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FiscalMonitoringReport

The Stability Institute

CENTRAL GOVERNMENT BUDGET

2011 APRIL-MAY BUDGET RESULTS

A BRIEF OVERVIEW

I. BUDGET BALANCE

I.I. General Outlook

As of the end of April 2011, budget expenditures increased year-on-year by 1.9% and budget revenues increased year-on-year by 18.6% resulting in a remarkable improvement in the budget balance with a budget deficit at 3.1 billion TL.

As of the end of May, budget expenditures increased by yea-on-year by 6.3% to 119.6 billion TL and primary expenditures increased by 11.7% to 98.7 billion TL. In the mentioned period, budget revenues increased by 16.5% to 119.4 billion TL thanks to the improvements in tax collection.

In the first five months of 2011, central government budget had a deficit of 233 million TL with the help of the limited seasonal rise in interest expenditures and the improvements in the tax collection performance. Primary surplus which stood at 13.7 million TL as of the end of April, reached 20.6 billion TL by the end of May, relying particularly on the strong revenue performance. Budget balance improved considerably by the end of the first five months of 2011, sustaining the performance observed in the first quarter of the year.

As of the end of May 2011, 38.3% of total budget appropriations and 37.3% of primary budget appropriations had been used. It is observed that 44% of the year-end budget revenue estimation had been accomplished by the end of May.

Table 1: Central Government Budget Realizations 2010 April-May Month-end (Compared to 2010)

million TL	April 2010	April 2011	Rate of Increase (%)	Real. Comp. to 2009 Year End	Real. Comp. to 2010 Approp.	May 2010	May 2011	Rate of Increase (%)	Real. Comp. to 2009 Year End	Real. Comp. to 2010 Approp.
Expenditures	**93,546**	**95,320**	**1.90**	**31.86**	**30.50**	**112,600**	**119,618**	**6.23**	**38.35**	**38.27**
1-Primary Expenditures	**71,494**	**78,511**	**9.81**	**29.14**	**29.62**	**88,384**	**98,744**	**11.72**	**36.03**	**37.25**
Personnel Expenditures	21,405	24,796	15.84	34.36	34.30	26,514	30,723	15.87	42.56	42.49
Govern. Premiums to Social Security	3,614	4,306	19.14	32.68	33.80	4,484	5,311	18.45	40.54	41.70
Provision of Goods and Services	6,416	7,367	14.83	22.26	24.52	8,556	9,684	13.18	29.69	32.23
Current Transfers	35,250	37,472	6.30	34.60	32.37	42,126	45,481	7.96	41.34	39.28
Capital Expenditures	2,202	3,063	39.10	8.50	14.12	3,638	4,827	32.70	14.04	22.25
Capital Transfers	716	499	-30.28	10.63	11.61	901	1,355	50.32	13.38	31.51
Lending	1,890	1,006	-46.76	21.95	15.63	2,164	1,363	-37.01	25.12	21.18
Reserve Appropriations	0	0				0	0			
2-Interest Expenditures	**22,052**	**16,809**	**-23.77**	**45.66**	**35.39**	**24,216**	**20,874**	**-13.80**	**50.14**	**43.94**
Revenues	**77,750**	**92,252**	**18.65**	**34.18**	**36.21**	**102,617**	**119,385**	**16.34**	**45.11**	**46.86**
1-General Budget Revenues	**74,692**	**88,831**	**18.93**	**33.75**	**35.66**	**98,893**	**115,188**	**16.48**	**44.68**	**46.25**
Tax Revenues	63,232	76,737	21.36	30.03	33.04	82,783	100,025	20.83	39.32	43.07
Enterprise and Property Revenues	3,980	4,131	3.80	646.99	5890.59	5,651	5,397	-4.48	918.54	7695.43
Interests, Shares and Fines	6,567	5,974	-9.02	543.86	482.59	8,689	7,670	-11.73	719.61	619.55
Capital Revenues	273	1,382	405.75	5.47	27.00	1,063	1,412	32.82	21.29	27.59
Grants and Aids	566	512	-9.49	63.95	57.68	618	572	-7.38	69.79	64.40
Collections from Loans	73	94	29.39	2.37	0.99	89	112	25.59	2.89	1.17
2-Special Budget Revenues	**1,916**	**2,140**	**11.74**	**855.81**	**982.10**	**2,463**	**2,827**	**14.79**	**1100.34**	**1297.23**
3-Rev. from Superv. and Reg. Ag.	**1,143**	**1,280**	**11.99**	**19.20**	**23.34**	**1,261**	**1,370**	**8.64**	**21.18**	**24.98**
Budget Balance	**-15,796**	**-3,068**	**80.58**	**23.88**	**5.31**	**-9,984**	**-233**	**97.66**	**15.10**	**0.40**
Primary Balance	**6,256**	**13,741**	**119.65**			**14,233**	**20,641**	**45.02**		
Program Defined Primary Balance	**2,296**	**8,998**	**291.99**			**7,628**	**15,765**	**106.68**		

I.2. Program Defined Primary Balance

Program defined primary balance which excludes revenue items such as the Unemployment Fund and privatization revenues out of calculations had a deficit of 8.6 billion TL as of the end of April 2011, corresponding to 4.6 billion TL with 2003 prices.

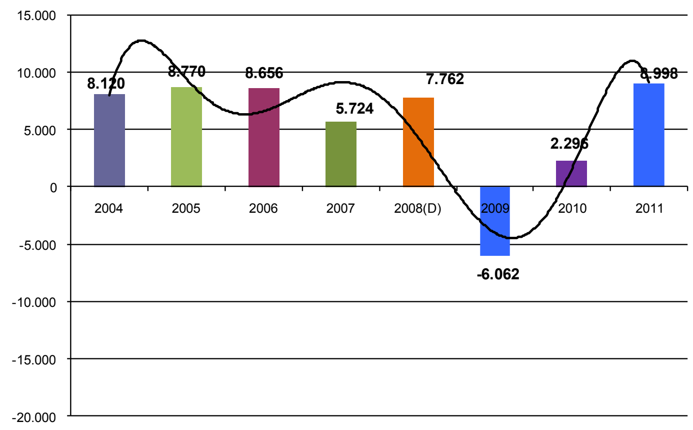
By the end of May, cumulative program defined budget balance reached 15.6 billion TL, corresponding to 8.3 billion TL with 2003 prices.

