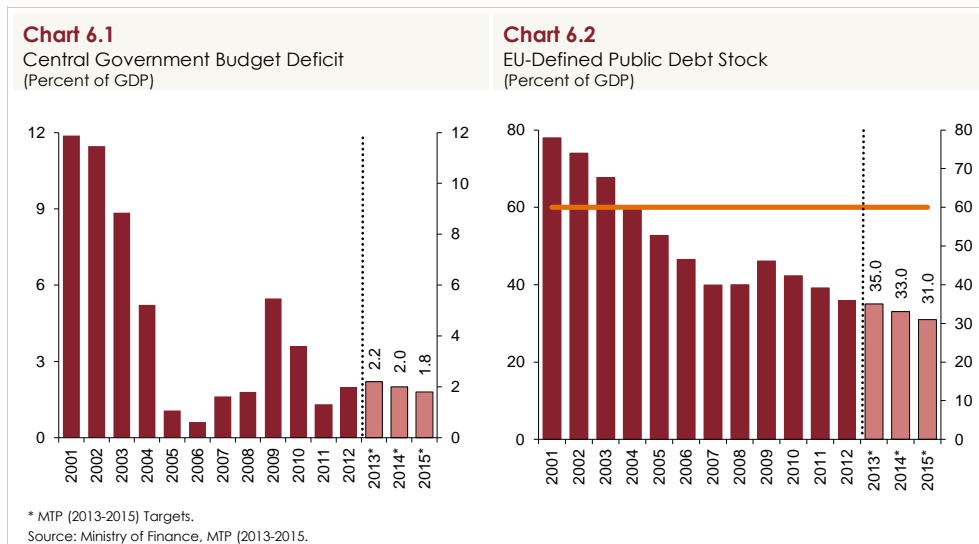


6. Public Finance

The budget performance displayed a year-on-year deterioration in 2012 on the account of soaring personnel expenditures, which have a major share in primary expenditures as well as increases in health, pension and social benefit expenditures (Chart 6.1). In addition, marked deceleration of the rate of increase in tax revenues due to changing composition of growth amid balancing of the external and domestic demand was also influential on the deterioration of the budget performance via revenues channel. EU-defined nominal debt stock to GDP, which started to decline in 2010, decreased further in 2012 (Chart 6.2).



Budget performance exhibited a year-on-year improvement in the first quarter of 2013 on the back of tax measures adopted in September 2012 as well as the remarkably higher consumption-based tax revenues amid revival in the economic activity. The periodical decline in interest expenditures and privatization revenues also favorably affected the budget performance. The soaring of indirect tax revenues due to stronger domestic demand throughout 2013 will further contribute to the improvement of the budget performance. However, it should be emphasized that strengthening the fiscal framework by structural improvements envisaged in the MTP remains to be of utmost importance with regard to maintaining fiscal discipline on a permanent basis in the medium term.

6.1. Budget Developments

Central government budget posted a deficit of TL 0.9 billion during January-March 2013, while primary balance registered a surplus of TL 14.3 billion (Table 6.1.1). Budget balance displayed a notable year-on-year improvement in this period. Despite the significant increase in primary expenditures, budget performance improved mainly on the back of the surge in consumption-based tax revenues, the periodical decline in interest expenditures and the soaring of non-tax revenues amid higher privatization revenues.

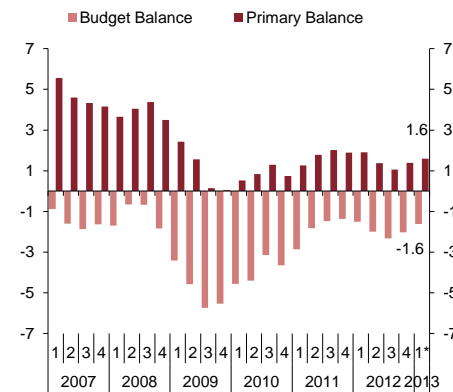
Table 6.1.1.
Central Government Budget Aggregates
(Billion TL)

	January- March 2012	January- March 2013	Rate of Increase (Percent)	Actual/Target (Percent)
Central Government Budget Expenditures	83.8	95.0	13.3	23.5
Interest Expenditures	17.3	15.1	-12.6	28.6
Primary Expenditures	66.5	79.9	20.1	22.8
Central Government Budget Revenues	77.4	94.1	21.6	25.4
I. Tax Revenues	64.5	77.4	20.0	24.3
II. Non-tax Revenues	9.6	13.4	40.2	31.1
Budget Balance	-6.4	-0.9	-86.1	2.6
Primary Balance	10.9	14.3	30.8	74.8

Source: Ministry of Finance.

