Version-2
31 Jan

Country Profile: Turkey
Public Sector and Fiscal Policy Issues

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Introduction

For many developing economies, the 1980's have been a period of external shocks with faltering export demand, high and volatile real interest rates and depletion of funds for external finance. By 1980, many developing country governments were used to rely on external sources for financing their fiscal operations. Under such conditions, constraints to growth were thought to originate from the two gaps of "savings-investment" and "foreign exchange". With the darkening external environment, however, they found themselves in a position where they had to extract resources from the internal markets to sustain their fiscal targets. That in turn meant domestic debt accumulation, and the emergence of the so-called "fiscal constraint" as the *third gap* limiting the growth prospects (Bacha, 1990; Taylor, 1996).

In comparison to many developing nations, Turkey experienced relatively modest sizes of accumulated fiscal debt by 1996. However, two additional factors increased the gravity of the problem: one was the realization by fiscal authorities that continued seignorage extraction through monetization was no longer feasible; that is, the Treasury had almost fully exploited the Laffer curve (Yeldan, 1997; Selcuk, 1996). Thus, the deficit had to be increasingly financed by domestic sources through bond issues at very high real rates of interest to cover the risk premia. Secondly, the maturity of the domestic debt was very short which gave way to an intensive Ponzi financing mode of debt management. These factors combined led to excessively high interest rates, crowded out private investors, and caused significant strain on the domestic markets.

Currently Turkey is in the midst of an IMF-led austerity programme that relies primarily on fiscal restraint. The fiscal authority has a clear mandate to generate a primary budget surplus (not counting the interest expenditures) of 6.5 percent for the public sector as a whole[1] as a ratio to the gross national product (GNP). Spanning over a planning horizon 2001 to 2007, the primary surplus target is regarded necessary by the fiscal authorities to reduce the massive debt burden and the fragilities it imposes on the financial and the real commodity markets. Needless to assert, the current fiscal policy administration has important implications on both the macroeconomic environment and the microeconomic mechanisms of resource allocation, employment, and tax incidence.

In this Chapter, we aim at studying these implications over an extended macro and micro framework. We rely our analyses mostly on wide ranging data sources and try to offer the reader a comprehensible data set along with our analytical assessments. The Report is organized under five sections. First we provide a broad overview of the state of the public sector balances in Turkey over the post-liberalization period. Next we focus on the budgetary equilibrium and study the fragilities and macro perspectives of the consolidated budget. In section three, we concentrate on the microeconomic implications of the fiscal policies on sectoral resource allocation, incidence of taxation (especially the value added taxes, import tariffs, and other forms of *indirect* taxes), and on sectoral labor demands. The section has direct policy implications for the extent of unrecorded activities and tax evasion along with informalization of the labor markets in the Turkish economy. We also study the issues of privatization of public assets in this section. We study the public sector borrowing requirement and the dynamics of fiscal debt in section four. Finally we study the current stance of the fiscal position in section five and deduce implications for future fiscal administration.

[1] The primary surplus target is set at 5 percent for the central consolidated budget.

I. Macroeconomic Equilibrium of the Public Sector in Turkey

The post-1990 macroeconomic balances recorded an unprecedented rise in the fiscal gap. The period witnessed a series of reluctant and failed attempts of tax reform. The succession of short-lived, coalition governments are all observed to rely on indirect taxation as budgetary revenues. We document the main fiscal indicators of the public sector in table 1, where we present the relevant data in fixed 1987 prices using the wholesale price indexes. Thus, a direct comparison can be made across years as the effects of price inflation are sterilized.

<insert Table 1 here>

It can be directly noted that during the 1988-1992 period the major breakdown has accounted in the factor revenues item. These are the net factor income generated by the state economic enterprise system. Factor revenues of the state declined by NewTL 6 billion in these 4 years measured in real 1987 prices. This amount is approximately 3% of the GNP of the period. Thus, in four years, the Turkish public sector has lost revenue sources reaching nearly to 3% of the gross national product. This loss is significant not only in terms of its size, but also in terms of the shortness of the duration.

Following this period, transfer expenditures increased by almost 2-folds in real terms. The major item in this account is the interest payments. The rise in the domestic debt gave way to a rapid build up of interest rates which increased from 2.8% of the GNP in 1992, to 4.6% in 1993, and then to 6% in 1994. As fiscal deficits continued to be securitized, the stock of government debt instruments (GDI's) grew rapidly to reach 20.2% of the GNP in 1997. By comparison, the stock of GDI's only reached to 11% by mid-1992, disclosing that the size of the domestic debt stock increased by 2-folds as a share of the GNP in just five years.

On the revenue side, there had been modest improvements in tax revenues. Between 1990 and 1996, revenues from direct taxes increased following the increase in the GNP. After 1997, however, they remained at the same level in real terms. The major increase of tax revenues after 1997 came from indirect taxation. In the meantime the share of indirect taxes in the total rose to 69% in 2003. This ratio was 53% in 1990. Thus, over the analyzed period, the government had to increasingly rely on indirect taxation, as its tax administration capacity could not be expanded by increasing the direct income tax base.

All these developments led to a sharp decrease in the disposable income of the public sector especially after the 2001 crisis. The PSBR as a ratio of GNP stood around 10% on the average over 1990-1993. The peak of this ratio was witnessed in 1993, just before the financial crisis of 1994 (12.0%). Even though there were some improvements in the borrowing requirements of the state under the 1994/1995 crisis management, the PSBR rose again to an alarming rate of 9.4% in 1998, and to 15.5% in 1999. From Table 1 it can be read that over the period 2000-2003, the public disposable income declined by 30 percent *in real terms*. Such a decline had clearly devastating effects and generated strong pressures on the public sector borrowing requirement (PSBR).

In this context, it is important to note a fundamental change in financing of the PSBR, breaking away with the pre-financial liberalization period of the 1970's and 80's. Data on the financing patterns of the PSBR suggest that, under the financially repressed conditions of the 1970's and early 1980's, deficit financing through central bank advances (monetization) was the most direct method. However, after the embarkment of financial liberalization reforms and especially with freeing of the interest rates, the Turkish private sector faced with a new element: the *real interest rate*. In the meantime, the public sector found it much easier to finance its borrowing requirements from domestic borrowing through issues of the government debt instruments. This enabled the successive governments to by-pass many of the legal regulations and the protocols constraining their fiscal operations. Consequently, with the advent of full-fledged financial liberalization in 1989, the PSBR financing relied almost exclusively on issues of GDI's to the internal market –especially to the banking sector. So in this sense, the financial liberalization thus far seemed to serve mainly for the purpose of this mode-switching for the treasury in sustaining the financing requirements of its deficit, away from the central bank sources of monetization, to more reliance on securitization.

The process of financial deepening was thus directly shaped by the financing needs of the public sector. In early 1990s the government granted a series of incentives to the banking sector for holding its debt instruments (GDIs). First of all the GDIs could be used as collateral and be held against the liquidity requirements. This process led to two important consequences: *first* and foremost, it substituted the fiscal policy against the monetary policy and hindered the central bank's capacity to conduct monetary policy; and *second*, it enabled the Treasury to assume a monopoly power to regulate the distribution of domestic credit and crowded out the private sector.

The elements of this process are clearly visible in Figure 1, where a long term horizon for the PSBR, and its sources are portrayed.

<insert Figure 1>

As observed from the figure, the major component of the PSBR is the consolidated budget deficits. The receipts from the unemployment funds became operational in recent years in reducing the size of the PSBR, and the improvements of the SEEs' financial positions recently have also helped finance the public sector deficits.

One direct consequence of the regime switching to finance the PSBR was the unprecedented rise in the stock of securitized debt (the stock of issues of GDI's). Stock of GDI's was only about 6% to the GNP in 1989, just when the liberalization of the capital account was completed. It grew rapidly, and reached almost 20% by 1997. Currently the securitized debt stock is 54.5% to the GNP.

This accumulation was inescapable for the successive governments of the post-Reform era, as the foreign borrowing opportunities were limited. As noted in Table 1, net foreign borrowing of the fiscal government as a ratio of GNP was meager, and turned negative after 1994. Thus, securitization of the fiscal debt was possible only through the domestic sources.

The underlying characteristic of the domestic debt management was its extreme short termism. The net domestic borrowings, as a ratio of the stock of existing debt, hovered

around 50% through the 1990's. This ratio increased to 67% in 1992, and to 70.2% in 2001. Thus, the public sector has been trapped in a short term rolling of debt, a phenomenon characterized as *Ponzi-financing* in the fiscal economics literature. This mode was clearly on an unsustainable basis and gave rise to the so-called confidence crises of the 1990's. (Özatay, 1998). In Figure 2, we portray the costs of interest on domestic public debt as a ratio to the GNP (on the left axis), and the net new borrowings as a ratio to the total debt stock already accumulated (on the right axis). The increased burden of interest costs is clearly visible when contrasted against the speed of debt accumulation.

<insert Figure 2 here>

Under these conditions the fragility of the domestic asset markets gave way to high rates of real interest. Interest payments as a ratio of GNP increased very rapidly. From 1990 to 1996, the share of interest expenditures on domestic debt in aggregate GNP increased by 300%. In 1996 this ratio stood at 9 percent. In the second half of the decade, interest costs as a ratio to the GNP rose to as much as 21% in the crisis of 2001, and bounced back to 14.8% in 2003. One can contrast this magnitude, for instance, with the aggregate value added of the agricultural sector, whose share from the GNP is just only 15%. Thus, interest payments reach almost to aggregate agricultural value added, a sector which accounts for about half of the size of the active labor force!

The burden of the interest costs has been severe on the budgetary balances of the central government. As a ratio of GNP, the balance on the central government budget shows deficits ranging from 3.0% (1988), to 17.9% (2001). What is interesting, however, is that the primary budget shows a *surplus* for the most part over 1994-2003. This was possible through a severe squeeze of the public consumption and investment expenditures. We turn to a deeper analysis of the consolidated budget in the next section.

II. Budgetary Equilibrium: Fragilities and Perspectives

We tabulate the selected components of the consolidated budget in Table 2.

<Insert Table 2 here>

On the revenue side one witnesses a significant effort in raising tax revenues, both in real terms and also as a ratio to the GNP. Much of this effort can be explained by the rise in the share of taxes on goods and services, while the contribution of direct income taxes to the budgetary revenues are observed to fall especially after 2000. Figure 3 discloses these developments. Here we observe that as a ratio to GNP, taxes on goods and services and on foreign trade yield about 70% of total tax revenues. Taxes on foreign trade are around 3.5% of total GNP.

<Insert Figure 3 here>

II-1. Structure of Expenditures

Data reveal a secular rise in the budget deficit through the 1990s. The peak is reached in the aftermath of the 2001 crisis with a ratio of 16.9% to the aggregate GNP. Under the post-crisis administration the deficit is now reduced to 11.2% of the GNP. As discussed above, much of the increase in aggregate budget expenditures is explained by the increased costs of debt servicing. Interest costs on consolidated budget debt were openly 20% of total expenditures in early 1990s. Their share rose continuously to reach 50.6% of total budgetary expenditures in 2001.

Interest burden necessarily claims a big share of the budget revenues. In fact, a comparison of the interest costs as a ratio of aggregate tax revenues –targeted and realized—disclose the structural constraints over the Turkish fiscal policy openly: Interest expenditures as a ratio of tax revenues reached 103.3% in 2001, and 77.1% in 2002. Under the crisis management targets, interest expenditures were fixed as 88.1% of the tax revenues in 2000, and 109% in 2001. In 2004, it was anticipated that the target of interest expenditures would be lowered to 59% of the tax revenue targets. (See Figure 4 on the evolution of the ratio of interest costs to total tax revenues, both as targeted appropriations and also as end-of-year realizations).

<Insert Figure 4> here

Thus, even though interest costs continued to claim an increasing portion of tax revenues over the 1990's, none of the governments showed the political will to tackle the problem of debt re-consolidation directly. Under conditions of maintaining the debt turnover via only primary surpluses, the fiscal authority has been deprived of any viable funds to sustain public services on health, education, protection of the environment, and provision of social infrastructure.

As a result, the boundaries of the public space are severely restricted, and all fiscal policies are directed to securing debt servicing at the cost of extraordinary cuts in public consumption and investments. We see these trends clearly from Table 2 above. If one focuses on non-interest expenditures, it can be understood that such expenditures have increased as a ratio to the GNP from 13.4 percent in 1990 to 22 percent in 2003. Much of this increase, however, has been due to the unprecedented rise in the financing requirement of the social security institutions. As a ratio to the GNP, transfers to the social security institutions were marginal until 1999, at less than 1 percent. After then the deficits of the social security institutions rose rapidly and reached 4.5 percent to the GNP in 2003.

All of these meant a heavy toll on the needed public investments on health, education and public infrastructure. Within total expenditures, public investments' share has fallen from 12.9 percent in 1990, to 5.1 percent in 2003. As a ratio to the GNP, public investments stand at less than 2 percent currently. From Table 2 we calculate that in 2003 interest expenditures reached 7.4-folds of public investments. The burden of interest costs on public funds is immense and needs acute attention.

