants	4.289.467	3.228.100	3.210.697	3.281.325	3.292.744	3.270.965	3.436.707	3.040.591	27.050.596	40.520.597	66,76	19,01
Workers	153.846	281.982	242.865	284.900	335.391	319.379	323.258	239.256	2.180.877	3.707.208	58,83	1,53
Others	397.797	345.519	362.355	447.436	367.751	393.499	410.839	306.242	3.031.438	4.444.244	68,21	2,13
II. State Contribution to Social Security Institutions	**622.053**	**482.950**	**480.375**	**488.486**	**493.819**	**485.143**	**495.521**	**478.843**	**4.027.190**	**6.405.463**	**62,87**	**2,83**
Civil Servants	554.603	389.389	387.082	384.372	383.418	383.791	400.055	397.407	3.280.117	5.249.058	62,49	2,31
Workers	20.860	44.275	44.889	53.015	58.356	51.171	52.115	44.514	369.195	649.292	56,86	0,26
Others	46.590	49.286	48.404	51.099	52.045	50.181	43.351	36.922	377.878	507.113	74,52	0,27
III. Purchase of Goods and Services	**1.058.671**	**1.192.957**	**1.528.206**	**1.832.848**	**1.812.957**	**1.735.273**	**2.065.013**	**1.924.067**	**13.149.992**	**22.905.423**	**57,41**	**9,24**
Defence-Security	**89.447**	**211.258**	**435.675**	**637.001**	**685.543**	**572.492**	**814.044**	**515.887**	**3.961.347**	**8.410.568**	**47,10**	**2,78**
Ministry of National Defence	67.348	144.923	355.977	508.373	551.944	437.413	632.503	366.708	3.065.189	6.783.580	45,19	2,15
General Command of Gendarmerie	4.837	35.846	49.164	73.125	92.421	89.581	97.172	92.091	534.237	1.033.708	51,68	0,38
General Directorate of Security	17.262	30.489	30.534	55.503	41.178	45.498	84.369	57.088	361.921	593.280	61,00	0,25
Health Expenses	**699.281**	**501.846**	**408.446**	**503.009**	**489.239**	**500.387**	**489.516**	**743.837**	**4.335.561**	**6.741.000**	**64,32**	**3,05**
Health Services for Green Card Application	496.929	242.684	264.693	295.198	319.659	343.807	323.262	304.076	2.590.308	3.850.000	67,28	1,82
Medicine	76.049	96.365	52.102	75.068	64.030	60.614	67.153	67.351	558.732	1.089.414	51,29	0,39
Treatment and Healthcare Equipment	126.303	162.797	91.651	132.743	105.550	95.966	99.101	372.410	1.186.521	1.801.586	65,86	0,83
General Government Debts	**0**	**7.309**	**7.016**	**8.664**	**22.998**	**1.431**	**8.683**	**2.194**	**58.295**	**130.000**	**44,84**	**0,04**
Expenses for Other Goods and Services	**269.943**	**472.544**	**677.069**	**684.174**	**615.177**	**660.963**	**752.770**	**662.149**	**4.794.789**	**7.623.855**	**62,89**	**3,37**
IV. Current Transfers	**5.136.224**	**5.643.299**	**6.734.851**	**6.531.372**	**6.243.296**	**4.936.464**	**4.650.368**	**4.457.194**	**44.333.068**	**69.206.600**	**64,06**	**31,16**
Duty Losses	**65.750**	**215.784**	**186.115**	**95.655**	**117.275**	**89.684**	**187.554**	**229.130**	**1.186.947**	**1.551.334**	**76,51**	**0,83**
Duty Losses of SEE	20.000	120.000	120.000	40.000	62.000	40.000	135.800	112.655	650.455	733.000	88,74	0,46
Financial Institutions	39.000	87.110	34.924	34.000	39.000	36.000	34.000	107.000	411.034	611.000	67,27	0,29
Other Duty Losses	6.750	8.674	31.191	21.655	16.275	13.684	17.754	9.475	125.458	207.334	60,51	0,09
Treasury Aids	**3.571.197**	**2.944.747**	**3.131.625**	**3.864.245**	**3.760.792**	**2.032.075**	**2.770.854**	**1.656.374**	**23.731.909**	**39.912.216**	**59,46**	**16,68**
Treasury Aids to Social Security Institutions	**74.451**	**74.307**	**73.353**	**72.955**	**76.124**	**78.174**	**81.334**	**100.854**	**631.552**	**932.000**	**67,76**	**0,44**
Unemployment Insurance Fund	74.451	74.307	73.353	72.955	76.124	78.174	81.334	100.854	631.552	932.000	67,76	0,44
Healthcare, Retirement and Social Benefit Expenses	**3.341.001**	**2.662.995**	**2.870.973**	**3.599.998**	**3.368.802**	**1.749.952**	**2.500.035**	**1.376.348**	**21.470.104**	**37.031.000**	**57,98**	**15,09**