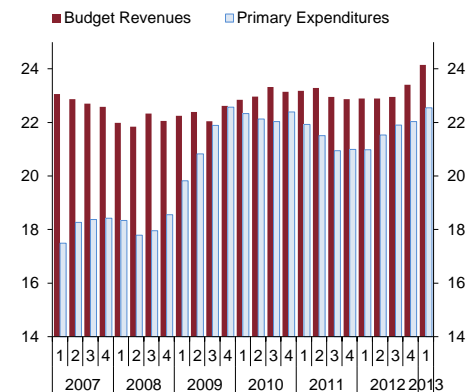
The central government budget deficit to GDP, which soared in 2012 due to deceleration of the tax revenues and the rising of primary expenditures, is estimated to fall to 1.6 percent in the first quarter of 2013 (Chart 6.1.1). Having declined to as low as 1.1 percent in the third quarter of 2012, primary budget surplus to GDP has started to increase. Accordingly, it is estimated to have reached 1.6 percent in the first quarter of 2013.

Chart 6.1.1.
Central Government Budget Balance
(Annualized, Percent of GDP)



* Estimate.
Source: Ministry of Finance.

Chart 6.1.2.
Central Government Budget Revenues and
Primary Expenditures
(Annualized, Percent of GDP)



Having surged on account of the adopted fiscal measures to limit the adverse effects of the 2009 global crisis on the Turkish economy, the central government primary expenditures to GDP ratio declined in the subsequent years. However, central government primary expenditures to GDP ratio has picked up starting from the second quarter 2012, reaching 22.6 percent in the first quarter of 2013. Meanwhile, central government budget revenues to GDP is estimated to hit the recent high of 24.1 percent in the first quarter of 2013 on the back of the tax measures adopted in September 2012 and the relatively robust economic activity (Chart 6.1.2).

Having edged up as of the second quarter of 2012, central government primary budget expenditures increased further in the first quarter of 2013. Accordingly, central government primary budget expenditures recorded a year-on-year rise by 20.1 percent in January-March 2013 (Table 6.1.2).

Table 6.1.2.Central Government Primary Expenditures
(Billion TL)

	January- March 2012	January- March 2013	Rate of Increase (Percent)	Actual/Target (Percent)
Primary Expenditures	66.5	79.9	20.1	22.8
1. Personnel Expenditures	21.6	25.1	15.9	25.8
2. Government Premiums to SSI	3.7	4.2	13.3	25.2
3. Purchase of Goods and Services	4.7	5.4	14.5	16.1
4. Current Transfers	32.3	37.9	17.5	25.1
a) Duty Losses	0.4	0.7	74.2	16.0
b) Health, Pension and Social Benefits	16.2	18.9	16.6	25.9
c) Agricultural Support	2.6	2.8	6.0	30.8
d) Shares Reserved from Revenues	9.0	10.2	13.0	25.0
5. Capital Expenditures	1.7	4.1	141.2	12.3
6. Capital Transfers	0.2	0.4	90.4	7.6
7. Lending	2.2	2.7	22.8	24.5

Source: Ministry of Finance.

Current transfers and personnel expenditures, major items in primary expenditures, registered a year-on-year increase by 17.5 percent and 15.9 percent, respectively in the quarter of 2013. Despite lagging behind the rate of increase in current transfers, health, pension and social benefits, which account more than half of current transfers, registered a marked increase of 16.6 percent.

As for other expenditure items, the surge in capital expenditures, which was driven by road construction expenditures as well as capital transfers is noteworthy in the first quarter of 2013.

The central government general budget revenues posted a year-on-year increase by 22.6 percent in January-March 2013 (Table 6.1.3). During the same period, tax revenues increased by 20 percent, while non-tax revenues increased by 40.2 percent amid transfer of the raised revenues to Treasury in January following the secondary public offering of Halkbank. Consumption-based tax revenues soared notably in January-March 2013. More specifically, on the back of increases in SCT collection on oil and natural gas products as well as tobacco products, SCT revenues increased notably by 29.6 percent in this period. Meanwhile, having slowed down in 2012, VAT revenues on imports increased by 36.1 percent in January-March 2013 due to BOTAŞ payments.

