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FiscalMontoringReport

Stability Institute

October November **2010**

Budget Results

A Brief Overview of the Central Government Budget

Implementation 2010 October-November Results

I. BUDGET BALANCE

I.I. General Outlook

As of the en of November, budget expenditures increased by 6.7% year-on-year and reached 255.8 billion TL whereas budget revenues increased by 20.2% reaching 232.3 billion TL. The drop in interest payments and the marked increase in tax revenues were the key developments in the examined period.

Table 1 Central Government Budget Realizations 2010 November Month-end (Compared to 2009)

million TL	Nov-09	Nov-10	Change (%)	Real. Comp. to 2009 Year End	Real. Comp. To 2010
Expenditures	**239,542**	**255,770**	**6.77**	**89.31**	**89.12**
1-Primary Expenditures	**187,383**	**209,312**	**11.70**	**87.15**	**90.91**
Personnel Expenditures	52,297	58,196	11.28	93.48	96.43
Govern. Premiums to Social Security	6,315	9,921	57.11	87.61	89.30
Provision of Goods and Services	22,312	21,609	-3.15	74.88	85.78
Current Transfers	84,878	92,949	9.51	92.28	90.97
Capital Expenditures	13,868	17,557	26.60	69.09	92.77
Capital Transfers	3,002	3,855	28.41	69.51	112.42
Lending	4,710	5,225	10.92	82.67	75.69
Reserve Appropriations	0	0			
2-Interest Expenditures	**52,159**	**46,459**	**-10.93**	**98.04**	**81.87**
Revenues	**193,186**	**232,281**	**20.24**	**89.66**	**98.09**
1-General Budget Revenues	**187,343**	**225,050**	**20.13**	**89.81**	**97.87**
Tax Revenues	154,247	192,574	24.85	89.45	99.61
Enterprise and Property Revenues	9,318	9,148	-1.83	93.67	135.43
Interests, Shares and Fines	21,194	19,133	-9.72	91.92	107.39
Capital Revenues	1,480	2,481	67.66	72.39	23.30
Grants and Aids	830	1,543	85.81	102.87	160.02
Collections from Loans	273	170	-37.69	87.36	38.79
2-Special Budget Revenues	**4,114**	**5,443**	**32.30**	**81.68**	**111.12**
3-Rev. from Superv. and Reg. Ag.	**1,729**	**1,788**	**3.45**	**95.44**	**91.74**
Budget Balance	**-46,356**	**-23,489**	**49.33**	**87.86**	**46.80**
Primary Balance	**5,803**	**22,969**	**295.80**	**1318.77**	**349.98**
Program Defined Primary Balance	**-8,806**	**10,289**		**61.40**	

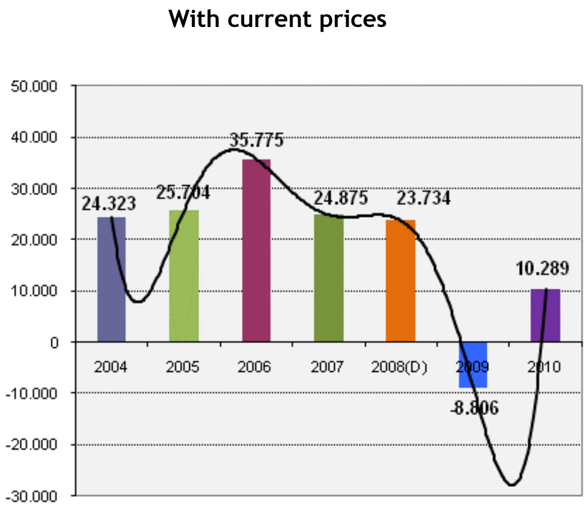
As of the end of November, central government budget had a deficit of 23.5 billion TL. Primary surplus stood at 22.9 billion TL whereas the program defined primary balance which excludes revenue items including unemployment fund and privatization revenues stood at 10.3 billion TL. These indicate a significant recovery in numerical terms compared to the same period in 2009 marked with the impacts of the crisis.