II-2. Social Security Institutions

Transfers from government budget to social security institutions aimed at financing their deficit have increased steadily since the 1990s. This evolution is clearly visible in Figure 1 as well in Table 2: these transfers rose in fixed prices from 345 to 6,168 billion NewTL from 1990 to 2003. In Table 3, these transfers are expressed as a percentage of relevant economic aggregates in an attempt to assess their burden on the budgetary balances of the central government.

<Insert Table 3 here>

The share of social security deficits in GNP rose from 0.3% in 1990 to 4.5% in 2003 and its share in public sector borrowing requirement (PSBR) increased from 10.2% to 40.0% over the same period. In other words, not only the share of social security deficit in budget deficit recorded a four-fold increase over this period but it also accounted for nearly half of the PSBR in 2003. The last two columns in Table 3 indicate that these transfers accounted for 18.9% of tax revenues in 2003 – a more than six-fold increase with respect to 1990 – and for 11.4% of public expenditures. Total deficit of the social security institutions in Turkey is predicted to reach 16.8% of GNP in the absence of intervention by the year 2050. Clearly, financing problems of the social security institutions have to be tackled seriously and without delay in order to ensure sustainability of public finances and the social security system (SSS) in Turkey. We discuss in the sequel factors that have been conducive to the current unsustainable situation of SSS in Turkey.

SSS in Turkey Turkish was set up in the 1940s and has been publicly managed since then. Participation is compulsory for workers employed by public and private sector to whom it offers universal coverage. It is constituted of three branches related to pension, health, and to unemployment insurance. As the pension branch is generally considered to be the main contributor to the increasing deficit of the SSS in Turkey, our discussion will emphasize problems encountered by this branch in financing its operations[2].

Three distinct publicly managed pension funds exist in Turkey. Affiliates of the Social Insurance Institution (SSK) are blue-collar workers employed in the public sector and all workers in the private sector. Pension Fund (ES) is the pension fund administration for civil servants. Finally, the Social Security Institution of Craftsmen, Tradesmen and other Self-Employed (BK) covers farmers, artisans and remaining self-employed people. From Table 4, it can be read that out of 61,8 million people covered by the SSS in 2002 – 88% of the whole population in Turkey – SSK accounted for 57% of total affiliates, BK for 25.1 % and ES for 17.3 %, the remaining 1% being affiliated to privately managed pension funds.

<Insert Table 4 here>

Table 5 below shows the contribution of each social security institution to the increasing deficit of the SSS in Turkey. Non-existent until mid-nineties, SSK and BK have encountered financing problems afterwards and are contributors to the current situation as much as the ES.

[2] Health insurance branch has also been experiencing major problems which led the current government to make a series of proposals aimed at its reorganization.

<Insert Table 5 here>

Deficits of these institutions which provide pension benefits on the basis of compulsory participation in retirement plans managed according to a pay-as-you-go system (PAYG), are to due to a number of factors that exert negative effects on their revenues and at the same time, tend to increase their expenditures. Contrarily to the situation prevailing in the developed countries, financial difficulties of the pension system in Turkey can hardly be explained by the aging of its population lading to a deceasing worker-retiree ratio. Indeed, at the beginning of the new millennium, 29% of the Turkish population are between 1-14 age, 64% between 15-64 and merely 7% is older than 64. This window of opportunity, consisting of the increasing share of working age people in total population, will close around the year 2037. However, it is clearly visible from Table SSK2 the "active-passive ratio" decreased from 2.77 in 1990 to 1.83 in 2002 for the whole insurance system. Over the same period, this ratio evolved from 2.39 to 1.69 for SSK, from 4.75 to 2.38 for BK and from 1.85 to 1.68 for ES.

Although aging of the population does not yet constitute a serious threat to the sustainability of the SSS in Turkey, other factors such as low compliance of employers with pension laws and poor enforcement of this legislation by authorities, as well as informalisation of the economic activity tend to increase the aforementioned ratio[3]. Indeed, an increasing number of unregistered workers, whatever the cause may of this phenomenon is[4], diminish/reduce strongly the number of formal wage-earners who pay social security contributions. Employment of undeclared workforce by the employers in the formal sector or underreporting wages and salaries of these workers and salaries in order to lower contributions[5] - two faces of the phenomenon of 'informalization of the formal sector[6]'- tend to have similar negative effects on the revenues of the social security institutions. Low late transfer penalties in case employers withhold these contributions do not provide any sufficient incentive to respect pension laws. Irrational management of the resources of these institutions by governments in accordance with only their short-term objectives and without taking into account actuarial constraints have exerted a negative impact on the revenues of the SSS. In other words, there are problems with the collection of social security contributions as well as with the administration and management of the funds collected by the SSS in Turkey and they all add to the sustainability of this system[7].

Explanations on the expenditure side emphasize the low entitlement age for pension benefits. Indeed, before a pension reform introduced in 1999, it was possible for male workers to retire at the age of 43 years and for female workers at the age of 38[8]. Such practice diminished undoubtedly revenues and increase expenses of the SSS in Turkey. One major aim of the 1999 pension reform was to extend the average contribution period and shorten the benefit collection period by increasing the minimum entitlement age. Finally, after a bill was voted in Parliament in September 1999, the Turkish Constitutional Court required the government to

[3] See Yeldan and Köse (1999).
[4] See section III.3, and Pamukcu and Köse (2005).
[5] See OECD (1996).
[6] See Yeldan and Köse (199), and Pamukcu and Köse (2005).
[7] That problems with the collection of SSCs exist are visible when we compare the share of SSCs in Turkey with other countries : data on collections for 2001 are presented in Table 6 as a percentage of GNP. In 1992, corresponding figures were 5% for Turkey and 12% for the European Union.
[8] The effective retirement age at the end of the 1990s was 51 (47) years for male (female) workers.

make some changes in this law in order to smooth the transition to new entitlement ages. As a result, the entitlement age is to be increased gradually to 58 (60) for male (female) workers until the year 2020. The reform maintain the values of average contribution and replacement rates. It also extends the indexation period for calculating pension benefits to the whole employment period and links increases in pension payments to consumer inflation. Although the current pension system might till seem to be too generous as far as the entitlement ages concerned, it should be noticed that SSK and BK retirees do hardly receive decent pension payments. As emphasized in Yeldan and Köse (1999), solely augmenting the entitlement age can hardly be conducive to attracting the informal workforce in the formal sector that benefits from universal coverage.

III. Microeconomics of Fiscal Policy

III-1. Tax Incidence and Structure of Taxes

Tax burden, defined as the ratio of all *tax* revenues to GNP, increased from 11.4% in 1990 to 23.6% in 2003. Most of this increase was due to the rise in taxes on goods from 3.5% in 1990 to 12.3% in 2003. If account is taken of the taxes on foreign trade – which are of a similar nature – indirect taxes on consumption amounted to 5.5 % of GNP in 1990 and to 15.8 % in 2003. The ratio of income taxes to GNP was 5.9 % in 1990 and 7.8 % in 2003, making clear difficulties that the tax administrations had to deal with when the tax base eroded rapidly. A major factor that led to the erosion of the tax base in Turkey is due to the informalization of economic activities, a subject which will be taken under the chapter on labor markets.

If we take into account *all* budgetary revenues, including tax as well as non-tax revenues, funds and annexed budget revenues, the ratio of aggregate fiscal revenues to GNP, i.e. the "tax burden", equals 14.2% in 1990 and 28.1% in 2003. As a ratio to the GNP, special and non-tax revenues reached a peak of 3.5% in 1993 and are diminishing since then. Note that this item is also referred as "extra-budgetary" funds or revenues because governments were not required by the law neither to include them on their budget nor to search the approval of the parliament to raise them.

We observe that taxes on income increased their share in GNP from 5.9% in 1990 to 7.2% in 2003. These apply mainly to personal and corporate income. The first component has not changed much over the period analyzed, going from 4.7% to 4.8 % of GNP. The share of corporate income taxes doubled from 1.2% to 2.4%.

Taxes on goods and services include a number of indirect taxes levied on a multitude of transactions. They amount to 3.4% of GNP in 1990 and to 12.3% in 2003. This increase of almost 10 percentage points in indirect tax revenues is explained mainly by the increases in value added taxes, consumption tax on petrol and by a number of new taxes introduced in 1999 and 2001. The increase of 1.3 percentage points observed in 2003 is due to the rise of revenues stemming from a new tax introduced in 2002, namely the special consumption taxes (SCT). In 2003, SCT replaced motor vehicles purchase taxes, the so-called "additional tax" and consumption tax on petrol. However, the 4.05 percentage points increase observed in SCT during the same year compensated largely the diminution of the tax burden due to suppression of these remaining indirect taxes. Note that besides consumption of petrol and transaction involving motor vehicles, SCT applies also to transactions involving durable consumer goods and alcoholic as wells as non-alcoholic beverages.

As for taxes on foreign trade, their share in GNP went from 2 % in 1990 to 3,5 % in 2003 and made a modest contribution to the increasing tax burden of the Turkish economy. This is all the more remarkable, however; in the view of the fact that Turkey eliminated all its customs duties on imports of non-transformed agricultural products originating from European Union member countries when the Customs Union agreement came into force in 1st January 1996. This is partly reflected in the decreasing share of customs duties on non-petroleum products in GNP from 0.40% to 0.25% from 1996 to 2003, while the share of revenues stemming from value added tax on imports increased from 1.2% to 3.3% over the period 1990-2003.

The increasing contribution of indirect taxation to the tax burden in the Turkish economy is explained mainly by the inability of the tax administration to collect taxes on personal and corporate incomes. This failure, together with the pressing need to finance domestic debt, led governments to increase taxes levied on economic transactions. However, the rise in the indirect taxes provided incentives to operate outside the legal framework in order to avoid to pay these taxes and this resulted, not surprisingly, in important tax losses, and led, in turn, to new increases in indirect tax revenues by governments. Furthermore, such a reliance has negative effects on equity since indirect taxes concern more incomes of persons who affect an important part of their income to consumption. Indeed, contrarily to income taxes that have a progressive nature, indirect taxes are regressive since people with higher incomes save a higher proportion of their revenues and as a consequence will be affected less by these taxes.

As far as the evolution of *non-tax* revenues is concerned, the share of the annexed budget revenues diminishes as well as the share of special revenues and funds (extra-budgetary revenues). The average share for this last variable over the first half of the 1990 is 14.4% - with a peak of 19.3% in 1993 – and equals 4.4% in 2003. We also observe an increase in the share of non-tax revenues in budgetary revenues, with this share being equal to 10% at the end of the period, explained partly by the revenues accruing to state property.

At this stage we can ask, how do these figures on tax revenues and on their components in Turkey compare with those pertaining the European Union (EU)? Table 6 reports data on the ratio of tax revenues to GNP as well as for the different tax components in 2001 for fifteen EU member countries. Figures for four countries that became member of the EU in 2004 and who are at a similar stage of development with Turkey are also presented.

< Insert Table **6** here>

In 2001, the share of tax revenues in the Turkish GNP (36.5%) is inferior to the EU average (41%) by 4.5 percentage points. Only three countries, Ireland, Spain, and Portugal report lower tax/GNP ratios. This observation applies also to taxes on personal income and corporate profits, a well as to social security contributions (SSCs). While a trade-off between these means of taxation can explain a value for SSC that is below the EU average for some countries (Denmark, Ireland, United Kingdom), this is definitely not the case for Turkey. The low share of SSCs for Turkey is confirmed when compared with the figures concerning the four new EU members. Since these contributions are used to finance social expenses such as pension and health insurance, Turkey will have to increase in the future its tax revenues stemming from SSCs and this will probably cause serious problems on the labour market because of the high share of these contributions in labour costs in Turkey.

The share of taxes on goods and services in Turkey amounts to 12.2% in 2001 against an EU average of 12.2%. The impressive value of *other taxes* – ten times higher then the EU average – is due to extra-budgetary funds.

These figures confirm the findings of the comparative analysis about the tax burden in Turkey and in the EU. Taxes on income and social security contributions are below the EU average while taxes on goods and services are above the EU average. Insufficient contribution of social security contributions to tax revenues in Turkey appears clearly when compared with the corresponding percentages of the four new members of EU (Czech Republic, Hungary, Poland, and Slovakia).

The contribution of corporate income taxes to tax revenues in Turkey from 1980 to 2001 has been similar to the EU average: it increased from 4.1% to 6.6% over this period. The corresponding EU average was 5.8% in 1980 and 8.9% in 2001. As for the taxes on goods and services, including customs and duties on imports, their average share changed very little in the EU from 1980 to 2003 while Turkey witnessed a rise of 13 percentage points over the same period. The important rise observed in 1985 – an 11 percentage rise with respect to 1980- is explained by the introduction of VAT in 1985. At the end of the period, the share of indirect taxes in tax revenues in Turkey (38.7%) is above the EU average (30.1%) and only Portugal records a higher share (40 %). This finding is also valid, though to a less extent, with respect to the four new members of the EU.