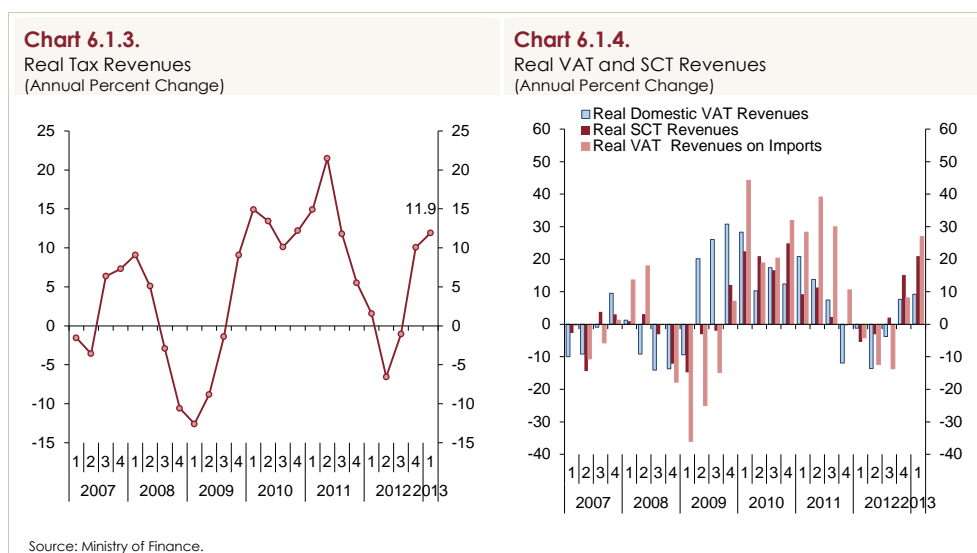
Table 6.1.3.
Central Government General Budget Revenues
(Billion TL)

	January- March 2012	January- March 2013	Rate of Increase (Percent)	Actual/Target (Percent)
General Budget Revenues	74.0	90.8	22.6	25.1
I-Tax Revenues	64.5	77.4	20.0	24.3
Income Tax	13.0	14.2	9.0	22.6
Corporate Tax	7.4	7.8	5.6	26.6
Domestic VAT	8.0	9.4	17.2	25.8
SCT	13.9	18.0	29.6	21.7
VAT on Imports	10.9	14.8	36.1	24.2
II-Non-Tax Revenues	9.6	13.4	40.2	31.1
Enterprises and Property Revenues	2.9	1.6	-45.6	17.1
Interests, Shares and Fines	4.8	6.4	33.3	28.4
Capital Revenues	0.6	5.0	695.8	53.8

Source: Ministry of Finance.

Amid balancing of the domestic and external demand in 2012 as well as the base effect, the annual rate of increase in real tax revenues, which has started to slow down as of the third quarter of 2011, hit negative values in the second and third quarters of 2012 after a 10-quarter period. The annual rate of increase in real tax revenues turned positive, and reached 11.9 percent in the first quarter of 2013 due to adoption of tax rate hikes to certain products in September 2012 as well as base effects (Chart 6.1.3). Consumption-based tax revenues stood as the major tax revenue items to have been adversely affected by the balancing of domestic and external demand in 2012. Accordingly, consumption-based tax revenues exhibited a particularly negative performance in the first three quarters of 2012. However, consumption-based tax revenues increased remarkably in the last quarter of 2012 on the back of the

favorable base effect as well as the adopted tax measures. In the first quarter of 2013, consumption-based tax revenues accelerated further. Accordingly, VAT revenues on imports increased by 26.9 percent, while SCT revenues and domestic VAT revenues increased by 20.9 and 9.3 percent, respectively in real terms (Chart 6.1.4).



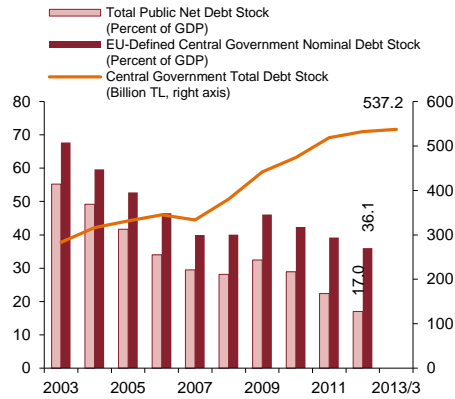
6.2. Developments in the Public Debt Stock

Public debt stock indicators improved further in March 2013. The ratio of total public net debt stock and EU-defined general government nominal debt stock to GDP continued to decline; the real cost of borrowing stood low; and the average maturity of the debt stock was extended further.