Program defined balance improved significantly compared to the same period in 2009 and 2010 whereas compared to the period before 2009 with constant prices, the performance appeared to be weaker.

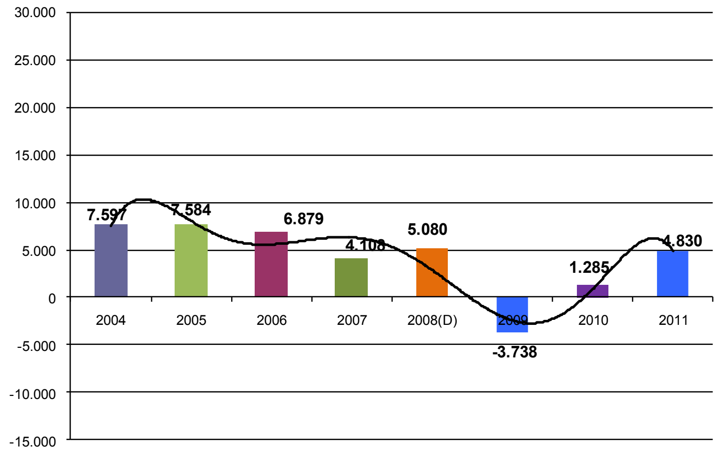
On the other hand, with the impact of the additional revenues to be collected through restructuring the improvements in program defined budget balance is expected to continue particularly in the revenue side.

Central Government Budget Program Defined Primary Surplus (Comparative, 2004-2010 End of April-May, Million TL)

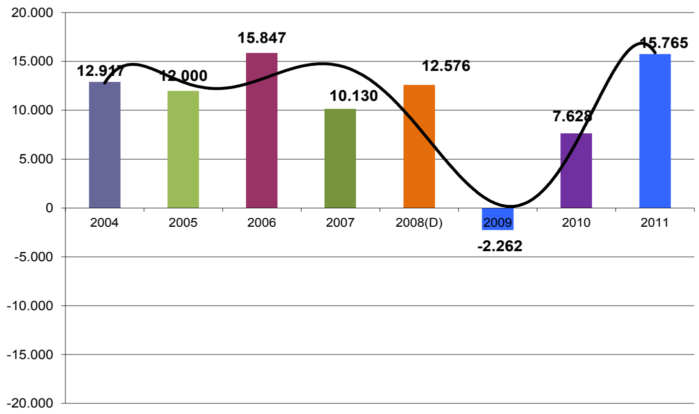
With current prices (End of April)



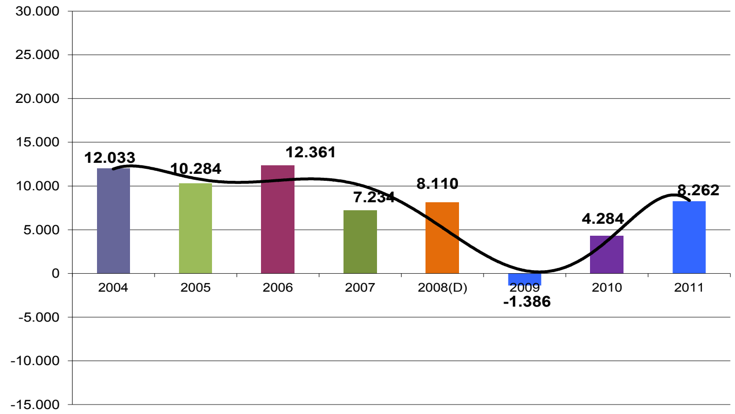
With 2003=100 Prices (End of April)



With current prices (End of May)



With 2003=100 Prices (End of May)



II. BUDGET EXPENDITURES

By the end of April 2011, central government budget expenditures and primary budget expenditures increased year-on-year by 2% to 93.3 billion TL and by 9.8% to 78.5 billion TL, respectively.

By the end of May, central government budget revenues and primary budget revenues reached 119.6 billion TL and 98.7 billion, respectively. Compared to the same period in 2010, primary expenditures tended upwards with a rate of increase at 11.8%.

As of the end of May, 38% of the estimated budget appropriations were used, similar to the ratio in 2010. An upwards pressure for primary expenditures is expected to emerge despite the fact that resource needs will decrease with the help of the additional revenues to be obtained in the coming months via the restructuring of the liabilities to the Social Security Institution (SSI).

Approximately 50% percent of the increase in primary expenditures stems from the compensation of employees. As of the end of May, compensation of employees increased by 15.9% and state premiums paid to the SSI increased by 18.4% compared to the same period last year.

Procurement of goods and services elevated by 13.2% as of the end of May. During this period:

- Defense and security expenditures decreased by 5.2%.
- Green card expenditures increased by 19%. However, total health expenditures remained constant in nominal terms as other health expenditure items decreased in May.
- All procurement items other than defense, security and health items increased in average by 28.8% which determined the overall increase in the procurement expenditures at a considerably high level.

In the studied period, approximately 60% of the increase in primary expenditures was caused by the increase in the compensation of employees and procurement of goods and services.