Turning to the evolution of the share of social security contributions (SSCs) in tax revenues in Turkey with respect to EU, we observe that these taxes are paid by employers as well as employees. SSCs paid by both parties in Turkey have been consistently below the EU average from 1980 to 2001, with the contribution of SSCs to tax revenues being 18 % in Turkey and 25 % in the EU. The gap has been more important for employers' contributions than for employees' contributions. This difference becomes extremely important when comparison is made with the new four members of the EU. SSCs will have to be increased in the future in Turkey not only to finance the deficit of the social security institutions but also to bring these contributions in line with the EU.

III-2. Sectoral Implications of VAT Administration

As pointed out in previous sections, the share of indirect taxes in total tax revenues in Turkey has increased steadily since 1990s and reached 69% in 2003. An important part of indirect taxation is based on revenues raised through the application of value-added tax (VAT) introduced in 1985[9]: VAT revenues levied on domestic transactions and imports amounted to 24.8% of total tax revenues in 1985, 27.2% in 1990, 32.7% in 1995 and 32.1% in 2003 (see Table 7). They also accounted for 44.4% of total indirect taxes in 2003[10].

< Insert Table **7** here>

[9] Other indirect taxes are custom duties, special consumption tax, stamp duty, and excise taxes.
[10] Notice that VAT accounted about 60% of all tax revenues levied on goods and services in the European Union at the beginning of the new millenium.

In this section, we will examine issues raised by the administration and implementation of VAT legislation as well as those issues related to its efficiency and incidence on economic activity. We will also compare Turkey with the European Union as far as their VAT systems are concerned and assess the degree of convergence in this area.

All deliveries of goods and services that take place in Turkey are subject to VAT, as well as those goods and services that are imported into Turkey. The person liable for the payment of VAT is the one that delivers the goods or services and in the case of imports, the importer. This tax is reported and paid monthly.

The following transactions are exempted from VAT:
[2]

- Exports of goods and services
- Conveyances and petroleum exploration
- Investments within the scope of the Investment Incentive Certificate
- Transportation services
- Banking and insurance transactions

Therefore, taxpayers who deliver goods or perform services falling within the scope of the categories exempted from VAT, have the possibility to deduct VAT paid in the generation of these goods/services from the amounts of VAT collected. In cases where the output VAT is less than the input VAT[11], the difference can be refunded to the taxpayer.

Finally, part of the VAT paid by retirees for their expenditures on non-durable goods are subsequently refunded to them. This mechanism is aimed at serving as an incentive for consumers to pay VAT on their expenditures and its very existence shows that compliance with the VAT legislation should not be taken for granted in a country like Turkey.

Table 8 below shows the distribution of VAT refunds between retirees, exports and other items from 1989 to 2002. The share of refunds paid to exporters increases from 18.6% to 61.3% at the expense of the share of retirees that goes down from 57.4% to 9.9% over the same period. An explanation for the increasing share of exports in VAT refunds is the substitution of this type of export-promoting measure for more direct measures – such as subsidies – which had to come to an end in 1989 in order for Turkey to conform with GATT regulations in the area of competition.

< Insert Table **8** here>

As for the importance of VAT refunds with respect to VAT revenues, available data shows that this ratio was as high as 50% in 1989, diminished to 15% in 1996 and then rose to 30% in 2002. Data shows that VAT refunds amounted to 1.4% of GNP in 1989 and to 2.1% in 2002. Available data also indicates that VAT refunds were equal to 94.1% of corporate taxes in

[11] VAT payable on local purchases and imports is called "input VAT" and VAT calculated and collected on sales is considered as "output VAT".

1989 and to 65.5 % in 2002. These figures tend to show that these refunds mobilizes huge amounts of resources.

When the VAT was introduced in 1985 in Turkey, the initial standard rate was 10%. Later, it went up to 15% and the current rate is 18%. There are no differences in VAT rates on a regional basis, there are no domestic zero rates but there are a number of items subjected to reduced VAT rates included between 1.0% to 8.0%. Major lower rated goods are second-hand cars, newspapers, books, magazines, basic foodstuffs, natural gas, certain entertainment and cultural services[12].

Table 9 presents data on VAT rates for 29 countries - mostly countries that are members of EU and OECD. Eleven countries have standard VAT rates that are lower than in Turkey, and only four of these eleven countries are EU member countries[13]. And among the sixteen countries with standard VAT rates higher than Turkey, eleven countries have a rate higher than 20 %[14]. As for the reduced rates, they seem to be lower in Turkey than in most of the other countries in this table. However, it is difficult to assess whether expenditures on items to which reduced rates applies accounts a higher share of economic transactions – for instance, household consumption – in Turkey than in other countries.

< Insert Table **9** here>

Reduced VAT rates have been criticized on grounds that they make difficult to establish to which extent the difference between effective and standard rates is due to the existence of these rates or to the degree of tax compliance[15]. Other critics point out that rate differentiation induce revenue losses, lowers VAT efficiency by increasing the complexity of the system and makes it more difficult to assess the degree of tax compliance. Turnover thresholds below which firms are not required to register for VAT, a means for lowering compliance costs for small enterprises, have not been introduced in Turkey contrarily to several EU member countries.

The use of reduced rates for some goods and services has also been questioned as an instrument of redistribution – the very reason of their existence – because the implicit subsidy it provides might be equally available to the rich and the poor to the extent that consumptions patters of each group tends to be broadly similar. And this seems to be the case for the basic goods/services to which lower rates apply[16]. Another option would be to reduce the number of low-rated goods and widen the base upon which the high rate is levied, making it possible to lower the standard VAT rate. Since reduced VAT rates are applied to an important number of items in Turkey, this last proposal may be relevant for her but also because VAT base is larger than the base to which personal and corporate income taxes are applied – and that is

[12] For a comparison with other EU and OECD countries, see OECD (1999).
[13] And three of these four EU member countries have standard VAT rates that are very close to the Turkish one, i.e. United Kingdom (17.5%), Germany (16.0%), and Spain (16%).
[14] And notice that two of the new EU member countries at a comparable level of development with Turkey, namely Hungary and the Czech Republic, have standard VAT rates well above the Turkish one, respectively 25% and 22%.
[15] It is well known that in several EU countries - Belgium, Italy, Spain and Sweden - effective rates are far below standard rates.
[16] For example, see OECD (2002).

precisely one of the reasons why VAT revenues are so important in Turkey. On the other hand, membership perspectives to the EU will require that a number of services/goods subject to low-rates be taxed at the standard rate, so the timing would be ideal to reduce the number of goods/services subject to reduced VAT rates and to use the increased revenue in order to lower statutory tax rates. Note that Turkish government decided in December 2004 that standard VAT rates, i.e. 18%, applied to educational and health services, as well as to some foodstuffs would be reduced to 8% in 2005, increasing the number of low-rated goods/services in Turkey.

III-3. Effect of Tax Policies on Employment and Labor Costs

Are high social security contributions (SSCs) conducive to high labour costs in Turkey and therefore penalize employment ? Although we have noted previously that the share of SSCs in GNP as well as total taxes has always been lower in Turkey than the EU average, it might represent an important component of labour costs and be partly responsible for trends towards informalizaton of labour and product markets in Turkey.

First, let us examine whether SSCs drive a large wedge between the real labour compensation as paid by employers and real take-home pay per worker (that is the *tax wedge*). *Labour costs* will be defined here as being equal to gross wages paid to employees plus employer SSCs. Note that the gross wages include income taxes paid by employees, employees' SSCs and possible cash benefits. Net income or wages is the take-home pay per worker obtained by excluding income taxes and employees' SSCs from gross wages earnings.

We observe from the data of the State Institute of Statistics that net wages as a percentage of gross labour costs increased on a continuous basis for civil servants (from 56% to 73%) and minimum wage earners (from 64% to 74%) over the period 1990-2002. However, the rise in net wages observed for the public and private sector workers are less impressive: they both go from around 50 % in1990 to around 55 % in 2002. Figure 5 presents data on income tax plus employees' and employers' SSCs as a percentage of gross labour costs for EU member countries and for Turkey in 2003.

<Figure 5 here>

We find that the tax wedge in Turkey (42 %) is slightly higher than the corresponding EU average (41%) and its composition is also very similar to the EU average. Twelve over nineteen countries included in this chart record higher tax wedges than Turkey.

Do these figures on the relative importance of SSCs in labour costs explain the drift to informal activities observed in Turkey ? Although the contribution of these taxes to labour costs in Turkey is only slightly higher than the corresponding EU average, Turkey is specialized mostly in labour-intensive, low value-added products (textile products represented 40 % of its total exports in 2000). This explains probably the shift to informal activities, a trend that is certainly exacerbated by the increasing number of developing countries that export similar products on the world market.

III-4. Assessment of Privatization Policies

The privatization of public assets was invigorated in Turkey starting 1986. Originally the privatization ideology was based on "economic efficiency" arguments. It was announced that initially some of the major public enterprises would be restructured to improve their financial performance, and then they would be on the sale list at "attractive" prices.

The explicit objectives for the privatization programme were identified by a report of Morgan Guaranty Bank in 1986. (This report was commissioned by the government directly.) Accordingly, the privatization master plan would seek: (1) to transfer the decision making process from the public to private sector to ensure a more effective play of market forces; (2) to promote competition, improve efficiency and increase the productivity of public enterprises; (3)to enable a wider distribution of share-ownership; (4) to reduce the financial burden of the state economic enterprises (SEEs) on the general budget; and (5) to raise revenue for the Treasury. Over the course of time, however, the initially stated "efficiency" arguments would silently cease as stated objectives and the main objective of privatization would shift directly to revenue generation.

The Turkish attempts to privatize its public assets generally took three modes of sales techniques: "block sales", "public offers for floatation", and "direct sales of assets and premises of the SEEs and their subsidiaries" (Karatas, 2001). As a sales method, "privatization via public offering" has been limited, while "block sales" accounted for more than a third of the privatization receipts. Reliance on block sales as a big-bang solution led to widespread allegations of fraud and corruption as well as undervaluation of the privatized assets.

In retrospect, the revenues collected from two decades of privatization have been mediocre at best. By 2004 the total volume of sales proceeds have reached a total of US$6.5 billion. The receipts were, in principle, collected by the *Privatization Authority* (PA). However the above figure does not cover many of the implicit or explicit deductions and expenses due to fees paid brokers and the advisory agencies, litigation costs, and costs of advertising and administration. Thus, in practice the *net* outlays out of privatization, have, as elsewhere, been quite insignificant as a source of revenue to the Treasury.

With the advent of the IMF's *Staff Monitoring Programme* in 1998, there had been a newed and ambitious attempt over privatization of large scale enterprises, such as the *Petrol Ofisi* (petroleum products and distribution agencies-POAS), Turkish Telecom, Inc, GSM Licensing, *Seka* (the paper, cellulose and pulp plants), and the Turkish Airlines.

Table 10 documents data on the expenditures and revenues of the Privatization Board.

<Table 10 here>

IV. Public Sector Borrowing Requirement and Dynamics of Public Debt

The public sector borrowing requirement (PSBR) gives the total financing needs of the public sector. In the macroeconomic setting, this magnitude can be expressed as follows: Consider the aggregate resources and expenditure flows in an economy,

Aggregate resources = Private savings
+ Public Revenues
+ Imports

Aggregate Expenditures = Private Investments
+ Public Investments
+ Public Current Expenditures
+ Public Sector Transfers
+ Exports

Thus, by re-arranging the above terms we can express the public sector's borrowing requirement as,

PSBR = Public Investments
+ Public Current Expenditures
+ Public Sector Transfers
- Public Revenues

or

PSBR = (Private Savings – Private Investment) – (Imports – Exports)

In the above equation, the first term in parentheses on the right hand side gives the private sector's saving surplus (over private investment), and the second term gives the foreign deficit (foreign savings). Both of these flows are used to finance the PSBR.

The sources of the PSBR originate from the consolidated budget deficits, the losses of the SEEs and social security institutions and the deficits of the local governments, municipalities and other fiscal institutions. We provide data on the evolution of the PSBR over 1975-2003 both in current prices and also as a ratio to the GNP in Tables 11 and 12.

<Table 11 here>
<Table 12 here>

IV-1. Dynamics of Public Debt

As we discussed above, the Turkish public sector has resorted to *domestic* debt finance rather than the foreign sources in financing the PSBR. Thus, the securitized stock of domestic debt which stood at NewTL3.3 billions ($29.3 billions) in 1996, increased to NewTL194.4 billions ($139.3 billions). This shows a cumulative increase of 4.7-folds in 7 years. Thus, aggregate public debt stock increased its ratio to GNP from 37.7% in 1996 to 81.7% in 2003. Even though the 2003 ratio seems to have recovered somewhat in comparison to the immediate post-crisis level of 88%, much of this recovery had been due to the appreciation of the TL which enabled a lower burden of the foreign debt measured in domestic currency. Thus, sustainability of this trend is yet to withstand the test of currency depreciations in the future. Table 13 depicts this information.

