tepav

türkiye ekonomi politikaları araştırma vakfı

Stability institute

Fiscal Monitoring Report

- **2009 May-June Budget Results**

- **Rapidly Deteriorating Financial Balance of the Social Security Institution and Real Rise in Health Expenditures**
- **Automatic Stabilizers and Turkey experience / Dilemma of the Fiscal Policy**

I. May-June 2009 Budget Execution Results

A. A Brief Outlook at the Central Government Budget Implementation 2009 May-June Month End Results – Executive Summary

Central government budget results for the first half of 2009 indicate that the rise in budget deficit continues to grow increasingly. Budget deficit have increased to 23.2 billion TL demonstrating a significant rise as compared to the same period last year.

As the data in Table 2 suggests, this rise in budget deficit reflects the typical indicators of recessionary periods. Turkish Tax System, a substantial part of which is composed by indirect taxes (65%), fails to generate tax revenue in parallel with the contraction in the economy. Tax revenue collection rate, which stood at 49.1 percent in the same period last year, has decreased to 39.1% compared to initial targets. Whereas, realization of expenditures excluding interest compared to allocation is 48.4% following 45.5% last year. Therefore, while tax revenue is affected by economic contraction, expenditures does not fall down in parallel with this but rather demonstrate an upward trend.

Taking departure from the initial findings, it might seem possible to conclude that public authority tackles with the recession with an intended fiscal policy by increasing budget deficit. Nonetheless, there is no intended arrangement by the government for the revenue side except the tax cuts introduced temporarily in certain sectors. Moreover, the rises in expenditures result from automatically arising (legally obliged) inflexible expenditures rather than from intended expenditures by the public authority. In fact, Table 5 showing the contribution of central government primary expenditure items to the rise in primary expenditures reveal that the contribution of health, retirement and social aid expenditures also including social security deficit financing. Fall in premium revenues in line with the rise in unemployment as well as the increase in health expenditures push up the social security deficit and this automatic trend plays a significant role in the rise of the budget deficit. However, it is highly debatable whether or not this rise in budget deficit will lead to a stimulus effect for an economy in recession.

It should be addressed and discussed separately whether or not fiscal variables related with tax and social security known as automatic stabilizers in literature and contributing to the recovery period by increasing budget deficit in recessionary periods can work under the milieu in Turkey. In Turkey's fiscal system where tax elasticity is weak, it does not seem logical to expect that a fiscal policy practice based solely on automatic stabilizers can assist economic recovery. On the other hand, pushing up the already rising budget deficit further with voluntary fiscal policy decisions brings on the agenda again the public debt problem. At such point, public authority decision to implement tax raises rather than tax cuts and that Medium Term Program and Medium Term Fiscal Program were not yet announced when this report was prepared thought the legal deadline has passed indicate that the government is in a dilemma about the type of the fiscal policy to be implemented.

On the other hand, share of flexible expenditures in total budget expenditures for the first half of the year has decreased to 18%. This, due to the backdating of flexible expenditures to the second half of the year as much as possible, might lead to the intensification of fiscal pressure in the last quarter of the year. When the structure of expenditures is examined, it is seen that in the concerned period, about 50% of the primary expenditures have been directly used to finance expenditures of non-budgetary institutions. When the fund and interest expenditures used to finance non-budgetary institutions are subtracted from total revenues, the remaining amount cannot even meet compensation for the personnel. To put it differently, disposable budget income has decreased seasonally similar with the previous crisis periods.

Fiscal policies, which for the first half of the year seem to be tied to an automatic discourse rather than being voluntary, makes sector selection program became a higher priority on the agenda. In particular the rise in the health sector expenditures in spite of the relative fall in budget shares allocated for education during the recent years as per the recent discussions on primary and high school education requires questioning to what extent the policy priorities given in the medium term program and the medium term fiscal plan which is expected to be in harmony with the former are stick to.

Among the factors that lead to the failure of fiscal policies in developing countries, the most important is the inability to establish the relationship between policy formation, planning, and budgeting processes shaped with political decision making process. New budget system introduced with the No 5018 Law on Public Financial Management and Control to eliminate this problem primarily aims to establish a four-phase budgetary cycle.

This cycle includes the following phases: overall fiscal discipline; distribution and use of resources in line with strategic priorities; effectiveness and efficiency in the implementation of programs and provision of services; and as a complementary factor, accountability. In this cycle, Medium Term Program (MTP) which sets forth the policy priorities within a macro fiscal framework and which characterizes the statements of the political will; and the Medium Term Fiscal Plan (MTFP) which defines budget policies over three-year periods and within institutions' budget ceilings entered in the system. This way, both the general balance of the economy and budget policies and expenditure ceilings is announced every year in May or June with a three-year perspective and being revised each year. The texts of this policy and plan, however, have not yet been announced in August. Through there is no legal sanction, this is clearly against the nature of the No 5018 Law; and what is more, this in the presence of the economic crisis, points out a polity uncertainty considering economic management. This is the last thing economic actors would like to be associated with in a crisis period.

As MTP and MTFP were not yet announced, Budget Preparation Guide is not published and institutions finished July without making any budget preparations or negotiations. In this context, budget talks that should be carried out between the Ministry of Finance and State Planning Organization (SPO) experts cannot be made.

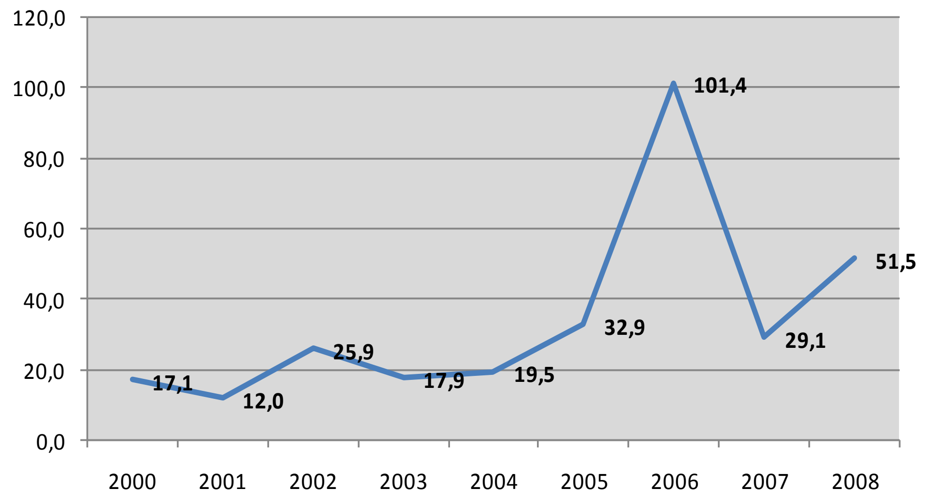
With a statement delivered in August, Ministry of Finance asked institutions to prepare their budgets in line with the absent MTP, MTFP and Budget Preparation Guidelines and to submit it latest at August 17. As a result of this, institutions are forced to prepare their budget in the absence of an infrastructure (policy priorities and fundamental macroeconomic indicators) that will distribute their resources in line with the strategic priorities of the crisis period. What is more important, institutions will lose trust in MTP and MTFP in particular and in the Performance Program that is to be implemented with the strategic plan.

In other words, the budget reform process which was restructured and moved forward significantly along with several lessons and experience tends to be reversed.

Apart from these, as also mentioned above, rise in the budget deficit brings to the agenda the problem of the rise in and the sustainability of public debt stock. As can be seen in Annexed Table 6, public debt stock has risen by 29 billion TL since the end of 2008. Though Treasury borrowing interest rates are expected to go up as a natural outcome of this, it is observed that borrowing interest rate does not demonstrate a significant fluctuation but a downward trend. We believe that Central Bank's monetary policy acknowledged by the market in form of cutting interest rates and injecting liquidity to the market to assist Treasury borrowing has contributed to this situation. Nonetheless, we would like to emphasize that in an environment where public authority has not decided yet the fiscal policy variables, this perception of debt management and monetary authority cooperation is not sustainable in the medium term though it might settle things for a while.

Another point we would like to touch upon concerning budget deficit is that a substantial proportion of the budget deficit in the second half of the year will be apparent in the last quarter of the year. For the last five years; in average 47% of the budget deficit for the year was recorded in December. As the level of such deficit will be high above the targeted level, we can conclude that December will be the riskiest month of the year though we also expect a fall to 30% level as per the earlier trends. The first graph below gives the ratio of budget deficit in December to overall budget deficit from 2000 to 2008. The graph implies in particular that especially since 2004, this ratio has been increasing considerably reflecting a trend.

Graph 1. Ratio of Budget Deficit in December to Overall Budget Deficit of the Year (%)



Budget deficit has decreased in December in periods where budget deficit is relatively higher; whereas budget deficit increased December in periods with low budget deficit.

Graph 2. Level of Budget Deficit for Specific Periods (Billion TL)

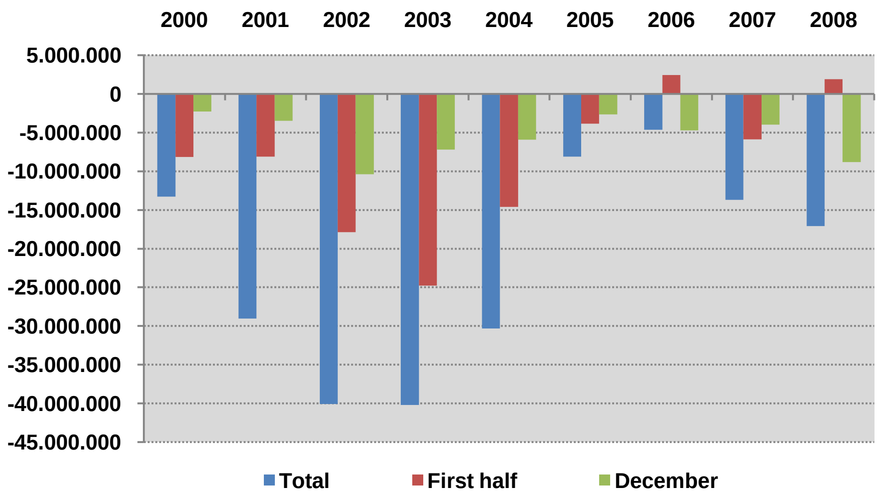
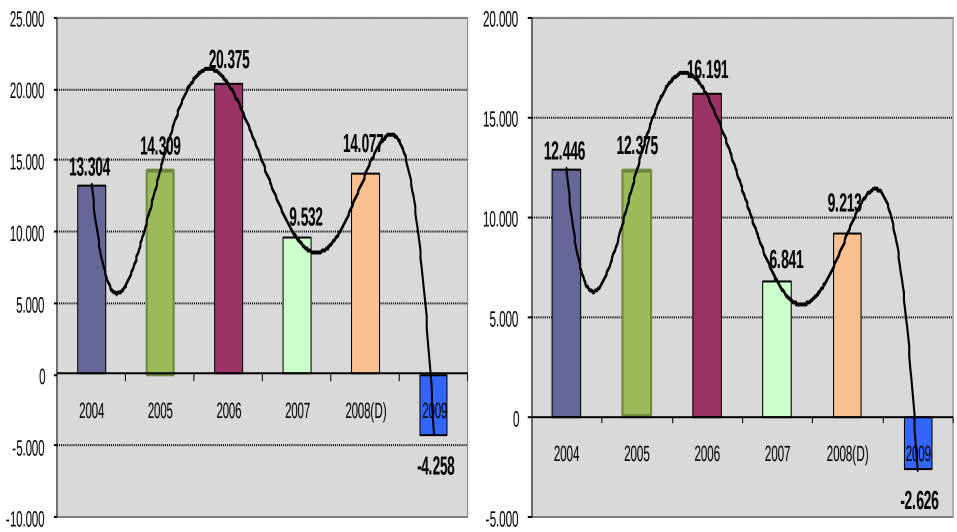


Table 1. Central Government Budget May-June 2009 Realizations (Compared to 2008)

million YTL	May.08	May.09	Change (%)	Real. Com. to 08 Year-end	Real. Com. to 2009 allow.	June 08	June 09	Change (%)	Real. Com. to 08 Year-end	Real. Com. to 2009 allow.
Expenditures	86.023	106.898	24,27	38,07	41,25	100.589	124.831	24,10	44,51	48,17
1-Primary Expendiutes	**66.425**	**80.780**	**21,61**	**37,89**	**40,06**	**79.849**	**97.589**	**22,22**	**45,55**	**48,39**
Personnel	20.522	23.783	15,89	42,03	41,57	24.506	28.469	16,17	50,19	49,76
Govern. Premiums to Social Security	2.568	2.882	12,25	40,11	39,79	3.053	3.446	12,89	47,69	47,58
Good and Service Purchase	7.426	8.798	18,49	31,02	34,57	9.161	10.699	16,79	38,27	42,03
Current Transfers	30.289	38.338	26,58	43,20	43,59	35.226	46.097	30,86	50,24	52,41
Capital Expenditures	2.960	3.706	25,19	16,05	24,97	4.679	4.987	6,58	25,37	33,61
Capital Transfers	796	905	13,66	25,08	32,02	1.126	1.177	4,48	35,50	41,65
Lending	1.864	2.367	26,98	42,26	50,78	2.098	2.714	29,34	47,57	58,23
Reserve Appropriations	0	0				0	0			
2-Interest Expenditures	**19.598**	**26.119**	**33,27**	**38,68**	**45,42**	**20.740**	**27.242**	**31,35**	**40,94**	**47,38**
Revenues	83.962	86.215	2,68	40,27	34,66	102.506	101.626	-0,86	49,17	40,85
1-General Budget Revenues	**81.299**	**83.302**	**2,46**	**40,17**	**34,29**	**99.456**	**98.287**	**-1,18**	**49,14**	**40,45**
Tax Revenues	70.060	66.233	-5,46	41,68	32,77	82.752	79.083	-4,43	49,23	39,13
Enterprise and Property Revenues	4.439	6.853	54,36	60,84	93,08	5.035	7.313	45,23	69,00	99,33
Interests, Shares and Fines	6.296	8.241	30,89	36,98	42,43	9.171	9.799	6,85	53,86	50,45
Capital Revenues	84	1.378	1541,56	0,92	10,49	2.030	1.397	-31,16	22,29	10,64
Grants and Aids	419	432	3,16	48,19	45,89	356	522	46,74	40,92	55,42
Collections from Loans	0	164				113	172			
2-Special Budget Revenues	1.557	1.707	**9,63**	**35,65**	**44,03**	1.847	2.016	**9,16**	**42,28**	**52,00**
3-Revenues from Supervisory and Regulat	1.106	1.206	**9,04**	**63,58**	**62,69**	1.203	1.323	**10,02**	**69,14**	**68,79**
Budget Balance	-2.060	-20.683	-903,92	11,79	198,92	1.917	-23.205			223,17
Primary Balance	17.538	5.436	-69,01	52,84	11,54	22.657	4.038	-82,18	68,27	8,57
Program Defined Primary Balance	14.476	-2.262		81,60		15.977	-4.258		90,06	

Deterioration in the budget deficit appears more strikingly when program defined primary balance is examined. Program defined balance have turned to deficit for the first time in the last six years. As it is also stated above, in a climate where the ability to increase budget deficit with voluntary fiscal policy measures, primary deficit rose to 4.2 billion TL. With fixed prices, program defined primary surplus average was 11.4 billion TL for the last five years whereas this in 2009, 2.6 billion TL of program defined primary deficit was recorded (2003=100 PPI). This raises concerns for 2010 and 2011 about debt dynamics.