As of the end of May, current transfers elevated year-on-year by 8%. Different than the previous year, the contribution of this item to the increase in primary expenditures was limited at 32%. Individual current transfer items developed as follows:

- Duty losses of State-owned Economic Enterprises (SEEs) decreased year-on-year by 99% enabling a 43.5% fall in current transfers. As of the end of May, the share of duty losses of SEEs in the budget expenditures was considerably low, at 0.4%.
- State aids increased year-on-year by 5%.
- The increase in health, retirement and social assistance expenditures stood at 2% chiefly due to the fact that no funds for deficit finance was transferred to the SSI in May.
- On the other hand, agricultural transfers elevated year-on-year by 8 points to 81% in April. The rate of increase for this item was 18%.
- The largest rate of increase was observed for the revenue shares. In line with the increase in tax revenues, this sub-item elevated year-on-year by 10.3%.

Capital expenditures grew year-on-year by 39% in April and 32% in May. Realization compared to the budget allowance increased by 6 points as of the end of April and by 8 points as of the end of May, reaching 22%.

The level of capital transfers in April was lower than that in the previous year. However, due to large level or transfers executed during April, the item grew by 50% in cumulative.

Capital transfers and expenditures were higher in this period compared to the same period in 2010.

Interest expenditures decreased by 13.8% year-on-year. Similarly, the realization of budget appropriation stood at 44%, 7 points less than that in the same period in 2010.

Table 2: 2010 - 2011 Comparative Budget Expenditures, End of April/May

	April					May				
	Composition of Expenditures (%)		Rate of Increase (%)	Realization Rate (%)		Composition of Expenditures (%)		Rate of Increase (%)	Realization Rate (%)	
	2009	2010	2010/2009	2009	2010	2009	2010	2010/2009	2009	2010
Central Government Budget Expenditures	**100**	**100**	**1.90**	**31.86**	**30.50**	**100**	**100**	**6.23**	**38.35**	**38.27**
Primary Expenditures	76.43	82.37	9.81	29.14	29.62	78.49	82.55	11.72	36.03	37.25
I. Personnel Expenditures	22.88	26.01	15.84	34.36	34.30	23.55	25.68	15.87	42.56	42.49
II. Govern. Premiums to Social Security	3.86	4.52	19.14	32.68	33.80	3.98	4.44	18.45	40.54	41.70
III. Provision of Goods and Services	6.86	7.73	14.83	22.26	24.52	7.60	8.10	13.18	29.69	32.23
Health Expenditures	1.67	1.55	-5.24	27.18	29.98	1.78	1.68	0.09	34.87	40.62
Medicine Expenditures	0.11	0.03	-71.75	39.88	40.16	0.11	0.03	-72.50	48.77	47.83
General Cure and Pharmaceutial Products	0.22	0.05	-76.26	37.94	28.41	0.24	0.05	-77.50	49.95	35.45
Green Card	1.34	1.47	12.04	25.32	29.88	1.43	1.60	19.04	32.47	40.70
Defense and Security (Excluding Health)	1.93	2.00	5.48	19.10	19.01	2.43	2.17	-5.16	28.97	25.92
Other Goods and Services	3.26	4.18	30.65	31.69	25.37	3.39	4.25	33.22	41.89	32.52
IV. Current Transfers	37.68	39.31	6.30	34.60	32.37	37.41	38.02	7.96	41.34	39.28
Duty Losses	1.09	0.49	-54.38	30.98	9.24	1.09	0.58	-43.54	37.18	13.72
Treasury Aid	21.91	22.97	6.80	33.98	31.97	21.63	21.34	4.84	40.37	37.28
Treasury Aid to Social Security Agencies	0.46	0.45	0.55	32.05	27.64	0.47	0.63	42.43	39.16	47.83
Health, Retirement and Social Aid Expenditures	20.52	21.24	5.49	34.87	32.43	20.12	19.31	1.95	41.16	36.99
Social Secuirty Deficit Finance	10.66	8.72	-16.65	36.85	27.17	10.12	6.95	-27.06	42.11	27.17
Transfers to non-financial Establishments	0.26	0.54	110.56	22.72	58.24	0.24	0.48	114.45	24.44	63.81
Transfers to Households	0.66	0.81	24.66	38.85	41.16	0.60	0.77	36.75	42.16	48.99
Agricultural Subsidy	3.86	3.78	-0.29	62.13	60.06	3.76	4.07	14.99	72.78	81.14
Other Transfers to Households	0.23	0.26	15.31	25.20	19.83	0.21	0.25	21.91	28.37	23.61
Social Transfers	0.50	0.70	43.00	28.88	28.05	0.52	0.71	42.90	36.66	35.59
Foreign Transfers	0.28	0.36	33.28	26.90	28.31	0.30	0.42	48.30	35.40	41.46
Shares from Revenues	8.89	9.41	7.82	31.55	31.28	9.07	9.42	10.35	38.73	39.30
V. Capital Expenditures	2.35	3.21	39.10	8.50	14.12	3.23	4.04	32.70	14.04	22.25
VI. Capital Transfers	0.77	0.52	-30.28	10.63	11.61	0.80	1.13	50.32	13.38	31.51
Domestic Capital Transfers	0.76	0.52	-30.63	10.72	12.20	0.79	1.13	51.90	13.41	33.40
Foreign Capital Tansfers	0.01	0.01	4.71	5.85	2.81	0.01	0.01	0.00	11.85	2.90
VII. Lending	2.02	1.06	-46.76	21.95	15.63	1.92	1.14	-37.01	25.12	21.18
Domestic Lending	1.77	0.86	-50.72	20.66	13.81	1.72	0.96	-40.78	24.07	19.33
Foreign Lending	0.25	0.20	-18.57	39.40	36.40	0.21	0.18	-5.67	39.40	42.17
VIII. Reserve Appropriations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Expenditures	23.57	17.63	-23.77	45.66	35.39	21.51	17.45	-13.80	50.14	43.94

BOX: ASSESSMENT OF THE PRIMARY BUDGET EXPENDITURES

Although the ratio of budget deficit and domestic debt to the GDP is yet not at a level that might affect macroeconomic stability, primary budget expenditures indicate that expenditures which grew along with the crisis did not fall back to the pre-crisis levels yet.