Social Security Deficit Financing	3.006.881	2.302.700	1.565.300	3.069.550	2.778.001	710.740	2.135.500	1.000.000	16.568.672	28.804.000	57,52	11,65
Local Governments	**109.123**	**141.333**	**134.986**	**129.401**	**265.081**	**132.960**	**136.747**	**123.986**	**1.173.617**	**1.235.100**	**95,02**	**0,82**
Aids to Municipalities	380	570	150	350	49.555	400	975	4.217	56.597	50.000	113,19	0,04
Others (Special Provincial Administrations and Villages)	108.743	140.763	134.836	129.051	215.526	132.560	135.772	119.769	1.117.020	1.185.100	94,26	0,79
Other Treasury Aids	**46.622**	**66.112**	**52.313**	**61.891**	**50.785**	**70.989**	**52.738**	**55.186**	**456.636**	**714.116**	**63,94**	**0,32**
Support and Price Stabilisation Fund	30.000	29.000	30.000	29.000	29.000	29.000	29.000	29.000	234.000	350.000	66,86	0,16
Other	16.622	37.112	22.313	32.891	21.785	41.989	23.738	26.186	222.636	364.116	61,14	0,16
Transfers to Non-Profit Organisations	**84.298**	**8.081**	**23.782**	**67.800**	**7.425**	**7.672**	**40.068**	**9.403**	**248.529**	**335.898**	**73,99**	**0,17**
Transfers to Households	**46.619**	**52.130**	**116.647**	**160.221**	**129.620**	**28.020**	**110.418**	**35.773**	**679.448**	**1.101.438**	**61,69**	**0,48**
Scholarships and Allowances	35.685	38.593	45.552	73.677	76.836	7.214	82.374	8.578	368.509	508.386	72,49	0,26
Other Transfers for Education Purposes	1.710	2.208	52.786	59.402	33.434	5.753	14.121	19.379	188.793	466.521	40,47	0,13
Transfers for Healthcare Purposes	3.763	3.705	3.416	4.598	4.944	4.904	6.046	3.681	35.057	65.271	53,71	0,02
Transfers for Food	4.970	6.189	13.900	21.790	13.502	9.613	7.307	3.222	80.493	54.894	146,63	0,06
Transfers for Shelter	491	1.435	993	754	904	536	570	913	6.596	6.366	103,61	0,00
Agricultural Support Payments	**185.000**	**696.065**	**1.388.887**	**935.572**	**729.040**	**517.670**	**60.824**	**625.335**	**5.138.393**	**5.400.000**	**95,16**	**3,61**
Direct Income Support	0	0	844.000	570.000	0	0	11.691	570.000	1.995.691	2.554.000	78,14	1,40
Product Support Payments	50.000	513.000	0	150.000	635.000	500.000	0	0	1.848.000	1.758.000	105,12	1,30
Livestock Support Payments	105.000	140.000	528.872	175.000	80.000	0	148	41.392	1.070.412	731.000	146,43	0,75
Other	30.000	43.065	16.015	40.572	14.040	17.670	48.985	13.943	224.290	357.000	62,83	0,16
Other Transfers to Households	**5.833**	**113.093**	**12.397**	**13.299**	**17.391**	**112.751**	**40.577**	**47.146**	**362.487**	**632.826**	**57,28**	**0,25**
Transfers for Social Purposes	**3.282**	**14.193**	**23.133**	**28.305**	**26.579**	**25.999**	**49.849**	**56.327**	**227.667**	**227.791**	**99,95**	**0,16**
Transfers Abroad	**35.765**	**26.843**	**72.591**	**55.062**	**27.915**	**36.636**	**51.176**	**46.164**	**352.152**	**654.057**	**53,84**	**0,25**
Shares Reserved From Revenues	**1.138.480**	**1.572.363**	**1.779.674**	**1.311.213**	**1.427.259**	**2.085.957**	**1.339.048**	**1.751.542**	**12.405.536**	**19.391.040**	**63,98**	**8,72**
V. Capital Expenses	**15.692**	**117.364**	**797.179**	**995.948**	**1.034.222**	**1.718.594**	**1.655.190**	**1.440.763**	**7.774.952**	**11.775.030**	**66,03**	**5,47**
VI. Capital Transfers	**29.463**	**280.574**	**235.962**	**140.464**	**109.368**	**330.365**	**415.864**	**271.269**	**1.813.329**	**2.084.420**	**86,99**	**1,27**
VII. Lending	**319.341**	**320.461**	**302.786**	**469.574**	**451.877**	**234.227**	**348.637**	**138.876**	**2.585.779**	**3.933.510**	**65,74**	**1,82**
