

# tepav

türkiye ekonomi politikaları araştırma vakfı

economic stability institute

## **Fiscal Monitoring Report**

**- 2008 May Budget Results**

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## *1. May 2008 Budget Execution Results*

### *A. A Brief Look at the May 2008 Central Government Budget Implementation Results-Executive Summary*

Budget implementation results that have been declared by the Ministry of Finance show that the central government budget has had a deficit of 2 billion YTL as of end of May. This figure shows an improvement by 38.4% in the budget balance as compared to the same period of last year.

As of end of May, program defined primary balance has increased by 42.9% as compared to the same period of last year and realized as 14.5 billion YTL. Officially defined primary surplus has declined by 13.7% compared to the same period of last year and realized as 17.5 billion YTL. This development has been caused mostly by the high realization of privatization revenues that had not been deducted from the budget revenues in the officially defined primary balance account in the same period of last year. Therefore, the officially defined primary balance of last year appeared higher due to privatization revenues which constituted a measure for once.

The reason for the amount of officially primary surplus being higher than the program defined primary surplus as of end of May this year is mostly due to the dividend revenues and interest revenues received from public banks in April.

As of end of May, total central government budget expenditures displayed a minor increase by 3% compared to last year. However, the increase in primary expenditures is around 11%. Consequently, the use of appropriations in budget expenditures realized with a rate of 38.6% during the initial 5 months of the year, which is 2.4 points lower than the rate of last year that was 41%; while the use of appropriations reaches 39.9% this

year, excluding interest expenditures, and this amounts to an increase by 1.7 points as compared to last year. Therefore it is observed that the item which slows down budget expenditures is the interest expenditures, and that the use of appropriations in primary expenditures has continued to be high compared to last year. Interest expenditures appear to have declined by 17.2% compared to last year.

*Table 1. Central Government Budget May 2008 Realizations (Compared to 2007)*

<i>Million YTL</i>	<i>May.07</i>	<i>May.08</i>	<i>Change (%)</i>	<i>Real. Compa. to 2007 Year End</i>	<i>Real.Comp. to 2008 Approp.</i>
<b>Expenditures</b>	<b>83.493</b>	<b>86.023</b>	<b>3,03</b>	<b>41,03</b>	<b>38,65</b>
<b>1-Primary Expenditures</b>	<b>59.828</b>	<b>66.425</b>	<b>11,03</b>	<b>38,66</b>	<b>39,88</b>
Personnel Expenditures	18.388	20.522	11,61	42,22	42,16
Social Security Institution Govt. Premium	2.291	2.568	12,09	39,49	40,09
Goods and Service Procurement	7.021	7.426	5,76	31,69	32,42
Current Transfers	26.351	30.289	14,94	41,66	43,77
Capital Expenditures	3.193	2.960	-7,29	24,72	25,14
Capital Transfers	1.237	796	-35,67	34,92	38,18
Loans	1.346	1.864	38,45	37,90	47,39
Auxiliary Appropriations	0	0			
<b>2-Interest Expenditures</b>	<b>23.665</b>	<b>19.598</b>	<b>-17,19</b>	<b>48,56</b>	<b>35,00</b>
<b>Revenues</b>	<b>80.150</b>	<b>83.962</b>	<b>4,76</b>	<b>42,27</b>	<b>41,05</b>
<b>1-General Budget Revenues</b>	<b>77.963</b>	<b>81.299</b>	<b>4,28</b>	<b>42,32</b>	<b>40,77</b>
Tax Revenues	59.224	70.060	18,30	38,75	40,92
Enterprise and Property Revenues	5.232	4.439	-15,15	66,19	49,45
Interests, Shares and Fines	7.323	6.296	-14,02	46,88	44,60
Capital Revenues	5.937	84	-98,59	97,69	1,95
Donations and Aids Received	248	419	68,91	13,77	52,27
<b>2-Special Budget Revenues</b>	<b>1.352</b>	<b>1.557</b>	<b>15,22</b>	<b>35,62</b>	<b>45,58</b>
<b>3-Revenues of Regul. And Superv. Council</b>	<b>835</b>	<b>1.106</b>	<b>32,49</b>	<b>52,61</b>	<b>63,99</b>
<b>Budget Balance</b>	<b>-3.344</b>	<b>-2.060</b>	<b>38,39</b>	<b>24,09</b>	<b>11,45</b>
<b>Primary Balance</b>	<b>20.321</b>	<b>17.538</b>	<b>-13,70</b>	<b>58,31</b>	<b>46,15</b>
<b>Program-Defined Primary Balance</b>	<b>10.130</b>	<b>14.476</b>	<b>42,90</b>	<b>46,77</b>	<b>46,26</b>