Graph 3. Realization of Central Government Budget Program Defined Primary Surplus (2004-2009 June-end Comparative, million TL)



With current prices With 2003=100 prices

2008(D) indicates that KEY payments were included in the primary balance

To summarize, budget implementation results for the first half of the year implies that in the period where there is no voluntary fiscal policy to tackle the recession, where there exists a dilemma with respect to fiscal policy decisions, where there was a delay in the budget preparation process and in the preparation and submission of policy documents to expenditure making institutions and therefore where sector specific policy priorities could not be put into effect, a process where budget deficit will increase and fiscal problems will deepen further is to start.

B. Budget Expenditures

As of the end of June, budget expenditures have increased by 24.1% compared to the same period the year before and primary expenditures have elevated by 22.2%. Rise in primary expenditures by more than 25% in June mainly due to current transfers led to a cumulative 22.2% increase in primary expenditures as of the end of the first half of the year.

Realization rate of overall budget expenditures as of the end of June is 3.7 points above that for the same month of last year reaching 48.2%. For primary expenditures, realization rate is 48.4%, 2.9 points above that for the same period last year.

Nearly 50% of the primary budget expenditures for the first half of 2009 are constituted of current transfers and capital transfers. Share of transfers to Social Security Institution (SSI) alone in primary expenditures is 26%. Given that the relevant rate for the same period the year before was 22%, level of the financial pressure the problems in social security system puts on the central government budget is noticed clearly.

Current transfers remains as the biggest contributor to the rise in primary expenditures. As of the end June, rise in total transfers to SSI has reached 46.2%. As a result of this rise corresponding to 40% in real terms, periodic contribution of transfers to SSI exceeded 45%. Four main elements determining the rise in expenditures are:

- First, with the legal arrangement introduced with No 5763 Law Amending Labor Law and Some Certain Laws and put into force as of 1.10.2008, 5 points in the employers' premium is met by the Treasury. Burden of this arrangement on the budget is 1.771 million TL as of the end of June.

- Second, with the recently implemented regulations on social security and general health insurance, there appeared an additional increase in budget expenditures. For instance, rise of state social security contribution initiated in November 2008 to 5.4 billion TL; providing health coverage for all individuals under the age 18.
- Third, with the fall in the number of employees paying premium due to the rise in unemployment; and delays in premium payments by private and public institutions financial pressure came up.
- Fourth, health expenditures, medicine expenditures in particular continued to rise and public liabilities to institutions offering health services have been gradually increasing.

Most important reason behind the deterioration in SSI's budget balance is the rapid decrease in the level of formal employment. As the following table suggests; in the concerned period number of the people registered in the SSI has decreased by 1.2 million, 7.8% below last year. While the number of people registered at the SSI as actively employed decreased by 1.2 million, number of people covered by the social security system has dropped by 3% to 2.1 million. This development should be attached importance not only because it signals the rising unemployment and reveals the structural deformation of the SSI, but also because it reflects the number of people excluded from the social security system and the rise in this number.

Table 2. Change in Employment Registered in the SSI for the January-June Period

	2008	2009	Change (%)
Service Contract*	9.703.772	8.674.726	-10.6
Self Employed	3.103.104	3.117.111	0.5
Public Employees	2.444.380	2.271.485	-7.1
Total	**15.251.206**	**14.063.332**	**-7.8**

*end of May

Source: SSI Financial Statistic Bulletin (found in August 2009)

Fall in premium revenues along with the rise in expenditures in particular because of health expenditures, budget balance of SSI have deteriorated much further.

Table 3. Revenues and Expenditures of Social Security Institution (million TL)

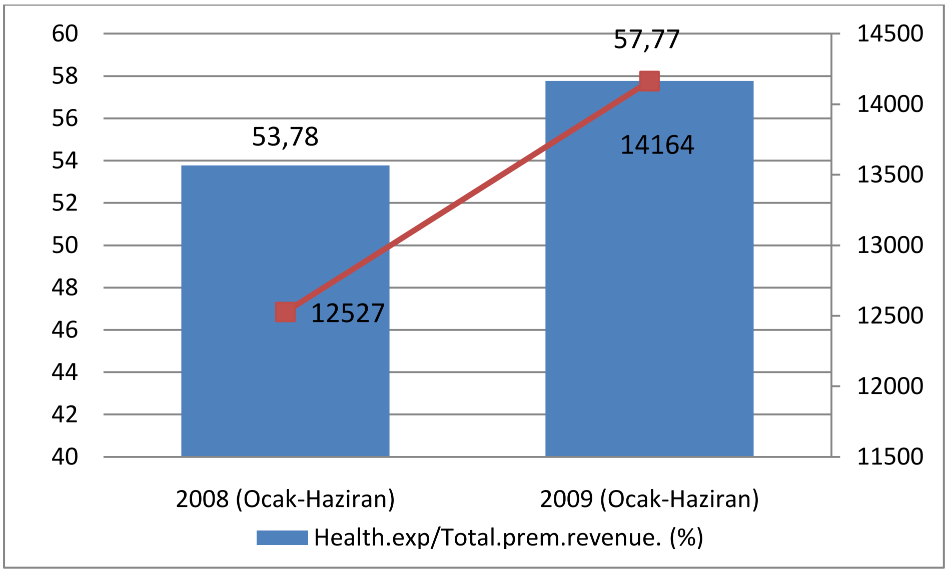
BUDGET ITEMS	June			January-June		
	2008	2009	Change (%)	2008	2009	Change (%)
I-REVENUES	**6.654**	**6.060**	**-8,92**	**30.781**	**37.578**	**22,08**
1- PREMIUM REVENUES	3.748	4.068	8,55	23.294	24.519	5,26
2- RESTRUCTURING	479	249	-48,07	871	1.179	35,44
3- STATE CONTRIBUTION		926			5.440	
4- ADDITIONAL PAYMENTS	197	234	18,93	1.259	1.420	12,82
5- INVOICED PAYMENT	845	409	-51,67	2.905	3.101	6,76
6- OTHER REVENUES	1.386	175	-87,35	2.453	1.919	-21,75
II-EXPENDITURTES	**7.670**	**8.964**	**16,88**	**44.778**	**51.653**	**15,35**
1- RETIREMENT PAYS	4.688	5.435	15,93	28.117	32.906	17,03
2- PAY. AS PER NO 5510 LAW	28	49	76,27	166	286	71,99
3- ADDITIONAL PAYMENTS	222	235	5,84	1.266	1.431	13,06
4- HEALTH EXPENDITURES (inc.travel pay)	2.115	2.495	17,97	12.555	14.190	13,02
HEALTH EXPENDITURES (excl.travel pay)	2.111	2.491	18,00	12.527	14.164	13,06
4.1- MEDICINE EXPENDITURES	891	1.156	29,77	5.230	6.322	20,88
4.2- CURE EXPENDITURES	1.179	1.294	9,78	6.960	7.560	8,62
4.2.1- PUBLIC HOSPITALS	600	651	8,50	3.835	4.051	5,65
4.2.2- UNIVERSITY HOSPITALS	195	225	15,19	1.044	1.224	17,26
4.2.3- PTIVATE HOSPITALS	384	419	9,05	2.082	2.285	9,77
4.3- TRAVEL PAYS	4	4	4,24	28	26	-6,62
4.4- OTHER EXPENDITURES	41	40	-1,49	338	282	-16,45
5- INVOICED PAYMENTS	457	604	32,28	1.483	1.897	27,88
6- ADMINISTRATION		84		445	506	13,64
7- INVESTMENT		1		5	6	22,34
8- OTHER EXPENDITURES	159	60	-62,41	740	432	-41,62
III- BALANCE	**-1.015**	**-2.904**	**185,98**	**-13.997**	**-14.075**	**0,56**
IV- BUDGET TRANSFERS	**1.750**	**4.736**	**170,65**	**17.597**	**25.822**	**46,74**
1- FOR DEFICIT	708	2.930	313,99	13.433	14.089	4,88
2- STATE CONTRIBUTION		926			5.440	
3- FOR ADDITIONAL PAYMENT	197	234	18,93	1.259	1.420	12,82
4- FOR INVOICED PAYMENTS	845	409	-51,67	2.905	3.101	6,76
5-INCENTIVES		238			1.772	

Source: SSI Financial Statistics Bulletin (retrieved in August 2009)

When SSI budget balance for June is examined, 8.9% fall in revenues and 17% rise in expenditures lead to a 186% deterioration in the budget balance. As of the end of June, slow down in premium revenues in the face of the rise in expenditures mainly driven by the acceleration in health expenditures signals that the SSI is faced with a structural problem.

For the expenditure of the SSI in specific period, the most striking development is the 20.2% rise in medicine expenditures as of the end of June. Around 9% increase in general cure expenditures limited the rise in total health expenditures to 13%. On the other hand, considering that non-accrued and deferred cure expenditures exceed 2 billion TL, it would not be incorrect to conclude that actual level of health expenditures is much above the announced levels. The Table below gives the change in the ratio of health expenditures of the SSI to the premium revenues.

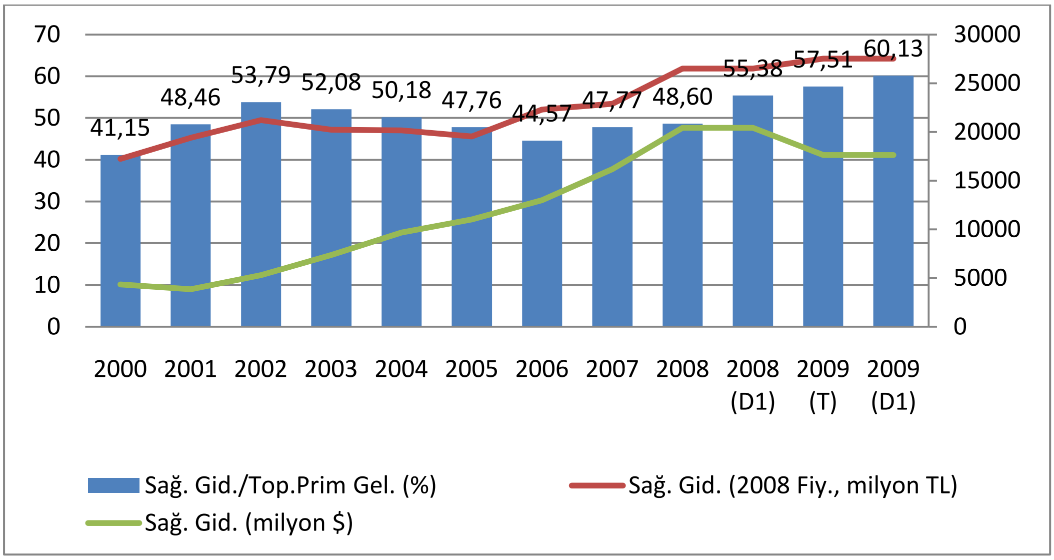
Graph 4. Ratio of Social Security Institution Total Health Expenditures to Total Premium Revenues (%) and Health Expenditures (million TL) (2008-2009, January-June)



Source: SSI Financial Statistics Bulletin (retrieved in August 2009) and our calculations

This picture is in parallel with our estimate in a study currently conducted and to be published soon which evaluates health expenditures in more detail. In the mentioned study, the ratio of health expenditures in 2009 to premium revenues is estimated as 57%. The graph below shows that when the correction related to the deferred health expenditures given with D1 is made, the rate reaches 60%.

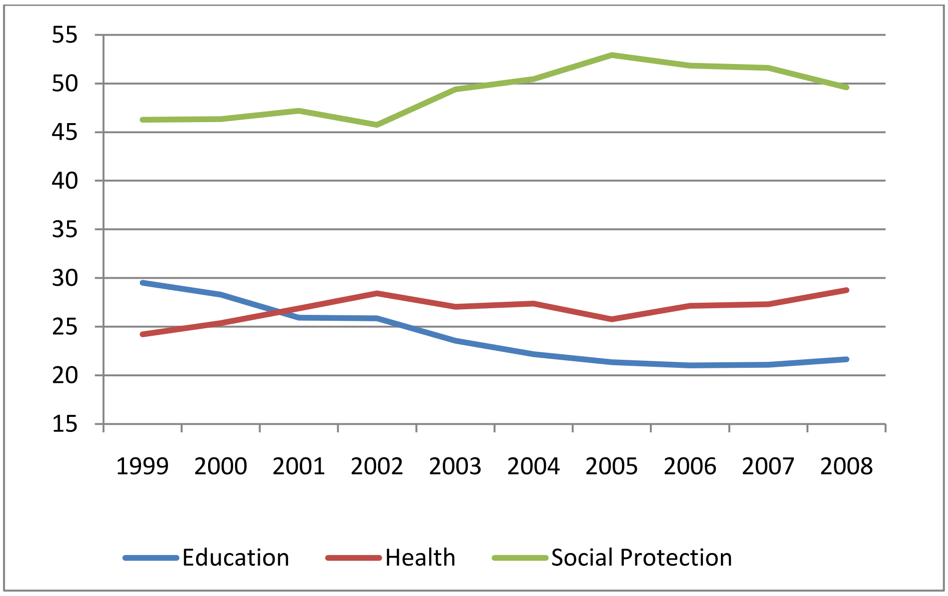
Graph 5. Ratio of Social Security Institution Health Expenditures to Premium Revenues and the Development of Health Expenditures (Including non-accrued Expenditures)



Source: Our calculations

Study by Emil and Yılmaz (2008) state that ratio of public social expenditures to GDP rose by 30% from 1999 to 2008, and that education, health and social security expenditures have increased in different rates. In the said period, education expenditures increased whereas health and social security and protection expenditures have increased. Above 50% increase in health expenditures was a striking development of the period. When the distribution of social security expenditures is examined, it is observed that while the share of education expenditures decreased considerably (from 30 to 22%), shares of health and social security and social protection expenditures increased. It is understood that in this period where stability program was implemented, education expenditures have shouldered the burden of the program.

Graph 6. Change in the Composition of the Public Social Expenditures (1999-2008)(%)



Source: Emil, Ferhat, H. Hakan Yılmaz, "SOCIAL EXPENDITURES AT DIFFERENT LEVELS OF GOVERNMENT:TURKEY", World Bank Background Paper 2008

We have evaluated the impact of health policies on health expenditures in February 2008 Fiscal Monitoring Report. As the issue is still on the agenda, we would like to recall the results of this evaluation. (Please see Box 1)

Box 1. "Health Policies and Public Health Expenditures Problem in Turkey": Are Health Expenditures Healthy? as addressed 2008 February Fiscal Monitoring Report

The report published in February 2008 on the health system policies and expenditure preferences concluded as follows:

a.) Though an upwards trend for the health expenditures can be observed, the composition of this trend is not cost efficient. As the analysis results reveal, in an environment where policies devoted to protective health services and public health are not developed, a higher amount of public resources shall be spent for treating health services which are costlier by their nature.

b.) In an environment where sufficient resources are not allocated for protective health services, generalizing the health system in a way that will cover and provide minimum level health services to each individual leads to breakdowns and obstructions in the service, in particular in the absence of a solid funding model.

c.) The continuing rise in the costly health expenditures with defected composition tries to maintain budget discipline on expense of the amount of public funds to be allocated for education and other fields.

d.) As a result of all, financial condition of the circulating fund enterprises, which are the major provider of public sector health services, worsens. Enterprises and private sector institutions that cannot collect the receivables from the central government reflect the repercussions of this situation to the costs by increasing the cost of the services they are to provide in the future. Furthermore, the fact that these costs cannot be cover further complicates the situation leading to a vicious circle.

e.) These imply that the public health system is about to go through a serious bottleneck in terms of finance.

