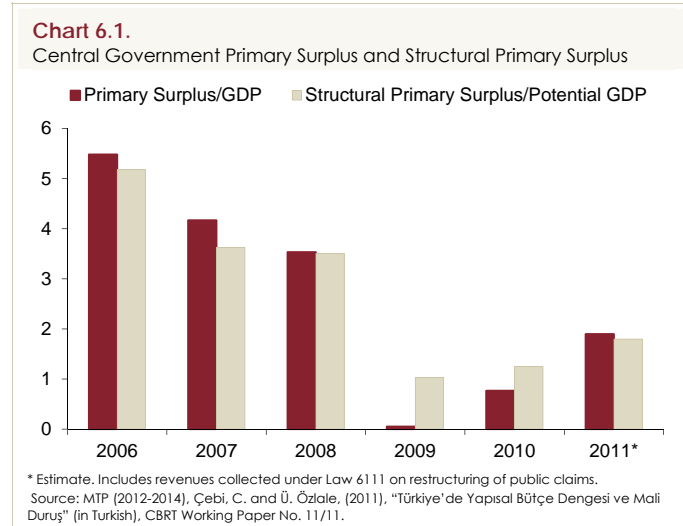


6. Public Finance

Public finance displayed a favorable outlook in 2011. Soaring tax revenues and falling interest expenditures were the major drivers of the improved budget balances. Furthermore, the additional budget revenue provided by the law on restructuring of public claims (tax and insurance premium amnesty), applications of which were due on May 31, 2011 as well as the relative slowdown of the primary expenditures contributed to the improvement in budget balance.

Increases in indirect taxes, VAT on imports in particular, which are driven mainly by the vigorous private consumption demand, in addition to revenues collected under the law on restructuring of public claims were particularly effective on the favorable outlook of the budget performance. In this respect, the improvement in fiscal balances are mainly attributed to cyclical factors as well as legal arrangements throughout 2011. As a matter of fact, the ratio of structural primary balance to potential GDP adjusted for cyclical effects indicates that excluding the revenues collected under the tax and social security premium amnesty, which account for approximately 1 percent of the GDP, the fiscal policy stance remained broadly unchanged in 2011 (Chart 6.1).



Considering the targets laid down in the MTP regarding the public finance, the medium-term forecasts in the Report assumes that the public debt to GDP ratio will remain broadly unchanged in the forthcoming period. Meanwhile, it should be emphasized that reinforcement of the fiscal framework

through institutional and structural improvements envisaged in the MTP remains critical in order to ensure a permanent fiscal discipline.

6.1. Budget Developments

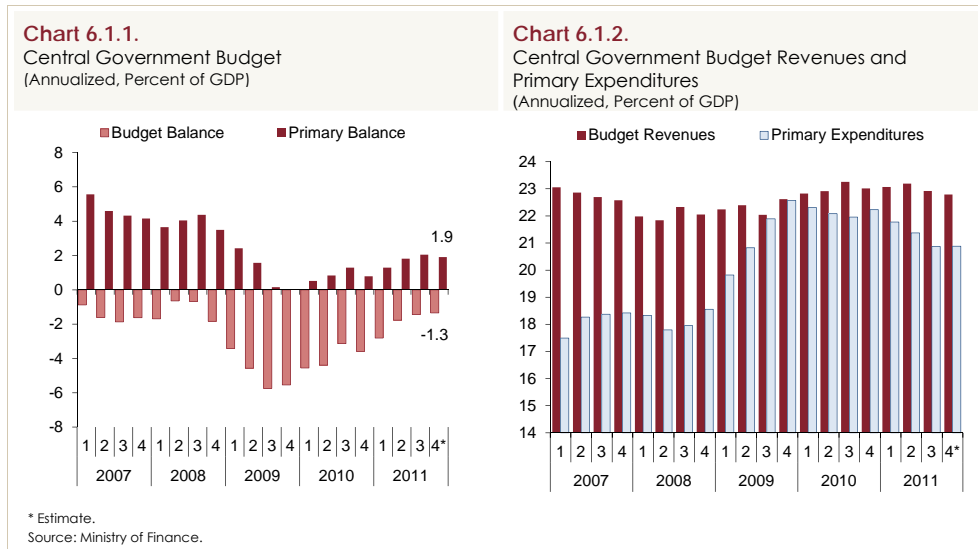
While the central government budget posted a deficit of TL 17.4 billion, the primary balance recorded a surplus of TL 24.8 billion in 2011 (Table 6.1.1). The year-on-year improvement in the budget outturn in 2011 was driven by rising tax revenues amid the economic recovery besides the fall in interest expenditures and the TL 13.3 billion collected under the law on restructuring of public claims by December. Additionally, the relative slowdown of the primary expenditures also contributed to the decline in the budget deficit.