At the revenue side, there has been a slow down in total revenues in terms of speed as compared to previous months. The factors that have contributed to this slow down are mostly non-tax revenue items. The most important reason of this situation is the highly low and even negative realizations of this year in these items and mostly in privatization revenues. The realization rate in tax revenues that was 38.8% in the same period last year increased to 41% during the initial 5 months of this year. Whereas the increase in tax revenues in the initial 4 months of the year was 21.4% as compared to the same period last year; the increase rate in the initial 5 months of the year decreased to 18.3% as compared to the same period last year. The increase in

tax revenues has mostly been due to the increase by 24.4% in the taxes on the gains of revenue and of institutions. Especially the income tax withholding is prominent among these taxes with an increase rate by 23.4%. The increase in the collection of VAT, on the other hand, seems to have stemmed from the VAT on imports. Consequently, the share of direct taxes within tax revenues has increased. Similarly, there is an increase in total general budget revenues in favor of tax revenues. Making comparison to the year 2007, one should not overlook the base effect that has affected this year's increase rates due to the high amount in the capital revenues item in the said year because of privatizations, and due to the low performance in tax collection.

When we take a closer look at the items at the expenditure side; we have previously mentioned that there is an increase in primary expenditures by 11% as of end of May as compared to the same period last year. This increase stems from the increase in the items of personnel expenditures and especially of current transfers. Capital expenditures (investment spending), on the other hand, have declined, if at a minor rate, as compared to the same period last year. Any deduction in investment expenditures during these months that are known to be the investment season requires monitoring in terms of the additional spending pressure this will cause in the second half of the year.

In summary, the central government budget as a whole in the initial 5 months of the year has continued to give the impression that the budget balance has been secured thanks to interest rates at the expenditure side, and thanks mostly to direct taxes at the revenue side as compared to last year. For the rest of the year, we expect that the direction which this view will take is going to be mostly affected by upward risk factors at the expenditure side, and by downward risk factors at the revenue

side. In conclusion, as we have emphasized in our previous reports, we are of the opinion that;

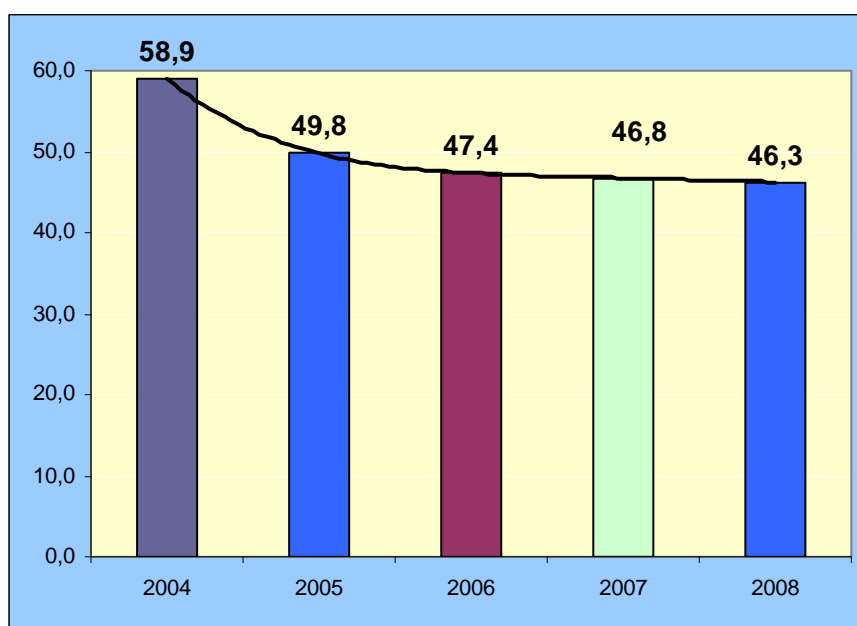
- The relatively positive development that has been observed so far in the budget will not be able to continue since the debt service has been delayed to the second half of the year;
- Since recession symptoms have tended to increase in the second and third quarter of the year, unlike the first, and since their negative effects on tax performance have started to be prominent;
- And since the use of current and investment appropriations has accelerated, especially in the expenditures for goods and service procurements, due to the reasons that we have explicated in the following pages in details.
- We also believe that the estimated cost of the latest policy decisions, which we discussed in our previous report, for the years ahead should be taken into consideration. We estimate that almost half of this cost will be realized in 2008 and 2009. (See Table 2)

*Table 2. Distribution of the Approximate Cost of the Latest Policy Decisions to Years (billion YTL)*

	In 2008 Prices					
	2008	2009	2010	2011	2012	Total
Housing Benefit (KEY)	2,9					2,9
Gap and Other Investments	2,3	3,5	3,6	3,5	3,6	16,5
Employment Fund	1,3	1,2	1,3	1,3	1,4	6,5
Privatization	1,0	2,3	2,3	2,2	2,2	10,0
Partial abandonment of the claims of university circulating capitals from the government.	0,2					0,2
Local Adm. Revenue Share Increase	2,2	4,3	4,3	4,4	4,4	19,6
Reduction of amount of deduction from resource to be transferred from 25% to 20% for 1 year						
.	0,1	0,1				0,2
Resource transfer from Unemployment Fund under scope of employment package (young people Between ages of 18-29; women of 18+; and the disabled)	0,6	2,6	0,9	0,6	0,3	5,0
<b>Total</b>	<b>8,2</b>	<b>10,5</b>	<b>8,9</b>	<b>8,5</b>	<b>8,3</b>	<b>44,4</b>