Domestic Lending	**319.341**	**320.461**	**282.786**	**419.574**	**429.877**	**227.923**	**293.637**	**133.876**	**2.427.475**	**3.708.510**	**65,46**	**1,71**
SEE	229.000	224.600	177.500	241.000	210.689	172.800	61.450	70.693	1.387.732	1.577.500	87,97	0,98
Risk Account	0	0	0	17.450	19.500	0	8.200	14.000	59.150	590.000	10,03	0,04
Other	90.341	95.861	105.286	161.124	199.688	55.123	223.987	49.183	980.593	1.541.010	63,63	0,69
Foreign Lending	**0**	**0**	**20.000**	**50.000**	**22.000**	**6.304**	**55.000**	**5.000**	**158.304**	**225.000**	**70,36**	**0,11**
Turkish Republic of Northern Cyprus	0	0	20.000	50.000	22.000	6.304	55.000	5.000	158.304	225.000	70,36	0,11
VIII. Contingency Appropriations	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1.570.672**	**0,00**	**0,00**
Interest Expenses	**4.283.142**	**4.714.363**	**4.753.332**	**4.165.620**	**1.681.402**	**1.141.950**	**7.435.851**	**8.140.301**	**36.315.961**	**56.000.050**	**64,85**	**25,53**
I. Domestic Debt Interests	**3.621.818**	**3.828.329**	**3.793.296**	**3.911.475**	**1.437.203**	**785.046**	**6.789.680**	**7.883.846**	**32.050.693**	**46.055.000**	**69,59**	**22,53**
II. Foreign Debt Interests	**661.324**	**884.750**	**786.241**	**250.428**	**244.199**	**353.467**	**646.171**	**253.388**	**4.079.968**	**7.066.050**	**57,74**	**2,87**
III. Discount and Short-Term Transactions Interests	**0**	**1.284**	**173.795**	**3.717**	**0**	**3.437**	**0**	**3.067**	**185.300**	**2.879.000**	**6,44**	**0,13**

Annex Table 2. Comparative Central Government Budget Expenses 2007-2008 (End of August)

	2007				2008				Rate of Increase	
	August	Total	Realized	Realization Rate	August	Total	Budget Estimate	Realization Rate	August	Total
Central Government Budget Expenses	15.930.614	135.817.617	203.500.684	66,7	20.437.402	142.263.182	222.553.217	63,9	28,3	4,7
Non-Interest Budget Expenses	11.612.787	98.838.654	154.769.069	63,9	12.297.101	105.947.221	166.553.167	63,6	5,9	7,2
Personnel Expenses	3.421.775	29.164.364	43.554.730	67,0	3.586.089	32.262.911	48.672.049	66,3	4,8	10,6
State Contributions to Social Security Institutions	442.918	3.620.970	5.800.916	62,4	478.843	4.027.190	6.405.463	62,9	8,1	11,2
Expenses for the Purchase of Goods and Services	1.513.620	12.189.485	22.154.275	55,0	1.924.067	13.149.992	22.905.423	57,4	27,1	7,9
Defence-Security	549.175	3.608.804	7.576.376	47,6	515.887	3.961.347	8.410.568	47,1	-6,1	9,8
Health Expenses	444.778	4.226.093	6.624.064	63,8	743.837	4.335.561	6.741.000	64,3	67,2	2,6
General Treatment and Healthcare Equipment Expenses	105.110	1.014.162	1.735.246	58,4	372.410	1.186.521	1.801.586	65,9	254,3	17,0
General Medicine Expenses	59.546	579.972	974.930	59,5	67.351	558.732	1.089.414	51,3	13,1	-3,7
Green Card Health Services	280.122	2.631.959	3.913.888	67,2	304.076	2.590.308	3.850.000	67,3	8,6	-1,6
General Government Debts	9.849	47.586	59.111	80,5	2.194	58.295	130.000	44,8	-77,7	22,5
Expenses for the Purchase of Other Goods and Services	509.818	4.307.002	7.894.724	54,6	662.149	4.794.789	7.623.855	62,9	29,9	11,3
Current Transfers	4.680.023	42.369.527	63.249.159	67,0	4.457.194	44.333.068	69.206.600	64,1	-4,8	4,6
Duty Losses	113.792	681.980	1.401.345	48,7	229.130	1.186.947	1.551.334	76,5	101,4	74,0
Duty Losses of SEE	50.600	350.600	699.891	50,1	112.655	650.455	733.000	88,7	122,6	85,5
Financial Institutions	48.000	222.500	376.432	59,1	107.000	411.034	611.000	67,3	122,9	84,7
Other Duty Losses	15.192	108.880	325.022	33,5	9.475	125.458	207.334	60,5	-37,6	15,2
Treasury Aids	3.361.563	24.467.670	36.273.127	67,5	1.656.374	23.731.909	39.912.216	59,5	-50,7	-3,0