It is seen that as of the end of November, 89% of budget appropriations for 2010 have been used. This corresponds to a similar rate compared to the same period in previous years.

98% of the total general budget revenues estimated for the year have been realized as of the end of November, compared to 89.6% in the same period in the previous year. This implies that the recovery in budget performance so far was enabled to a large extent by the improvement in budget revenues.

I. II. Program Defined Primary Balance

Figure 1 Central Government Budget Program Defined Primary Surplus (Comparative, 2004-2010 October-November end, Million TL)



2008 (D), indicates that KEY payments are involved in the primary balance.

At the end of November, program defined balance was realized at 10.3 billion TL. The balance did recover considerably compared to the same period in the year before whereas the overall performance in the period following the crisis remains weak. With 2003 prices, the weak performance in program defined balance in the period after 2000 (excluding 2001 and 2009) becomes more visible. To put it differently, tight monetary policies have been loosened beginning with 2007 and the performance in 2010 demonstrated an advance only compared to the year before. 98% of the total general budget revenues estimated for the year have been realized as of the end of November, compared to 89.6% in the same period in the previous year. This implies that the recovery in budget performance so far was enabled to a large extent by the improvement in budget revenues.

II. BUDGET EXPENDITURES

Total budget expenditures increased by 6.8% and primary expenditures increased by 11.7% as of the end of November. The substantial rise in the latter was dominated by the personnel expenditures including the state's SSI premium expenditures, capital expenditures and capital transfers.

Table 2 2009 - 2010 Comparative Budget Expenditures, October/November

	Composition of Expenditures (%)		Rate of Increase (%)	Realization Rate (%)	
	2009	2010	2010/2009	2009	2010
Central Government Budget Expenditures	**100**	**100**	**6.77**	**89.31**	**89.12**
Primary Expenditures	78.23	81.84	11.70	87.15	90.91
I. Personnel Expenditures	21.83	22.75	11.28	93.48	96.43
II. Govern. Premiums to Social Security	2.64	3.88	57.11	87.61	89.30
III. Provision of Goods and Services	9.31	8.45	-3.15	74.88	85.78
Health Expenditures	2.62	1.84	-24.96	71.44	98.24
Medicine Expenditures	0.34	0.09	-72.05	71.79	289.02
General Cure and Pharmaceutial Products	0.58	0.19	-65.32	65.10	409.18
Green Card	1.70	1.56	-1.57	73.84	86.94
Defense and Security (Excluding Health)	3.03	2.75	-3.26	75.17	77.08
Other Goods and Services	3.66	3.85	12.59	83.41	74.03
IV. Current Transfers	35.43	36.34	9.51	92.28	90.97
Duty Losses	1.59	1.22	-18.18	91.99	72.27
Treasury Aid	22.44	21.83	3.87	94.40	89.57
Treasury Aid to Social Security Agencies	0.39	0.47	29.66	90.80	95.57
Health, Retirement and Social Aid Expenc	20.88	20.15	3.01	94.95	89.32
Social Secuirty Deficit Finance	12.03	10.30	-8.54	98.51	82.94
Transfers to non-financial Establishme	0.28	0.29	10.84	79.75	102.68
Transfers to Households	0.46	0.54	25.87	85.92	91.02
Agricultural Subsidy	1.71	2.12	32.15	91.11	96.56
Other Transfers to Households	0.26	0.28	11.74	61.11	62.02
Social Transfers	0.38	0.57	58.85	89.21	91.03
Foreign Transfers	0.26	0.30	23.21	87.37	75.51
Shares from Revenues	8.04	9.20	22.07	89.65	98.37
V. Capital Expenditures	5.79	6.86	26.60	69.09	92.77
VI. Capital Transfers	1.25	1.51	28.41	69.51	112.42
Domestic Capital Transfers	1.24	1.50	29.12	70.91	120.48
Foreign Capital Tansfers	0.02	0.01	-25.31	27.88	11.54
VII. Lending	1.97	2.04	10.92	82.67	75.69
Domestic Lending	1.74	1.86	14.16	82.01	75.38
Foreign Lending	0.23	0.19	-13.50	88.04	78.92
VIII. Reserve Appropriations	0.00	0.00	0.00	0.00	0.00
Interest Expenditures	21.77	18.16	-10.93	98.04	81.87