Resource: TEPAV March-April Fiscal Monitoring Report, June 2008

*Graphic 1. Realization Rates of Program-Defined Primary Surplus Performance of Central Government Budget (2004-2008)*



While program-defined primary surplus has displayed an increase by 42.9% compared to the same period last year, the realization rate against the year-end target has declined below that of last year. This figure also marks a decline, if little, below the rate observed in April this year. As can be remembered, the realization rate of the program-defined primary surplus as of end of April was above that of the same period last year. In effect, when compared as a whole to previous years, the

performance of program-defined primary surplus during the first 5 months of this year has continued to perform below that of previous years. This shows that the trend of the 2004 performance which has continuously displayed a downward development since then has reached the lowest point in terms of the results of the first 5 months.

## ***B. Budget Expenditures***

### ***B1. General Trends***

As of end of May 2008, total budget expenditures increased by 3% as compared to the same period last year; and with regard to primary expenditures, this increase realized as 11%. That budget expenditures increased at a considerably low rate, i.e. 3%, has resulted from the fact that the interest expenditures of the year 2008 have periodically delayed to the second half of the year. The amount of total interests to be paid in the remaining seven months of the year will be approximately two times higher than that paid in the first 5 months of the year. As a result of this development, the slowdown observed as of end of May in the increase rate of total expenditures is going to reverse.

The increase observed in primary expenditures results from the items of personnel expenditures and current transfers. Especially the increase in Treasury Subsidies under current transfers has been determinant in this development.



*Table 3. May End 2007-2008 Comparative Budget Expenditures*

(million YTL)	May				
	2007	2008	Increase Rate (%)	Realiz. Rate Of 2007 (%)	Realiz. Rate Of 2008 (%)
<b>Central Government Budget Expenditures</b>	83.493	86.023	3,0	41,0	38,7
<b>Primary Expenditures</b>	59.828	66.425	11,0	38,7	39,9
<b>I. Personnel Expenditures</b>	18.388	20.522	11,6	42,2	42,2
<b>II. Gov. Premium Exp. to Soc. Secur. Inst.</b>	2.291	2.568	12,1	39,5	40,1
<b>III. Goods and Services Procurement Exp.</b>	7.021	7.426	5,8	31,7	32,4
Health Expenditures	2.795	2.602	-6,9	42,2	38,6
Medication Expenditures	379	364	-3,9	38,8	33,4
General Treat. and Health Equipment Exp	686	619	-9,8	39,5	34,4
Green Card	1.730	1.619	-6,4	44,2	42,1
Defense & Security (Except for Health)	1.752	2.059	17,5	23,1	24,5
Other Goods and Services Exp.	2.475	2.765	11,7	44,4	41,8
<b>IV. Current Transfers</b>	26.351	30.289	14,9	41,7	43,8
Duty Losses	441	681	54,5	31,4	43,9
Treasury Subsidies	14.864	17.273	16,2	41,0	43,3
Treasury Subsidies to Social Secur. Inst.	319	371	16,5	39,5	39,8
Health, Pension & Social Assistance Exp.	13.582	15.844	16,7	41,1	42,8
Social Security Deficit Funding	10.721	12.722	18,7	41,5	44,2
Transfers to Non-Profit Organizations	400	191	-52,1	58,6	57,0
Transfers to Households	426	505	18,7	42,8	45,9
Agricultural Transfers	3.744	3.935	5,1	67,4	72,9
Other Transfers to Households	135	162	19,7	21,9	25,6
Social Transfers	12	95	718,1	17,3	41,9
Transfers to Abroad	165	218	31,9	33,0	33,4
Shares from Revenues	6.165	7.229	17,3	35,9	37,3
<b>V. Capital Expenditures</b>	3.193	2.960	-7,3	24,7	25,1
<b>VI. Capital Transfers</b>	1.237	796	-35,7	34,9	38,2
Domestic Capital Transfers	1.220	781	-36,0	36,4	41,9
International Capital Transfers	17	15	-10,9	9,0	6,8
<b>VII. Loans</b>	1.346	1.864	38,4	37,9	47,4
Domestic Loans	1.293	1.772	37,1	39,6	47,8
International Loans	54	92	70,8	18,9	40,9
<b>VIII. Auxiliary Appropriations</b>	0	0			
Interest Expenditures	23.665	19.598	-17,2	48,6	35,0

Resource: Ministry of Finance General Directorate of Public Accounts and our own calculations.