Treasury Aids to Social Security Institutions	62.826	512.848	807.545	63,5	100.854	631.552	932.000	67,8	60,5	23,1
Unemployment Insurance Fund	62.826	512.848	807.545	63,5	100.854	631.552	932.000	67,8	60,5	23,1
Healthcare, Retirement and Social Benefit Expenses	3.108.000	22.408.301	33.063.333	67,8	1.376.348	21.470.104	37.031.000	58,0	-55,7	-4,2
Social Security Deficit Financing	2.770.829	18.038.464	25.823.450	69,9	1.000.000	16.568.672	28.804.000	57,5	-63,9	-8,1
Treasury Aids to Local Governments	145.565	1.115.416	1.706.350	65,4	123.986	1.173.617	1.235.100	95,0	-14,8	5,2
Other Treasury Aids	45.172	431.105	695.899	61,9	55.186	456.636	714.116	63,9	22,2	5,9
Transfers to Non-Profit Organisations	68.164	561.008	681.416	82,3	9.403	248.529	335.898	74,0	-86,2	-55,7
Transfers to Households	30.697	636.082	994.286	64,0	35.773	679.448	1.101.438	61,7	16,5	6,8
Transfers for Agricultural Purposes	11.102	5.117.579	5.555.090	92,1	625.335	5.138.393	5.400.000	95,2	5.532,6	0,4
Product Support Payments	-230	1.708.455	1.708.455	100,0	0	1.848.000	1.758.000	105,1	-100,0	8,2
Livestock Support Payments	470	688.124	740.690	92,9	41.392	1.070.412	731.000	146,4	8.706,8	55,6
Other Transfers for Agricultural Purposes	10.862	2.721.000	3.105.945	87,6	583.943	2.219.981	2.911.000	76,3	5.276,0	-18,4
Other Transfers to Households	11.036	228.030	617.967	36,9	47.146	362.487	632.826	57,3	327,2	59,0
Transfers for Social Purposes	4.636	22.449	67.400	33,3	56.327	227.667	227.791	99,9	1.115,0	914,2
Transfers Abroad	38.619	330.556	500.571	66,0	46.164	352.152	654.057	53,8	19,5	6,5
Shares Reserved from Revenues	1.040.414	10.324.173	17.157.957	60,2	1.751.542	12.405.536	19.391.040	64,0	68,4	20,2
Local Government Shares	872.909	8.061.767	13.285.805	60,7	1.046.573	9.441.997	15.059.000	62,7	19,9	17,1
Fund Shares	162.438	1.834.617	3.223.685	56,9	225.950	2.164.744	3.822.378	56,6	39,1	18,0
Other Shares	5.067	427.789	648.467	66,0	479.019	798.795	509.662	156,7	9.353,7	86,7
Capital Expenses	1.045.229	6.766.385	12.915.236	52,4	1.440.763	7.774.952	11.775.030	66,0	37,8	14,9
Capital Transfers	72.951	2.421.874	3.542.631	68,4	271.269	1.813.329	2.084.420	87,0	271,9	-25,1
Domestic Capital Transfers	62.951	2.381.821	3.354.759	71,0	265.599	1.788.750	1.862.447	96,0	321,9	-24,9
Foreign Capital Transfers	10.000	40.053	187.872	21,3	5.670	24.579	221.973	11,1	-43,3	-38,6
Lending	436.271	2.306.049	3.552.122	64,9	138.876	2.585.779	3.933.510	65,7	-68,2	12,1
Domestic Lending	414.271	2.185.194	3.267.122	66,9	133.876	2.427.475	3.708.510	65,5	-67,7	11,1
Foreign Lending	22.000	120.855	285.000	42,4	5.000	158.304	225.000	70,4	-77,3	31,0
Contingency Appropriations	0	0	0		0	0	1.570.672	0,0		
Interest Expenses	4.317.827	36.978.963	48.731.615	75,9	8.140.301	36.315.961	56.000.050	64,8	88,5	-1,8

Annex Table 3. Comparative Central Government Budget Revenues 2007-2008 (End of August)

	Ağu.08	Ağu.07	Increase (%)	2008 Budget Estimate	2007 Year-End	Realization According to 2008 Budget (%)	Realization According to 2007 Year-End (%)
Central Government Revenues	**146.873.386**	**127.390.590**	**15,29**	**204.556.459**	**189.617.246**	**71,80**	**67,18**
General Budget Revenues	**142.998.657**	**124.261.115**	**15,08**	**199.410.938**	**184.235.392**	**71,71**	**67,45**
I-Tax Revenues	**115.449.674**	**99.322.090**	**16,24**	**171.206.312**	**152.831.736**	**67,43**	**64,99**
Taxes Collected on Income, Profit and Capital Gains	**37.759.584**	**31.176.986**	**21,11**	**52.600.000**	**48.197.403**	**71,79**	**64,69**
Income Tax	**25.633.199**	**21.723.267**	**18,00**	**38.100.000**	**34.446.780**	**67,28**	**63,06**
Income Tax Based on Declaration	1.670.773	1.364.185	22,47	1.512.910	1.505.819	110,43	90,59