The composition of budget expenditures as of the end of November reveals that the share of primary expenditures in total expenditures showed 3.6 points of year-on-year increase. This can roughly be read as a 3-point drop in interest expenditures enabling an extra room to maneuver in budget expenditures for the government.

The rise driven by the Current Transfers item that has a 36% share in total expenditures was determined mainly by Agricultural Transfers and by the Shares Allocated from the Budget that increased along with the rise in tax revenues (predominantly the shares allocated for local administrations). Shares Allocated from the Budget reached 9.2% of total budget expenditures and 11% of primary expenditures. The ratios stood at 8% and 10% respectively in the previous year. This implies that the share of the amount transferred from the central government to local administrations has increased.

Expenditures for green card system were realized at an amount above determined in the appropriation. In parallel with the increase in the health expenditures executed by social security institutions in 2010, green card expenditures maintain an upward trend.

III. BUDGET REVENUES

Total budget revenues improved by 20.4% and tax revenues by 24.5% as of the end of November. Revenue performance in 2010 was surpassed the expectations.

Total tax revenues constituted 82.9% of central government budget revenues, standing close to the ratio for the year before. On the other hand, the share of income and corporate tax under the Direct Taxes category and taxes on property has decreased as of November. In 2009 indirect taxes decreased more rapidly than direct taxes leading to an increase in the latter's share whereas this trend was reversed in 2010.

This situation which can be explained also with the fact that 2009 was the year of crisis was offset with the marked increase in the share of indirect taxes in 2010. In fact last year the share of tax revenues in total government revenues increased by 2.5 points with the significant contribution of indirect taxes. The prominent role here was played by VAT, SCT and VAT on imports in particular. The total share of the mentioned items exceeded 45% and the periodic rate of increase exceeded 35%. This way, along with the initiation of the growth trend and the increase in current account deficit, one of the most problematic characteristics of Turkish tax system in which the increase in tax revenues mainly come from indirect taxes comes to the fore. Under this phenomenon which is believed to apply for the year 2010 as a whole; public revenues can be increased only through economic growth unless a tax reform concentrating on direct taxes is not initiated.

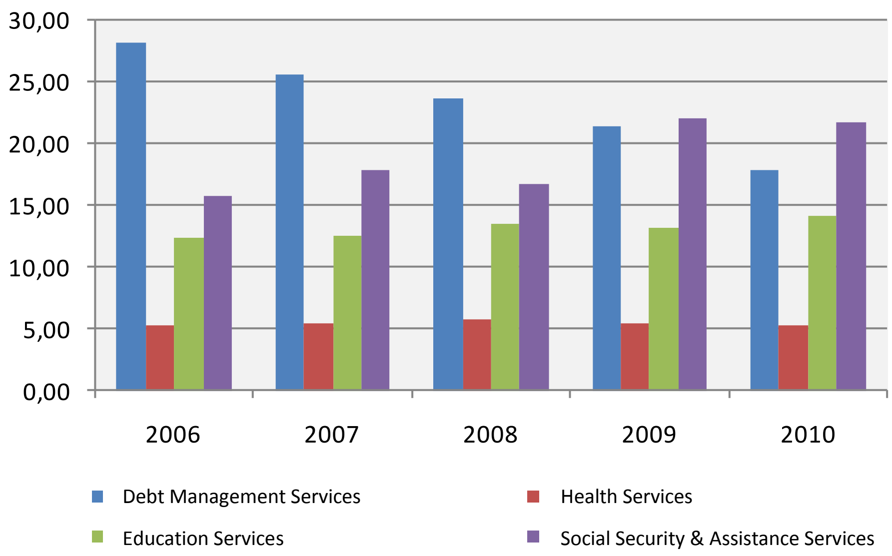
Table 3 Central Government Budget Revenues (October/November)