Table 6.1.1.
Central Government Budget Aggregates
(Billion TL)

	2010	2011	Rate of Increase (Percent)	Actual/ Target (Percent)
Central Government Budget Expenditures	294.4	313.3	6.4	100.2
Interest Expenditures	48.3	42.2	-12.6	88.9
Primary Expenditures	246.1	271.1	10.2	102.3
Central Government Budget Revenues	254.3	295.9	16.4	106.0
I. Tax Revenues	210.6	253.8	20.5	109.3
II. Non-Tax Revenues	35.5	32.6	-8.1	82.7
Budget Balance	-40.1	-17.4	-56.5	52.0
Primary Balance	8.2	24.8	201.5	177.5

Source: Ministry of Finance.

Having improved on the back of the favorable budget outturn in the first three quarters of 2011, the central government primary budget balance to GDP ratio has slightly deteriorated amid soaring primary expenditures in the last quarter of 2011. Meanwhile, the central government budget balance maintained its downtrend in the last quarter in line with the decline in interest expenditures (Chart 6.1.1). The central government budget revenues to GDP ratio, which trended upwards in 2010 owing to the rapid economic rebound, has edged down since end-2010, while the central government primary expenditures to GDP ratio plummeted in the first three quarters of 2011 compared to end-2010 figures (Chart 6.1.2).



Central government primary expenditures posted a year-on-year increase by 10.2 percent in 2011. The limited increase in primary expenditures is mainly attributed to the relatively low increase by 8.1 percent in current transfers, the major component of primary expenditures. Personnel expenditures, another major component of primary expenditures, were up 17 percent. Meanwhile, capital expenditures increased by about 18 percent, implying that public investments made a positive contribution to GDP growth in 2011 (Table 6.1.2).

Table 6.1.2.
Central Government Primary Expenditures
(Billion TL)

	2010	2011	Rate of Increase (Percent)	Actual/Target (Percent)
Primary Expenditures	246.1	271.1	10.2	102.3
1. Personnel Expenditures	62.3	72.9	17.0	100.8
2. Government Premiums to SSI	11.1	12.8	16.1	100.9
3. Purchase of Goods and Services	29.2	32.4	11.2	108.0
a) Defense and Security	9.5	10.0	4.8	99.9
b) Health Expenditures	5.8	5.4	-5.4	110.1
4. Current Transfers	101.9	110.1	8.1	95.1
a) Duty Losses	3.3	4.7	43.7	93.9
b) Health, Pension and Social Benefits	55.0	52.8	-4.0	84.6
c) Agricultural Support	5.8	7.0	19.7	116.0
d) Shares Reserved from Revenues	26.3	30.7	16.6	107.0
5. Capital Expenditures	26.0	30.7	18.0	141.5
6. Capital Transfers	6.8	6.7	-0.5	156.7

Source: Ministry of Finance.

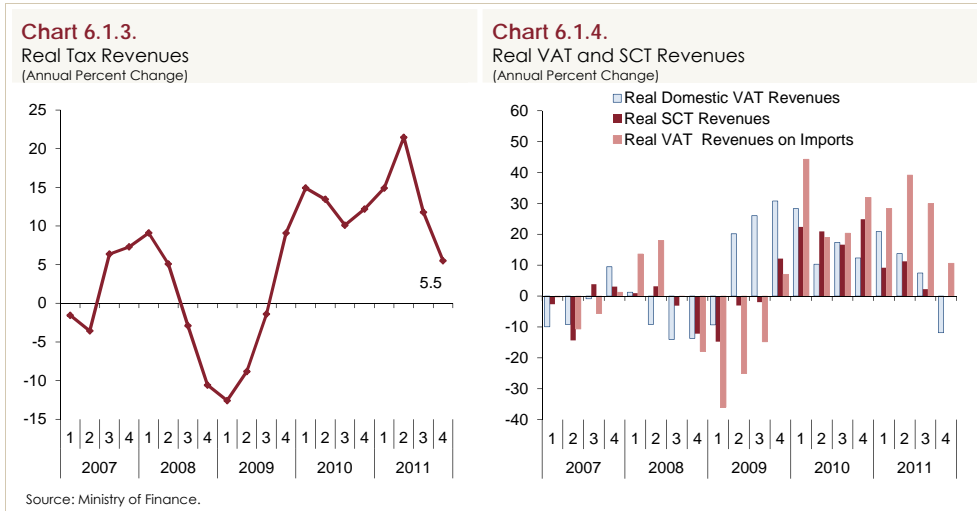
Central government general budget revenues posted a year-on-year increase of 16.4 percent in 2011. Tax revenues soared by 20.5 percent in the said period, while non-tax revenues declined by 8.1 percent owing to the fall in capital revenues, enterprises and property revenues as well as interest, shares and fines (Table 6.1.3). Amid the vigorous consumption demand in 2011, consumption-based taxes, particularly the value added tax on imports surged. Additionally, high levels of temporary corporate tax payments in February, May and August also contributed to soaring tax revenues. The SCT revenues on the other hand, posted a relatively limited increase owing to the slowdown in the rate of increase in SCT on oil and natural gas as well as tobacco products, which account for approximately half and quarter of these revenues, respectively.