Income Tax Based on Simple Method Taxation	186.073	173.891	7,01	214.798	197.097	86,63	88,23
Income Tax Withholding	22.919.927	19.430.008	17,96	35.141.082	31.678.554	65,22	61,33
Provisional Income Tax	856.426	755.183	13,41	1.231.210	1.065.310	69,56	70,89
Corporate Tax	**12.126.385**	**9.453.719**	**28,27**	**14.500.000**	**13.750.623**	**83,63**	**68,75**
Corporate Tax Based on Declaration	535.757	118.873	350,70	220.000	156.122	243,53	76,14
Corporate Tax Withholding	130.257	-10.271	1.368,20	16.000	42.494	814,11	-24,17
Provisional Corporate Tax	11.460.371	9.345.117	22,63	14.264.000	13.552.007	80,34	68,96
Taxes Collected on Wealth	**3.526.100**	**3.061.635**	**15,17**	**4.029.000**	**3.645.419**	**87,52**	**83,99**
Inheritance and Gift Tax	66.265	75.981	-12,79	152.000	124.603	43,60	60,98
Motor Vehicle Tax	3.459.835	2.985.654	15,88	3.877.000	3.520.816	89,24	84,80
Taxes Collected on the Domestic Sale of Goods and	**45.174.736**	**40.899.933**	**10,45**	**71.382.312**	**63.589.293**	**63,29**	**64,32**
Domestic Value Added Tax	**11.607.072**	**10.880.617**	**6,68**	**17.652.000**	**16.792.632**	**65,75**	**64,79**
Special Consumption Tax	**27.868.334**	**24.976.403**	**11,58**	**44.719.366**	**39.110.505**	**62,32**	**63,86**
SCT Collected on Petroleum and Natural Gas Prod.	15.871.656	14.053.281	12,94	25.638.366	22.051.751	61,91	63,73
SCT Collected on Motor Vehicles	2.701.159	2.442.953	10,57	4.611.000	4.293.326	58,58	56,90
Carb. Bev., Alcoh. Bev. and Tobacco Products	8.650.992	7.789.889	11,05	13.207.000	11.720.469	65,50	66,46
SCT Collected on Durable Cons. G. and Other Goods	644.527	690.280	-6,63	1.263.000	1.044.959	51,03	66,06
Bank and Insurance Transactions Tax	**2.429.883**	**2.090.900**	**16,21**	**3.975.946**	**3.149.139**	**61,11**	**66,40**
Other Taxes Collected on Goods and Services	**3.269.447**	**2.952.013**	**10,75**	**5.035.000**	**4.537.017**	**64,93**	**65,07**
Taxes on International Trade and Transactions	**22.861.671**	**18.634.868**	**22,68**	**33.502.000**	**28.970.325**	**68,24**	**64,32**
Customs Duties	1.956.281	1.652.379	18,39	2.952.000	2.440.591	66,27	67,70
Value Added Tax on Imports	20.879.294	16.958.250	23,12	30.500.000	26.492.642	68,46	64,01
Other Revenues From Foreign Trade	26.096	24.239	7,66	50.000	37.092	52,19	65,35
Stamp Duty	**2.664.956**	**2.397.515**	**11,15**	**4.200.000**	**3.641.947**	**63,45**	**65,83**
Fees	**3.430.509**	**3.121.826**	**9,89**	**5.400.000**	**4.741.541**	**63,53**	**65,84**
Other Non-Classified Taxes	**32.118**	**29.327**	**9,52**	**93.000**	**45.808**	**34,54**	**64,02**
II-Enterprise and Ownership Revenues	**6.056.343**	**6.600.764**	**-8,25**	**8.978.314**	**7.903.902**	**67,46**	**83,51**
Revenues from the Sale of Goods and Services	**1.027.878**	**983.454**	**4,52**	**1.687.000**	**1.468.088**	**60,93**	**66,99**
Revenues of SEE and Public Banks	**3.733.545**	**4.269.698**	**-12,56**	**4.247.707**	**4.454.737**	**87,90**	**95,85**
Profits of Institutions	**582.921**	**664.075**	**-12,22**	**1.715.807**	**918.321**	**33,97**	**72,31**
Rent Revenues	**471.719**	**419.697**	**12,40**	**792.000**	**680.612**	**59,56**	**61,66**
Other Enterprise and Ownership Revenues	**240.280**	**263.840**	**-8,93**	**535.800**	**382.144**	**44,85**	**69,04**
III-Grants and Aids Received and Special Revenues	**559.900**	**1.565.587**	**-64,24**	**801.520**	**1.801.328**	**69,85**	**86,91**
Grants and Aids Received From Abroad	**9.312**	**14**		**0**	**51.820**		**0,03**
Special Revenues	**550.588**	**1.565.573**	**-64,83**	**801.520**	**1.749.508**	**68,69**	**89,49**