<Insert Table 13 here>

The Turkish foreign debt stock has reached US$147 billion by the end of 2003. Considering that the foreign debt stock was $131.2 billion in 2002, the observed magnitude reveals a rate of growth of 12.3%. However, with the *nominal* appreciation of the Turkish Lira against the US$ in 2003, the ratio of foreign debt to GDP creates the illusion that it has fallen to 55% in 2003, contrasting with the 2002 ratio of 73.1%. Any depreciation of the TL value of the US$ in the days to come would bring this ratio to higher levels, unveiling the true underlying dynamics of foreign debt. We tabulate data on the foreign debt stock in Table 14

<Insert Table 14 here>

IV-2. Inertia of Real Interest Rates

Against the background of debt accumulation, all macro policies in Turkey right now are aligned to attain the 6.5% primary surplus. The algebraic logic behind the primary surplus target is actually extremely simple, and relies on the following debt equation in reduced form:

$$\Delta d = d(i - \dot{y}) - z$$

where, d: ratio of the debt stock to the GDP
i: real interest rate
$\dot{y}$: real rate of growth of GDP
z: primary surplus ratio to the GDP

and Δd denotes the time rate of difference in debt/GDP ratio.

Given the Turkish macroeconomic realities of 2004, letting d = 0.82 (aggregate public debt to GDP ratio, see Table above); $\dot{y}$ = 5% (as targeted in a series of *letters of intend* over 2001 to 2006); and z = 6.5%; one can easily find that in order for the debt/GDP ratio to remain constant (Δd = 0), the maximum real rate of interest should not exceed **12.9%**. This is the maximum possible real rate of interest on the government's debt instruments (GDIs) if the debt ratio could ever be constrained.

In Figure 6 we portray the evolution of the GDI rate of interest as well as the credit interest rates, both in real terms. Data disclose very succinctly the heart of the problem: Turkish real interest rates are too high, and do not display any tendency to fall over the programme horizon. Contrasted over the last 18 months' data on GDI interest rates, only in two months – September and October 2003—real interest rates are observed to fall under this threshold.

<insert Figure 6 here>

What is also interesting to observe from the data disclosed in Figure 6 is that even though the inertia over inflationary expectations seems to have been broken especially after March 2003, the real interest rates sustain their inertia, independent of the logic of the fiscal balances. In

fact, the GDI interest rates are observed to be on a rising path since November 2003 to date, despite the fact that primary surplus targets have been successfully attained.

The inertia of high real interest rates in the Turkish context can only be explained by reference to the mode of integration of the Turkish asset markets to the global financial economy at large. Turkey, like many of the other peripheral countries of late capitalism, has integrated with the world financial markets as a "new emerging market". Simply put, the logic of the international financial system is that such young "emerging" markets should be able to offer significantly high real returns to global finance capital. The fierce competition among such economies often leads to a *race to the bottom* in order to attract inflows of short term liquid capital. In consequence, the flow of such funds necessitate maintenance of higher and higher real interest rates.

Under these conditions, the simple algebra of debt dynamics reveal that the Turkish debt burden would not be handled via achieving primary surplus targets and fiscal prudence alone, but would require a detailed *re-structuring* of the terms of Turkish debt obligations with both the IMF and the banking community.

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Table 1. Public Sector Balances (Fixed 1987 Prices, Thousands NewTL) (1)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Tax Revenues	13,553.8	15,023.9	17,213.0	19,556.7	21,341.8	25,759.0	32,755.0	23,724.8	28,863.7	34,930.7	34,588.2	36,720.0	39,356.4	46,858.5	33,581.5	35,386.9
Direct	5,234.5	6,508.6	7,304.6	8,421.4	8,961.7	10,502.7	14,323.9	9,839.5	10,568.3	12,917.2	15,146.3	15,514.3	15,179.9	18,349.0	11,522.0	11,294.2
Indirect	8,319.3	8,515.3	9,908.4	11,135.2	12,380.1	15,256.2	18,431.1	13,885.3	18,295.3	22,013.6	19,441.9	21,205.7	24,176.5	28,509.5	22,059.5	24,092.7
Factor Revenues	6,061.2	5,068.8	3,485.2	744.1	-99.3	1,076.4	3,637.5	4,668.7	7,224.0	8,905.2	8,525.4	7,999.9	5,538.3	9,494.0	10,462.8	7,573.0
Current Transfers	-7,986.5	-7,920.6	-7,321.0	-7,383.3	-8,381.3	-13,581.4	-19,960.3	-15,165.9	-21,471.7	-20,797.3	-25,611.9	-30,881.3	-33,021.6	-49,931.3	-34,592.4	-31,385.2
Public Disposable Income	12,965.3	13,457.7	15,026.8	14,278.4	14,044.8	14,018.9	16,975.5	13,444.8	13,552.5	21,050.1	15,669.6	11,294.5	12,392.6	6,012.5	9,226.2	9,641.6
Public Savings	6,532.4	4,832.6	3,832.3	858.5	-1,011.8	-3,927.0	-1,942.7	113.0	-2,403.3	1,766.7	-3,120.5	-11,140.4	-7,256.3	-16,938.4	-8,832.3	-7,478.3
Public Investment	-8,079.1	-7,548.2	-9,643.6	-9,125.7	-8,351.2	-10,663.7	-6,450.8	-5,304.1	-8,593.8	-11,713.4	-11,542.8	-11,177.4	-11,000.4	-9,744.0	-8,929.7	-6,241.3
Public Sav-Inv Balance	-1,546.7	-2,715.7	-5,811.3	-8,267.2	-9,363.0	-14,590.8	-8,393.4	-5,191.1	-10,997.1	-9,946.7	-14,663.3	-22,317.9	-18,256.6	-26,682.5	-17,762.0	-13,719.6
Ratios to GNP (%)																
PSBR	4.8	5.3	7.4	10.2	10.6	12.0	7.9	5.0	8.6	7.7	9.4	15.5	11.8	16.4	12.8	8.7
Budget Balance	-3.1	-3.3	-3.0	-5.3	-4.3	-6.7	-3.9	-4.0	-8.3	-7.6	-7.3	-11.9	-10.9	-16.9	-15.2	-11.2
Non-interest Primary Budget	0.8	0.3	0.5	-1.5	-0.6	-0.9	3.8	3.3	1.7	0.1	4.3	1.8	5.3	5.8	4.1	5.1
Net Foreign Borrowing	2.1	0.8	0.0	0.3	0.4	1.1	-1.7	-1.0	-0.9	-1.5	-1.8	0.8	2.4	-2.5	6.1	0.8
Net Domestic Borrowing	2.9	3.7	3.1	5.0	5.0	5.3	5.6	4.8	9.4	8.5	8.6	12.4	7.0	13.3	6.4	12.0
Stock of GDI's [2]	5.7	6.3	6.1	6.8	11.7	12.8	14.0	14.6	18.5	20.2	21.9	29.3	29.0	69.2	54.5	54.5
Consolidated Budget Interest Payments on:	3.8	3.6	3.5	3.8	3.7	5.8	7.7	7.3	10.0	7.7	11.5	13.7	16.3	23.3	19.0	16.4
Domestic Debt	2.4	2.2	2.4	2.7	2.8	4.6	6.0	6.1	8.9	6.7	10.5	12.6	15.0	21.2	17.1	14.8
Foreign Debt	1.4	1.4	1.1	1.1	0.9	1.2	1.7	1.3	1.1	1.0	1.0	1.1	1.3	2.0	1.9	1.6
Net New Domestic Borrowing / Domestic Debt Stock (%)	41.7	48.5	40.7	41.7	67.2	49.2	53.1	52.4	57.8	52.4	49.5	49.3	37.1	70.2	18.5	22.9

Sources: SPO *Main Economic Indicators* ; Undersecreteriat of Treasury, *Treasury Statistics, 1980-2003.*

(1) Deflated by the Wholesale Price Index, (1987=100)

(2) Government Debt Instruments. (Gov. Bonds + Treasury Bills).

Table 2. Selected Indicators on the Consolidated Budget (In Fixed 1987 Prices, Thousands NewTL)[a]

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Budget Revenues	**12,576.6**	**13,525.8**	**15,547.0**	**18,295.5**	**19,492.5**	**25,746.8**	**33,987.9**	**24,757.7**	**29,173.0**	**35,007.2**	**37,138.6**	**40,427.0**	**42,193.3**	**50,912.3**	**39,163.9**	**38,831.8**
Total Tax Revenues	10,518.7	11,375.9	12,777.8	14,872.1	15,842.7	19,363.5	26,810.2	19,257.6	24,228.8	28,894.7	29,278.1	31,814.5	33,638.0	39,408.9	30,920.5	32,670.7
Total Non-Tax Revenues	907.8	1,085.6	1,200.9	742.4	855.7	1,292.2	2,206.1	1,528.2	1,727.4	2,464.0	3,875.4	4,048.1	4,424.9	7,357.3	5,638.4	3,967.8
Total Expenditures	**15,525.8**	**16,941.9**	**18,911.7**	**24,633.7**	**24,799.5**	**35,554.6**	**40,929.4**	**30,382.9**	**42,540.7**	**48,654.7**	**49,496.1**	**60,382.4**	**59,613.9**	**80,507.1**	**60,784.5**	**54,256.3**
Current Expenditures	5,815.4	7,923.8	9,981.4	12,449.3	13,922.7	16,225.6	16,827.2	11,440.8	13,849.1	16,923.9	16,413.1	19,686.7	17,247.9	20,232.1	15,852.3	14,883.2
Personnel Exp.	4,048.0	6,112.7	8,035.2	10,348.0	11,668.8	13,637.8	13,478.8	8,926.7	10,517.6	12,623.1	12,281.0	14,855.8	12,664.9	15,086.7	11,972.4	11,699.6
Investment Expenditures	2,008.4	1,726.0	1,919.0	2,215.8	2,127.8	2,677.5	2,296.9	1,630.1	2,570.5	3,594.8	3,179.4	3,369.7	3,512.3	4,758.7	4,373.2	2,775.7
Interest Expenditures	3,679.1	3,677.4	3,930.8	4,552.3	4,508.6	8,533.9	13,606.0	10,232.4	16,167.0	13,869.9	19,595.5	23,042.2	25,941.9	40,724.3	26,896.3	22,704.9
On Domestic Debt	2,335.0	2,277.6	2,705.7	3,203.6	3,417.4	6,778.9	10,635.8	8,445.7	14,349.7	12,043.6	17,859.9	19,955.4	23,850.3	37,185.7	24,270.7	20,423.1
On Foreign Debt	1,344.1	1,399.9	1,225.2	1,348.7	1,091.2	1,755.0	2,970.3	1,786.7	1,817.2	1,826.4	1,735.6	1,926.2	2,091.6	3,538.6	2,625.6	2,281.9
Transfers to SEEs	749.1	540.7	352.3	2,305.4	911.3	1,894.1	957.9	807.1	543.5	751.7	507.5	895.8	1,124.4	1,098.0	1,125.2	728.7
Transfers to Soc Sec Institutions	553.6	623.3	344.8	302.4	447.5	1,003.8	1,790.8	1,921.7	3,620.1	4,627.5	4,441.6	5,910.6	4,094.0	5,069.9	5,810.1	6,168.1
Budget Balance	**-2,949.2**	**-3,416.1**	**-3,364.7**	**-6,338.2**	**-5,307.0**	**-9,807.8**	**-6,941.6**	**-5,625.2**	**-13,367.7**	**-13,647.5**	**-12,357.5**	**-19,955.4**	**-17,420.7**	**-29,594.8**	**-21,620.6**	**-15,424.5**
Share in Total Expenditures (%):																
Current Expenditures	37.5	46.8	52.8	50.5	56.1	45.6	41.1	37.7	32.6	34.8	33.2	32.6	28.9	25.1	26.1	27.4
Personnel Exp.	26.1	36.1	42.5	42.0	47.1	38.4	32.9	29.4	24.7	25.9	24.8	24.6	21.2	18.7	19.7	21.6
Investment Expenditures	12.9	10.2	10.1	9.0	8.6	7.5	5.6	5.4	6.0	7.4	6.4	5.6	5.9	5.9	7.2	5.1
Total Interest Payments	23.7	21.7	20.8	18.5	18.2	24.0	33.2	33.7	38.0	28.5	39.6	38.2	43.5	50.6	44.2	41.8
Transfers to SEEs	4.8	3.2	1.9	9.4	3.7	5.3	2.3	2.7	1.3	1.5	1.0	1.5	1.9	1.4	1.9	1.3
Transfers to Soc Sec Institutions	3.6	3.7	1.8	1.2	1.8	2.8	4.4	6.3	8.5	9.5	9.0	9.8	6.9	6.3	9.6	11.4
Memo:																
Budget Balance / GNP (%)	-3.1	-3.3	-3.0	-5.3	-4.3	-6.7	-3.9	-4.0	-8.3	-7.6	-7.3	-11.9	-10.9	-16.9	-15.2	-11.2
Interest Payments on Dom Debt / Total Tax Revenues (%)	22.2	20.0	21.2	21.5	21.6	35.0	39.7	43.9	59.2	41.7	61.0	62.7	70.9	94.4	78.5	62.5
Interest Payments on Dom Debt / Investment Expenditures (%)	116.3	132.0	141.0	144.6	160.6	253.2	463.1	518.1	558.2	335.0	561.7	592.2	679.1	781.4	555.0	735.8
Interest Payments on Dom Debt / Transfers to Soc Sec Institutions (%)	421.8	365.4	784.8	1059.5	763.6	675.3	593.9	439.5	396.4	260.3	402.1	337.6	582.6	733.5	417.7	331.1
Interest Payments on Dom Debt / Net New Borrowing (%)	102.2	73.3	97.4	94.6	35.4	73.7	80.8	79.3	82.7	63.5	98.0	82.1	139.2	43.7	168.9	118.4

a. Deflated by the WPI (1987=100)..