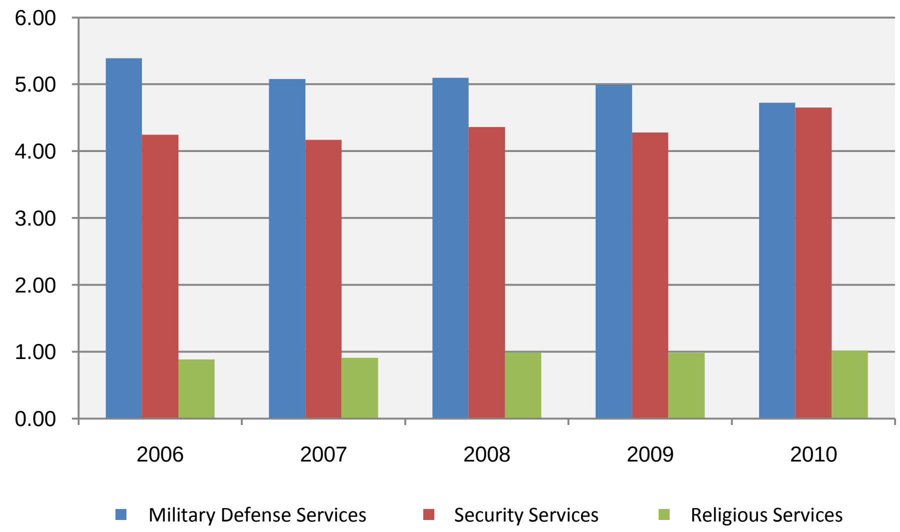
	Composition of Revenues		Rate of Increase (%)	Realization Rate (%)	
	2009	2010	2010/2009	2009	2010
Central Government Revenues	100	100	20.24	89.66	98.09
General Budget Revenues	96.98	96.89	20.13	89.81	97.87
I-Tax Revenues	79.84	82.91	24.85	89.45	99.61
Taxes on Income, Profit and Capital Gains	26.59	24.79	12.08	90.98	96.81
Income Tax	17.46	15.86	9.24	87.72	88.74
Based on Decleration	1.00	0.88	5.91	97.18	104.44
Lump-sum	0.12	0.10	3.10	95.83	106.80
Witholding Tax	15.77	14.37	9.53	86.84	87.70
Provisional Tax	0.56	0.51	8.55	96.68	92.47
Corporation Tax	9.14	8.93	17.51	97.93	115.45
Based on Decleration	0.21	0.24	33.60	83.54	97.96
Witholding Tax	0.10	0.09	7.03	91.55	106.14
Provisional Tax	8.82	8.60	17.23	98.42	116.13
Tax on Property	2.28	2.18	14.99	94.61	113.16
Inheritance and Gift Taxes	0.07	0.08	41.29	78.90	120.22
Motor Vehicles Taxes	2.22	2.10	14.17	95.20	112.90
Domestic Goods and Services Taxes	33.55	36.06	29.25	88.61	96.98
Domestic VAT	8.93	10.56	42.11	82.75	108.33
Special Consumption Tax	20.46	22.29	31.03	90.60	94.79
SCT on Petroleum and Natural Gas	12.09	12.57	25.03	91.47	95.14
SCT on Motor Vehicles	1.40	2.14	83.52	80.91	131.47
SCT on Coke, Alcoholic Bev. & Tobacco Prod.	6.59	7.00	27.75	91.67	86.73
SCT on Durable Goods and Others	0.37	0.58	85.75	85.13	95.99
Banking and Insurance Transaction Tax	1.94	1.42	-11.85	93.60	85.23
Other Taxes on Goods and Services	2.22	1.79	-3.06	91.92	79.49
Taxes on International Trade and Transactions	13.13	15.00	37.31	88.54	105.13
Customs Duties	1.13	1.22	29.85	88.76	95.38
VAT on Imports	11.98	13.74	37.98	88.52	106.02
Other Taxes on International Trade and Trans.	0.02	0.03	52.09	89.24	152.71
Stamp Duties	1.88	1.96	25.15	87.03	103.23
Fees	2.17	2.66	47.09	88.33	114.30
Other Taxes Not Elsewhere Classified	0.24	0.26	32.42	76.58	1091.71
II- Enterprise and Property Revenues	4.82	3.94	-1.83	93.67	135.43
Revenues fom Sales of Goods and Services	0.82	0.97	42.40	88.94	97.82
Revenues from SEEs and Public Banks	1.98	1.82	10.82	94.21	198.47
Profit of Agencies	0.37	0.43	38.35	93.96	94.26
Rent Income	0.37	0.38	21.08	89.50	112.63
Other Enterprise and Property Revenues	1.28	0.34	-67.76	97.33	160.98
III- Grants, Aids and Special Revenues	0.43	0.66	85.81	102.87	160.02
Grants and Aids from Abroad	0.00	0.00	0.00	100.00	2.40
Special Revenues	0.43	0.66	85.78	102.87	161.86
IV-Interest, Share and Fines	10.97	8.24	-9.72	91.92	107.39
Interest Revenues	2.76	1.93	-15.94	94.11	212.78
Shares from Entities and Institutions	3.69	2.67	-13.00	93.60	90.73
State Shares	0.12	0.13	29.80	91.79	106.51
Shares from General Bugdet Administrations	3.57	2.54	-14.40	93.66	90.06
Fines	1.76	1.69	15.53	86.98	124.13
Judicial Fines	0.10	0.08	-5.15	91.36	101.16
Administrative Fines	0.51	0.55	27.95	87.18	145.48
Tax Fines	1.11	1.03	11.16	86.39	117.68
Other Fines	0.04	0.04	26.23	90.80	107.19
Miscalleneous Revenues	2.76	1.95	-15.23	90.91	79.19
V-Capital Revenues	0.77	1.07	67.66	72.39	23.30
Revenues from Immovables	0.09	0.11	44.20	84.39	110.56
Revenues from the Sale of Movable Assets	0.00	0.00	-23.41	76.16	32.70
Other Capital and Sales Revenues	0.67	0.95	71.20	70.97	21.31
VI- Collections from Loans	0.14	0.07	-37.69	87.36	38.79
Revenues from Special Budgetary Institutions	2.13	2.34	32.30	81.68	111.12
Revenues from Regulatory and Supervisory Ag.	0.89	0.77	3.45	95.44	91.74