IV-Interests, Shares and Fines	**12.580.632**	**10.780.952**	**16,69**	**14.118.022**	**15.621.495**	**89,11**	**69,01**
Interest Revenues	**3.389.397**	**3.529.730**	**-3,98**	**2.225.152**	**4.615.880**	**152,32**	**76,47**
Shares from Persons and Institutions	**4.775.621**	**3.651.346**	**30,79**	**6.393.236**	**5.438.273**	**74,70**	**67,14**
Government Shares	209.868	145.500	44,24	240.000	216.235	87,45	67,29
Shares of General Budget Administrations	4.565.753	3.505.846	30,23	6.153.236	5.222.038	74,20	67,14
Fines	**1.975.042**	**2.269.579**	**-12,98**	**3.399.900**	**3.675.028**	**58,09**	**61,76**
Judicial Fines	121.204	106.091	14,25	162.580	159.837	74,55	66,37
Administrative Fines	598.290	423.076	41,41	657.291	711.427	91,02	59,47
Tax Fines	1.195.264	1.668.700	-28,37	2.557.218	2.687.174	46,74	62,10
Other Fines	60.284	71.712	-15,94	22.811	116.590	264,28	61,51
Other Miscellaneous Revenues	**2.440.572**	**1.330.297**	**83,46**	**2.099.734**	**1.892.314**	**116,23**	**70,30**
V-Capital Revenues	**8.072.843**	**5.991.722**	**34,73**	**4.306.770**	**6.076.931**	**187,45**	**98,60**
Revenues from the Sale of Immovables	**155.368**	**147.181**	**5,56**	**401.300**	**231.148**	**38,72**	**63,67**
Revenues form the Sale of Movables	**524**	**2.570**	**79,61**	**5.470**	**3.812**	**9,58**	**67,42**
Other Revenues from Capital Sales	**7.916.951**	**5.841.971**		**3.900.000**	**5.841.971**	**203,00**	**100,00**
VI-Receivables Collection	**279.265**						
Revenues of Special Budget Administrations	**2.508.092**	**1.949.333**	**28,66**	**3.417.133**	**3.795.238**	**73,40**	**51,36**
Revenues of Regulatory and Supervisory Agencies	**1.366.637**	**1.180.142**	**15,80**	**1.728.388**	**1.586.616**	**79,07**	**74,38**

Annex Table 4. Percentage Distribution of the Central Government Budget Expenses of 2008 according to Functional and Economic Classification (End of August)

4 a)

	Personnel Expenses	State Contributions to SSI	Purchase of Goods and Services	Interest Expenditures	Current Transfers	Capital Expense	Capital Transfers	Lending	Total
General Public Services	6,2	0,7	2,7	66,4	22,5	0,4	0,8	0,4	100
Defence Services	50,7	5,9	43,1	0,0	0,0	0,2	0,0	0,0	100
Public Order and Security Services	69,3	7,0	19,7	0,0	0,0	4,0	0,0	0,0	100
Economic Affairs and Services	14,9	2,2	5,5	0,0	44,2	23,6	0,8	8,8	100
Services for the Protection of the Env.	47,7	6,6	8,3	0,0	1,4	1,8	34,1	0,0	100
Settlement and Social Welfare Services	0,4	0,1	0,3	0,0	47,8	11,5	40,0	0,0	100
Healthcare Services	40,7	6,2	37,0	0,0	0,1	15,9	0,0	0,0	100
Recreation, Culture and Religious Serv.	59,1	8,1	11,1	0,0	9,0	10,4	0,7	1,7	100
Education Services	63,0	8,1	12,3	0,0	4,4	6,9	1,0	4,3	100
Social Security and Social Benefits	0,6	0,1	1,1	0,0	97,9	0,2	0,0	0,1	100

4 b)

	Personnel Expenses	State Contributions to SSI	Purchase of Goods and Services	Interest Expenditures	Current Transfers	Capital Expense	Capital Transfers	Lending
General Public Services	10,5	9,0	11,2	100,0	27,7	2,9	25,3	8,4
Defence Services	11,1	10,3	23,3	0,0	0,0	0,2	0,0	0,0
Public Order and Security Services	17,9	14,5	12,5	0,0	0,0	4,3	0,0	0,0
Economic Affairs and Services	7,7	9,4	7,0	0,0	16,7	50,9	7,5	57,4
Services for the Protection of the Env.	0,2	0,2	0,1	0,0	0,0	0,0	2,5	0,0
Settlement and Social Welfare Services	0,0	0,0	0,0	0,0	2,6	3,5	52,9	0,0
Healthcare Services	10,9	13,3	24,4	0,0	0,0	17,7	0,1	0,0
Recreation, Culture and Religious Serv.	4,3	4,8	2,0	0,0	0,5	3,2	0,9	1,6
Education Services	36,8	37,9	17,6	0,0	1,9	16,8	10,4	31,4
Social Security and Social Benefits	0,4	0,4	2,0	0,0	50,6	0,5	0,3	1,2
TOTAL	100	100	100	100	100	100	100	100