Primary expenditures have increased at the rate of the average inflation since the increase rate in the goods and services item has remained at 6% due to health expenditures, and since capital expenditures have remained below the level of last year nominally. Limiting the expenditures at a low amount in such controllable (e.g. expenditure delays) items prevented more increase in primary expenditures. Furthermore, it is expected that these expenditures cannot be delayed any longer in the upcoming months due to the following reasons:

- Since the Consumer Price Index (TUFİ) inflation in the first half of the year rose above the increase rate that is paid to civil servants; in order to compensate for the loss in the first half, the inflation difference to be paid to personnel in the second half will increase personnel expenditures and social security premium benefits above that level that has been planned.
- Due to the increase in input costs -primarily in energy costs- the appropriations in the goods and service items for consumer goods may probably be insufficient, and there will emerge the need for additional appropriations within the year unless there are no expenditure delays.

The political decisions taken by the government in order to decrease the target for primary surplus have opened up the way to an expansion in expenditures. It is thus likely as of June that certain budget expenditures will increase above those foreseen because of the decisions of the government. Actions such that the shares to be transferred to local administrations have been increased, revenues from the unemployment insurance and privatizations have been used as expenditures, and that the deduction rates on local administrations have been decreased can be given as some of the examples. As we have discussed in details in our Fiscal Monitoring Report last month, it is estimated that the expected increase in additional expenditures in 2008 will be 8-9 billion YTL due to the new provisions to be effective.

- Possible increases in the capital expenditures item because of awaiting payments due to the increase in put costs, and the amendments in Public Procurement Law regarding the price difference should not be overlooked.

Consequently, all these actions may increase central government budget expenditures above those foreseen and thus create pressure on the budget targets because of the revenue performance.

When we take a look at the increase in primary expenditures as of end of May; we see that the items which display increases above the general increase rate are the items of current transfers, loans and personnel expenditures. While the current transfers item and loans item have increased above the average, the increase rate in the goods and service procurement item declines unlike previous years, and capital expenditures appear to have declined nominally.

*Table 4. Contribution of May End Central Government Budget Primary Expenditures to the Increase in Primary Expenditures*

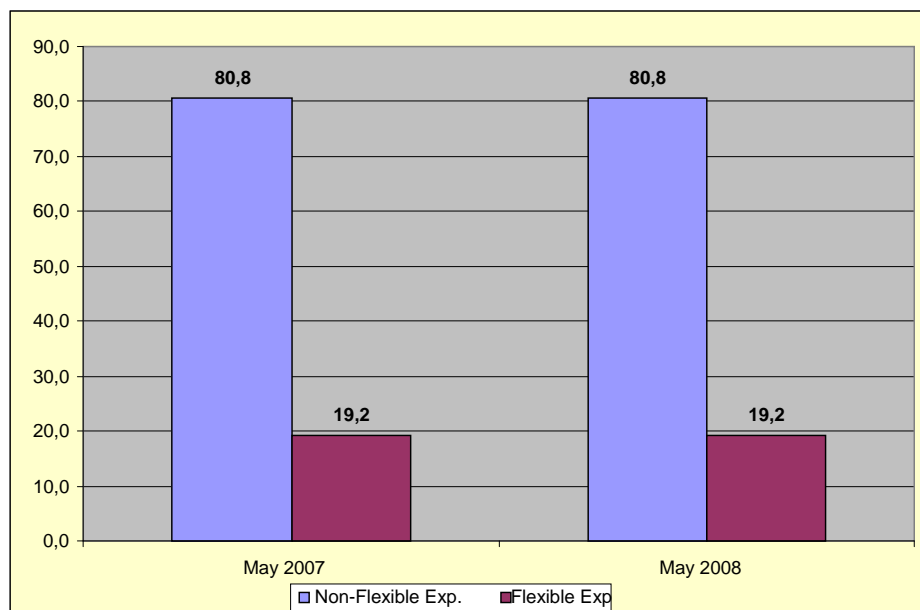
	<b>Contribution to Increase Rate</b>	<b>(%) Distribution</b>
<b>Primary Expenditures</b>	<b>11,0</b>	<b>100,0</b>
<b>Current Expenditures</b>	<b>4,2</b>	<b>38,5</b>
Personnel	3,6	32,3
Goods and Service Procurements	0,7	6,1
Health	-0,3	-2,9
Defense and Security	0,5	4,7
<b>Current Transfers</b>	<b>6,6</b>	<b>59,7</b>
Treasury Subsidies to Social Secu. Instituti.	0,1	0,8
Health, Pension & Social Assistance Exp.	3,8	34,3
Agricultural Transfers	0,3	2,9
Shares from Revenues	1,8	16,1
<b>Capital Expenditures</b>	<b>-0,4</b>	<b>-3,5</b>
<b>Capital Transfers</b>	<b>-0,7</b>	<b>-6,7</b>
<b>Loans</b>	<b>0,9</b>	<b>7,8</b>

What is primarily prominent in this table is especially the decline in the increase rate of health expenditures. This

situation has probably been caused by the health bills that had been transferred to the last year from the previous year, and by the claims of circulating capitals from social security institutions, and in return by the practice that means the mutual deduction of the shares that are to be transferred to the Treasury by these institutions. That the capital increases of SECs periodically rise and that this causes the rise of the loaning item, and the increases in the total deficit of social security institutions and in current transfers due to revenue shares of local administrations have been the items that have contributed to the increase in expenditures this period.