IV. EXPENDITURES BY FUNCTIONAL CLASSIFICATION

In the examination of functional distribution of budget expenditures as an indicator of the funds allocated for public services, the following points come to the fore.

Figure 2. Functional Distribution (%) (End of November, 2006-2010)





The most striking details in the figures above in consideration of other expenditure categories as well can be listed as follows:

- The share of expenditures in the General Public Services category which also includes interest expenses decreases gradually.
- Military expenditures demonstrate a weak downwards trend.

- Expenditures under the category Public Order and Security Services demonstrated a volatile but increasing trend particularly due to the movements in Polis Services and Court Services items.
- Transportation Services under the Economic Affairs and Services category show a relative increase over the last years.
- The share of health services has slowed down in the last years. But the most striking point is about the share of Public Health Services standing for protective health services which had a small and almost stable share for years.
- The share allocated for Education Services in total expenditures have increased relatively. Under this item the share of Preschool Education Services attracts attention. However, the share of education expenditures moves within the 10-15 percent interval.
- The most striking development is observed under the Social Security and Social Protection Services which have always had one of the largest shares in total expenditures for years. But when the sub-categories are examined, it is seen that the total share of items such as payments for Elderly, Unemployed, Housing and Invalidity stands below 1% whereas deficit finance for social security institutions under the Social Security and Social Assistance category that is not involved in the classification grows increasingly.