Sources: SPO *Main Economic Indicators* ; Undersecreteriat of Treasury, *Treasury Statistics, 1980-2003.*

Table 3: Share of total transfers to social security institutions in economic aggregates

	GNP	PSBR*	Tax revenues	Public expenditures
1990	0.3	10.2	2.7	1.8
1991	0.3	4.8	2.0	1.2
1992	0.4	8.4	2.8	1.8
1993	0.7	10.2	5.2	2.8
1994	1.0	25.8	6.7	4.4
1995	1.4	34.2	10.0	6.3
1996	2.2	27.1	14.9	8.5
1997	2.6	33.9	16.0	9.5
1998	2.6	35.9	15.2	9.0
1999	3.5	29.6	18.6	9.8
2000	2.6	24.2	12.2	7.1
2001	2.9	17.1	12.9	6.3
2002	4.1	26.9	18.8	9.6
2003	4.5	40.0	18.9	11.4

* PSBR: public sector borrowing requirement

Table 4. Social Security coverage of the population (1990-2002)

(number of persons)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
I. PENSION FUND (ES)	**6,445,900**	**6,650,670**	**7,634,608**	**7,845,776**	**8,170,686**	**8,123,887**	**8,787,671**	**8,944,002**	**9,243,704**	**9,475,573**	**9,765,851**	**10,137,494**	**10,698,540**
1. Active Insured	1,560,000	1,600,000	1,850,000	1,896,041	1,896,000	1,880,437	1,963,751	1,994,509	2,071,867	2,118,085	2,163,698	2,236,050	2,372,777
2. Pensioners (retired, invalid, widow,widower,orphan)	706,202	730,673	780,683	827,641	900,633	952,360	1,048,211	1,114,480	1,172,741	1,239,314	1,296,935	1,355,558	1,408,941
3. Dependants	4,179,698	4,319,997	5,003,925	5,122,094	5,374,053	5,291,090	5,775,709	5,835,013	5,999,096	6,118,174	6,305,218	6,545,886	6,916,822
Active / passive ratio [1/2)]	**2.21**	**2.19**	**2.37**	**2.29**	**2.11**	**1.97**	**1.87**	**1.79**	**1.77**	**1.71**	**1.67**	**1.65**	**1.68**
Dependency ratio [(3+2)/1]	**3.13**	**3.16**	**3.13**	**3.14**	**3.31**	**3.32**	**3.47**	**3.48**	**3.46**	**3.47**	**3.51**	**3.53**	**3.51**
II. SOCIAL INSURANCE INSTITUTION (SSK)	**19,487,970**	**20,520,480**	**21,997,287**	**23,675,612**	**26,340,916**	**28,523,960**	**30,362,125**	**32,515,321**	**34,571,903**	**32,810,829**	**34,139,311**	**33,140,109**	**35,261,104**
1. Active Insured	3,286,929	3,432,073	3,621,674	3,793,297	4,009,716	4,208,761	4,483,684	4,862,178	5,323,434	5,030,732	5,283,234	4,913,939	5,256,741
2. Voluntary Active Insured (2)	300,000	300,000	361,863	438,843	771,906	980,841	1,055,513	1,031,714	910,343	901,265	843,957	888,675	942,024
3. Active Insured in Agriculture	74,407	93,756	115,174	177,145	212,995	253,463	244,232	246,401	228,343	193,826	184,675	142,306	149,163
4.Pensioners (retired, invalid, widow,widower,orphan)	1,596,634	1,717,095	1,851,522	1,999,007	2,175,149	2,337,755	2,539,696	2,731,793	2,930,752	3,148,826	3,339,327	3,560,638	3,747,573
5. Dependants	14,230,000	14,977,556	16,047,054	17,267,320	19,171,150	20,743,140	22,039,000	23,643,235	25,179,031	23,536,180	24,488,118	23,634,551	25,165,603
Active / passive ratio [(1+2+3)/4)]	**2.29**	**2.23**	**2.21**	**2.21**	**2.30**	**2.33**	**2.28**	**2.25**	**2.20**	**1.95**	**1.89**	**1.67**	**1.69**
Dependency ratio [(5+4)/(3+2+1)]	**4.32**	**4.36**	**4.37**	**4.37**	**4.27**	**4.24**	**4.25**	**4.30**	**4.35**	**4.36**	**4.41**	**4.57**	**4.55**
III. SOCIAL SECURITY INSTITUTION OF CRAFTSMEN, TRADESMEN AND OTHER SELF-EMPLOYED (BK)	**11,332,686**	**11,392,706**	**11,695,784**	**11,687,646**	**11,823,309**	**11,832,714**	**11,823,316**	**12,679,890**	**13,220,024**	**13,899,982**	**15,036,318**	**15,281,654**	**15,547,991**
1. Active Insured	1,967,379	1,989,650	2,038,438	2,002,266	1,838,534	1,791,246	1,766,809	1,873,497	1,911,259	1,939,593	2,181,586	2,198,200	2,192,555
2. Voluntary Active Insured	106,019	103,366	99,170	92,068	83,317	78,973	87,351	129,050	200,676	264,284	254,960	249,306	237,801
3. Active Insured in Agriculture	752,075	732,526	752,863	776,634	778,547	799,132	796,805	802,343	796,564	860,742	876,148	889,149	890,976
4.Pensioners (retired, invalid, widow,widower,orphan)	595,889	655,646	711,994	777,968	825,595	880,820	947,038	1,032,342	1,104,614	1,179,817	1,277,444	1,343,840	1,393,670
5. Dependants	7,911,324	7,911,518	8,093,319	8,038,710	8,297,316	8,282,543	8,225,313	8,842,658	9,206,911	9,655,546	10,446,180	10,601,159	10,832,989
Active / passive ratio [(1+2+3)/4)]	**4.74**	**4.31**	**4.06**	**3.69**	**3.27**	**3.03**	**2.80**	**2.72**	**2.63**	**2.60**	**2.59**	**2.48**	**2.38**
Dependency ratio [(5+4)/(3+2+1)]	**3.01**	**3.03**	**3.05**	**3.07**	**3.38**	**3.43**	**3.46**	**3.52**	**3.55**	**3.54**	**3.54**	**3.58**	**3.68**
IV.PRIVATE PENSION FUNDS	312,186	269,054	234,665	261,369	257,989	291,247	308,023	315,007	318,085	332,870	323,569	322,688	324,302
1. Active Insured	84,072	84,154	74,287	73,205	71,037	70,854	71,465	74,479	77,526	78,861	78,495	73,090	71,641
2. Pensioners (retired, invalid, widow, widower, orphan)	32,409	37,201	41,050	45,857	47,114	51,948	58,744	53,058	65,757	69,428	71,266	75,162	77,738
3. Dependants	195,705	147,699	119,328	142,307	139,838	168,445	177,814	187,470	174,802	184,581	173,808	174,436	174,923
Active / passive ratio [1/2)]	**2.59**	**2.26**	**1.81**	**1.60**	**1.51**	**1.36**	**1.22**	**1.40**	**1.18**	**1.14**	**1.10**	**0.97**	**0.92**
Dependency ratio [(3+2)/1]	**2.71**	**2.20**	**2.16**	**2.57**	**2.63**	**3.11**	**3.31**	**3.23**	**3.10**	**3.22**	**3.12**	**3.41**	**3.53**
V. OVERALL TOTAL	**37,578,742**	**38,832,910**	**41,562,344**	**43,470,403**	**46,592,900**	**48,771,808**	**51,281,135**	**54,454,220**	**57,353,716**	**56,519,254**	**59,265,049**	**58,881,945**	**61,831,936**
1. Active Insured	6,898,380	7,105,877	7,584,399	7,764,809	7,815,287	7,951,298	8,285,709	8,804,663	9,384,086	9,167,271	9,707,013	9,421,279	9,893,714
2. Voluntary Active Insured	406,019	403,366	461,033	530,911	855,223	1,059,814	1,142,864	1,160,764	1,111,019	1,165,549	1,098,917	1,137,981	1,179,825
3. Active Insured in Agriculture	826,482	826,282	868,037	953,779	991,542	1,052,595	1,041,037	1,048,744	1,024,907	1,054,568	1,060,823	1,031,455	1,040,139
4. Pensioners (retired, invalid, widow, widower, orphan)	2,931,134	3,140,615	3,385,249	3,650,473	3,948,491	4,222,883	4,593,689	4,931,673	5,273,864	5,637,385	5,984,972	6,335,198	6,627,922
5. Dependants	26,516,727	27,356,770	29,263,626	30,570,431	32,982,357	34,485,218	36,217,836	38,508,376	40,559,840	39,494,481	41,413,324	40,956,032	43,090,336
Active / passive ratio [1/2)]	**2.77**	**2.65**	**2.63**	**2.53**	**2.45**	**2.38**	**2.28**	**2.23**	**2.18**	**2.02**	**1.98**	**1.83**	**1.83**
Dependency ratio [(3+2)/1]	**3.62**	**3.66**	**3.66**	**3.70**	**3.82**	**3.85**	**3.90**	**3.94**	**3.98**	**3.96**	**3.99**	**4.08**	**4.10**
VII. SHARE OF INSURED POPULATION (%)	66.3	67.2	70.5	72.4	76.2	78.3	80.8	84.3	87.3	84.5	87.2	85.2	88.1
IX. TOTAL POPULATION	**56,709,000**	**57,818,000**	**58,932,000**	**60,050,000**	**61,174,000**	**62,304,000**	**63,443,000**	**64,584,000**	**65,723,000**	**66,856,000**	**67,975,000**	**69,079,000**	**70,171,000**

Table 5. Transfers to social security institutions as a percentage of GNP

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
SSS	**0.31**	**0.25**	**0.36**	**0.55**	**0.89**	**1.38**	**2.24**	**2.59**	**2.62**	**3.51**	**2.64**	**2.90**	**4.10**	**4.46**
ES	0.31	0.25	0.36	0.55	0.51	0.52	0.80	1.02	0.96	1.32	1.41	1.49	1.76	1.72
SSK					0.37	0.75	0.97	1.15	0.84	1.41	0.32	0.41	1.16	1.26
BK						0.10	0.47	0.42	0.81	0.78	0.84	0.81	1.08	1.38
Unemployment fund											0.08	0.18	0.10	0.10

Table 6. TOTAL TAX REVENUES AS PERCENTAGE OF GDP (2001): EU and TURKEY

	Taxes on income and profits	Social security contributions	Taxes on payoll and workforce	Taxes on property	Taxes on goods and services	Other taxes	TOTAL
Austria	14.3	14.9	2.7	0.6	12.3	0.5	45.3
Belgium	18.1	14.4	-	1.5	11.3	-	45.3
Denmark	29.4	2.2	0.3	1.7	16.0	0.0	49.6
Finland	19.0	12.4	-	1.1	13.6	0.0	46.1
France	11.4	16.3	1.0	3.1	11.3	1.6	44.7
Germany	10.6.	14.6	-	0.8	10.6	0.0	36.6
Greece	9.6	11.4		1.8	14.0	0.1	36.9
Ireland	12.5	4.4	0.0	1.7	11.2	-	29.8
Italy	14.4	12.2	-	2.0	10.8	2.6	42.0
Luxembourg	14.7	11.2	-	3.9	10.8	0.0	40.6
Netherlands	10.5	14.2	-	2.0	12.1	0.2	39.0
Portugal	9.7	9.1	-	1.0	13.4	0.2	33.4
Spain	9.9	12.6	-	2.2	10.3	0.1	35.1
Sweden	19.3	15.3	2.1	1.6	12.9	0.1	51.3
United Kingdom	14.8	6.3	-	4.3	11.7	0.0	37.1
UE15	**14.6**	**11.4**	**0.4**	**2.0**	**12.2**	**0.4**	**41.0**
Turkey	**10.1**	**7.2**	**-**	**0.9**	**14.1**	**4.2**	**36.5**
Czech Republic	9.0	17.1	0.0	0.5	11.7	0.0	38.3
Hungary	10.0	11.6	1.3	0.7	15.1	0.3	39.0
Poland	9.9	10.2	0.2	1.3	12.0	0.0	33.6
Slovakia	6.7	14.4	-	0.5	10.7	0.0	32.3

Source: OECD, Revenue Statictics, Paris, 2003.