It is observed in this period that having been observed to be about 87.8% as of end of February, the share of non-flexible expenditures; which are not possible, due to their qualities, to be increased or decreased arbitrarily as a public policy instrument<sup>1</sup>; within total expenditures declined to 82.3% as of end of April and to 80.8% as of end of May.

**Graphic 4. Development of Share of Flexible & Non-Flexible Expenditures within Budget Expenditures (May 2007-2008)**



<sup>1</sup> Main non-flexible expenditures are made to fulfill such liabilities as interests, personnel and transfers to social security institutions.

## ***B.2 Budget Expenditures in Terms of Functional Distribution:***

The analysis of the services delivered from within the budget (functions) and of the distribution of these services economically among such items as current, investment and transfers is useful in that it shows us on what services expenditures mostly concentrate and what economic classification does this concentration on these services corresponds to (Annex Table 4a, b).

When we compare these items as to periods, it is possible to say that there has been an increase in expenditures in general. There has been a decline by 9% only in the general public services item. When we look at general public services, it is observed that this decline has resulted from the decrease in the interest expenditures item. The lowest increase has been in health expenditures (at 3%), and the highest increase has been in social security and social assistance services (at 17%). This increase in social security and social assistance services has resulted from the transfers to social security institutions, which is also named current transfers in the economic classification.

The distribution of economic classification items as to services (functions) is important, because it shows which inputs are used more often in the delivery of services. Therefore, if we make a comparison with the first 5 months of 2007 and the first 5 months of 2008, the primary service area among those which make the highest personnel expenditures is the educational sector. It is followed by the general public order services, which consist of organizations in the general activities cluster that is not included in the other service clusters. Personnel expenditures of the defense and health sectors have remained

almost the same in both periods. Almost 60% of the investment resources, on the other hand, are used by the government services (this item also includes transportation and infrastructure) in the economic affairs cluster. This is followed by the educational sector. There is not a significant difference between the periods in terms of the shares used by the remaining service sectors from the investment resources; and it is even observed that there has been a minor decline in the investments in health services compared to last year. Goods and service procurements, on the other hand, are mostly used in health, defense and education services. As we have indicated at the beginning, current transfers mostly go to the institutions in the social security and social assistance cluster.

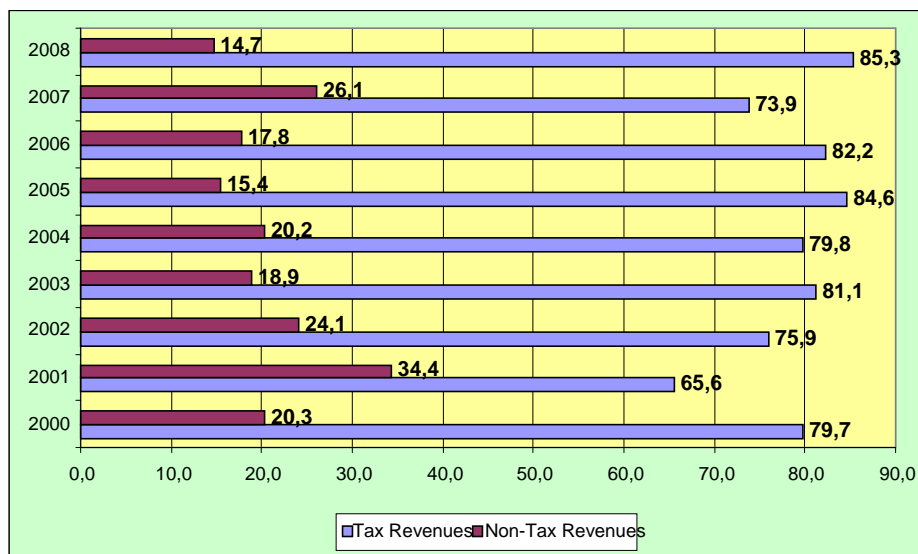
Distribution of various functions performed by the government as to economic classification is significant in that it shows what service item makes expenditures under what type of economic classification. Accordingly; whereas personnel expenditures have the greatest share within the expenditures of the institutions which deliver defense services, public order services (police, gendarmerie) and environment protection services; goods and service procurements, and personnel expenditures in health services take the greatest share almost at an equal rate. Nevertheless, expenditures in economic affairs cluster (transportation, infrastructure, agriculture etc.) mostly go to current transfers and investments. The same situation is also true for settlement and social welfare services.