It is observed that duty loss item under budget expenditures is still at the forefront with a rate of 76.1% in terms of realization rates according to initial budget allowances. Under this item, realization of duty losses of state economic enterprises (SEE's) compared to the budget has reached a high level at 92%.

Compensation of employees and purchase of goods and services have increased by 16.2 and 16.8% respectively as of the end of June compared to the same period the year before. Defense expenditures and health expenditures rose by 14.5 and 13.2%, respectively. Under health item, expenditures about green card services elevated by 16.3% and the realization rate stood at 55.6%, 5 point above that for the same period the year before.

Table 4. May-June End Comparative Budget Expenditures for 2008 and 2009

(million YTL)	May					June				
	2008	2009	Rate of increase (%)	2008 Real. Rate (%)	2009 Real. Rate (%)	2008	2009	Rate of increase (%)	2008 Real Rate (%)	2009 Real Rate (%)
Central Government Budget Expenditures	**86.023**	**106.898**	**24,3**	**38,1**	**41,2**	**100.589**	**124.831**	**24,1**	**44,5**	**48,2**
Primary Expenditures	**66.425**	**80.780**	**21,6**	**37,9**	**40,1**	**79.849**	**97.589**	**22,2**	**45,5**	**48,4**
I. Compensation for Employees	**20.522**	**23.783**	**15,9**	**42,0**	**41,6**	**24.506**	**28.469**	**16,2**	**50,2**	**49,8**
II. Government Premiums to Social Security Ag	**2.568**	**2.882**	**12,2**	**40,1**	**39,8**	**3.053**	**3.446**	**12,9**	**47,7**	**47,6**
III. Good and Services Procurements	**7.426**	**8.798**	**18,5**	**31,0**	**34,6**	**9.161**	**10.699**	**16,8**	**38,3**	**42,0**
Health Expenditures	2.602	2.959	13,7	38,5	41,8	3.102	3.510	13,2	45,9	49,6
General Medicine Expenditures	364	366	0,6	38,5	32,0	424	446	5,2	44,9	39,0
General Cure and Pharmaceutical Products	619	659	6,4	34,6	36,0	715	781	9,3	40,0	42,7
Green Card	1.619	1.934	19,5	40,2	47,1	1.963	2.283	16,3	48,7	55,6
Defense-Security (excluding health)	2.059	2.364	14,8	25,1	25,9	2.631	3.014	14,5	32,1	33,1
Other Goods and Services	2.765	3.475	25,7	40,4	46,2	3.427	4.175	21,8	48,8	54,4
IV. Current Transfers	**30.289**	**38.338**	**26,6**	**43,2**	**43,6**	**35.226**	**46.097**	**30,9**	**50,2**	**52,4**
Duty Losses	**681**	**2.050**	**201,2**	**33,4**	**66,5**	**770**	**2.345**	**204,4**	**37,7**	**76,1**
Treasury Aid	**17.273**	**22.680**	**31,3**	**44,6**	**44,9**	**19.305**	**27.559**	**42,8**	**49,8**	**54,6**
Treasury Aid to Social Security Agencies	371	412	10,9	36,3	39,3	449	493	9,7	44,0	47,0
Health, Retirement & Social Aid Expenditures	15.844	21.116	33,3	45,1	45,2	17.594	25.722	46,2	50,1	55,1
Social Security Deficit Finance	12.722	11.189	-12,1	49,2	52,3	13.433	13.989	4,1	52,0	65,4
Transfers to Non-financial establishments	**191**	**483**	**152,4**	**43,1**	**58,1**	**199**	**501**	**151,8**	**44,9**	**60,3**
Transfers to Households	**505**	**542**	**7,3**	**46,3**	**41,0**	**533**	**612**	**14,8**	**48,8**	**46,3**
Agricultural Subsidies	**3.935**	**3.424**	**-13,0**	**67,7**	**69,1**	**4.451**	**3.661**	**-17,7**	**76,6**	**73,9**
Other Transfers to Households	**162**	**307**	**89,3**	**18,3**	**36,3**	**276**	**327**	**18,4**	**31,3**	**38,7**
Social Transfers	**95**	**342**	**258,4**	**21,6**	**40,4**	**121**	**425**	**249,6**	**27,5**	**50,1**
Foreign Transfers	**218**	**326**	**49,3**	**35,8**	**38,4**	**255**	**377**	**47,9**	**41,9**	**44,5**
Shares from Revenues	**7.229**	**8.185**	**13,2**	**36,1**	**33,1**	**9.315**	**10.290**	**10,5**	**46,5**	**41,6**
V. Capital Expenditures	**2.960**	**3.706**	**25,2**	**16,1**	**25,0**	**4.679**	**4.987**	**6,6**	**25,4**	**33,6**
VI. Capital Transfers	**796**	**905**	**13,7**	**25,1**	**32,0**	**1.126**	**1.177**	**4,5**	**35,5**	**41,7**
Domestic Capital Transfers	781	902	15,5	25,7	34,1	1.107	1.174	6,0	36,4	44,3
Foreign Capital Transfers	15	3	-82,9	11,5	1,5	19	3	-85,2	14,5	1,6
VII. Lending	**1.864**	**2.367**	**27,0**	**42,3**	**50,8**	**2.098**	**2.714**	**29,3**	**47,6**	**58,2**
Domestic Lending	1.772	2.188	23,5	44,5	50,5	2.000	2.501	25,0	50,3	57,7
Foreign Lending	92	179	94,6	21,3	54,9	98	213	116,7	22,8	65,3
VIII. Reserve Appropriations	**0**	**0**				**0**	**0**			
Interest Expenditures	**19.598**	**26.119**	**33,3**	**38,7**	**45,4**	**20.740**	**27.242**	**31,4**	**40,9**	**47,4**

Compared to the same period the year before, capital expenditures increased by 6.6% and capital transfers rose by 4.5%. Considering that investment expenditures and investment-aimed transfers gained pace in particular at the end of the year, the changes in the rise of total expenditures originating from these items become an important issue.

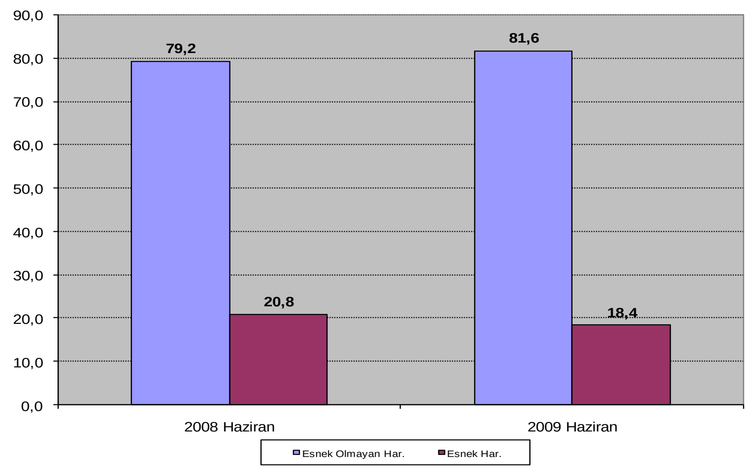
Table 5. Contribution of May and June Month End Central Government Budget Expenditures to Primary Expenditures

	May		June	
	Contribution to Rate of Increase	(%) Change	Contribution to Rate of Increase	(%) Change
Primary Expenditures	**21,6**	**100,0**	**22,2**	**100,0**
Current Expenditures	**7,0**	**32,3**	**6,9**	**31,0**
Personnel	4,9	22,7	5,0	22,3
Goods and Services Purchases	2,1	9,6	1,9	8,7
Health	0,5	2,5	0,5	2,3
Defense and Security	0,5	2,1	0,5	2,2
Current Transfers	**12,1**	**56,1**	**13,6**	**61,3**
Treasury Aid to Social Security Agencies.	0,1	0,3	0,1	0,2
Health, Retirement and Social Aid Expenditures	7,9	36,7	10,2	45,8
Agricultural Transfers	-0,8	-3,6	-1,0	-4,5
Shares from Revenues	1,4	6,7	1,2	5,5
Capital Expenditures	**1,1**	**5,2**	**0,4**	**1,7**
Capital Transfers	**0,2**	**0,8**	**0,1**	**0,3**
Other	**0,8**	**3,5**	**0,8**	**3,5**

It is seen that as of the end of June, the share of inflexible expenditures[1] in total expenditures reached 81.6% and share of flexible expenditures reached 18.4 percent. Therefore, share of flexible expenditures dropped by 2.4 percent compared to the same period the year before. These rates and change patterns indicate that in the first half of the year, funds are transferred toward inflexible expenditures, administrative control of which is quite low. It also appears clearly that the rise in flexible expenditures in the second half of the year will push up budget deficit further.

[1] Major inflexible expenditures are made to fulfill obligations such as interest and personnel expenditures and transfers to social security agencies.

Graph 7. Change in the Share of Flexible and Inflexible Expenditures in the Budget Expenditure (2008 – 2009 June)



C. Budget Revenues

In the first half of the year, central government budget expenditures decreased by 1% compared to the same period last year and stood at 101.6 billion TL. Tax revenues decreased by around 4%; and the 45% rise in enterprise and property revenues prevented further deterioration in total budget revenues.

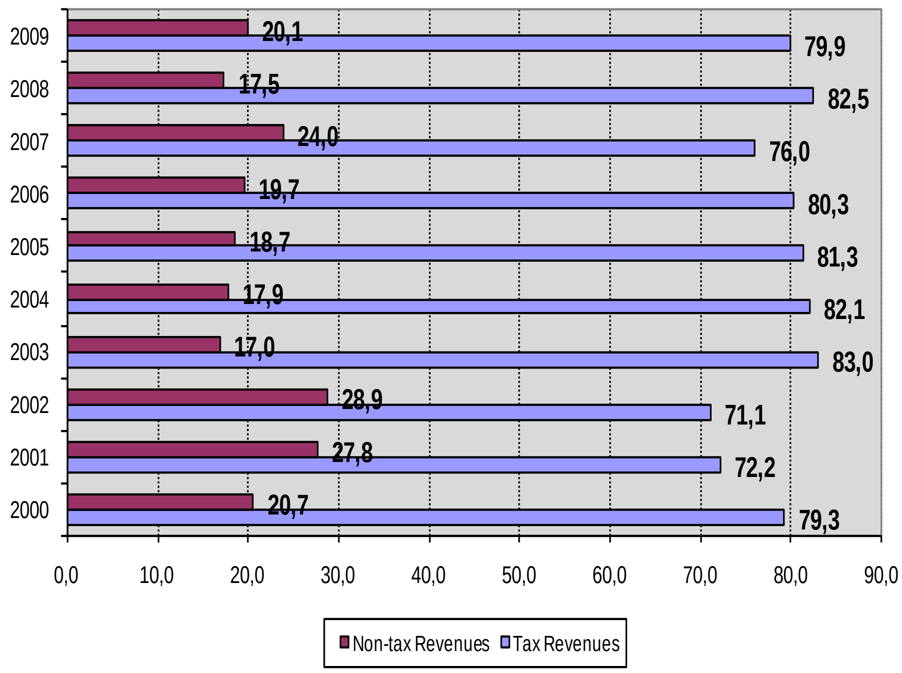
Collection of tax revenues decreased to 79.1 billion TL with a 4.4% drop compared to the same period last year. When some tax raises implemented as a one-time measure is excluded, drops in tax revenues become more striking. Realization of tax revenues far below the budget target for the first half of the year led to a level of budget deficit far above targets. Based on the revised targets as introduced with Pre-accession Economic Program, realization rates for total budget revenues and tax revenues as of the end of June are 52% and 46%, respectively.

Table 6. Central Government Budget Revenues (May-June)

(million YTL)	May 08	May 09	Rate of Change (%)	June 08	June 09	Rate of Change (%)
Central Government Revenues	**83.962**	**86.215**	**2,68**	**102.393**	**101.626**	**-0,75**
General Budget Revenues	**81.299**	**83.302**	**2,46**	**99.344**	**98.287**	**-1,06**
I-Tax Revenues	**70.060**	**66.233**	**-5,46**	**82.752**	**79.083**	**-4,43**
1. Taxes on Income, Profits and Capital Gains	**23.658**	**23.462**	**-0,83**	**26.628**	**26.097**	**-1,99**
a) Income Tax	**16.120**	**16.287**	**1,04**	**18.914**	**18.972**	**0,31**
Based on Deduction	14.511	14.620	0,75	17.227	17.215	-0,07
b) Corporation Tax	**7.538**	**7.175**	**-4,82**	**7.714**	**7.125**	**-7,63**
Provisional Tax	6.932	6.706	-3,25	7.090	6.646	-6,27
2. Taxes on Property	**1.923**	**2.041**	**6,14**	**2.071**	**2.245**	**8,40**
b) Motor Vehicles Tax	1.886	1.990	5,55	2.016	2.157	7,00
3. Domestic Taxes on Goods and Services	**26.697**	**27.322**	**2,34**	**32.393**	**33.335**	**2,91**
a) Domestic VAT	**7.081**	**7.878**	**11,26**	**8.442**	**9.517**	**12,74**
b) Special Consumption Tax	**16.121**	**15.625**	**-3,08**	**19.775**	**19.305**	**-2,38**
c) Banking and Insurance Transactions Tax	**1.546**	**1.844**	**19,29**	**1.796**	**2.158**	**20,14**
d) Gambling Tax	**169**	**186**	**10,60**	**201**	**219**	**9,12**
e) Special Communication Tax	**1.781**	**1.789**	**0,45**	**2.180**	**2.137**	**-1,97**
4. Taxes on International Trade and Transactions	**13.971**	**9.621**	**-31,13**	**17.086**	**12.865**	**-24,71**
b) VAT on Imports	12.738	8.636	-32,20	15.590	11.661	-25,20
5. Stamp Duties	**1.669**	**1.725**	**3,39**	**1.979**	**2.035**	**2,81**
6. Fees	**2.125**	**1.834**	**-13,67**	**2.573**	**2.272**	**-11,68**
7. Other Taxes Not Elsewhere Classified	**18**	**227**	**1175,65**	**22**	**234**	**969,37**
II-Property Income	**4.439**	**6.853**	**54,36**	**5.035**	**7.313**	**45,23**
III-Grants and Aids and Special Revenues	**419**	**432**	**3,16**	**356**	**522**	**46,74**
IV-Interests, Shares and Fines	**6.296**	**8.241**	**30,89**	**9.171**	**9.799**	**6,85**
1.Interests	1.508	2.192	45,37	1.943	2.488	28,09
V-Capital Revenues	**84**	**1.378**	**1541,56**	**2.030**	**1.397**	**-31,16**
VI-Collections from Loans	**0**	**164**		**113**	**172**	
Revenues from Special Budget Institutions	**1.557**	**1.707**	**9,63**	**1.847**	**2.016**	**9,16**
Revenues from Regulatory and Supervisory Inst.	**1.106**	**1.206**	**9,04**	**1.203**	**1.323**	**10,02**

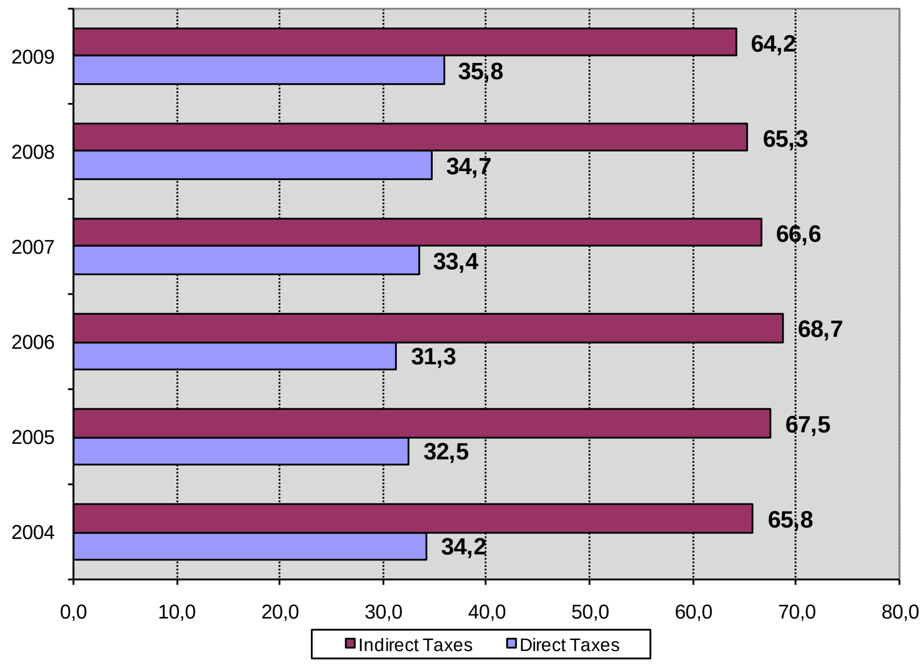
As tax revenues dropped more than total revenues in the first half of the year, share of tax revenues in general revenues decreased to 79.9%.