Table 6.1.3.
Central Government General Budget Revenues
(Billion TL)

	2010	2011	Rate of Increase (Percent)	Actual/Target (Percent)
General Budget Revenues	246.1	286.4	16.4	105.4
I-Tax Revenues	210.6	253.8	20.5	109.3
Income Tax	40.4	48.8	20.8	103.1
Corporate Tax	20.9	27.0	29.0	116.6
Domestic VAT	26.3	30.0	13.8	111.7
SCT	57.3	64.2	12.1	105.0
VAT on Imports	36.2	48.7	34.5	118.6
II-Non-Tax Revenues	35.5	32.6	-8.1	82.7
Enterprises and Property Revenues	9.8	9.1	-7.6	124.1
Interests, Shares and Fines	21.1	19.5	-7.7	94.2
Capital Revenues	3.4	2.5	-27.3	24.6

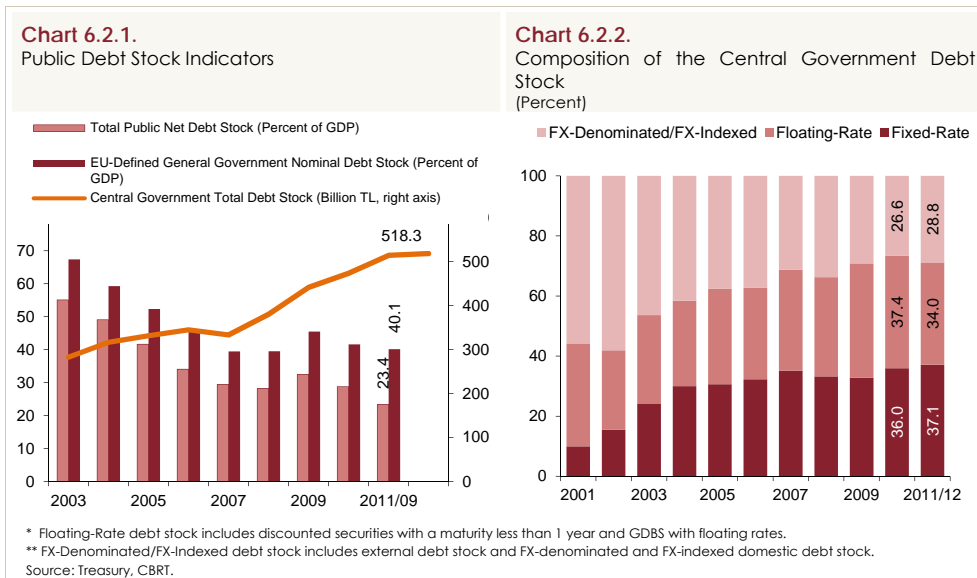
Source: Ministry of Finance.

The annual rate of increase in real tax revenues, which has been on the rise since the fourth quarter of 2009 with the recovery of private consumption demand, slightly lost pace due to the waning base effects in the second and third quarters of 2010. Having recovered sharply as of the last quarter of 2010, real tax revenues plunged in the third and fourth quarters of 2011, mainly due to the slowdown in the real growth rates of indirect taxes, posting a year-on-year increase by 5.5 percent in the last quarter of 2011 (Chart 6.1.3). SCT revenues, a major component of tax revenues, and domestic VAT revenues, decreased by 0.3 and 11.9 percent year-on-year, respectively, in real terms. Meanwhile, VAT revenues on imports went up by 10.6 percent year-on-year in real terms (Chart 6.1.4).