### ***C. Budget Revenues***

As we have continuously underlined in our previous reports; it is still ambiguous whether the increase in tax collection is a periodic performance change or a result of the efforts of the revenue department to collect taxes, or even whether the effort to collect taxes is a periodic initiative. In this framework; we

believe it is important that the details on the basis of institutions and sectors of the fiscal tables on taxes be declared for a better understanding of this issue.

*Graphic 5. Development in Shares of Tax Revenues and Non-Tax Revenues within Collection of Total General Budget Revenues (%)*



The share of taxes within the total central government budget revenue collection has once again risen above 80% after quite a long time. This development shows us that the effect of the one-time measures (e.g. privatization revenues, fines for delays and interest collections), which were observed in previous years to appear within the non-tax revenues, have begun to diminish. The 2008 fiscal year, in this regard, will be one where non-tax resources are going to diminish in parallel to the development in capital entry from abroad.

As of end of May, the increase rate in total budget revenues as compared to last year has been 4.76%; and in general budget tax revenues has realized as 4.28%. While the periodical increase in general budget tax collection in April, and the realization of enterprise and property revenues above the performance of previous years due to public banks' dividend revenues have

improved the appearance of the budget; the fact that this effect has been limited only by tax revenues in May has resulted in the slowdown of the improvement in total budget revenue collection.

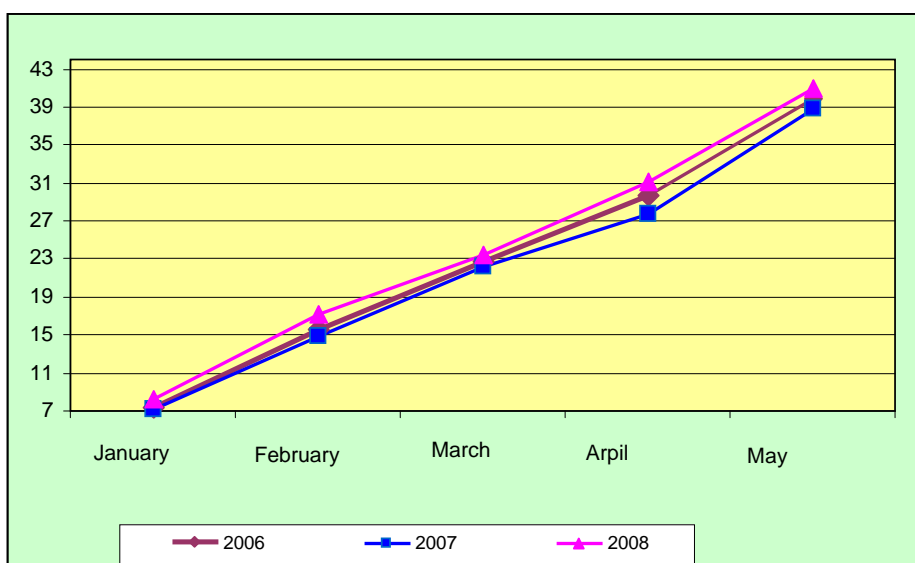
*Table 5. Central Government Budget Revenues (May)*

(Million YTL)	May 07	May 08	Increase Rate (%)
<b>Central Government Revenues</b>	<b>80.150</b>	<b>83.962</b>	<b>4,76</b>
<b>General Budget Revenues</b>	<b>77.963</b>	<b>81.299</b>	<b>4,28</b>
<b>I-Tax Revenues</b>	<b>59.224</b>	<b>70.060</b>	<b>18,30</b>
<b>1. Taxes on Revenues and Income</b>	<b>19.024</b>	<b>23.658</b>	<b>24,36</b>
<b>a) Income Tax</b>	<b>13.164</b>	<b>16.120</b>	<b>22,45</b>
Income Tax Collections	11.762	14.511	23,38
<b>b) Corporation Tax</b>	<b>5.860</b>	<b>7.538</b>	<b>28,65</b>
Prepaid Corporate Tax	5.964	6.932	16,22
<b>2. Taxes on Properties</b>	<b>1.641</b>	<b>1.923</b>	<b>17,19</b>
b) Motor Vehicles Tax	1.587	1.886	18,81
<b>3. Domestic Goods and Services Tax</b>	<b>24.054</b>	<b>26.697</b>	<b>10,99</b>
<b>a) Domestically Collected VAT</b>	<b>6.692</b>	<b>7.081</b>	<b>5,81</b>
<b>b) Special Consumption Tax</b>	<b>14.309</b>	<b>16.121</b>	<b>12,66</b>
<b>c) Bank and Insurance Transactions Tax</b>	<b>1.303</b>	<b>1.546</b>	<b>18,68</b>
<b>d) Lottery Games Tax</b>	<b>144</b>	<b>169</b>	<b>17,14</b>
<b>e) Special Communications Tax</b>	<b>1.606</b>	<b>1.781</b>	<b>10,88</b>
<b>4. Tax on International Trade &amp; Transactions</b>	<b>11.076</b>	<b>13.971</b>	<b>26,13</b>
b) VAT on Imports	10.055	12.738	26,68
<b>5. Stamp Tax</b>	<b>1.503</b>	<b>1.669</b>	<b>11,03</b>
<b>6. Fees</b>	<b>1.906</b>	<b>2.125</b>	<b>11,48</b>
<b>7. Taxes Not Classified Elsewhere</b>	<b>20</b>	<b>18</b>	<b>-9,28</b>
<b>II-Enterprise and Property Revenues</b>	<b>5.232</b>	<b>4.439</b>	<b>-15,15</b>
<b>III-Donations, Aids &amp; Special Revenues Received</b>	<b>248</b>	<b>419</b>	<b>68,91</b>
<b>IV-Interests, Shares &amp; Fines</b>	<b>7.323</b>	<b>6.296</b>	<b>-14,02</b>
1. Interest Revenues	2.315	1.508	-34,87
<b>V-Capital Revenues</b>	<b>5.937</b>	<b>84</b>	<b>-98,59</b>
<b>Revenues from Special Budget Organizations</b>	<b>1.352</b>	<b>1.557</b>	<b>15,22</b>
<b>Revenues from Regulative and Supervisory Agencies</b>	<b>835</b>	<b>1.106</b>	<b>32,49</b>