During the period of crisis, an expansionary fiscal policy was correctly introduced to stir the economy, which, coupled with low – or negative – economic growth, caused a substantial increase in primary budget expenditures. Nevertheless, this outlook must be reversed with the rebalancing of the economy after the recession.

The figure below shows primary budget expenditures in real terms achieved adjusted using the primary budget deficit/GDP ratio and GDP deflator for 2002. The most striking factor is that primary budget expenditure which, increased between 2004 and 2008 when high growth was observed only slowly elevated rapidly after the crisis and did not yet fall back to the pre-crisis level. This level could not be attained even in 2010 and 2011 when record-high growth rates were achieved which might be the indicator that necessary fiscal measures were not implemented. Another striking point is the continuous increase in primary budget expenditures in real terms. Therefore, although the high growth in 2010 and the 2011 program enabled a reduction in the primary budget expenditure/GDP ratio, the said expenditures continued moving upwards during both 2010 and 2011.

Figure 1. Primary expenditure/GDP ratio and the real value of primary expenditures

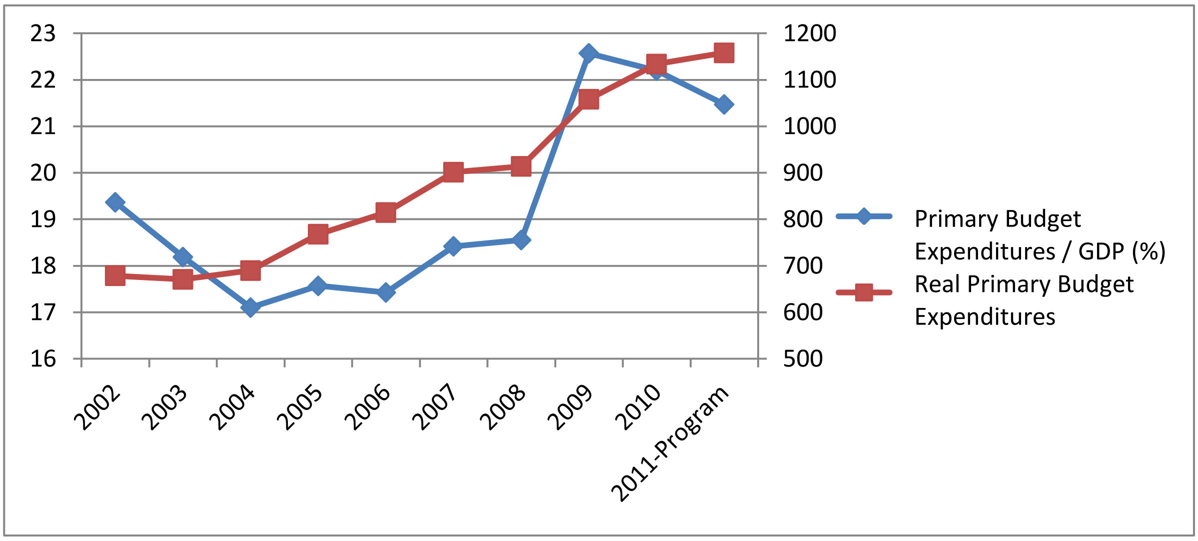
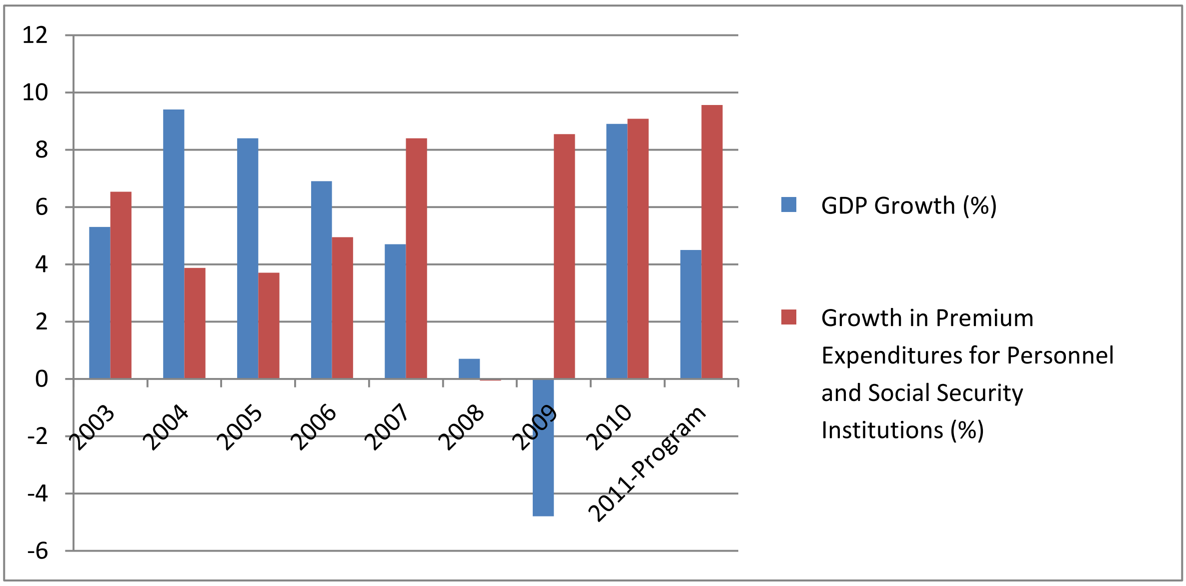


Table 1. Primary budget expenditures

	Primary budget expenditure/GDP (%)	Change in primary budget expenditure (Real) (%)
2003	18.2	-1.2
2004	17.1	2.8
2005	17.6	11.3
2006	17.4	6.1
2007	18.4	10.7
2008	18.6	1.4
2009	22.6	15.8
2010	22.2	7.2
2011-Program	21.5	2.1

Concerning sub-items of budget expenditures, compensation of employees are seen to have increased substantially. The increases in this item, which is relatively less flexible and thus harder to reduce, are critical. As the below figure suggests, since 2007 compensation of employees has growth at a rate higher than GDP growth, except 2008.