Graph 8. Changes in the Share of Tax Revenues and Non-tax Revenues in Total General Budget Revenue Collection (End of June) (%)



Since the economic contraction affected indirect taxes much seriously, share of direct taxes in total tax collection increased to 36%.

Graph 9. Shares of Direct and Indirect Taxes in 2004 - 2009 June and General Budget Tax Revenue Collection



When the fall in revenue collection is examined net of inflation, real decrease reaches 10%. Real fall is significant in particular for VAT on imports, special consumption tax (SCT), Income Tax Withholding, Provisional Corporation Tax and collection of fees. While real fall in the collection of VAT on imports was 29%, real fall in collection of SCT on durable consumption goods and motor vehicles exceeded 30%.

Table 7. Real Increase in General Budget Tax Revenues (Net of Inflation) (2009/2008)

	2009 Jan-June (Tho YTL)	2008 Jan-June (Tho YTL)	Change (%)	Real Change (%)
Central Government Revenues	**101.626.268**	**102.505.969**	**-0,86**	**-6,23**
General Budget Revenues	**98.286.792**	**99.456.251**	**-1,18**	**-6,53**
I-Tax Revenues	**79.083.322**	**82.751.678**	**-4,43**	**-9,61**
Taxes on Income, Profit and Capital Gains	**26.097.199**	**26.628.139**	**-1,99**	**-7,31**
Income Tax	**18.972.228**	**18.914.451**	**0,31**	**-5,13**
Based on Decleration	1.058.357	934.924	13,20	7,07
Lump-sum	172.856	155.828	10,93	4,92
Witholding Tax	17.214.702	17.227.152	-0,07	-5,49
Provisional Tax	526.313	596.547	-11,77	-16,55
Corporation Tax	**7.124.971**	**7.713.688**	**-7,63**	**-12,64**
Based on Decleration	357.178	525.153	-31,99	-35,67
Witholding Tax	121.776	98.128	24,10	17,37
Provisional Tax	6.646.017	7.090.407	-6,27	-11,35
Tax on Property	**2.244.532**	**2.070.531**	**8,40**	**2,53**
Inheritance and Gift Taxes	**87.319**	**54.396**	**60,52**	**51,83**
Motor Vehicles Taxes	**2.157.213**	**2.016.135**	**7,00**	**1,20**
Domestic Goods and Services Taxes	**33.335.211**	**32.393.094**	**2,91**	**-2,67**
Domestic VAT	**9.516.895**	**8.441.683**	**12,74**	**6,63**
Special Consumption Tax	**19.305.074**	**19.775.245**	**-2,38**	**-7,67**
SCT on Petroleum and Natural Gas	11.179.319	11.354.273	-1,54	-6,88
SCT on Motor Vehicles	1.432.915	2.039.992	-29,76	-33,57
SCT on Coke, Alcoholic Bev. & Tobacco Prod.	6.379.284	5.895.113	8,21	2,35
SCT on Durable Goods and Others	313.556	485.867	-35,46	-38,96
Bankinga and Insurance Transaction Tax	**2.157.676**	**1.796.010**	**20,14**	**13,63**
Other Taxes on Goods and Services	**2.355.566**	**2.380.156**	**-1,03**	**-6,40**
Taxes on International Trade and Transactions	**12.864.979**	**17.086.167**	**-24,71**	**-28,79**
Customs Duties	1.181.695	1.475.209	-19,90	-24,24
VAT on Imports	11.660.675	15.589.904	-25,20	-29,26
Other Taxes on International Trade and Trans.	22.609	21.054	7,39	1,57
Stamp Duties	**2.034.736**	**1.979.089**	**2,81**	**-2,76**
Fees	**2.272.313**	**2.572.743**	**-11,68**	**-16,46**
Other Taxes Not Elsewhere Classified	**234.352**	**21.915**	**969,37**	**911,41**

It is observed that the biggest contribution to the fall in tax revenues is made by VAT on imports, Provisional Corporation Tax and SCT.

Table 8. 2008-2009 May-June Month End Budget Tax Revenue Realizations and Contribution to the Rise in Revenue

million YTL	May 2009	May 2008	Rate of Increase (%)	Cont. to the Rate of Increase (%)
Tax Revenues	**66.233**	**70.060**	**-5,5**	**100,0**
Taxes on Income, Profits and Capital Gain:	**23.462**	**23.658**	**-0,8**	**5,1**
Income Tax Collection	14.620	14.511	0,7	-2,8
Provisional Corporation Tax	6.706	6.932	-3,3	5,9
Special Consumption Tax	**15.625**	**16.121**	**-3,1**	**13,0**
SCT on Petroleum and Batural Gas	9.004	9.329	-3,5	8,5
Coke, Alcoholic Beveragges and Tobacco	5.238	4.703	11,4	-14,0
VAT Collection	**16.514**	**19.819**	**-16,7**	**86,3**
VAT on Imports	8.636	12.738	-32,2	107,2
Domestic VAT	7.878	7.081	11,3	-20,8
Other Taxes	**10.632**	**10.462**	**1,6**	**-4,4**
Stamp Duties	1.725	1.669	3,4	-1,5
Fees	1.834	2.125	-13,7	7,6
Banking and Insurance Transaction Tax	1.844	1.546	19,3	-7,8
million YTL	**June 2009**	**June 2008**	**Rate of Increase (%)**	**Cont. to the Rate of Increase (%)**
Tax Revenues	**79.083**	**82.752**	**-4,4**	**100,0**
Taxes on Income, Profits and Capital Gain:	**26.097**	**26.628**	**-2,0**	**14,5**
Income Tax Collection	17.215	17.227	-0,1	0,3
Provisional Corporation Tax	6.646	7.090	-6,3	12,1
Special Consumption Tax	**19.305**	**19.775**	**-2,4**	**12,8**
SCT on Petroleum and Batural Gas	11.179	11.354	-1,5	4,8
Coke, Alcoholic Beveragges and Tobacco	6.379	5.895	8,2	-13,2
VAT Collection	**21.178**	**24.032**	**-11,9**	**77,8**
VAT on Imports	11.661	15.590	-25,2	107,1
Domestic VAT	9.517	8.442	12,7	-29,3
Other Taxes	**12.503**	**12.317**	**1,5**	**-5,1**
Stamp Duties	2.035	1.979	2,8	-1,5
Fees	2.272	2.573	-11,7	8,2
Banking and Insurance Transaction Tax	2.158	1.796	20,1	-9,9

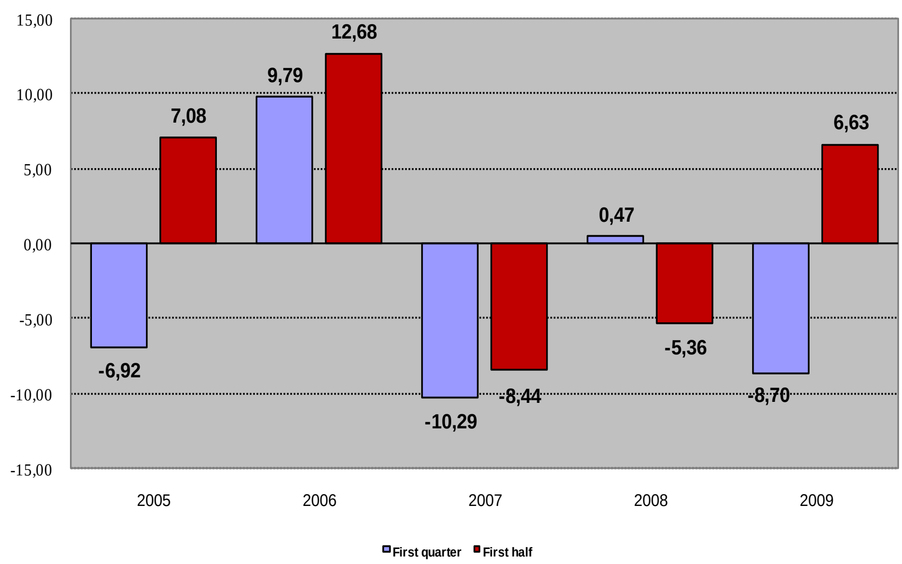
Negative sign implies an increase and positive sign implies a decrease. As tax revenues falls down in general, positive sign implies a positive contribution to the rise in tax revenues.

Consequently, we do not expect a recovery in tax revenues in the second half of the year unless there is a noticeable recovery and relative surge in Turkey' economy as well as in world economy. Under the most optimistic scenario, total tax revenue collection remains at the nominal level of 2008 collection. The most important development that creates a pessimistic picture is the fall in income tax withholding since June. If this downturn continues in the coming months and if domestic VAT collection also assumes such a trend, the risk that tax collection falls even below the 2008 level.

If we take a closer look at the evolution of some tax items to see the impacts of the changes in economic and fiscal structure:

It is observed domestic VAT collection that decreased by 8.7% in real terms in the first quarter of the year compared to the same period last year, increased by 6.6% as of the end of June thanks to the impressive performance in the second quarter of the year. However, there is a risk that VAT collection from GSM 900 frequency allocation fee and from periodic payments of some public institutions does not rise in the coming years. Whether or not this risk will grow depends on in which direction will be the impact of the measures to increase VAT collection through the recent tax arrangements, VAT raises for hotel and restaurants and the increases in SCT on fuels.

Graph 10. Real Increase in Domestic VAT Collection (%)



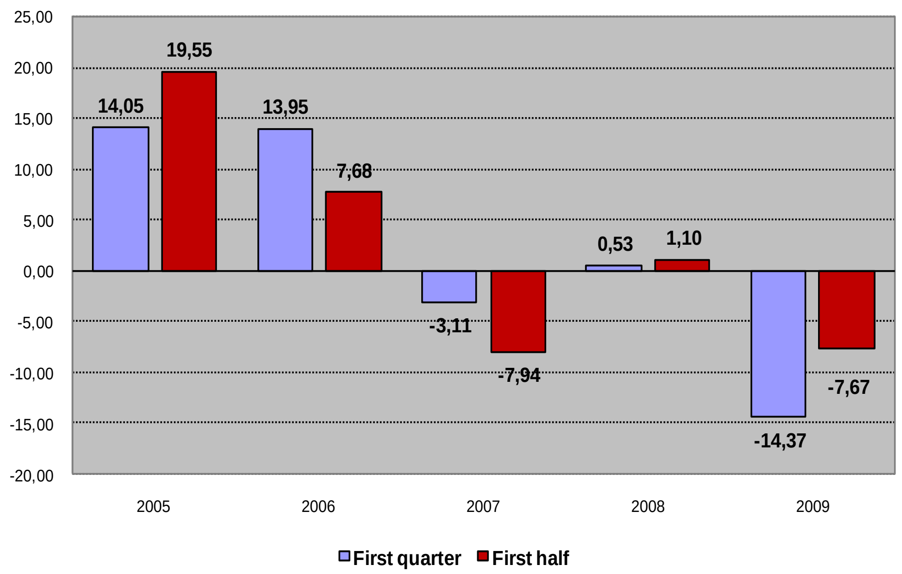
When the evolution of total SCT collection and accrual is considered;

- It is observed that collections that dropped by 14.4% in real terms over the first quarter of 2009 have reached to 7.7% as of the end of June thanks to the recovery in the second quarter.

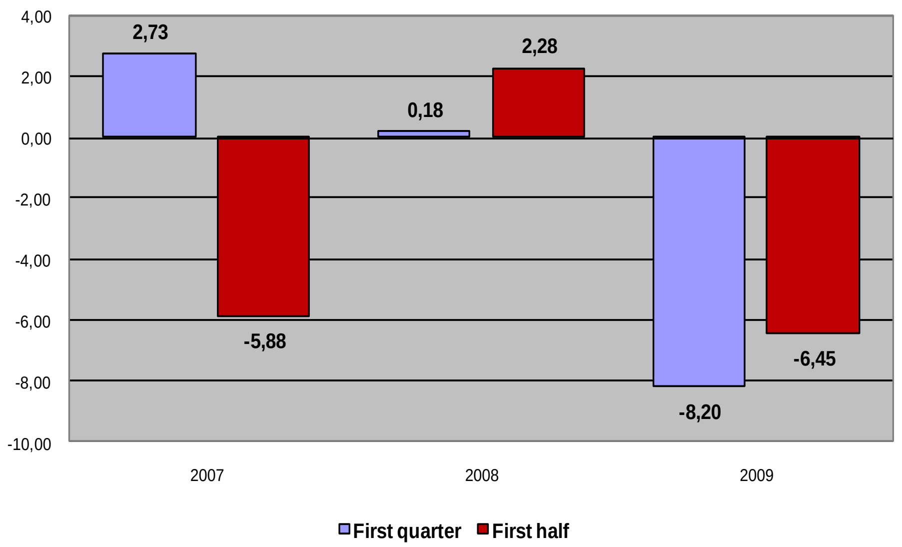
- SCT accrual has decreased by 8.2% in the first quarter of the year and 6.5% as of the end of June.

With the raises in SCT on fuel and cigarettes, the fall in SCT accrual and collection is expected to be limited as of the second half of the year.