As a result, the share of interest expenditures decreases while the share of other public services remains constant with some insignificant exceptions. Nevertheless, deficit finance for social security system surpasses the other social assistance items offsetting the fall in the share of interest expenditures.

Table 4 Functional Distribution of Budget Expenditures (%) (End of November, 2006-2010)

	2006	2007	2008	2009	2010
EXPENDITURES	**100**	**100**	**100**	**100**	**100**
I-GENERAL PUBLIC SERVICES	**40.45**	**38.15**	**37.21**	**34.23**	**31.85**
Debt Management Services	28.13	25.63	23.71	21.45	17.87
II-DEFENSE SERVICES	**5.44**	**5.13**	**5.15**	**5.03**	**4.76**
Military Defense Services	5.39	5.08	5.10	4.99	4.72
III-SERVICES FOR PUBLIC ORDER AND SECURITY	**5.78**	**5.88**	**5.93**	**5.88**	**6.43**
Security Services	4.24	4.17	4.36	4.28	4.65
Court Services	0.75	0.92	1.02	1.01	1.14
Services for Public Order and Safety not elsewhere classified	0.18	0.19	0.20	0.18	0.20
IV-ECONOMIC AFFAIRS AND SERVICES	**11.05**	**10.95**	**12.19**	**11.04**	**12.17**
Services about Agriculture, Forestry, Fishing and Hunting	4.27	4.40	4.56	4.20	4.02
Transportation Services	3.61	3.30	3.89	3.57	4.81
V-ENVIRONMENT PROTECTION SERVICES	**0.07**	**0.08**	**0.09**	**0.07**	**0.09**
Protection of Habitat and Biodiversity	0.05	0.05	0.05	0.05	0.05
VI-HOUSING AND WELFARE SERVICES	**2.21**	**2.38**	**1.76**	**1.34**	**1.82**
Housing Works and Affairs	2.01	2.02	1.35	0.79	0.97
VII-HEALTH SERVICES	**5.30**	**5.48**	**5.75**	**5.42**	**5.20**
Outpatient Treatment Services	1.01	1.11	1.25	1.22	1.33
Hospital Works and Services	4.07	4.15	3.86	3.54	3.63
Public Health Services	0.16	0.14	0.14	0.30	0.16
VIII- LEISURE, CULTURAL AND RELIGIOUS SERVICES	**1.49**	**1.58**	**1.70**	**1.67**	**1.77**
Religious Services	0.88	0.91	0.99	0.98	1.02
IX-EDUCATION SERVICES	**12.38**	**12.48**	**13.43**	**13.20**	**14.20**
Pre-school and Primary School Services	5.81	5.98	6.11	5.72	6.13
Secondary School Services	2.68	2.69	2.85	2.76	3.01
Tertiary School Services	2.73	2.70	2.76	2.79	3.10
Education Services Not Classified Based on Degree	0.41	0.35	0.35	0.34	0.37
Supplamentary Education Services	0.50	0.51	0.60	0.79	0.81
Research and Development Activities on Education	0.10	0.10	0.12	0.20	0.17
Education Services not elsewhere classified	0.15	0.16	0.64	0.60	0.61
X-SOCIAL SECURITY AND SOCIAL ASSISTANCE SERVICES	**15.84**	**17.89**	**16.79**	**22.12**	**21.70**
Assistance Services for Sickness and Invalidity	0.04	0.06	0.23	0.42	0.63
Old Age Benefit Services	0.04	0.04	0.05	0.05	0.05
Family and Child Benefit Services	0.11	0.12	0.13	0.13	0.13
Unemployment Benefit Services	0.38	0.40	0.46	0.39	0.42
Housing Benefit Services	0.00	0.00			
Services Provided for Non-insured	0.04	0.06	0.06	0.05	0.05
Unclassified Social Security and Assistance Services	15.23	17.20	15.87	21.09	20.42