Figure 2. The Increase in Real GDP and Compensation of Employees



Current transfers, one of the most important expenditure items, have demonstrated a similar outlook, all of which imply that measures to cut down budget expenditures are necessary. Given the fact that a significant proportion of the current account deficit results from the savings gap of the public sector, the need for a change in public expenditure policy becomes clearer.

III. BUDGET REVENUES

Central government budget revenues increased by 18.6% to 92.2 billion TL as of the end of April and by 16.3% to 119.4 billion TL as of the end of May. In the same period, total tax revenues increased by 21.3 in April and by 20.8% in May and reached 100 billion.

In parallel with this, 33.1% of the year-end revenue target was reached as of the end of April and 42.8% was reached as of the end of May. The ratios for tax collection are 33% and 43.1%, respectively implying a 3-point improvement in tax collection performance compared to the year before.

As of the end of May, tax revenues constituted 83.8% of total budget revenues, leaving a share of 16% for non-tax budget revenues. General budget non-tax revenues stood below the level achieved in May 2010 in nominal terms except the capital revenues and collections from loans. Excluding the collections from loans, which have a considerably low share in total budget revenues, the improvements in the collection of capital revenues and privatization revenues prevented a further deterioration in non-tax revenue collections.

The performance in the collection of tax revenues was beyond the expectations in 2011 as well as in 2010. Among the chief determinants of the improvement were economic growth, rise in employment, imports reaching above expectations, the improvement in the fulfillment of liabilities to the state in the period after the crisis, the performance of the revenue administration, and the commencement of the additional revenue collection as per the restructuring process stipulated by the Law No 6111.

Tax revenues increased year-on-year by 20.8% as of the end of May. Excluding the revenues collected as per Law No 6111, the rate of increase is estimated to be 18%. The said ratio estimated in the 2011 budget at 10% has already reached 20% as of the end of May. Transient revenues to be collected as per the Law No 6111 added suggest that the tax collection performance as of the end of the year will reach beyond expectations.

Table 3: Central Government Budget Revenues (2010-2011 April/May, comparative)

	April				May				
	Composition of Expenditures (%)		Rate of Increase (%)	Realization Rate (%)	Composition of Expenditures (%)		Rate of Increase (%)	Realization Rate (%)	
	2009	2010	2010/2009	2009	2009	2010	2010/2009	2009	2010
Central Government Budget Expenditures	**100**	**100**	**1.90**	**31.86**	**100**	**100**	**6.23**	**38.35**	**38.27**
Primary Expenditures	76.43	82.37	9.81	29.14	78.49	82.55	11.72	36.03	37.25
I. Compensation of Employees	22.88	26.01	15.84	34.36	23.55	25.68	15.87	42.56	42.49
II.Government Premiums to Social Security Agenc	3.86	4.52	19.14	32.68	3.98	4.44	18.45	40.54	41.70
III. Goods and Services Procurements	6.86	7.73	14.83	22.26	7.60	8.10	13.18	29.69	32.23
Health Expenditures	1.67	1.55	-5.24	27.18	1.78	1.68	0.09	34.87	40.62
Medicine Expenditures	0.11	0.03	-71.75	39.88	0.11	0.03	-72.50	48.77	47.83
General Cure and Pharmaceutial Products	0.22	0.05	-76.26	37.94	0.24	0.05	-77.50	49.95	35.45
Green Card	1.34	1.47	12.04	25.32	1.43	1.60	19.04	32.47	40.70
Defense and Security (Excluding Health)	1.93	2.00	5.48	19.10	2.43	2.17	-5.16	28.97	25.92
Other Goods and Services	3.26	4.18	30.65	31.69	3.39	4.25	33.22	41.89	32.52
IV. Current Transfers	37.68	39.31	6.30	34.60	37.41	38.02	7.96	41.34	39.28
Duty Losses	1.09	0.49	-54.38	30.98	1.09	0.58	-43.54	37.18	13.72
Treasury Aid	21.91	22.97	6.80	33.98	21.63	21.34	4.84	40.37	37.28
Treasury Aid to Social Security Agencies	0.46	0.45	0.55	32.05	0.47	0.63	42.43	39.16	47.83
Health, Retirement and Social Aid Expenditure	20.52	21.24	5.49	34.87	20.12	19.31	1.95	41.16	36.99
Social Secuirty Deficit Finance	10.66	8.72	-16.65	36.85	10.12	6.95	-27.06	42.11	27.17
Transfers to non-financial Establishments	0.26	0.54	110.56	22.72	0.24	0.48	114.45	24.44	63.81
Transfers to Households	0.66	0.81	24.66	38.85	0.60	0.77	36.75	42.16	48.99
Agricultural Subsidy	3.86	3.78	-0.29	62.13	3.76	4.07	14.99	72.78	81.14
Other Transfers to Households	0.23	0.26	15.31	25.20	0.21	0.25	21.91	28.37	23.61
Social Transfers	0.50	0.70	43.00	28.88	0.52	0.71	42.90	36.66	35.59
Foreign Transfers	0.28	0.36	33.28	26.90	0.30	0.42	48.30	35.40	41.46
Shares from Revenues	8.89	9.41	7.82	31.55	9.07	9.42	10.35	38.73	39.30
V. Capital Expenditures	2.35	3.21	39.10	8.50	3.23	4.04	32.70	14.04	22.25
VI. Capital Transfers	0.77	0.52	-30.28	10.63	0.80	1.13	50.32	13.38	31.51
Domestic Capital Transfers	0.76	0.52	-30.63	10.72	0.79	1.13	51.90	13.41	33.40
Foreign Capital Tansfers	0.01	0.01	4.71	5.85	0.01	0.01	0.00	11.85	2.90
VII. Lending	2.02	1.06	-46.76	21.95	1.92	1.14	-37.01	25.12	21.18
Domestic Lending	1.77	0.86	-50.72	20.66	1.72	0.96	-40.78	24.07	19.33
Foreign Lending	0.25	0.20	-18.57	39.40	0.21	0.18	-5.67	39.40	42.17
VIII. Reserve Appropriations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Expenditures	23.57	17.63	-23.77	45.66	21.51	17.45	-13.80	50.14	43.94