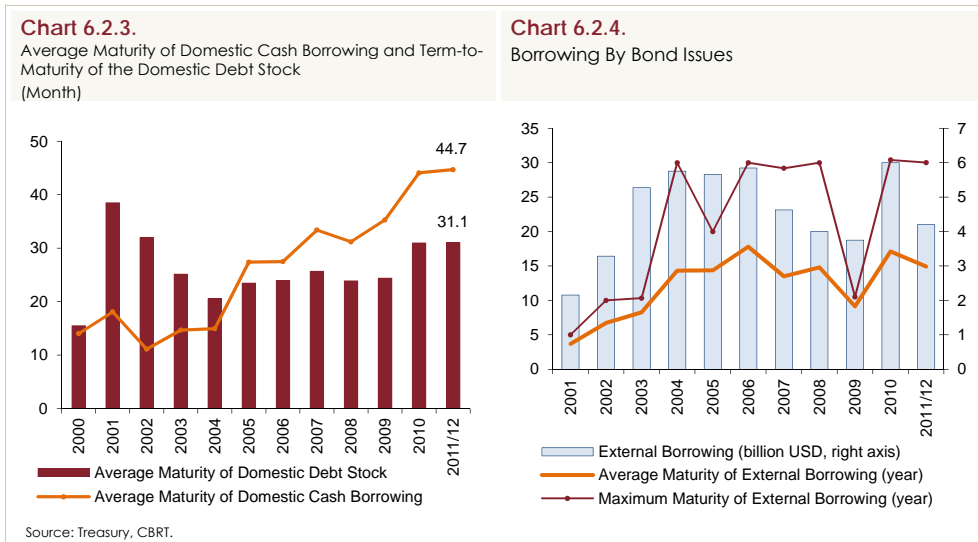
6.2. Developments in the Debt Stock

The favorable central government budget outturn and the debt management policies provided a sustained improvement in public debt stock indicators throughout the year. Consequently, 2011 was marked by a decline in public debt ratios, reduced real cost of borrowing, a decreased share of interest rate and exchange rate sensitive debt in the debt stock and a lower domestic debt rollover ratio.

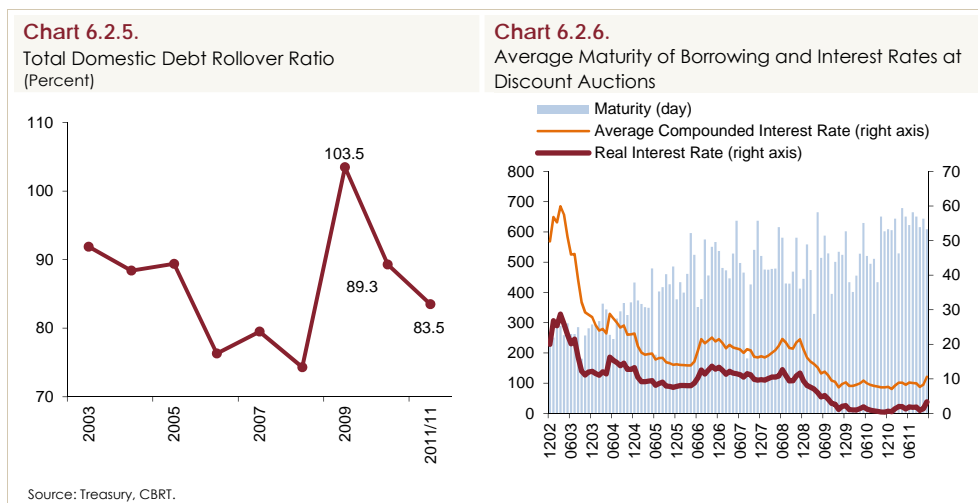


Central government debt stock posted a year-on-year increase of 9.4 percent totaling TL 518.3 billion in 2011 (Chart 6.2.1). Public debt ratios maintained the downward trend in the third quarter of 2011. Compared to the

end-2010, the ratio of total net public debt stock and EU-defined general government nominal debt stock to GDP declined by 5.4 and 1.5 percentage points to 23.4 and 40.1 percent, respectively (Chart 6.2.1).



The Treasury's financing program for 2011, like previous years, has been formulated based on an approach to limit the liquidity as well as interest and exchange rate sensitivity of the debt stock. In this respect, the share of fixed rate instruments in total debt stock posted a slight year-on-year increase at end-2011 (Chart 6.2.2). The ratio of public deposits to average monthly debt service has reached 203.4 percent as of December 2011. Meanwhile, average maturity of domestic debt stock remains at 2010 level (Chart 6.2.3). Moreover, bond issues have yielded an external debt of USD 4.2 billion in 2011, with an average maturity slightly down compared to 2010 to 14.9 years (Chart 6.2.4).



Domestic debt rollover ratio has been 83.5 percent by November 2011. (Chart 6.2.5). Having plunged from early 2009 until early 2011, the monthly average real interest rates at discount Treasury bill auctions remain low despite having posted slight increases in recent months (Chart 6.2.6).