Graph 11. Real Rise in Special Consumption Tax Collection (%)



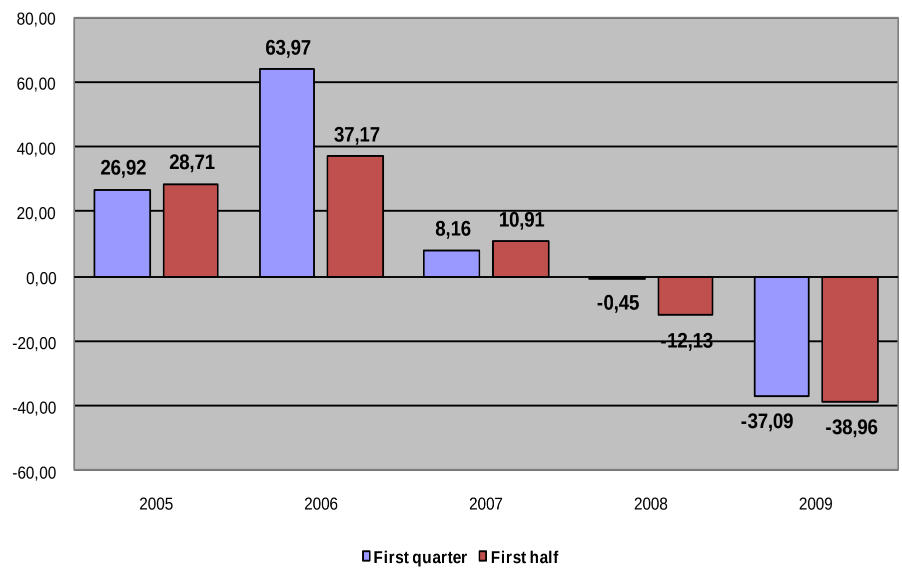
Graph 12. Real Rise in Special Consumption Tax Accrual (%)



When real evolution of SCT collection and accrual is examined on the basis of SCT collected for durable goods to take a closer look at the total demand tightening, the said tightening appears more striking. Real decrease in collection elevated from 37.1% as of the end of the first quarter of 2009 to 39% as of the end of June.

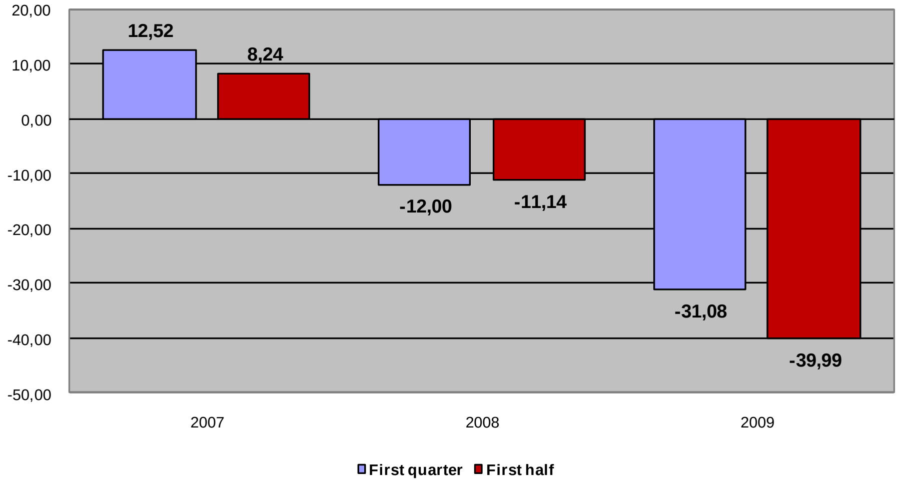
A similar result can also be observed considering accrual of SCT on durable goods. Real drop in accrual accelerated in the second quarter of the year and reached 40%.

Graph 13. Real Rise in Collection of Special Consumption Tax on Durable Goods (%, cumulative)



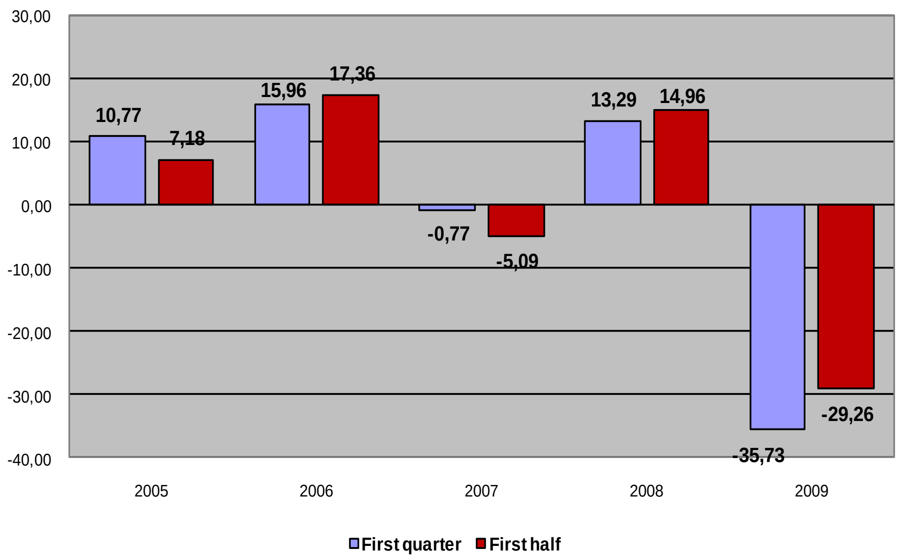
Collection and accrual of SCT on durable consumption goods was far below the previous year's level despite the cuts in SCT on durable consumption goods and the rise in consumption due to the net effect of the fall in tax rate.

Graph 14. Real Rise in Accrual of Special Consumption Tax on Durable Consumption Goods (%, cumulative)



Collection of VAT on imports deteriorated significantly with the fall in the (with the rise in the pace of the fall in imports). With the rise of the share of VAT on imports collection up to 18% of total tax collection, the fiscal pressure the fall put on the budget grew. Real decrease that transcended 35% in the first quarter of the year was improved to 29% thanks to the recovery in the second quarter.

Graph 15. Real Rise in VAT on Imports (%)



With a legal arrangement the deductions in the tax shares to be transferred to local administrations (in exchange for tax and SSI debts) will be cancelled for four months Central government budget. This will accelerate the SSI premium revenues and thus deteriorate further the fall in central government tax revenues (Please see Box 2)

Box 2.
Cancellation of the Deduction from Revenues Transferred by the Central Budget to Local Governments in Exchange for the Debts of Local Administrations for May, June, July and August and its Fiscal Effect

With the Council of Ministers Decision dated 25.5.2009, a provisional article was added to the "Principles and Procedures Concerning the Rate of Deductions in the Shares Allocated from General Budget Tax Revenue Collections for Metropolitan Municipalities and Affiliated Institutions in Exchange for Their Debts, and Concerning the Distribution of Deduced Sums Among Creditors". As per this article, for May, June, July and August 2009, deduction rates for the shares to be allocated out of general budget tax revenues will be zero percent. This implies that 25% deduction from revenues shares transferred to municipalities in exchange for their debts will be cancelled for 4 months; i.e. that no deduction will be imposed on municipalities in exchange for their debts to tax offices, SSI and other public institutions.

Fiscal effect of this arrangement, which was also implemented in previous years, will be the fall in tax revenue collections and SSI premium collections for 2009. The named public institution cannot collect the receivables from municipalities for four years as per the mentioned Council of Ministers decision, and thus 2009 revenue collections will decrease at the same level.

In the context of our estimates for 2009 budget revenue and indebted municipalities that chose to restructure their debt; the value of additional funds to be transferred to local administrations in 2009 is estimated as 1 billion TL. This means, as this amount will not enter the budget and the account of SSI, these institutions will encounter a revenue loss at the given amount, which will in turn increasing the finance requirements.

Consequently, executive body's decision to provide municipalities with the opportunity to make expenditure through the budget and the SSI by deferring their debts temporarily leads to a relative deterioration in the financial balances of these institutions. This leaves the central administration with policy options as increasing taxes and the price of public services in order to eliminate the deterioration in the budget.

II. Budget Financing and Developments in Debt Stock

Cash balance of the Treasury had a deficit of 2.4 billion TL in June 2009. Borrowing significantly above the cash deficiency, the Treasury demonstrates a tendency to accumulate reserves in this period. Net borrowing by the Treasury has reached 20.6 billion TL.

Table 8. Cash Balance of the Treasury (June)

(million YTL)	Jan*	Feb*	Mar*	April*	May*	June*	Total*
REVENUES	16.328	13.360	15.887	18.399	18.622	15.268	97.864
PRIVATIZATION AND FUND REVENUES	1	1.289	0	1.747	0	0	3.037
EXPENDITURES	18.215	26.611	20.543	20.680	19.796	17.735	123.580
Primary Expenditures	14.440	16.785	16.122	17.572	14.894	16.779	96.592
Interest Payments	3.774	9.826	4.421	3.108	4.902	956	26.988
PRIMARY BALANCE	1.888	-3.425	-235	827	3.727	-1.511	1.271
CASH BALANCE	-1.885	-11.962	-4.656	-534	-1.175	-2.467	-22.679
FINANCING	1.885	11.962	4.656	534	1.175	2.467	22.679
BORROWING (NET)	4.326	9.061	1.240	6.014	6.669	-2.275	25.036
EXTERNAL BORROWING (NET)	1.156	115	-914	-635	2.157	-2.020	-142
Utilization	1.632	721	45	11	2.348	55	4.811
Payment	475	606	958	646	192	2.075	4.953
DOMESTIC BORROWING (NET)	3.170	8.947	2.154	6.649	4.513	-255	25.177
Utilization	6.840	23.315	3.748	12.300	17.911	3.396	67.510
Payment	3.670	14.368	1.594	5.651	13.399	3.651	42.333
PRIVATIZATION REVENUES	0	0	0	0	0	0	0
TRANSFERS FROM SDIF	0	0	0	0	298	0	298
ASSIGNED -GURANTEED DEBT RETURNS	50	53	98	82	148	185	615
BANK UTILIZATION	-2.490	2.848	3.319	-5.562	-5.940	4.556	-3.269
EXCHANGE RATE DIFFERENTIAL	250	348	264	-204	59	-117	599
BANK UTILIZATION NET	-2.740	2.500	3.055	-5.357	-5.999	4.674	-3.868

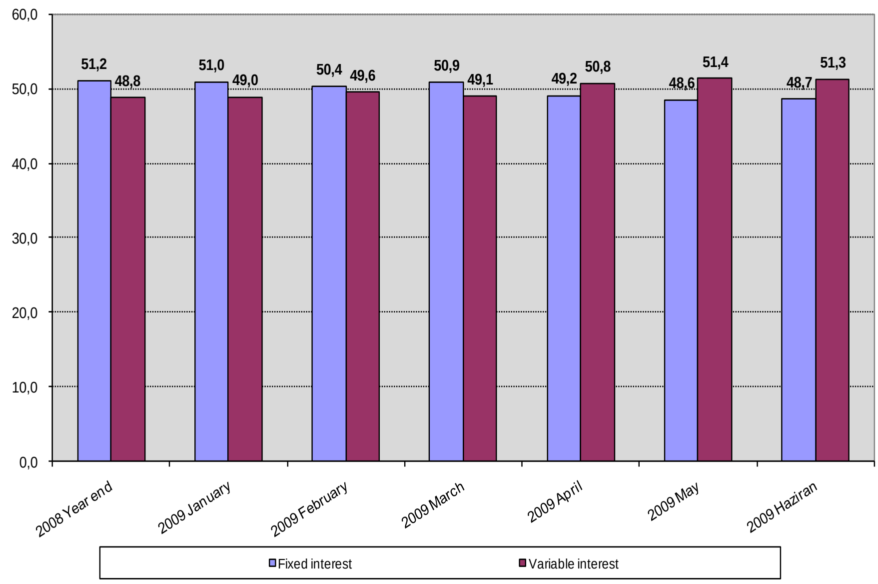
* Temporary

Table 9. General Budget Balance and Central Government Budget Balance, Comparative Table (June)

General Budget Balance		Central Government Budget Balance	
(million YTL)	End of June	(million TL)	End of June
Budget Balance	-23.431	Budget Balance	-23.205
Escrows	-5.238	Escrows	-5.162
Advances	917	Advances	932
Cash Balance	-27.753	Cash Balance	-27.435
Funding	27.753	Funding	27.435
Total Net Borrowing	27.133	Total Net Borrowing	27.133
Let Lending (-)	-52	Let Lending (-)	-55
Privatization Revenues	0	Privatization Revenues	0
Change in Cash & Other Items (-) Entry (+) Exit	567	Change in Cash & Other Items (-) Entry (+) Exit	246

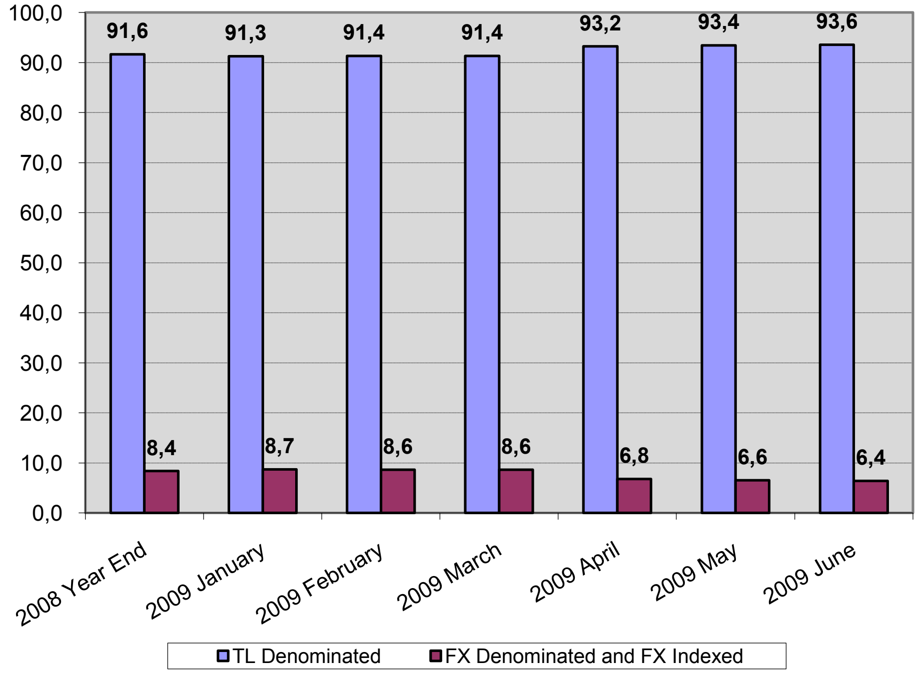
Difference between the cash balance of the Treasury and the General Budget cash balance that has to be financed is around 1.7 billion TL, in the advantage of the general budget side. This situation, which is addressed also in our previous reports, is explained with the shifts in month-end accounts.

Graph 15. Central Government Domestic Debt Stock Interest Structure



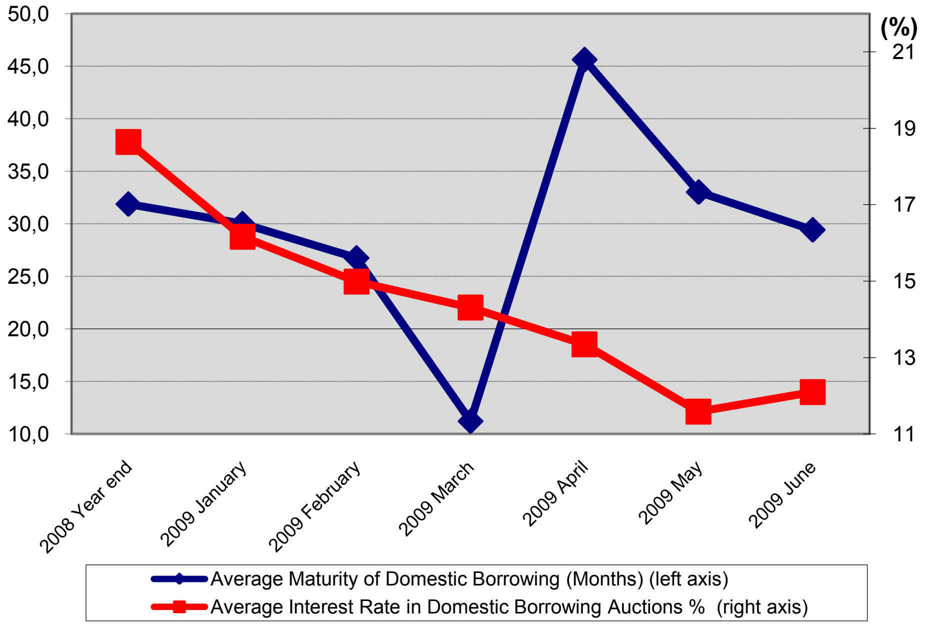
Though interest rate composition of the central government domestic debt stock did not changed significantly compared to end of 2008, the rate has changed in favor of variable interest.