Table 7. Amount and share of VAT revenues in total tax revenues (1885-2002) (Million NewTL)

YEARS	TOTAL TAX REVENUES		VAT LEVIED ON DOMESTIC TRANACTIONS	SHARE IN TOTAL TAX REVENUES (%)	VAT LEVIED ON IMPORTS	SHARE IN TOTAL TAX REVENUES (%)	TOTAL VAT REVENUES	SHARE IN TOTAL TAX REVENUES (%)
1985	3,829		567	14.8	384	10.0	951	24.8
1986	5,972		1,040	17.4	528	8.8	1,568	26.3
1987	9,051		1,563	17.3	1,004	11.1	2,567	28.4
1988	14,232		2,660	18.7	1,517	10.7	4,177	29.3
1989	25,550		4,176	16.3	2,285	8.9	6,461	25.3
1990	45,399		7,650	16.9	4,721	10.4	12,371	27.2
1991	78,643		14,541	18.5	8,291	10.5	22,832	29.0
1992	141,602		27,053	19.1	15,035	10.6	42,088	29.7
1993	264,273		50,892	19.3	30,985	11.7	81,877	31.0
1994	534,888	(1)	110,918	20.7	65,824	12.3	176,742	33.0
1994	587,760	(2)	110,918	18.9	65,824	11.2	176,742	30.1
1995	1,084,350		212,119	19.6	142,861	13.2	354,980	32.7
1996	2,244,094		419,167	18.7	323,859	14.4	743,026	33.1
1997	4,745,484		861,262	18.1	700,300	14.8	1,561,562	32.9
1998	9,228,596		1,589,060	17.2	1,136,023	12.3	2,725,083	29.5
1999	14,802,280		2,433,262	16.4	1,731,072	11.7	4,164,334	28.1
2000	26,503,698		4,487,808	16.9	3,891,746	14.7	8,379,554	31.6
2001	39,735,928		7,289,543	18.3	5,149,317	13.0	12,438,860	31.3
2002	59,631,868		11,542,749	19.4	8,857,452	14.9	20,400,201	34.2

Table 8. Distribution of of VAT refunds (%)

Years	REFUNDS TO RETIREES	REFUNDS TO EXPORTERS	OTHER	TOTAL
1989	57.4	18.6	24.0	100
1990	65.3	15.8	18.9	100
1991	68.2	17.9	13.9	100
1992	64.5	22.9	12.7	100
1993	65.3	24.8	9.9	100
1994	38.1	49.6	12.3	100
1995	20.3	61.1	18.5	100
1996	20.0	58.4	21.6	100
1997	19.6	60.0	20.3	100
1998	17.1	56.5	26.4	100
1999	12.7	39.4	47.9	100
2000	13.6	47.2	39.1	100
2001	10.2	58.0	31.8	100
2002	9.9	61.3	28.8	100

Table 9. Rates of VAT

	Domestic zero rate[1]	Reduced rate(s)	Standard rate	Rates applied within a specific region of member country
Australia	yes	-	10.0	-
Austria	no	10.0 and 12.0	20.0	10.0, 12.0 and 16.0 [2]
Belgium	yes	6.0 and 12.0	21.0	-
Canada	yes	-	7.0	15.0 [3]
Czech Republic	no	5.0	22.0	-
Denmark	yes	-	25.0	-
Finland	yes	8.0 and 17.0	22.0	-
France	no	2.1 and 5.5	19.6	0.9, 2.1, 8.0, 13.0 and 19.6 [4] 1.05, 1.75, 2.1 and 8.5 [5]
Germany	no	7.0	16.0	-
Greece	no	4.0 and 8.0	18.0	3.0, 6.0 and 13.0[6]
Hungary	yes	12.0	25.0	-
Iceland	yes	14.0	24.5	-
Ireland	yes	4.3 and 13.5	21.0	-
Italy	yes	4.0 and 10.0	20.0	-
Japan	no	-	5.0	-
Korea	yes	-	10.0	-
Luxembourg	no	3.0, 6.0 and 12.0	15.0	-
Mexico	yes	-	15.0	10 [7]
Netherlands	no	6.0	19.0	-
New Zealand	yes	-	12.5	-
Norway	yes	12.0	24.0	-
Poland	yes	7.0	22.0	-
Portugal	no	5.0 and 12.0	19.0	4.0, 8.0, and 13.0 [8]
Slovak Republic	no	14.0	20.0	-
Spain	no	4.0 and 7.0	16.0	2.0, 5.0, 9.0 and 13.0 [9] 0.5 and 4.0 [10]
Sweden	yes	6.0 and 12.0	25.0	-
Switzerland	yes	2.4 and 3.6	7.6	-
Turkey	no	1.0 and 8.0	18.0	-
United Kingdom	yes	5.0	17.5	-
United States	-	-	-	-

1. "Domestic zero rate" means tax is applied at a rate of zero to certain domestic sales. It does not include zero rated exports.
2. Applies in Jungholz and Mittelberg.
3. The provinces of Newfoundland and Labrador, New Brunswick, and Nova Scotia have harmonized their provincial sales taxes with the federal Goods and Services Tax and levy a rate of 15% . Other Canadian provinces, with the exception of Alberta, apply a provincial tax to certain goods and services. These provincial taxes apply in addition to GST.
4. Applies in Corsica.
5. Applies to overseas departments (DOM) excluding French Guyana.
6. Applies in the regions Lesbos, Chios, Samos, Dodecanese, Cycladen, Thassos, Northern Sporades, Samothrace and Skiros.
7. Applies in the border regions.
8. Applies in Azores and Madeira.
9. Applies in the Canary Islands.
10. Applies in Ceuta and Melilla

Table10. - PRIVATIZATION INCOME AND EXPENSES

(Thousands of US Dollars)

	1985-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	1985-2002
GROSS PRIVATIZATION REVENUES	138 153	502 549	225 665	284 982	414 048	565 424	763 118	271 641	363 431	1 020 344	320 328	2 737 789	421 919	1 102 294	9 131 683
Block Sales	115 005	20 076	43 613	271 567	243 767	178 297	264 771	168 731	276 716	248 119	105 846	1 482 512	4 594	9 992	3 433 605
Public Offering	12 015	315,470	70,202	86	23,929	2,824	0	0	0	222 391	0	820 756	0	127 904	1 595 578
Sale in ISE	9 882	165 071	106 933	12 617	141 359	66 550	19 698	1 989	0	2 122	0	0	0	70 814	597 033
International Offering	0	0	0	0	0	316 305	0	0	0	389 001	0	260 381	0	38 784	1 004 471
Asset Sales	0	0	0	0	4,758	1,241	136,798	58,671	81 539	81 914	40 549	53 061	55 489	42 473	556 492
Pledged Block Sales	0	0	0	0	0	0	28 950	31 469	0	0	0	0	0	0	60 419
Interest Revenues	0	0	0	0	0	0	3,270	4,307	0	6 916	0	92	3 074	0	17 659
	0	0	0	0	0	0	19 170	241	2 040	2 104	4 534	7 157	0	0	35 248
Incompleted Asset Sales	821	62	291	66	65	38	10	0	1,686	6	522	0	0	0	3 568
Decrease in Receivables from SEEs	0	0	0	0	0	0	9 671	2 389	0	540	0	27 295	0	0	39 894
Other Revenues	431	1,870	4,626	647	170	169	1,568	37	462	933	2,018	8,052	6 092	46,610	73 684
Borrowing	0	0	0	0	0	0	279,212	3,808	988	66 298	166 859	78 484	352 670	765 716	1 714 034
REPURCHASE FROM ISE	- 1 467	- 113 584	0	- 678	0	- 18 515	0	0	0	0	0	0	0	0	- 134 243
NET PRIVATIZATION INCOME	136 686	388 966	225 665	284 304	414 048	546 909	763 118	271 641	363 431	1 020 344	320 328	2 737 789	421 919	1 102 294	8 997 440
PRIVATIZATION EXPENSES	- 58 410	- 18 209	- 29 342	- 126 681	- 62 271	- 54 539	- 317 755	- 139 469	- 220 004	- 665 354	- 131 217	- 640 200	- 262 365	-1 002 195	-3 728 011
Payment to brokers	- 45 731	- 130	- 19 660	- 122 372	- 53 993	- 37 046	- 9 521	- 10 922	- 4 524	- 5 186	- 1 343	- 8 163	0	0	- 318 593
Auditing & Consulting Expenses	- 9 726	-6,486	-1,866	-787	-588	-3,969	-10,813	-3,759	-3,801	-4,924	-2,565	-1,377	-811	-1,249	- 52 721
Advertisement Expenses	- 1 805	-6,462	-5,826	-2,315	-5,148	-2,653	-5,748	-3,024	-580	-4,866	-1,083	-8,317	-624	-3,627	- 52 079
Social Aid Payments	0	0	0	0	0	-694	-11,776	-17,838	-9,619	-5,757	-3,812	-4,016	-14,538	-13,359	- 81 409
Decrease in Liabilities	0	0	0	0	0	0	- 62 589	- 9 138	- 62 318	- 466 035	- 15 368	- 376 899	- 89 873	- 833 371	-1 915 590
Wages and Salaries after Privatization	0	0	0	0	0	0	-38,731	-9,916	-3,368	-20,864	-6,689	-17,157	0	0	- 96 724
30 Percent Early Retirement Payments	0	0	0	0	0	0	-3,268	-4,715	-1,028	-1,479	-1,487	-795	0	0	- 12 773
Other Expenses	- 1 149	- 5 130	- 1 989	- 1 206	- 2 542	- 10 177	- 6 887	- 826	- 328	-4,877	-924	-29,598	-6,270	-8,511	- 80 415
Increase in Receivables	0	0	0	0	0	0	-168,422	-79,330	-134,438	-151,367	-97,946	-193,878	-150,249	-142,078	-1 117 707
DIFFERENCE BETWEEN INCOMES AND EXPENSES	78 276	370 756	196 323	157 623	351 778	492 370	445 363	132 172	143 427	354 989	189 110	2 097 589	159 555	100 099	5 269 429
Dividend Income	96 595	109,412	161,066	106,067	109,817	88,925	72,084	306,228	243 964	152 002	204 134	289 697	47 319	80 325	2 067 637
Participation in Capital Increases	- 176 949	-314,722	-346,932	-182,252	-470,590	-212,997	-129,292	-117,911	-88,885	-350,175	-386,757	-385,141	- 189 046	- 297 100	-3 648 750
Transfer to Treasury	0	0	- 97 177	- 117 279	- 127 133	- 62 528	- 363 935	- 352 400	- 254 968	-150,435	-1,749	-1,876,242	0	0	-3 403 846
Transfer to Privatization Administration Budget	0	0	0	0	0	0	-2,727	-3,267	-4,674	-19,635	-7,797	-5,847	0	0	- 43 948
BALANCE OF PRIVATIZATION ACCOUNT	- 2 078	165 447	- 86 721	- 35 841	- 136 128	305 771	21 492	- 35 177	38 863	- 13 254	- 3 059	120 056	17 827	- 116 676	240 522

SOURCE: PRIVATIZATION ADMINISTRATION

TABLE 11. PUBLIC SECTOR BORROWING REQUIREMENT (At Current Prices, Thousands New TL.)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
CONSOLIDATED BUDGET	5	10	48	25	90	166	124	157	313	979	798	1 411	2 607	3 990	7 673
-CON.BUD. (EXC.INTEREST PAY.)	2	6	42	18	73	135	48	70	101	538	123	80	341	- 988	- 588
SEE'S	28	48	44	26	114	257	192	206	304	421	869	1 320	2 470	2 805	4 420
-NONFINANCIAL SEEs	27	41	56	48	116	269	316	262	389	501	858	1 345	2 584	2 712	4 505
-FINANCIAL SEEs	1	7	-12	-22	-2	-12	-124	-55	-85	-80	11	-26	-114	93	- 85
LOCAL AUTHORITIES	-1	0	-1	3	-1	16	0	-3	4	-20	-39	136	344	467	475
REVOLVING FUNDS	-	-	-	-	4	25	3	14	68	1	-149	-147	-1	177	- 33
SOCIAL SECURITY INST.	-	-	-	-	-	-	-	-	-	-78	0	0	-426	-508	- 841
EXTRABUDGETARY FUNDS	-	-	-	-	-	-	-	-	-	-109	-213	-850	-431	-690	899
SEEs UNDER PRIVATIZATION	-	-	-	-	-	-	-	-	-	-	-	-	-	-6	- 310
TOTAL PUBLIC SECTOR BORR. REQ.	33	59	90	53	207	465	319	374	689	1194	1267	1869	4563	6235	12283
TOT. PUB. SEC. BORR. REQ. (EXC.INT. PAY.)	29	55	85	46	189	434	244	287	477	753	592	538	2297	1257	4023

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003(1)
CONSOLIDATED BUDGET	11,955	33,516	47,434	133,857	152,180	316,716	1,238,128	2,241,376	3,895,127	9,284,629	13,725,888	30,790,402	40,746,196	40,759,003
-CON.BUD. (EXC.INTEREST PAY.)	-2,011	9,443	7,136	17,387	-146,105	-259,399	-259,273	-36,541	-2,281,468	-1,436,211	-6,713,974	-10,271,824	-11,124,462	-18,340,997
SEE'S	15,117	19,943	36,313	48,925	54,870	-15,251	-82,502	-115,288	697,436	1,814,755	2,060,070	11,420	-3,001,940	-1,794,525
-NONFINANCIAL SEEs	15,801	21,201	41,541	55,261	47,254	-48,162	-67,172	150,612	652,583	1,691,395	1,847,565	11,420	-3,001,940	-1,794,525
-FINANCIAL SEEs	-684	-1,258	-5,228	-6,336	7,615	32,911	-15,330	-265,900	44,853	123,360	212,505	0	0	0
LOCAL AUTHORITIES	160	1,731	8,676	14,355	15,867	16,070	42,351	83,099	206,187	309,497	452,626	462,564	154,732	393,852
REVOLVING FUNDS	-68	76	78	86	261	2,101	-1,875	-4,956	-14,371	-49,807	-139,833	-171,223	-520,765	-613,757
SOCIAL SECURITY INST.	-1,086	875	2,603	11,536	22,569	33,762	4,575	25,769	204,709	194,484	-379,313	-1,981,146	-2,669,380	-3,844,360
EXTRABUDGETARY FUNDS	2,424	5,945	13,876	16,984	35,049	49,782	21,290	5,847	26,204	526,860	-1,478,956	-822,184	-55,654	-2,297,300
SEEs UNDER PRIVATIZATION	927	2,383	7,701	14,049	26,142	-10,314	72,468	22,882	1,611	68,700	555,597	636,802	233,614	-1,484,294
TOTAL PUBLIC SECTOR BORR. REQ.	29,429	64,469	116,680	239,793	306,937	392,866	1,294,435	2,258,729	5,016,902	12,149,118	14,796,080	28,926,635	34,886,803	31,118,619
TOT. PUB. SEC. BORR. REQ. (EXC.INT. PAY.)	9,246	25,861	49,046	75,404	-113,071	-350,861	-433,535	-360,430	-1,746,468	181,385	-7,108,154	-14,279,131	-19,238,099	-30,302,117

SOURCE: SPO (http://www.spo.gov.tr)

(1) ESTIMATE

UNEMP. INS. FUND IS INCLUDED IN THE SOC. SEC. INST.