Annex Table 5. General Budget Financing (End of August)

	January	February	March	April	May	June	July	August
PRIMARY BALANCE	**3.879.409**	**8.965.871**	**8.210.166**	**12.067.371**	**17.488.732**	**22.708.184**	**27.393.169**	**41.266.078**
BUDGET BALANCE	**-403.733**	**-31.634**	**-5.540.671**	**-5.849.086**	**-2.109.123**	**1.968.379**	**-782.487**	**4.950.121**
BUDGET DEFERRALS	1.588.679	-780.983	-928.970	-826.479	-971.903	-1.314.840	-1.121.043	-1.417.161
OTHER DEFERRALS	-1.603.277	-907.278	-1.675.375	-852.663	-580.719	-318.475	-398.381	-1.640.103
ADVANCE PAYMENTS	1.473.750	1.389.617	749.179	735.199	617.408	535.029	572.074	360.561
Cash Balance	**1.055.419**	**-330.278**	**-7.395.837**	**-6.793.029**	**-3.044.337**	**870.093**	**-1.729.837**	**2.253.418**
Treasury Financing	**-1.055.419**	**330.278**	**7.395.837**	**6.793.029**	**3.044.337**	**-870.093**	**1.729.837**	**-2.253.418**
Total Net Borrowing (Borrowing less repayment)	**1.891.361**	**4.650.097**	**5.757.359**	**8.464.671**	**7.004.996**	**6.540.522**	**8.014.869**	**11.215.691**
Total Borrowing	**8.327.310**	**15.529.712**	**21.219.464**	**33.696.425**	**41.356.531**	**46.106.358**	**66.516.616**	**81.549.110**
Domestic Borrowing	7.167.997	14.266.598	18.687.985	30.277.607	32.925.646	36.710.644	56.378.877	71.169.974
Bill	5.566.997	11.750.598	15.340.985	25.649.607	28.297.646	32.082.644	48.231.877	58.121.258
Bond	1.601.000	2.516.000	3.347.000	4.628.000	4.628.000	4.628.000	8.147.000	13.048.716
Foreign Borrowing	1.159.313	1.263.113	2.531.479	3.418.818	8.430.886	9.395.715	10.137.739	10.379.137
Total Principal Repayment	**-6.435.949**	**-10.879.614**	**-15.462.104**	**-25.231.754**	**-34.351.535**	**-39.565.836**	**-58.501.747**	**-70.333.419**
Domestic Borrowing	-4.226.664	-8.051.927	-10.478.559	-19.671.755	-28.375.777	-32.884.707	-51.702.789	-62.938.348
Bill	-1.154.664	-4.188.927	-4.344.559	-12.894.970	-21.598.992	-26.107.922	-42.684.004	-53.007.348
Bond	-3.072.000	-3.863.000	-6.134.000	-6.776.785	-6.776.785	-6.776.785	-9.018.785	-9.931.000
Foreign Borrowing	-2.209.285	-2.827.687	-4.983.545	-5.559.999	-5.975.759	-6.681.129	-6.798.959	-7.395.071
Other Financing Except Borrowing	90.365	79.024	116.137	187.504	193.775	197.378	-1.076.010	-1.079.631
Transfers to the Treasury from the Privatisation Revenues	63.795	63.795	63.795	63.795	63.795	63.795	63.795	63.795
Net Lending (-)	-26.570	-15.229	-52.342	-123.709	-129.980	-133.583	1.139.805	1.143.426
Account activity (- in, + out)	-3.037.145	-4.398.844	1.522.341	-1.859.147	-4.154.434	-7.607.993	-5.209.022	-12.389.478

Annex Table 6. The Composition of the Central Government Debt Stock (End of August)

(million YTL)	**Central Government Debt Stock (End of 2007)**	**%**	**Central Government Debt Stock (January 2008)**	**%**	**Central Government Debt Stock (February 2008)**	**%**	**Central Government Debt Stock (March 2008)**	**%**	**Central Government Debt Stock (April 2008)**	**%**	**Central Government Debt Stock (May 2008)**	**%**	**Central Government Debt Stock (June 2008)**	**%**	**Central Government Debt Stock (July 2008)**	**%**	**Central Government Debt Stock (August 2008)**	**%**
The Structure of Domestic Debt Stock	**255.310**	**100,0**	**258.468**	**100,0**	**262.019**	**100,0**	**266.477**	**100,0**	**268.794**	**100,0**	**261.317**	**100,0**	**261.000**	**100,0**	**261.149**	**100,0**	**264.176**	**100,0**
From the Point of the Holders	255.310	100,0	258.468	100,0	262.019	100,0	266.477	100,0	268.794	100,0	261.317	100,0	261.000	100,0	261.149	100,0	264.176	100,0
To the Government	66.876	26,2	67.423	26,1	68.499	26,1	69.038	25,9	69.120	25,7	67.488	25,8	67.675	25,9	68.287	26,1	69.629	26,4