Graph 16. Central Government Domestic Debt Stock TL-FX Structure



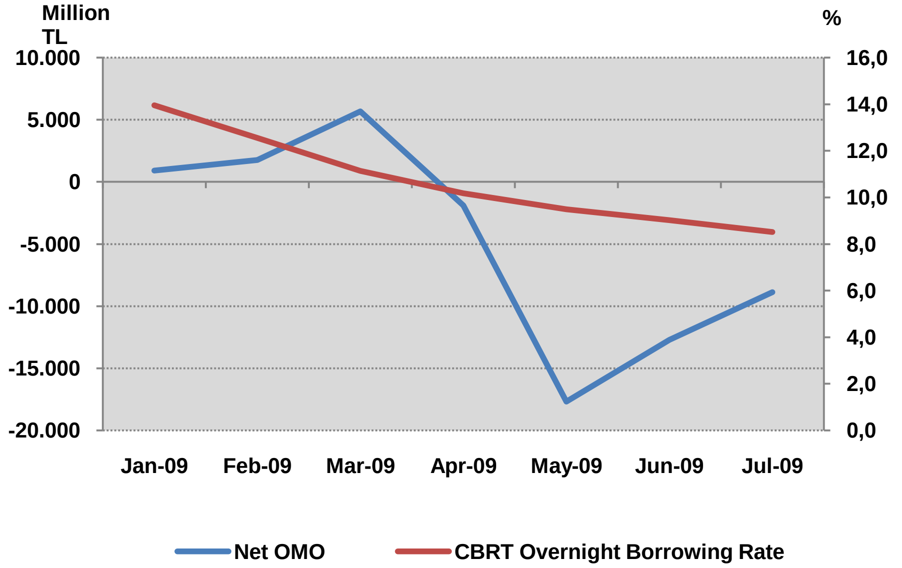
Domestic debt stock YTL-FX composition did not change significantly when compared to the end of 2008.

Graph 17. Average Maturity and Interest Rate for Domestic Borrowing



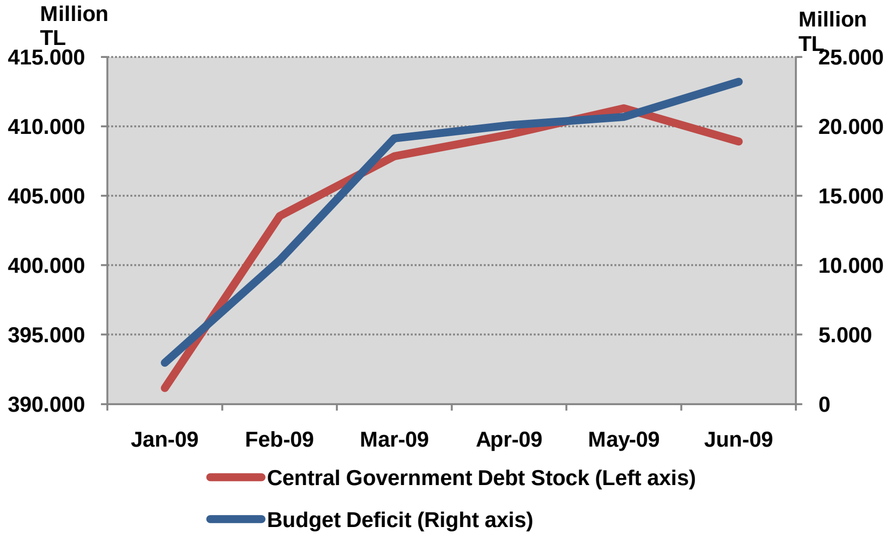
Treasury borrowing interest rates, which are expected to increase rapidly in parallel with the budget deficit, did not experience a considerable rise yet. Here, a point should be emphasized: A substantial proportion of the rising borrowing requirement of the Treasury is met via domestic borrowing. As a natural result, domestic borrowing interest rates increase in parallel with borrowing requirement. However, domestic borrowing interest rates show a downward trend. We believe that, Central Bank (CBRT) policies, though are decided with different considerations (see Central Bank Code Article 4), are perceived as Treasury-friendly. The graph below is quite informative as it shows that Central Bank, with the policy interest rate, money markets, and open market operations (OMO), continuously keeps the market liquid, and as a result indirectly supports the borrowing policy of the Treasury:

*Graph 18. Liquidity Injected Via CBRT Overnight Borrowing Interest Rate and OMO **



*Negative OMO on net basis indicates that there is excess liquidity in the market.

Graph 19. Central Government Debt Stock and Budget Deficit



Such cooperation, as was seen in 1990s, is aimed to roll over public debt, i.e. manage to preserve the existing conditions, in particular in periods with fiscal policy uncertainties; and the sustainability of such practices in the medium term is quite debatable unless fiscal policy is disciplined.

III. Automatic Stabilizers and Turkey Experience - Dilemma of the Fiscal Policy

General framework

As also mentioned before, fiscal policy can react an economic recession in two ways: First, in a contracting economy, while tax revenues fall down, income not spend for taxes can be used for consumption, which can be the locomotive of the economic recovery. Moreover, in the contractionary periods, some expenditure items like social security expenditures rise automatically. As a result, the rise in budget deficit enables the economy to go back to full employment without needing any decision of the government (voluntary fiscal policy). Second, apart from these mechanisms known as automatic stabilizers, budget deficit can be increased and recession can be tackled with tax cuts and expenditure rises.

It is known that there is a difference of opinion between those arguing that automatic stabilizers is enough for returning to full employment and there is no need for state intervention via voluntary fiscal policies and those arguing that free market economy does not provide such flexibility and thus return to full employment can be achieved with expenditure increasing policies by the state. In practice, Keynesian policies of the 1930 depression and fiscal stimulus policies (tax reducing, expenditure and liquidity generating) of the current period implemented in industrialized countries, primarily in USA, imply that there are question marks about the "automaticity" of the automatic stabilizers. Besides, literature suggests that there are some prerequisites for the effectiveness of automatic stabilizers (such as the elasticity of tax system).

When the issue is assessed with a Turkey lens, there appears an interesting picture. On the one hand, all the details given in previous sections certify that the tax system reflects typical characteristics of recessionary periods. However, though the fall in tax revenues in parallel with the contraction in the national income there are still some prerequisites for economic units increasing their spending power using the income originally allocated for taxes and thus helping out with economic recovery. To put it differently, there are some preconditions for automatic stabilizers to work. Among these, the most important condition is that elasticity of the tax system must be greater than 1 and there should be no indebtedness problem between economic units. The Table and Graph below indicates that the elasticity has decreased lately in some certain tax items. Moreover, rise in consumer debts and break down of credit channels in crisis periods lead to the limitation of private spending eliminating the automatic stabilizing features of taxes.

In Turkey, unemployment payments system is the most important element of the spending system expected to work as an automatic stabilizer. Nonetheless, slow operation of this system constrains to a large extent the automatic stabilizer features. As the SSI deficit arising from employment losses is met by the state as per the relevant law, the functions of the unemployment payments is compensated for to a certain degree. However, it is possible to state that general inelasticity of the tax system plays a significant role in the inefficiency of the budget system as an automatic stabilizer.

The interesting aspect of the system is that though tax system is inflexible, revenues decrease more rapidly than previous years while on the other hand, inflexible budget expenditures remains and however, such budget deficit fails to end recession automatically. As also stated above, the reason is that the system cannot fulfill the preconditions to be automatic stabilizers.

A possible solution is using fiscal policy to exit the recession through increasing expenditures and accelerating tax cuts with voluntary fiscal policies. But it is observed that, though the government addressed such measure packages at the first stages, recently policies in the opposite direction is followed as manifested with tax raises.

Therefore, the role of fiscal policy in recovering from recession in countries with chronic debt problem, an issue not widely addressed in literature, comes to forefront. In countries like Turkey, the biggest impediment beyond contributing to the economic recovery by increasing budget deficit with voluntary fiscal policy actions appears as the problem of public debt. Given the problem of financing budget deficit, which rises automatically but fails to ensure recovery from the recession, debt problem will inevitably intensify if the deficit is pushed up further with voluntary fiscal policies. In that case, each step to be taken in the direction of reducing budget deficit in order to built confidence in the market and to ensure fiscal discipline will lead to inefficiency of fiscal policy in overcoming the recession. Given that the elections will be held in 2011, and that early elections might be called in 2010; this obviously is not a politically desirable option.

Consequently, we believe that public authority is in a dilemma considering fiscal policy and that this dilemma possibly played a role in the delays in the revision of 2009 Budget in line with the recent developments and in the publication of Medium Term Program and Medium Term Fiscal Plan.[2]

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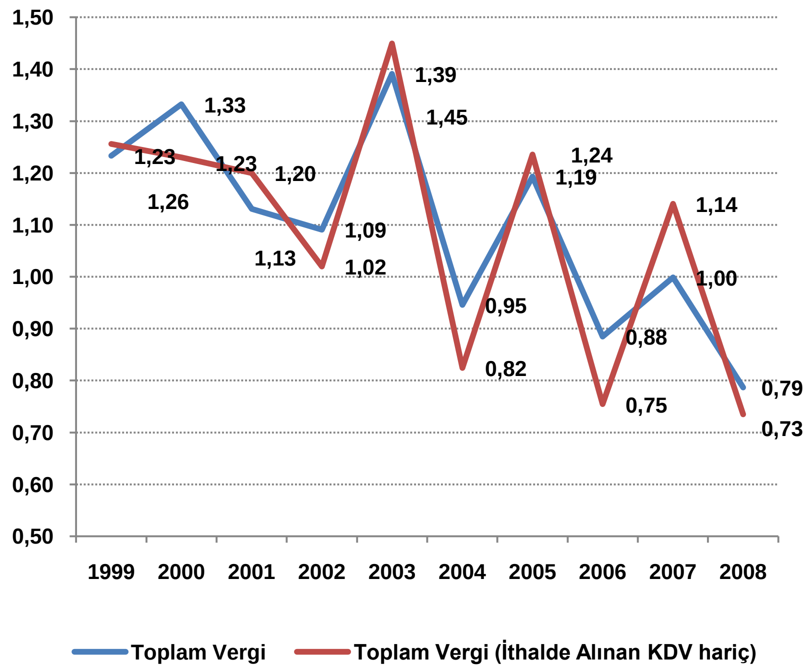
[2] We are planning to carry out a comprehensive analysis on this hypothesis in a study to be conducted by Prof. Dr. Abuzer Pınar, Assoc.Prof. H. Hakan Yılmaz, Lecturer Ferhat Emil and graduate student Ceren Saral from Ankara University Faculty of Political Sciences Department of Public Finance.

Box 3:

Tax Elasticity in Turkey

It is observed that tax elasticity demonstrated a tendency to decrease from 1999 to 2008. Elasticity average which was above 1 before 2004 then fell below 1. The reason why tax elasticity was above 1 before 2004 is that, in the period where fiscal measures of the stability program were densely implemented, 70% of the measures decided and implemented in order to achieve the targeted primary surplus constituted of those increasing tax revenues.[3]

Graph 20. Total Tax Elasticity (1999-2008)

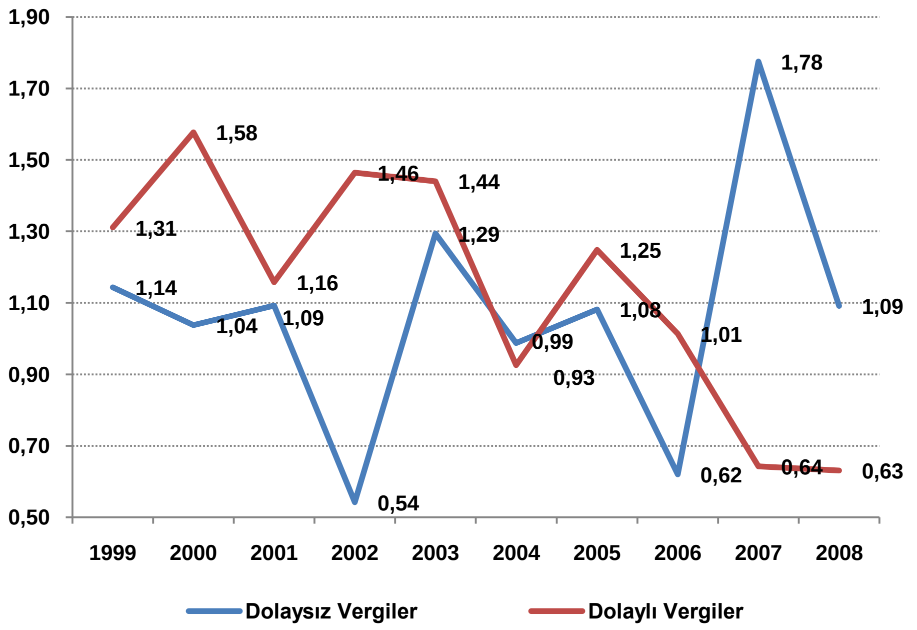


In this context, without differentiating the decisions to increase tax revenues, tax elasticity average in Turkey between 1999 and 2008 is calculated as 1.1. In the 2004-2008 period, this rate falls to 0.96. This suggests that tax elasticity, which was 1.24 in the 1999-2003 period, dropped to 0.96 in the 2004-2008 period. When VAT on imports is excluded, the rate decreases further by 0.2 points. It is also observed that in the 1999-2008 period

[3] For detailed assessments, please see Yılmaz, H. Hakan, Türkiye'de 2000 Sonrası Dönemde Uygulanan İstikrar Programlarında Mali Uyumda Kalite Sorunu, 2007 TEPAV publication

indirect taxes had a more elastic structure whereas in 2004-2008, direct taxes had a more elastic structure. As also stated above, indirect taxes appear higher as the implemented measures mainly focused on indirect taxes, and in particular on VAT.

Graph 21. Tax Elasticity for Indirect and Direct Taxes (1999-2008)



As a result, it is noticed that, based on the corrected figures, tax elasticity in Turkey is below 1, indicating that elasticity is not as high as expected and shows a downward trend. This is of importance in two senses:

First, tax elasticity of 1.33 as estimated in 2009 budget proposal is not only unrealistic, but also damages the credibility of the budget.[4]

Second, in periods of economic expansion and recession, downward and upward movement of taxes is more limited. Though total tax elasticity in the first quarter of 2009 is 2.34;

[4] For detailed assessment, please see. 2008 September-October Fiscal Monitoring Report, TEPAV

this falls to – 0.05 when VAT on imports is excluded, meaning that total tax revenues excluding VAT on imports increase even slightly while the economy contracts.