The performance in the budget revenues has resulted from the realization of tax revenues above the estimations due especially to the performance in the taxes on income. The realization rates of tax revenue collection in 2008 against the year-end targets and realizations have displayed a relatively better performance during the first 5 months of the year, though slowed down in May, as compared to the previous two years.



*Graphic 6. Cumulative Realization Rates of Tax Revenues on Monthly Basis (%)*

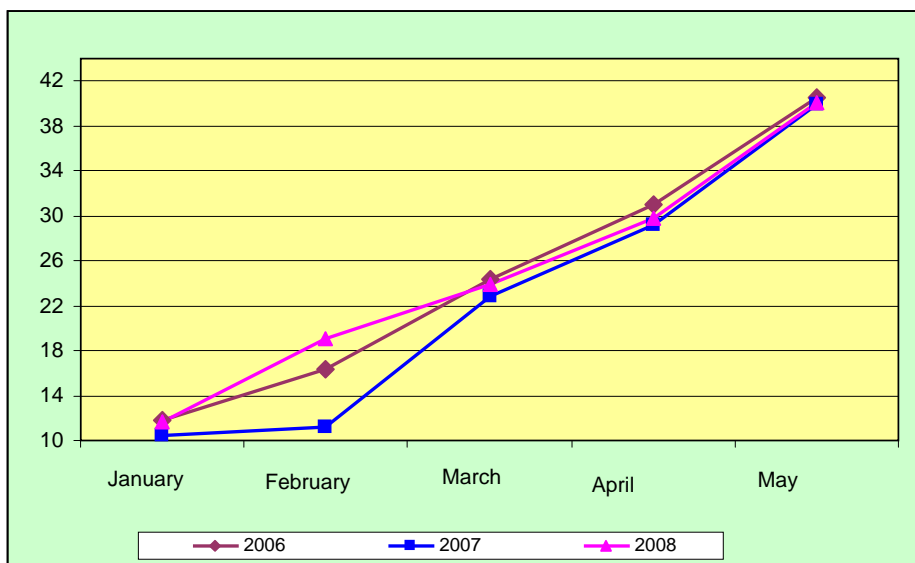


The share of direct taxes on the tax performance that has been above the estimations in the first half of the year has been significant. The taxes on revenues and income have displayed a cumulative increase by 24.4% in May as compared to previous months. The increase rate in indirect taxes although has realized as 13.2%; it is seen that this increase rate declines to 7.6% excluding the VAT on imports, and that it declines to approximately 1% excluding the SCT and VAT on oil and natural gas. As we have underlined in the previous report; the signals of slowdown in growth rates of the economy and the symptoms of declining indirect tax collection have started to become more prominent. Providing this trend continues also in the second half of the year, the realization of tax collections above the targets at the end of the year is going to depend only on the performance in direct tax collections and on the price increases

of such goods as oil, the price of which is dependent on the increase in the international market, and on the price increases in SEE products.

Within this framework, the performance of domestically collected VAT in 2008 should be well monitored. The domestically collected VAT, which has decreased by around 1% in May, has displayed a cumulative increase by 5.8% at the end of the first 5 months of the year. It is interesting here that, based on year-end realization rates, this tax has remained below that of 2006, though it has the same rate with 2007.