Note: PSBR figures before 1990 cover only Con. Budget interest payments

(-) Sign indicates the surplus

TABLE 12. PUBLIC SECTOR BORROWING REQUIREMENT As Percentage of GNP

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
CONSOLIDATED BUDGET	0.8	1.2	4.3	1.5	3.1	3.1	1.5	1.5	2.2	4.4	2.3	2.8	3.5	3.1	3.3
-CON.BUD. (EXC.INTEREST PAY.)	0.3	0.7	3.8	1.1	2.5	2.5	0.6	0.7	0.7	2.4	0.3	0.2	0.5	-0.8	-0.3
SEE'S	4.0	5.6	4.0	1.6	4.0	4.9	2.4	1.9	2.2	1.9	2.5	2.6	3.3	2.2	1.9
-NONFINANCIAL SEEs	3.9	4.8	5.0	2.9	4.0	5.1	3.9	2.5	2.8	2.3	2.4	2.6	3.4	2.1	2.0
-FINANCIAL SEEs	0.2	0.8	-1.1	-1.3	-0.1	-0.2	-1.5	-0.5	-0.6	-0.4	0.0	-0.1	-0.2	0.1	0.0
LOCAL AUTHORITIES	-0.1	0.0	-0.1	0.2	0.0	0.3	0.0	0.0	0.0	-0.1	-0.1	0.3	0.5	0.4	0.2
REVOLVING FUNDS	-	-	-	-	0.1	0.5	0.0	0.1	0.5	0.0	-0.4	-0.3	0.0	0.1	0.0
SOCIAL SECURITY INST.	-	-	-	-	-	-	-	-	-	-0.3	0.0	0.0	-0.6	-0.4	-0.4
EXTRABUDGETARY FUNDS	-	-	-	-	-	-	-	-	-	-0.5	-0.6	-1.7	-0.6	-0.5	0.4
SEEs UNDER PRIVATIZATION	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1
TOTAL PUBLIC SECTOR BORR. REQ.	4.7	6.7	8.2	3.2	7.2	8.8	4.0	3.5	4.9	5.4	3.6	3.7	6.1	4.8	5.3
TOT. PUB. SEC. BORR. REQ. (EXC.INT. PAY.)	4.2	6.3	7.7	2.8	6.6	8.2	3.0	2.7	3.4	3.4	1.7	1.1	3.1	1.0	1.7

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003(1)
CONSOLIDATED BUDGET	3.0	5.3	4.3	6.7	3.9	4.0	8.3	7.6	7.3	11.9	10.9	17.4	14.9	11.4
-CON.BUD. (EXC.INTEREST PAY.)	-0.5	1.5	0.6	0.9	-3.8	-3.3	-1.7	-0.1	-4.3	-1.8	-5.3	-5.8	-4.1	-5.1
SEE'S	3.8	3.1	3.3	2.4	1.4	-0.2	-0.6	-0.4	1.3	2.3	1.6	0.0	-1.1	-0.5
-NONFINANCIAL SEEs	4.0	3.3	3.8	2.8	1.2	-0.6	-0.4	0.5	1.2	2.2	1.5	0.0	-1.1	-0.5
-FINANCIAL SEEs	-0.2	-0.2	-0.5	-0.3	0.2	0.4	-0.1	-0.9	0.1	0.2	0.2	0.0	0.0	0.0
LOCAL AUTHORITIES	0.0	0.3	0.8	0.7	0.4	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.1	0.1
REVOLVING FUNDS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.2	-0.2
SOCIAL SECURITY INST.	-0.3	0.1	0.2	0.6	0.6	0.4	0.0	0.1	0.4	0.2	-0.3	-1.1	-1.0	-1.1
EXTRABUDGETARY FUNDS	0.6	0.9	1.3	0.9	0.9	0.6	0.1	0.0	0.0	0.7	-1.2	-0.5	0.0	-0.6
SEEs UNDER PRIVATIZATION	0.2	0.4	0.7	0.7	0.7	-0.1	0.5	0.1	0.0	0.1	0.4	0.4	0.1	-0.4
TOTAL PUBLIC SECTOR BORR. REQ.	7.4	10.2	10.6	12.0	7.9	5.0	8.6	7.7	9.4	15.5	11.8	16.4	12.8	8.7
TOT. PUB. SEC. BORR. REQ. (EXC.INT. PAY.)	2.3	4.1	4.4	3.8	-2.9	-4.5	-2.9	-1.2	-3.3	0.2	-5.7	-8.1	-7.0	-8.5

SOURCE:SPO (http://www.spo.gov.tr)

(1) ESTIMATE

UNEMP. INS. FUND IS INCLUDED IN THE SOC. SEC. INST.

Note: PSBR figures before 1990 cover only Con. Budget interest payments
(-) Sign indicates the surplus

Table 13. Public Sector Net Debt Position (Billions New TL)

	2001	2002	2003	2004.Q2	2004.Q3
Total Public Sector Debt (NET) (1)-(2)	160.6	216.4	251.4	265.4	
(1) Total Public Sector Debt (Gross)	190.6	257.6	297.7	318.2	
Domestic Debt	125.5	154.8	201.3	215.9	
Consolidated Budget	122.2	154.8	194.4	209.2	217.6
Foreign Debt	65.1	102.8	96.4	102.3	
Consolidated Budget	55.8	92.9	88.5	94.4	97.1
(2) Net Public Assets of the Public Sector	29.8	41.2	46.2	52.7	
GNP	176.4	275.0	356.7	384.4[a]	
As % Ratio of the GNP:					
Total Public Sector Debt (NET)	91.0	78.7	70.5	69.0	
Total Public Sector Debt (Gross)	108.0	93.7	83.5	82.8	
Domestic Debt	71.1	56.3	56.4	56.2	
Consolidated Budget	69.3	56.3	54.5	54.4	
Foreign Debt	36.9	37.4	27.0	26.6	
Consolidated Budget	31.6	33.8	24.8	24.6	

Source: Undersecreteriat of Treasury (*www.hazine.gov.tr)* ; TR Central Bank, *(www.tcmb.gov.tr)*

a. Total over four quarters..

Table 14. Public Sector Foreign Debt Stock (Billion US$)

	2001	2002	2003	2004.Q2
Total Foreign Debt Stock	113.9	130.4	145.8	148.2
Total Public Foreign Debt	46.4	64.0	70.3	70.1
Consolidated Budget	38.7	56.8	63.5	63.5

Source: Undersecreteriat of Treasury (*www.hazine.gov.tr)* ; TR Central Bank, *(www.tcmb.gov.tr)*

Figure 1.
Components of the Public Sector Borrowing Requirement
(Thousands NewTL)