ANNEXES

Annexed Table 1. 2009 Central Government Budget Allowances and Expenditures (End of June)

	Jan-March	Apr-June	Jul-Sept	Oct-Dec	Total	2009 Budget	(%) Realization	Composition of Expenditures (%)
Expenditures	66.424.698	58.406.078	0	0	124.830.776	259.155.933	48,17	100,00
Primary Expenditures	48.334.482	49.254.141	0	0	97.588.623	201.655.903	48,39	78,18
I. Compensation of Employees	14.496.612	13.972.308	0	0	28.468.920	57.211.200	49,76	22,81
Civil Servants	12.494.488	11.531.024	0	0	24.025.512	47.650.824	50,42	19,25
Workers	650.057	929.429	0	0	1.579.486	4.103.648	38,49	1,27
Other	1.352.067	1.511.855	0	0	2.863.922	5.456.728	52,48	2,29
II. Govn. Premiums to Social Sec. Agencies	1.769.422	1.677.018	0	0	3.446.440	7.242.800	47,58	2,76
Civil Servants	1.472.939	1.297.712	0	0	2.770.651	5.857.701	47,30	2,22
Workers	123.362	189.196	0	0	312.558	698.623	44,74	0,25
Other	173.121	190.110	0	0	363.231	686.476	52,91	0,29
III. Good and Service Procurements	4.801.531	5.897.277	0	0	10.698.808	25.453.678	42,03	8,57
Defense and Security	1.257.007	1.756.532	0	0	3.013.539	9.113.219	33,07	2,41
Ministry of Defense	1.001.617	1.337.015	0	0	2.338.632	7.144.231	32,73	1,87
General Command of Gendarme	160.502	253.605	0	0	414.107	1.273.708	32,51	0,33
General Directorate of Security	94.888	165.912	0	0	260.800	695.280	37,51	0,21
Health Expenditures	1.756.559	1.753.747	0	0	3.510.306	7.084.000	49,55	2,81
Cure and Pharm. Prod. Exp. of Persons with Green Card	1.223.752	1.059.104	0	0	2.282.856	4.109.000	55,56	1,83
Medicine Expenditures	187.361	258.835	0	0	446.196	1.145.272	38,96	0,36
Cure and Pharmaceutical Products	345.446	435.808	0	0	781.254	1.829.728	42,70	0,63
General Debt Expenditures	26.826	4.704	0	0	31.530	145.000	21,74	0,03
Other Goods and Services Expenditures	1.761.139	2.382.294	0	0	4.143.433	9.111.459	45,47	3,32
IV. Current Transfers	24.179.364	21.917.831	0	0	46.097.195	87.955.756	52,41	36,93
Duty Losses	1.470.751	874.219	0	0	2.344.970	3.081.194	76,11	1,88
Duty Losses of Public Enterprises	1.235.752	608.000	0	0	1.843.752	2.004.999	91,96	1,48
Financial Institutions	178.482	192.243	0	0	370.725	750.000	49,43	0,30
Other Duty Losses	56.517	73.976	0	0	130.493	326.195	40,00	0,10
Treasury Aid	14.187.188	13.371.617	0	0	27.558.805	50.500.901	54,57	22,08
Treasury Aid to Social Security Agencies	252.659	240.145	0	0	492.804	1.048.000	47,02	0,39
Unemployment Insurance Fund	252.659	240.145	0	0	492.804	1.048.000	47,02	0,39
Provincial Offices	509.287	315.565	0	0	824.852	1.595.238	51,71	0,66
Municipalities	56.350	2.510	0	0	58.860	128.823	45,69	0,05
Other (provincial offices and villages)	452.937	313.055	0	0	765.992	1.466.415	52,24	0,61
Other Treasury Aids	246.580	272.506	0	0	519.086	1.167.663	44,46	0,42
DFİF	126.000	125.000	0	0	251.000	500.000	50,20	0,20
Other	120.580	147.506	0	0	268.086	667.663	40,15	0,21
Transfers to Non-financial Establishments	297.810	203.365	0	0	501.175	831.169	60,30	0,40
Transfers to Households	259.284	352.923	0	0	612.207	1.321.514	46,33	0,49
Scholarships & Pocket Money	146.229	181.602	0	0	327.831	615.025	53,30	0,26
Other Transfers for Education	64.985	105.629	0	0	170.614	527.042	32,37	0,14
Transfers for Health	13.783	14.132	0	0	27.915	68.609	40,69	0,02
Transfers for Foods	31.761	49.255	0	0	81.016	100.783	80,39	0,06
Transfers for Accomodation	2.526	2.305	0	0	4.831	10.055	48,05	0,00
Agricultural Subsidies	2.355.679	1.305.293	0	0	3.660.972	4.951.301	73,94	2,93
Direct Revenue Support	1.063.000	6.500	0	0	1.069.500	1.254.600	85,25	0,86
Differential Paying Supporting	563.000	985.000	0	0	1.548.000	1.870.200	82,77	1,24
Stockbreeding Support	595.000	253.000	0	0	848.000	1.182.600	71,71	0,68
Other	134.679	60.793	0	0	195.472	643.901	30,36	0,16
Other Transfers to Households	201.384	125.970	0	0	327.354	845.999	38,69	0,26
Social Transfers	192.298	232.412	0	0	424.710	847.092	50,14	0,34
Foreign Transfers	198.645	178.334	0	0	376.979	847.586	44,48	0,30
Shares from Revenues	5.016.325	5.273.698	0	0	10.290.023	24.729.000	41,61	8,24
V. Capital Expenditures	1.109.714	3.877.123	0	0	4.986.837	14.838.999	33,61	3,99
VI. Capital Transfers	387.330	789.281	0	0	1.176.611	2.824.819	41,65	0,94
VII. Lending	1.590.509	1.123.303	0	0	2.713.812	4.660.842	58,23	2,17
Domestic Lending	1.486.509	1.014.303	0	0	2.500.812	4.334.842	57,69	2,00
Public Enterprises	1.141.253	572.800	0	0	1.714.053	1.869.000	91,71	1,37
Risk Account	0	0	0	0	0	550.000	0,00	0,00
Other	345.256	441.503	0	0	786.759	1.915.842	41,07	0,63
Foreign Lending	104.000	109.000	0	0	213.000	326.000	65,34	0,17
Cyprus	104.000	109.000	0	0	213.000	326.000	65,34	0,17
VIII. Reserve Appropriations	0	0	0	0	0	1.467.809	0,00	0,00
Interest Expenditures	18.090.216	9.151.937	0	0	27.242.153	57.500.030	47,38	21,82
I. Domestic Interest	15.393.440	8.129.608	0	0	23.523.048	48.971.000	48,03	18,84
II. Foreign Debt Interest	2.678.709	1.005.494	0	0	3.684.203	6.308.030	58,40	2,95
III. Interest of Discount & Short Term Cash Operation	18.067	16.835	0	0	34.902	2.221.000	1,57	0,03

Annexed Table 2. Central Government Budget Expenditures, Comperative 2008-2009 (End of June)

	2008				2009				Rate of Increase	
	June	Total	Realization	Realization rate	June	Total	Budget estimate	Realization rate	June	Total
Central Government Budget Expenditures	14.565.859	100.588.532	225.967.471	44,5	17.932.371	124.830.776	259.155.933	48,2	23,1	24,1
Primary Expenditures	13.423.909	79.848.723	175.306.166	45,5	16.809.105	97.588.623	201.655.903	48,4	25,2	22,2
Compensation for Employees	3.983.843	24.506.018	48.824.636	50,2	4.685.801	28.468.920	57.211.200	49,8	17,6	16,2
Government Premiums to Social Security Agencies	485.143	3.052.826	6.401.679	47,7	564.296	3.446.440	7.242.800	47,6	16,3	12,9
Good and Services Procurements	1.735.273	9.160.912	23.940.547	38,3	1.900.419	10.698.808	25.453.678	42,0	9,5	16,8
Defense-Security	572.492	2.631.416	8.187.995	32,1	649.834	3.013.539	9.113.219	33,1	13,5	14,5
Health Expenditures	500.387	3.102.208	6.764.102	45,9	551.119	3.510.306	7.084.000	49,6	10,1	13,2
General Cure and Pharmaceutical Products	95.966	715.010	1.787.785	40,0	122.312	781.254	1.829.728	42,7	27,5	9,3
General Medicine Expenditures	60.614	424.228	945.583	44,9	80.237	446.196	1.145.272	39,0	32,4	5,2
Medicine Expenditures of Persons Having Green Card	343.807	1.962.970	4.030.734	48,7	348.570	2.282.856	4.109.000	55,6	1,4	16,3
General Debt Expenditures	1.431	47.418	87.791	54,0	1.064	31.530	145.000	21,7	-25,6	-33,5
Other Goods and Services	660.963	3.379.870	8.900.659	38,0	698.402	4.143.433	9.111.459	45,5	5,7	22,6
Current Transfers	4.936.464	35.225.506	70.115.598	50,2	7.758.742	46.097.195	87.955.756	52,4	57,2	30,9
Duty Losses	89.684	770.263	2.040.518	37,7	294.951	2.344.970	3.081.194	76,1	228,9	204,4
Duty Losses of Public Enterprises	40.000	402.000	1.283.537	31,3	206.000	1.843.752	2.004.999	92,0	415,0	358,6
Financial Institutions	36.000	270.034	573.159	47,1	70.319	370.725	750.000	49,4	95,3	37,3
Other Duty Losses	13.684	98.229	183.822	53,4	18.632	130.493	326.195	40,0	36,2	32,8
Treasury Aid	2.032.075	19.304.681	38.768.630	49,8	4.878.644	27.558.805	50.500.901	54,6	140,1	42,8
Treasury Aid to Social Security Agencies	78.174	449.364	1.022.167	44,0	81.077	492.804	1.048.000	47,0	3,7	9,7
Unemployment Insurance Fund	78.174	449.364	1.022.167	44,0	81.077	492.804	1.048.000	47,0	3,7	9,7
Health, Retirement & Social Aid Expenditures	1.749.952	17.593.721	35.133.382	50,1	4.606.367	25.722.063	46.690.000	55,1	163,2	46,2
Government Social Security Contribution	0	0	1.718.300		925.645	5.439.945	12.268.000	44,3		
Social Security Deficit Finance	710.740	13.433.172	25.849.685	52,0	2.800.000	13.989.100	21.378.000	65,4	294,0	4,1
Other	1.039.212	4.160.549	7.565.397	55,0	880.722	6.293.018	13.044.000	48,2	-15,3	51,3
Treasury Aid to Provincial Offices	132.960	912.884	1.917.527	47,6	113.092	824.852	1.595.238	51,7	-14,9	-9,6
Other Treasury Aids	70.989	348.712	695.554	50,1	78.108	519.086	1.167.663	44,5	10,0	48,9
Transfers to Non-financial establishments	7.672	199.058	443.784	44,9	18.154	501.175	831.169	60,3	136,6	151,8
Transfers to Households	28.020	533.257	1.091.651	48,8	70.236	612.207	1.321.514	46,3	150,7	14,8
Agricultural Subsidies	515.998	4.450.530	5.809.045	76,6	237.196	3.660.972	4.951.301	73,9	-54,0	-17,7
Differential Paying Supporting	500.000	1.848.000	1.848.000	100,0	230.000	1.548.000	1.870.200	82,8	-54,0	-16,2
Stockbreeding Support	0	1.028.872	1.095.465	93,9	0	848.000	1.182.600	71,7	#SAYI/0!	-17,6
Other Agricultural Transfers	15.998	1.573.658	2.865.580	54,9	7.196	1.264.972	1.898.501	66,6	-55,0	-19,6
Other Transfers to Households	114.423	276.468	883.509	31,3	20.641	327.354	845.999	38,7	-82,0	18,4
Social Transfers	25.999	121.491	441.617	27,5	82.499	424.710	847.092	50,1	217,3	249,6
Foreign Transfers	36.636	254.812	608.674	41,9	51.280	376.979	847.586	44,5	40,0	47,9
Shares from Revenues	2.085.957	9.314.946	20.028.170	46,5	2.105.141	10.290.023	24.729.000	41,6	0,9	10,5
Shares of Local Government	1.580.973	7.325.059	15.829.326	46,3	1.577.489	7.940.189	19.919.000	39,9	-0,2	8,4
Shares on Funds	464.732	1.749.946	3.554.512	49,2	426.856	1.704.518	4.220.578	40,4	-8,2	-2,6
Other Shares	40.252	239.941	644.332	37,2	100.796	645.316	589.422	109,5	150,4	168,9
Capital Expenditures	1.718.594	4.678.999	18.440.515	25,4	1.280.834	4.986.837	14.838.999	33,6	-25,5	6,6
Capital Transfers	330.365	1.126.196	3.172.592	35,5	272.096	1.176.611	2.824.819	41,7	-17,6	4,5
Domestic Capital Transfers	326.443	1.107.287	3.042.320	36,4	271.866	1.173.815	2.648.027	44,3	-16,7	6,0
Foreign Capital Transfers	3.922	18.909	130.272	14,5	230	2.796	176.792	1,6		-85,2
Lending	234.227	2.098.266	4.410.599	47,6	346.917	2.713.812	4.660.842	58,2	48,1	29,3
Domestic Lending	227.923	1.999.962	3.978.599	50,3	312.917	2.500.812	4.334.842	57,7	37,3	25,0
Foreign Lending	6.304	98.304	432.000	22,8	34.000	213.000	326.000	65,3	439,3	116,7
Reserve Appropriations	0	0	0		0	0	1.467.809	0,0		
Interest Expenditures	1.141.950	20.739.809	50.661.305	40,9	1.123.266	27.242.153	57.500.030	47,4	-1,6	31,4

Annexed Table 3. Central Government Budget Revenues, Comparative 2008-2009 (End of June)