To the Market	188.434	73,8	191.044	73,9	193.519	73,9	197.439	74,1	199.674	74,3	193.829	74,2	193.325	74,1	192.861	73,9	194.547	73,6
In terms of Interest Structure	255.310	100,0	258.468	100,0	262.019	100,0	266.477	100,0	268.794	100,0	261.317	100,0	261.000	100,0	261.149	100,0	264.176	100,0
Fixed-rate Bonds	128.148	50,2	131.184	50,8	135.278	51,6	138.386	51,9	136.920	50,9	138.354	52,9	136.773	52,4	137.586	52,7	135.861	51,4
Floating-rate Bonds	127.162	49,8	127.284	49,2	126.741	48,4	128.091	48,1	131.874	49,1	122.963	47,1	124.227	47,6	123.563	47,3	128.315	48,6
In terms of Foreign Exchange Composition	255.310	100,0	258.468	100,0	262.019	100,0	266.477	100,0	268.794	100,0	261.317	100,0	261.000	100,0	261.149	100,0	264.176	100,0
YTL	229.168	89,8	232.109	89,8	236.761	90,4	238.756	89,6	241.152	89,7	240.100	91,9	239.664	91,8	241.510	92,5	245.065	92,8
Foreign Exchange	24.931	9,8	25.132	9,7	24.007	9,2	26.316	9,9	26.250	9,8	19.907	7,6	19.991	7,7	18.347	7,0	17.886	6,8
Foreign Exchange Indexed YTL	1.211	0,5	1.226	0,5	1.251	0,5	1.405	0,5	1.391	0,5	1.309	0,5	1.344	0,5	1.292	0,5	1.225	0,5
The Structure of the Foreign Debt Stock	**78.168**	**100,0**	**78.179**	**100,0**	**79.737**	**100,0**	**86.569**	**100,0**	**85.936**	**100,0**	**85.244**	**100,0**	**87.186**	**100,0**	**84.675**	**100,0**	**81.734**	**100,0**
In terms of Interest Structure	78.168	100,0	78.179	100,0	79.737	100,0	86.569	100,0	85.936	100,0	85.244	100,0	87.186	100,0	84.675	100,0	81.734	100,0
Fixed-rate Bonds	57.731	73,9	57.688	73,8	59.584	74,7	64.345	74,3	63.920	74,4	60.163	70,6	61.794	70,9	59.651	70,4	57.948	70,9
Floating-rate Bonds	20.437	26,1	20.491	26,2	20.154	25,3	22.223	25,7	22.016	25,6	25.081	29,4	25.392	29,1	25.024	29,6	23.787	29,1
The Structure of the Total Debt Stock	**333.478**	**100,0**	**336.646**	**100,0**	**341.756**	**100,0**	**353.046**	**100,0**	**354.730**	**100,0**	**346.561**	**100,0**	**348.186**	**100,0**	**345.824**	**100,0**	**345.911**	**100,0**
From the Point of the Holders																		
To the Government	66.876	20,1	67.423	20,0	68.499	20,0	69.038	19,6	69.120	19,5	67.488	19,5	67.675	19,4	68.287	19,7	69.629	20,1
To the Market (1)	266.602	79,9	269.223	80,0	273.257	80,0	284.008	80,4	285.610	80,5	279.073	80,5	280.511	80,6	277.536	80,3	276.282	79,9
In terms of Interest Structure	333.478	100,0	336.646	100,0	341.756	100,0	353.046	100,0	354.730	100,0	346.561	100,0	348.186	100,0	345.824	100,0	345.911	100,0
Fixed-rate Bonds	185.879	55,7	188.872	56,1	194.862	57,0	202.732	57,4	200.840	56,6	198.517	57,3	198.567	57,0	197.237	57,0	193.808	56,0
Floating-rate Bonds	147.599	44,3	147.775	43,9	146.895	43,0	150.315	42,6	153.890	43,4	148.044	42,7	149.619	43,0	148.587	43,0	152.102	44,0
In terms of Foreign Exchange Composition	333.478	100,0	336.646	100,0	341.756	100,0	353.046	100,0	354.730	100,0	346.561	100,0	348.186	100,0	345.824	100,0	345.911	100,0
YTL	229.168	68,7	232.109	68,9	236.761	69,3	238.756	67,6	241.152	68,0	240.100	69,3	239.664	68,8	241.510	69,8	245.065	70,8
Foreign Exchange	103.099	30,9	103.311	30,7	103.744	30,4	112.885	32,0	112.187	31,6	105.151	30,3	107.177	30,8	103.022	29,8	99.620	28,8
Foreign Exchange Indexed YTL	1.211	0,4	1.226	0,4	1.251	0,4	1.405	0,4	1.391	0,4	1.309	0,4	1.344	0,4	1.292	0,4	1.225	0,4
Average Maturity of the Domestic Debt Stock (Months	25,7		24,9		24,4		23,4		23,5		23,3		23,0		24,2		24,4	
Average Maturity of Domestic Borrowing (Months)*	22,0		21,2		27,6		20,4		30,7		28,1		40,1		35,2		29,7	
Average Interest Rate of Domestic Bond Auctions % (	16,52		16,23		16,72		17,49		18,28		19,57		21,54		20,53		18,94	