The largest contribution in the tax revenue collection was made by the VAT on imports with 32.8%. Together with domestic VAT and SCT, the ratio reaches 60%. The outstanding characteristic of the tax revenues in the studied period was that the rate of increase in the collection of income tax reached 18% with a contribution at 15% to total tax revenues. This improvement is estimated to stem mainly from the rise in the collection of taxes on employment as well as in the payment performance.

Table 4: Realization of Tax Revenues and Contribution to the Overall Increase, end of May 2011 (compared to 2010)

million TL	End of May 2011	End of May 2010	Rate of Increase (%)	Contribution to Rate of Increase (%)
Tax Revenues	**100,025**	**82,783**	**20.8**	**100.0**
Taxes on Income, Profits and Capital Gains	**30,873**	**25,956**	**18.9**	**28.5**
Income Tax Collection	16,860	14,257	18.3	15.1
Provisional Corporation Tax	10,838	9,245	17.2	9.2
Special Consumption Tax	**23,625**	**20,683**	**14.2**	**17.1**
SCT on Petroleum and Natural Gas	12,259	11,660	5.1	3.5
Coke, Alcoholic Beverages and Tobacco Prod.	7,374	6,647	10.9	4.2
VAT Collection	**30,798**	**23,472**	**31.2**	**42.5**
VAT on Imports	18,919	13,259	42.7	32.8
Domestic VAT	11,879	10,213	16.3	9.7
Other Taxes	**14,729**	**12,672**	**16.2**	**11.9**
Stamp Duties	2,633	2,125	23.9	2.9
Fees	3,723	3,006	23.8	4.2
Banking and Insurance Transaction Tax	1,676	1,538	8.9	0.8

The restructuring of disputed obligations to state, the budget, SSI and municipalities to begin with as per the Law No 6111 has started to relieve the budget transiently. The installments will be paid in 2012 and 2013 indicating that the financial pressure on the budget will be eased in both revenue and expenditure side:

- First, the rise in budget revenues indicates additional resource inflows to the budget. The value of general budget revenues, revenues from property income and fines, shares and fees collected in May as per the Law No 6111 is 2.514.375 thousand TL.
- Second, the revenue to be earned via the Law is expected to ease the financial conditions and improve financial balances of the public institutions covered by the Law, the SSI to begin with, and thus lower their financial demands from the central government budget.

The Table below gives the revenues estimated to be collected, on the basis of the statements made by the Ministry of Finance in June. The figures do not include the amounts to be collected by other administrations in the context of the restructuring process.

Table 5: Revenue Estimated to be Collected via the Restructuring as per Law No 6111 (Budget)

Payment Options	Number of Payers	Total Amount to be Paid (TL)
In cash	1,479,106	5,540,350,160
6 Instalments	1,184,433	2,398,151,735
9 Instalments	265,041	721,981,419
12 Instalments	478,219	1,679,840,222
18 Instalments	1,727,536	23,603,170,390
*More than 18	2,904	2,608,392,855
Total	5,136,429	36,551,886,781

(*) Amounts to be paid by special provincial administrations, municipalities and sports clubs

Years	Amount (TL)
2011	13,553,128,284
2012	10,340,179,054
2013	8,579,747,614
2014	3,054,625,268
*2015 or later	1,024,206,661
Total	36,551,886,881

(*) Amounts to be paid by special provincial administrations, municipalities and sports clubs

Source: Anadolu Ajansı, 2.6.2011

Non-tax revenues in the budget decreased year-on-year by 5%, in nominal terms, mainly driven by the fall in enterprise and property income and fines, shares and fees, as also estimated in the 2011 budget.[1] Revenues of special budgetary administrations and revenues from regulatory and supervisory agencies increased year on year by 12.7%.

[1] Fiscal Monitoring Report January-February 2011 – 2011 Budget Evaluations report can be seen for an assessment of this issue.

BOX: AN ASSESSMENT OF BUDGET REVENUES IN MEDIUM TERM PROGRAM IN TERMS OF TAX ELASTICITY

Medium Term Program (MTP) announced in October 2010 estimated Central Government Budget Revenue figures for the 2011-2013 period as follows:

Table 1. Central Government Budget Revenues

Million TL	2011	2012	2013
Central Government Budget Revenues (Net)	2□9.026	307.056	334.743
Central Government Budget Tax Revenues (Net)	232.220	255.902	281.909
GDP (Billion TL, With current prices)	1.215	1.343	1.485
Real GDP Growth	4.5	5.0	5.5
GDP Deflator	5.8	5.3	4.8
CPI Yearend % Change, estimation	5.3	5.0	4.9

Source: Medium Term Program (2011-2013), State Planning Organization, October2010.

As Table 1 suggests, the MTP estimates that the share of tax revenues to total budget revenues and to GDP will be 83% and 19%, respectively. On the basis of these macroeconomic indicators, the rate of increase in tax revenues can be calculated as follows:

Table 2. Rate of Increase in Tax Revenues and GDP Elasticity

	2011	2012	2013
% Change in Tax Revenues (With current prices)	10.30	10.20	10.16
% Change in Tax Revenues (Real, with GDP deflator)	4.2	4.6	5.1
% Change in Tax Revenues (Real, % Change in CPI)	4.7	4.9	5.0
GDP Elasticity of Tax Revenues	0.95	0.93	0.93

As the real GDP growth figure given in Table 1 is compared to the increase in real tax revenues, it is seen that the GDP elasticity of total tax revenues is between 0.93-0.95 as per the MTP. In other words, unless the discretionary fiscal policy is altered, 1% increase in the GDP will improve tax revenues by less than 1%.