	2009 June	2008 June	Increase (%)	Estimation in 2009 Budget	2008 Year end	RealizationCompared to 2009 BUdget (%)	Realization Compared to 2008 Year end (%)
Central Government Budget Revenues	**101.626.268**	**102.505.969**	**-0,86**	**248.758.275**	**208.898.182**	**40,85**	**49,07**
General Budget Revenues	**98.286.792**	**99.456.251**	**-1,18**	**242.957.046**	**202.790.045**	**40,45**	**49,04**
I-Tax Revenues	**79.083.322**	**82.751.678**	**-4,43**	**202.089.590**	**168.087.237**	**39,13**	**49,23**
Taxes on Income, Profits and Capital Gains	**26.097.199**	**26.628.139**	**-1,99**	**65.401.318**	**54.932.959**	**39,90**	**48,47**
Income Tax	**18.972.228**	**18.914.451**	**0,31**	**45.253.023**	**38.027.934**	**41,92**	**49,74**
Based on Declaration	1.058.357	934.924	13,20		1.808.529		51,70
Lump-sum	172.856	155.828	10,93		208.705		74,66
Witholding Tax	17.214.702	17.227.152	-0,07		34.833.466		49,46
Provisional Tax	526.313	596.547	-11,77		1.177.234		50,67
Corporation Tax	**7.124.971**	**7.713.688**	**-7,63**	**20.148.295**	**16.905.025**	**35,36**	**45,63**
Based on Declaration	357.178	525.153	-31,99		517.230		101,53
Witholding Tax	121.776	98.128	-24,10		182.834		53,67
Provisional Tax	6.646.017	7.090.407	-6,27		16.204.961		43,75
Tax on Property	**2.244.532**	**2.070.531**	**8,40**	**4.822.548**	**4.088.015**	**46,54**	**50,65**
Inheritance and Gift Taxes	87.319	54.396	60,52	122.548	144.091	71,25	37,75
Motor Vehicle Tax	2.157.213	2.016.135	7,00	4.700.000	3.943.924	45,90	51,12
DomesticGoods and Services Taxes	**33.335.211**	**32.393.094**	**2,91**	**79.065.371**	**67.252.732**	**42,16**	**48,17**
Domestic VAT	**9.516.895**	**8.441.683**	**12,74**	**19.973.859**	**16.798.948**	**47,65**	**50,25**
Special Consumption Tax	**19.305.074**	**19.775.245**	**-2,38**	**49.375.936**	**41.831.709**	**39,10**	**47,27**
SCT on Petroleum and Natural Gas	11.179.319	11.354.273	-1,54		23.941.458		47,43
SCT on Motor Vehicles	1.432.915	2.039.992	-29,76		3.804.905		53,61
SCT on Coke, Alcoholic Bev. & Tobacco Prod.	6.379.284	5.895.113	8,21		13.080.130		45,07
SCT on Durable Goods and Other Goods	313.556	485.867	-35,46		1.005.216		48,33
Banking and Insurance Transactions Tax	**2.157.676**	**1.796.010**	**20,14**	**4.100.000**	**3.695.136**	**52,63**	**48,60**
Other Taxes on Goods and Services	**2.355.566**	**2.380.156**	**-1,03**	**5.615.576**	**4.926.939**	**41,95**	**48,31**
Taxes on International Trade & Transactions	**12.864.979**	**17.086.167**	**-24,71**	**42.053.351**	**32.774.519**	**30,59**	**52,13**
Customs Duties	1.181.695	1.475.209	-19,90	3.507.979	2.767.278	33,69	53,31
VAT on Imports	11.660.675	15.589.904	-25,20	38.500.000	29.968.120	30,29	52,02
Other Taxes on International Trade & Transactions	22.609	21.054	7,39	45.372	39.121	49,83	53,82
Stamp Duties	**2.034.736**	**1.979.089**	**2,81**	**4.717.000**	**3.944.984**	**43,14**	**50,17**
Fees	**2.272.313**	**2.572.743**	**-11,68**	**5.970.002**	**5.043.297**	**38,06**	**51,01**
Taxes not Elsewhere Classified	**234.352**	**21.915**	**969,37**	**60.000**	**50.731**	**390,59**	**43,20**
II-Property Income	**7.312.851**	**5.035.370**	**45,23**	**7.362.410**	**7.297.383**	**99,33**	**69,00**
Revenues from Valuable Bank Checks	**761.961**	**756.187**	**0,76**	**1.650.000**	**1.502.834**	**46,18**	**50,32**
Revenues from SEE's and Public Banks	**3.483.965**	**3.218.538**	**8,25**	**3.346.712**	**3.876.379**	**104,10**	**83,03**
Corporation Profits	**476.209**	**495.543**	**-3,90**	**935.697**	**791.890**	**50,89**	**62,58**
Rents	**377.628**	**354.064**	**6,66**	**850.001**	**729.253**	**44,43**	**48,55**
Other Property Income	**2.213.088**	**211.038**	**948,67**	**580.000**	**397.027**	**381,57**	**53,15**
III-Grants and Aids and Special Revenues	**521.949**	**355.694**	**46,74**	**941.822**	**869.330**	**55,42**	**40,92**
From Abroad	**23**	**336**		**10.229**	**9.540**		**3,52**
Special Revenues	**521.926**	**355.358**	**46,87**	**931.593**	**859.790**	**56,03**	**41,33**
IV-Interests, Shares and Fines	**9.799.209**	**9.171.151**	**6,85**	**19.424.424**	**17.026.404**	**50,45**	**53,86**
Interest Revenues	**2.488.401**	**1.942.654**	**28,09**	**2.445.543**	**4.275.101**	**101,75**	**45,44**
Shares from Persons and Agencies	**4.117.135**	**3.631.707**	**13,37**	**9.653.869**	**6.938.694**	**42,65**	**52,34**
Government Shares	125.241	146.345	-14,42	380.000	308.709	32,96	47,41
Shares of General Budget Agencies	3.991.894	3.485.362	14,53	9.273.869	6.629.985	43,04	52,57
Fines	**1.805.638**	**1.499.171**	**20,44**	**3.457.012**	**2.920.271**	**52,23**	**51,34**
Judicial Fines	97.748	87.712	11,44	212.181	184.013	46,07	47,67
Administrative Fines	491.702	455.220	8,01	1.046.857	917.222	46,97	49,63
Tax Penalty	1.176.779	902.494	30,39	2.092.441	1.736.213	56,24	51,98
Other Fines	39.409	53.745	-26,67	105.533	82.823	37,34	64,89
Other Miscellenous Revenues	**1.388.035**	**2.097.619**	**-33,83**	**3.868.000**	**2.892.338**	**35,89**	**72,52**
V-Capital Revenues	**1.397.345**	**2.029.786**	**-31,16**	**13.138.800**	**9.104.999**	**10,64**	**22,29**
Sales of Immovables	**100.142**	**101.299**	**-1,14**	**499.800**	**214.765**	**20,04**	**47,17**
Sales of Movables	**2.219**	**550**	**-303,45**	**8.000**	**1.567**	**27,74**	**35,10**
Sales of Other Miscellenous Capitals	**1.294.984**	**1.927.937**		**12.631.000**	**8.888.667**	**10,25**	**21,69**
VI-Collections from Loans	**172.116**	**112.572**		**0**	**404.692**		
Revenues from Special Budget Institutions	**2.016.179**	**1.846.926**	**9,16**	**3.877.618**	**4.368.545**	**52,00**	**42,28**
Revenues from Regulatory&Supervisory Inst.	**1.323.297**	**1.202.792**	**10,02**	**1.923.611**	**1.739.592**	**68,79**	**69,14**

Annexed Table 4. % Composition of 2009 Central Government Budget Expenditures under Functional and Economic Classification (end of June)

4 a)

	Compens. Of Employees	SSI Premium Payment	Goods & Services Procurements	Interest Expenditure	Current Transfers	Capital Expen.	Capital Transfers	Lending	Total
General Public Services	6,8	0,7	2,2	63,7	24,1	0,9	1,0	0,5	100
Defense Services	53,1	6,1	40,6	0,0	0,0	0,2	0,0	0,0	100
Public Order and Security Services	72,5	6,8	18,2	0,0	0,0	2,4	0,0	0,0	100
Economic Works and Services	13,6	2,2	5,1	0,0	49,1	16,7	1,0	12,3	100
Environmental Protection Services	60,0	9,1	9,8	0,0	0,1	2,7	18,3	0,0	100
Housing & Public Welfare Services	0,7	0,1	0,5	0,0	60,6	15,3	22,8	0,1	100
Health Services	39,5	6,1	41,5	0,0	0,1	12,8	0,0	0,0	100
Leisute, Cultural & Religious Services	63,1	8,3	11,5	0,0	11,2	5,2	0,8	0,0	100
Education Services	65,8	8,1	11,2	0,0	5,1	4,3	1,4	4,1	100
Social Security and Social Aids	0,4	0,1	0,8	0,0	98,5	0,1	0,0	0,0	100

4 b)

	Compens. Of Employees	SSI Premium Payment	Goods & Services Procurements	Interest Expenditure	Current Transfers	Capital Expen.	Capital Transfers	Lending
General Public Services	10,2	8,9	8,9	100,0	22,4	7,8	37,7	7,8
Defense Services	10,9	10,3	22,2	0,0	0,0	0,2	0,0	0,0
Public Order and Security Services	18,2	14,2	12,2	0,0	0,0	3,4	0,0	0,0
Economic Works and Services	6,9	9,3	7,0	0,0	15,5	48,9	13,0	66,0
Environmental Protection Services	0,2	0,2	0,1	0,0	0,0	0,0	1,3	0,0
Housing & Public Welfare Services	0,0	0,0	0,1	0,0	1,8	4,1	26,0	0,0
Health Services	10,0	12,8	27,8	0,0	0,0	18,3	0,0	0,0
Leisute, Cultural & Religious Services	4,4	4,7	2,1	0,0	0,5	2,1	1,3	0,0
Education Services	38,8	39,3	17,5	0,0	1,8	14,5	20,6	25,6
Social Security and Social Aids	0,4	0,4	2,1	0,0	58,0	0,6	0,1	0,5
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Annexed Table 5. General Budget Finance (End of June)

	January	February	March	April	May	June
PRIMARY BALANCE	**910.856**	**2.264.540**	**-2.231.314**	**175.835**	**4.619.178**	**3.810.666**
BUDGET BALANCE	**-2.872.056**	**-11.377.060**	**-20.321.531**	**-20.952.419**	**-21.499.706**	**-23.431.484**
BUDGET ESCROWS	-3.272.761	-5.012.684	-3.787.841	-3.815.836	-4.277.806	-3.136.632
OTHER ESCROWS	-2.651.690	-2.574.065	-2.588.381	-2.279.541	-2.120.135	-2.101.818
ADVANCES	1.740.241	1.211.619	1.360.623	1.178.817	1.025.952	917.248
Cash Balance	**-7.056.266**	**-17.752.190**	**-25.337.130**	**-25.868.979**	**-26.871.695**	**-27.752.686**
Treasury Funding	**7.056.266**	**17.752.190**	**25.337.130**	**25.868.979**	**26.871.695**	**27.752.686**
Total Net Borrowing (Borrowing minus repayment)	**4.294.038**	**13.552.496**	**15.858.866**	**22.220.457**	**29.123.997**	**27.133.446**
Total Borrowing	**8.624.626**	**33.315.830**	**38.289.890**	**51.056.690**	**71.543.630**	**76.049.757**
Domestic Borrowing	6.998.758	30.879.897	35.689.047	48.065.482	65.976.929	70.290.437
Bills	6.006.758	26.444.897	27.384.213	39.760.648	57.672.095	61.985.603
Bonds	992.000	4.435.000	8.304.834	8.304.834	8.304.834	8.304.834
Foreign Borrowing	1.625.868	2.435.933	2.600.843	2.991.208	5.566.701	5.759.320
Total Capital Repayments	**-4.330.588**	**-19.763.335**	**-22.431.024**	**-28.836.233**	**-42.419.633**	**-48.916.311**
Domestic Borrowing	-3.818.105	-18.683.804	-20.395.012	-26.118.971	-39.517.765	-43.964.863
Bills	-299.105	-12.437.804	-13.497.012	-19.220.971	-32.619.765	-33.801.322
Bonds	-3.519.000	-6.246.000	-6.898.000	-6.898.000	-6.898.000	-10.163.541
Foreign Borrowing	-512.483	-1.079.530	-2.036.011	-2.717.262	-2.901.868	-4.951.448
Funds other than Borrowing	26.987	36.255	96.923	92.218	-11.707	51.814
Privatization Revenues Transferred to Treasury	0	0	0	0	0	0
Net Lending (-)	-26.987	-36.255	-96.923	-92.218	11.707	-51.814
Cash movement (- entry, + exit)	2.735.241	4.163.439	9.381.340	3.556.304	-2.240.595	567.426
Source: Undersecretariat of Treasury						

Annexed Table 6. Composition of Central Government Debt Stock (End of June)

(million YTL)	**Central Government Debt Stock (end of 2008)**	**%**	**Central Government Debt Stock Jan 2009)**	**%**	**Central Government Debt Stock (Feb 2009)**	**%**	**Governmen t Debt Stock (March 2009)**	**%**	**Central Government Debt Stock (April 2009)**	**%**	**Central Government Debt Stock (May 2009)**	**%**	**Central Government Debt Stock (June 2009)**	**%**
Structure of the Domestic Debt Stock	**274.827**	**100,0**	**279.236**	**100,0**	**288.933**	**100,0**	**292.306**	**100,0**	**297.768**	**100,0**	**301.871**	**100,0**	**301.676**	**100,0**
In terms of holders	274.827	100,0	279.236	100,0	288.933	100,0	292.306	100,0	297.768	100,0	301.871	100,0	301.676	100,0
To the government	65.751	23,9	66.221	23,7	67.244	23,3	67.736	23,2	68.642	23,1	66.818	22,1	66.620	22,1
To market	209.076	76,1	213.015	76,3	221.689	76,7	224.570	76,8	229.126	76,9	235.053	77,9	235.055	77,9
In terms of interest structure	274.827	100,0	279.236	100,0	288.933	100,0	292.306	100,0	297.768	100,0	301.871	100,0	301.676	100,0
Fixed-interest	140.614	51,2	142.429	51,0	145.635	50,4	148.856	50,9	146.458	49,2	146.618	48,6	146.837	48,7
variable-interest	134.213	48,8	136.807	49,0	143.298	49,6	143.450	49,1	151.309	50,8	155.253	51,4	154.839	51,3
In terms of FX composition	274.827	100,0	279.236	100,0	288.933	100,0	292.306	100,0	297.768	100,0	301.871	100,0	301.676	100,0
TL Denominated	251.836	91,6	254.937	91,3	263.953	91,4	267.051	91,4	277.584	93,2	282.097	93,4	282.349	93,6
FX Denominated	22.227	8,1	23.531	8,4	24.198	8,4	24.448	8,4	19.418	6,5	19.004	6,3	18.943	6,3
TL indexed to FX	764	0,3	767	0,3	783	0,3	808	0,3	765	0,3	770	0,3	384	0,1
Composition of Foreign Debt Stock	**105.313**	**100,0**	**111.924**	**100,0**	**114.601**	**100,0**	**115.538**	**100,0**	**111.657**	**100,0**	**109.422**	**100,0**	**107.239**	**100,0**
In terms of interest structure	105.313	100,0	111.924	100,0	114.601	100,0	115.538	100,0	111.657	100,0	109.422	100,0	107.239	100,0
Fixed-interest	75.825	72,0	81.250	72,6	83.087	72,5	84.263	72,9	82.139	73,6	80.406	73,5	78.426	73,1
variable-interest	29.488	28,0	30.674	27,4	31.514	27,5	31.275	27,1	29.518	26,4	29.015	26,5	28.813	26,9
Structure of Total Debt Stock	**380.140**	**100,0**	**391.159**	**100,0**	**403.534**	**100,0**	**407.844**	**100,0**	**409.424**	**100,0**	**411.293**	**100,0**	**408.915**	**100,0**
In terms of holders														
To the government	65.751	17,3	66.221	16,9	67.244	16,7	67.736	16,6	68.642	16,8	66.818	16,2	66.620	16,3
To market (1)	314.389	82,7	324.939	83,1	336.290	83,3	340.108	83,4	340.782	83,2	344.475	83,8	342.295	83,7
Faiz Yapısı Açısından	380.140	100,0	391.159	100,0	403.534	100,0	407.844	100,0	409.424	100,0	411.293	100,0	408.915	100,0
Sabit Faizliler	216.439	56,9	223.678	57,2	228.722	56,7	233.118	57,2	228.597	55,8	227.025	55,2	225.263	55,1
Değişken Faizliler	163.701	43,1	167.481	42,8	174.812	43,3	174.726	42,8	180.827	44,2	184.268	44,8	183.652	44,9
In terms of FX composition	380.140	100,0	391.159	100,0	403.534	100,0	407.844	100,0	409.424	100,0	411.293	100,0	408.915	100,0
TL Denominated	251.836	66,2	254.937	65,2	263.953	65,4	267.051	65,5	277.584	67,8	282.097	68,6	282.349	69,0
FX Denominated	127.540	33,6	135.455	34,6	138.799	34,4	139.986	34,3	131.074	32,0	128.425	31,2	126.182	30,9
TL indexed to FX	764	0,2	767	0,2	783	0,2	808	0,2	765	0,2	770	0,2	384	0,1
Average Maturity for Domestic Debt Stock (months)	24,3		23,3		23,8		22,7		23,1		23,7		23,1	
Average Maturity for Domestic Debt (Months)*	31,9		30,0		26,7		11,2		45,6		33,0		29,4	
Average Interest Rate for Domestic Borrowing Auctions % (2)*	18,64		16,16		14,99		14,31		13,35		11,59		12,09	