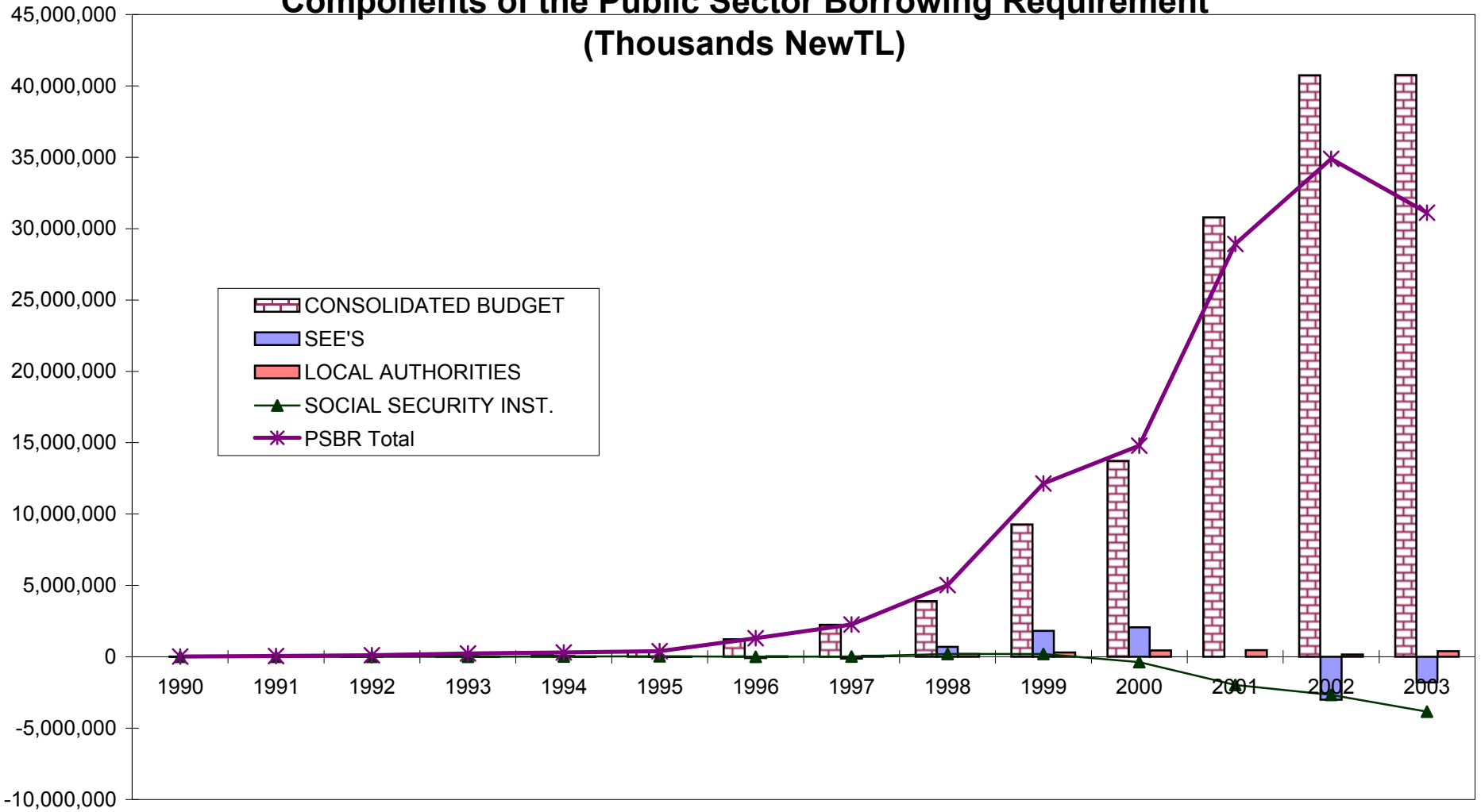


Figure 2.
Interest Costs on Domestic Debt / GNP and Net New Domestic Borrowings

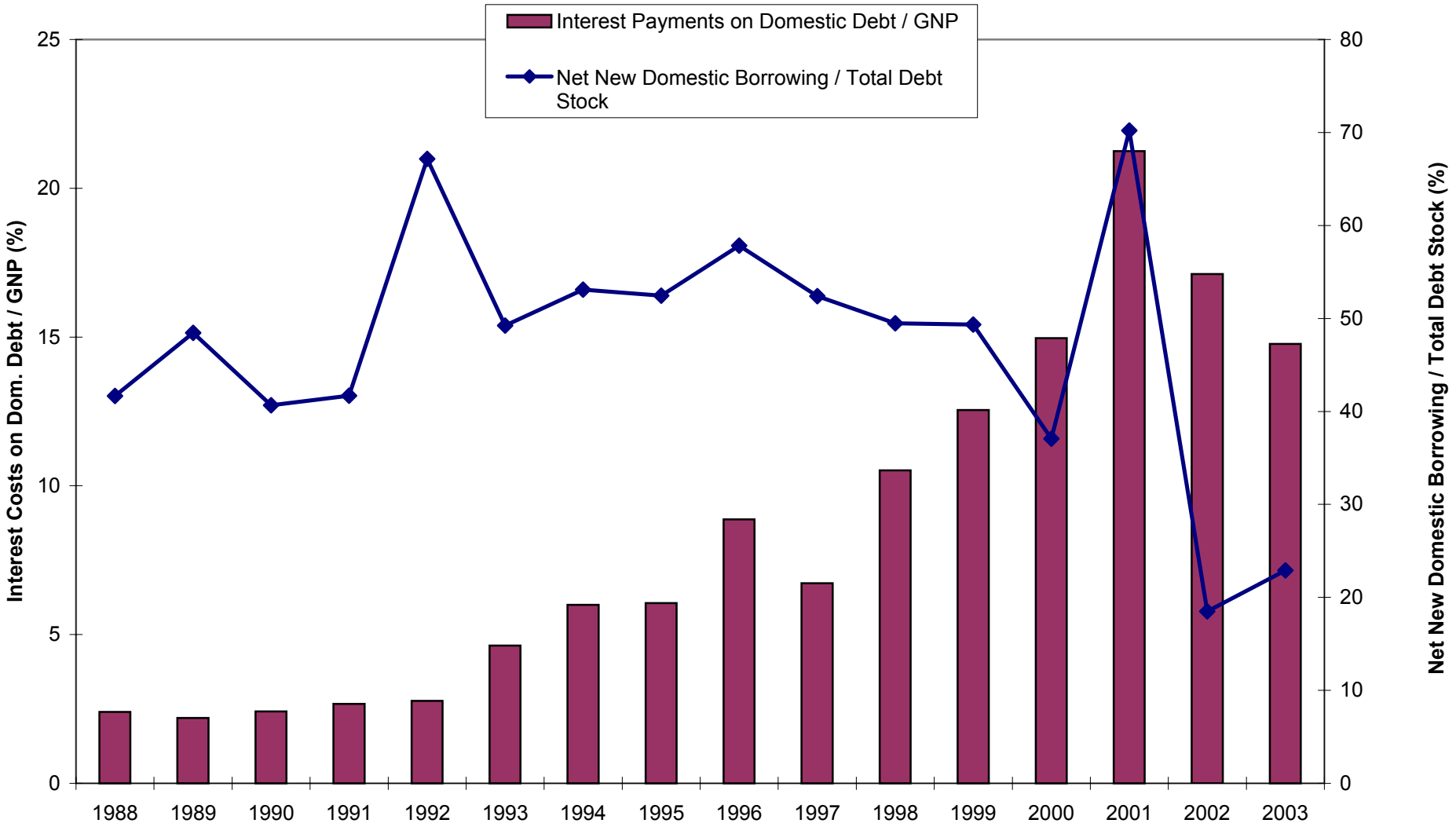


Figure 3. Components of Budgetary Taxes
(As Ratio to the GNP, %)

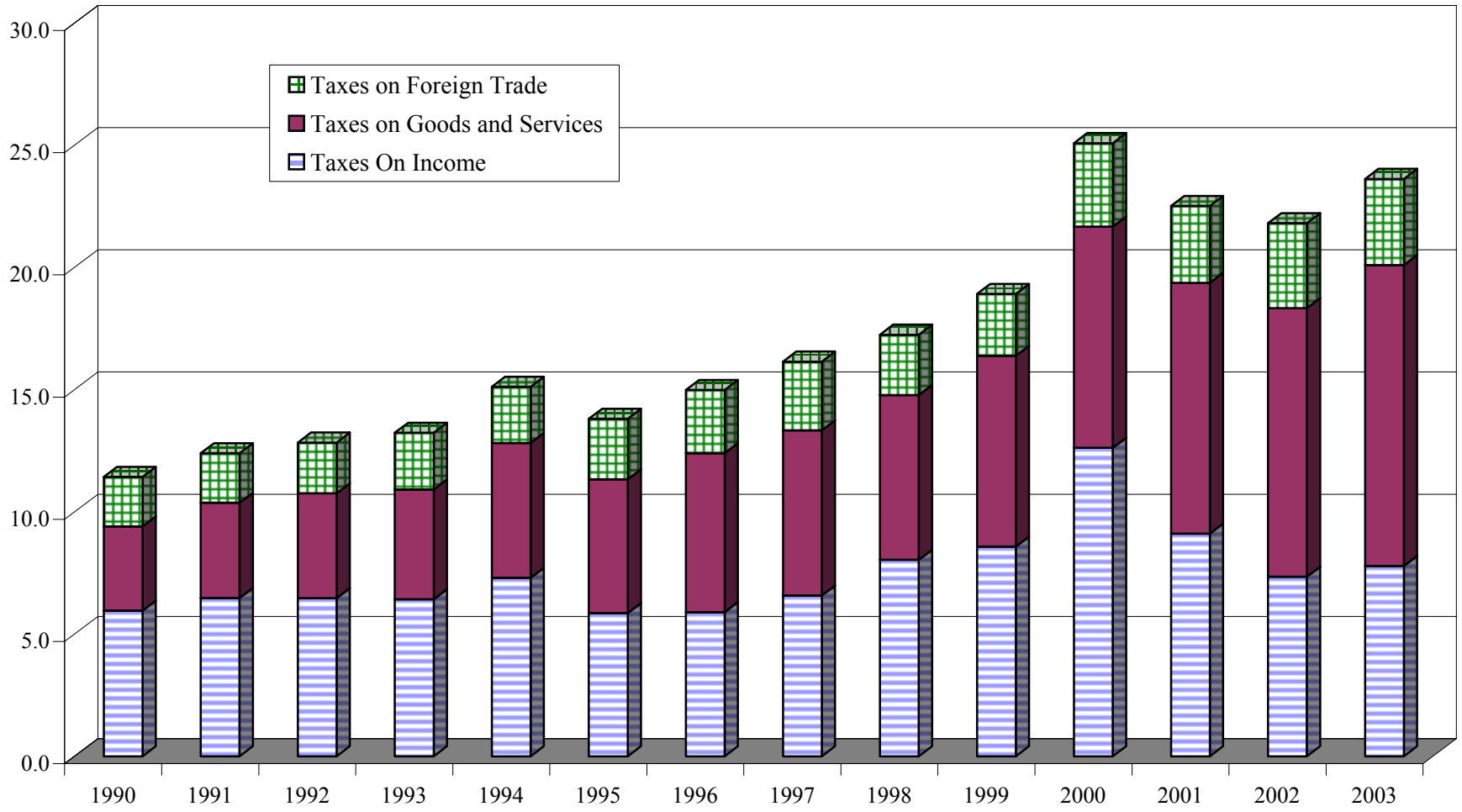


Figure 4. Interest Expenditures on Public Debt / Tax Revenues (Targets and Realizations, %)

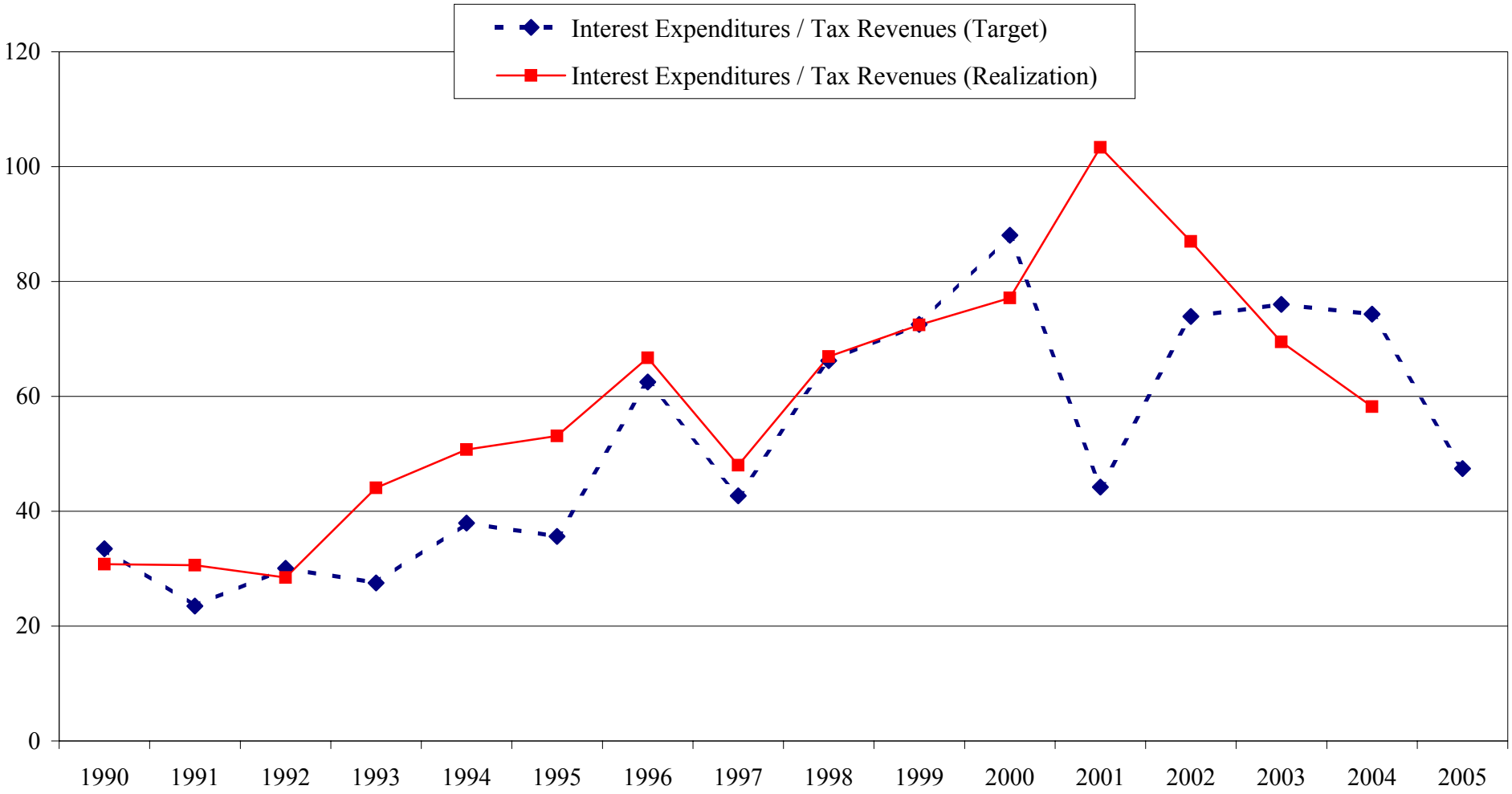
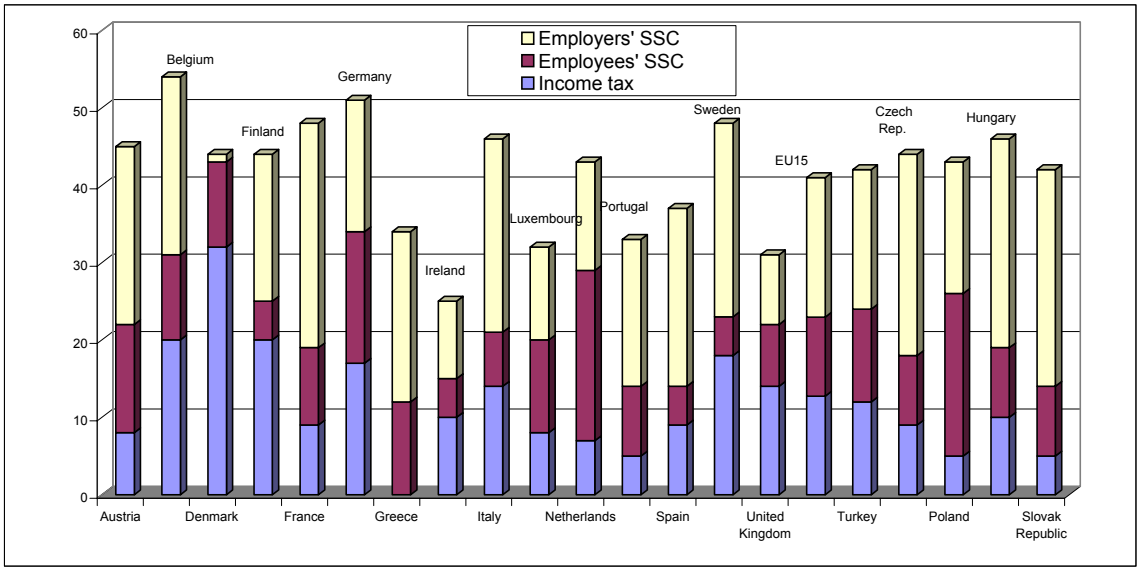


Figure 5. Income tax *plus* employees' and employers' social security contributions (SSC) as percent of labour costs (2003)*



* single individual without children at the income level of the average production worker

Figure 6. Inflation (WPI, 1994 = 100) and Real Interest Rates