The correlation between tax revenues and GDP suggests that the coefficient of elasticity will be greater than 1.[2] OECD average is slightly above unit elasticity. Therefore, the MTP implies that tax revenues will be less responsive to economic fluctuations. It appears that possible fluctuations in the coming periods will affect budget revenues at a higher degree than that is estimated in the MTP.

[2] Çebi and Özlale (2011), "Türkiye'de Maliye Politikasının Niteliği: Yapısal Bütçe Dengesi ve Mali Duruş", TCMB Working Paper, No: 11/11, July 2011.

IV. BUDGET EXPENDITURES UNDER FUNCTIONAL CLASSIFICATION

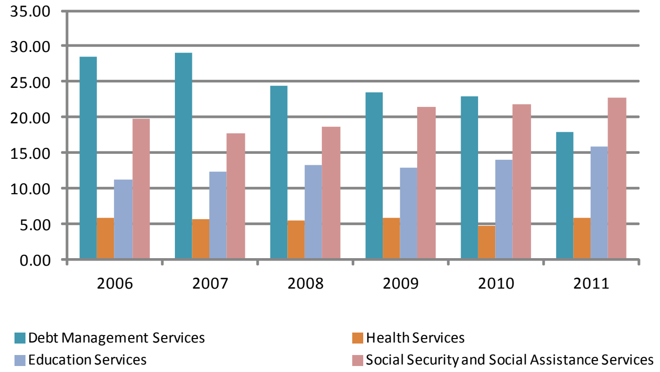
Functional classification of public expenditures as an indicator for the funds allocated for public services reveal that,

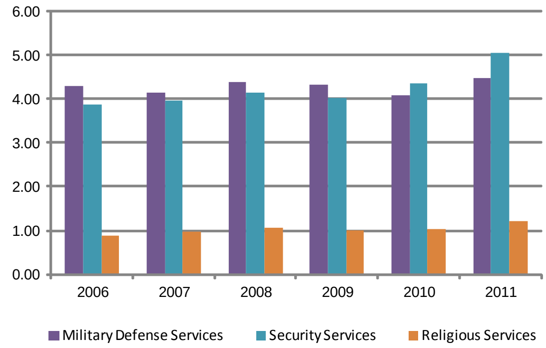
- The share of expenditures under the General Budget Expenditures category which also involves interest payments has been decreasing.
- Defense expenditures which vary between 4-5 percent and show a downwards trend.
- Expenditures under the Services for Public Order and Security category has been moving upwards with a fluctuating trend driven mainly by the increase in the expenditures for Security Services and Court Services.
- Expenditures for the Transportation Services under the Economic Affairs and Services category have been increasing gradually in the last years.
- The share of Health Services has been falling down in the recent years. The most striking development in this category is that the share of Public Health Services, that is, protective health services, has always remained at low.
- The share of Education Services, the third largest share in overall expenditures, has been gradually increasing, mainly driven by the expenditures allocated for Higher Education and Pre-School and Primary Education.
- Social Security and Social Assistance Services category historically holds the second largest share in total budget expenditures with a share around 20%. Sub-items under this category reveals that the total share of Old Age, Unemployment, Housing and Invalidity benefits stands around 1% whereas the share allocated for Social Security Institution finance has been increasing.

The share of general budget expenditures decreased due to the drop in interest expenditures as of the end of May whereas the shares of education services and social security and social assistance services have been increasing. Shares of the services under other categories, on the other hand, either remain constant or increase slightly due to the drop in interest expenditures.

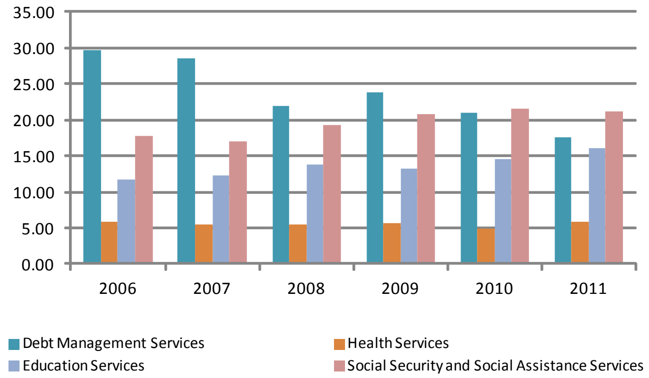
Figure 2: Functional Composition of Budget Expenditures, end of April/May 2011 (%)

April





May



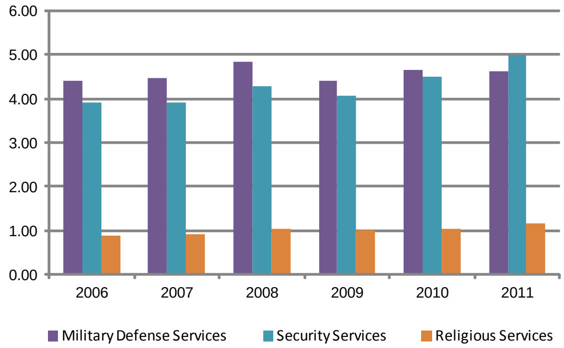


Table 6: Functional Composition of Budget Expenditures, end of April/May (2006-2011, %)