As of end-2012, the ratio of total public net debt stock and EU-defined general government nominal debt stock to GDP were reduced by 5.4 and 3.1 percentage points from the year-end and reached 17 and 36.1 percent, respectively (Chart 6.2.1). Meanwhile, as of end-March 2013, central government debt stock remained unchanged from 2012 (Chart 6.2.1).

Chart 6.2.1.

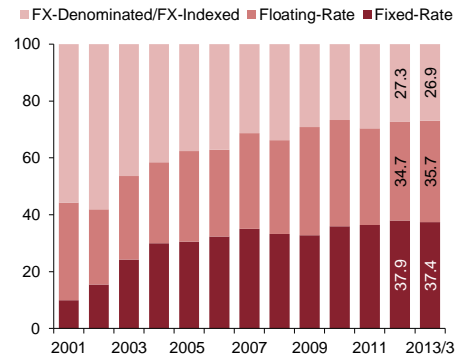
Public Debt Stock Indicators



* FX-Denominated/FX-Indexed debt stock includes external debt stock and FX-denominated and FX-indexed domestic debt stock.
 ** Floating-Rate debt stock includes discounted securities with a maturity less than 1 year and GDBS with floating rates.
 Source: Treasury.

Chart 6.2.2.

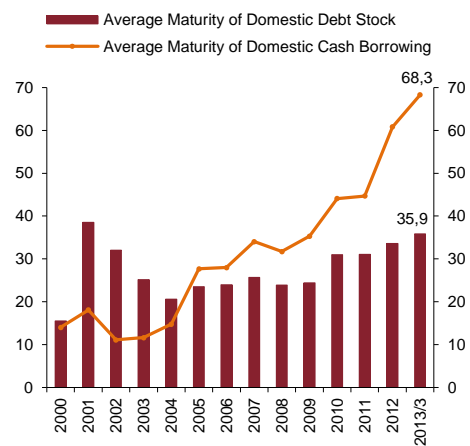
Composition of the Central Government Debt Stock (Percent)



As of the first quarter of 2013, the Treasury continues to adhere to its borrowing strategy to alleviate the sensitivity of the debt stock to liquidity, interest and exchange rate. Accordingly, the share of fixed-rate securities in the total debt stock remains unchanged from 2012 (Chart 6.2.2). The ratio of public deposits to average monthly debt service stands at 155.7 percent. The average maturity of the domestic cash borrowing displayed a year-on-year increase in 2013, thus pulling the term-to-maturity of the domestic debt stock to 35.9 months (Chart 6.2.3). External borrowing by bond issues amounted to USD 1.7 billion, with the average maturity declining to 11.3 years (Chart 6.2.4).

Chart 6.2.3.

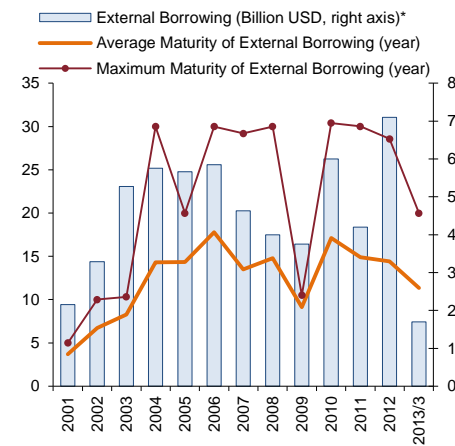
Average Maturity of the Domestic Cash Borrowing and Term-to-Maturity of the Domestic Debt Stock (Month)



Source: Treasury.

Chart 6.2.4.

Borrowing By Bond Issue



* Denotes total external borrowing for the relevant year.
 Source: Treasury.

Domestic debt rollover ratio is 85.7 percent as of end-February 2013 (Chart 6.2.5). The average real interest rate at discount auctions, which slumped from the onset of 2009 to the beginning of 2011, continues to remain low (Chart 6.2.6).