	April						May					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
EXPENDITURES	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
I-GENERAL PUBLIC SERVICES	**38.96**	**40.71**	**37.44**	**35.55**	**36.30**	**33.05**	**40.21**	**40.06**	**35.02**	**36.07**	**34.52**	**32.71**
Debt Management Services	28.52	29.13	24.42	23.45	23.00	17.83	29.59	28.51	21.94	23.86	21.03	17.61
II-DEFENSE SERVICES	**4.32**	**4.20**	**4.42**	**4.36**	**4.12**	**4.53**	**4.46**	**4.51**	**4.88**	**4.45**	**4.68**	**4.66**
Military Defense Services	4.28	4.16	4.37	4.32	4.09	4.48	4.42	4.47	4.84	4.41	4.64	4.61
III-SERVICES FOR PUBLIC ORDER AND SECURITY	**5.11**	**5.54**	**5.79**	**5.52**	**6.04**	**6.96**	**5.36**	**5.51**	**5.93**	**5.56**	**6.21**	**6.88**
Security Services	3.88	3.97	4.13	4.03	4.37	5.05	3.93	3.92	4.29	4.07	4.51	4.99
Court Services	0.68	0.83	1.05	0.97	1.09	1.27	0.70	0.82	1.06	0.98	1.13	1.27
Services for Public Order and Safety nec.	0.19	0.19	0.20	0.18	0.20	0.22	0.17	0.18	0.19	0.18	0.19	0.20
IV-ECONOMIC AFFAIRS AND SERVICES	**11.83**	**10.44**	**11.97**	**11.72**	**10.02**	**8.18**	**11.41**	**11.36**	**12.32**	**11.58**	**10.65**	**9.32**
Services about Agriculture, Forestry, Fishing and Hunting	5.16	4.40	6.07	6.61	5.29	4.99	4.50	5.51	6.08	6.32	5.21	5.38
Transportation Services	4.22	2.93	2.59	2.09	2.08	1.30	3.99	2.78	2.91	2.24	2.51	1.77
V-ENVIRONMENT PROTECTION SERVICES	**0.05**	**0.06**	**0.08**	**0.06**	**0.06**	**0.07**	**0.06**	**0.06**	**0.09**	**0.06**	**0.06**	**0.09**
Protection of Habitat and Biodiversity	0.05	0.05	0.05	0.04	0.05	0.05	0.05	0.05	0.05	0.04	0.05	0.05
VI-HOUSING AND WELFARE SERVICES	**1.52**	**1.63**	**1.33**	**1.08**	**1.30**	**0.88**	**1.97**	**2.15**	**1.39**	**1.01**	**1.28**	**1.47**
Housing Works and Affairs	1.41	1.41	1.08	0.75	0.74	0.53	1.84	1.86	1.13	0.72	0.74	0.99
VII-HEALTH SERVICES	**5.82**	**5.73**	**5.52**	**5.91**	**4.79**	**5.84**	**5.80**	**5.53**	**5.55**	**5.75**	**5.00**	**5.91**
Outpatient Treatment Services	1.02	1.04	1.28	1.22	1.28	1.71	1.04	1.01	1.30	1.23	1.32	1.70
Hospital Works and Services	4.60	4.52	4.07	3.69	3.36	3.96	4.55	4.34	4.08	3.67	3.49	4.04
Public Health Services	0.15	0.11	0.12	0.12	0.11	0.11	0.16	0.11	0.12	0.12	0.14	0.11
VIII- LEISURE, CULTURAL AND RELIGIOUS SERVICES	**1.26**	**1.44**	**1.58**	**1.49**	**1.52**	**1.87**	**1.33**	**1.46**	**1.66**	**1.54**	**1.63**	**1.88**
Religious Services	0.88	0.96	1.05	1.01	1.02	1.20	0.88	0.92	1.04	1.01	1.04	1.17
IX-EDUCATION SERVICES	**11.26**	**12.43**	**13.23**	**12.92**	**14.02**	**15.79**	**11.67**	**12.33**	**13.78**	**13.13**	**14.51**	**16.01**
Pre-school and Primary School Services	5.42	6.21	6.28	5.73	6.25	7.02	5.56	6.07	6.41	5.81	6.47	6.94
Secondary School Services	2.53	2.64	2.74	2.70	2.94	3.41	2.56	2.64	2.81	2.74	3.07	3.39
Tertiary School Services	2.63	2.66	2.75	2.65	3.13	3.49	2.66	2.65	2.98	2.73	3.10	3.55
Education Services Not Classified Based on Degree	0.31	0.34	0.37	0.36	0.37	0.47	0.33	0.35	0.39	0.37	0.40	0.49
Supplamentary Education Services	0.23	0.46	0.50	0.75	0.68	0.82	0.41	0.49	0.57	0.76	0.76	0.95
Research and Development Activities on Education	0.03	0.03	0.04	0.15	0.10	0.08	0.04	0.04	0.06	0.15	0.14	0.17
Education Services not elsewhere classified	0.11	0.08	0.54	0.59	0.55	0.50	0.11	0.09	0.56	0.57	0.57	0.52
X-SOCIAL SECURITY AND SOCIAL ASSISTANCE SERVICES	**19.87**	**17.81**	**18.65**	**21.38**	**21.83**	**22.82**	**17.72**	**17.03**	**19.36**	**20.84**	**21.48**	**21.08**
Assistance Services for Sickness and Invalidity	0.03	0.04	0.14	0.34	0.55	0.78	0.03	0.04	0.15	0.36	0.58	0.78
Old Age Benefit Services	0.03	0.04	0.05	0.05	0.05	0.06	0.03	0.04	0.05	0.05	0.05	0.07
Family and Child Benefit Services	0.10	0.11	0.12	0.12	0.13	0.15	0.10	0.11	0.13	0.13	0.13	0.15
Unemployment Benefit Services	0.36	0.59	0.42	0.38	0.40	0.39	0.36	0.38	0.43	0.39	0.41	0.55
Housing Benefit Services	0.00	0.00				0.00	0.00	0.00				0.00
Services Provided for Non-insured	0.03	0.05	0.05	0.03	0.02	0.02	0.04	0.05	0.05	0.04	0.02	0.02
Unclassified Social Security and Assistance Services	19.32	16.99	17.88	20.46	20.69	21.43	17.16	16.41	18.55	19.88	20.28	19.52