*Graphic 7. Cumulative Budget Realization Rates of Domestic Value Added Tax on Monthly Basis (%)*



While as of end of May 42% of the increase observed in general budget tax revenues has emanated from taxes on revenues and income, more than half of the said increase has come from the income tax withholding. When the 2007 Activity Report of the Revenue Administration Department is examined, it is seen that nearly 60% of the withholding consists of salaries. Considering that salaries increased by 10% and below on average, it is estimated that the increase here stems primarily from the increase in interest rates which are one of the primary non-

salary collection items. We believe that the increase in the tax collection from this revenue item has been caused by the increase in nominal interest rates observed as of the second quarter of 2006. Another possible situation here is that public institutions and primarily local administrations carried out their tax liabilities at a higher rate unlike in the year 2008. In other words, they paid the tax, which they were supposed to pay, at a higher rate unlike previous years. However, we are not able to further this analysis since there are no detailed tax collection items that would help us to cross-check these possibilities.

The most significant contribution to the increase after the tax withholding has come from the collection of VAT on imports by 24.8%. This item is followed by the SCT on oil and natural gas by 12.2%.

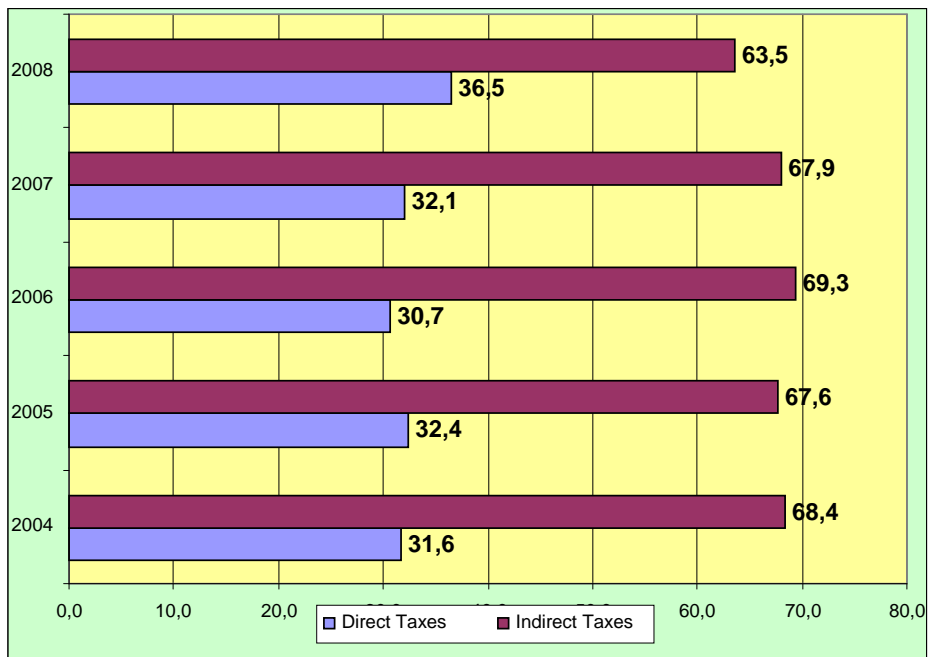
*Table 6. 2007-2008 May End Budget Tax Revenue Realizations and Their Contribution to the Increase Rate*

million YTL	May		Increase Rate (%)	Contribution to Increase Rate(%)
	2008	2007		
<b>Tax Revenues</b>	<b>70.060</b>	<b>59.224</b>	<b>18,3</b>	<b>100,0</b>
<b>Tax on Revenues and Corporation Gains</b>	<b>23.658</b>	<b>19.024</b>	<b>24,4</b>	<b>42,8</b>
Income Tax Withholding	14.511	11.762	23,4	25,4
Prepaid Corporation Tax	6.932	5.964	16,2	8,9
<b>Special Consumption Tax</b>	<b>16.121</b>	<b>14.309</b>	<b>12,7</b>	<b>16,7</b>
ACT on Oil & Natural Gas Products	9.329	8.010	16,5	12,2
Fizzy, Alcohol Drinks, Tobacco Products	4.703	4.505	4,4	1,8
<b>VAT Collection</b>	<b>19.819</b>	<b>16.747</b>	<b>18,3</b>	<b>28,3</b>
VAT on Imports	12.738	10.055	26,7	24,8
Domestically Collected VAT	7.081	6.692	5,8	3,6
<b>Other Taxes</b>	<b>10.462</b>	<b>9.143</b>	<b>14,4</b>	<b>12,2</b>
Stamp Tax	1.669	1.503	11,0	1,5
Charges	2.125	1.906	11,5	2,0
Bank and Insurance Transactions Tax	1.546	1.303	18,7	2,2

As of end of May 2008, 63.5% of general budget tax revenues has come from indirect taxes, and 36.5% has come from direct taxes. In this framework, the share of direct taxes has reached

around 36%. Not only the positive increase rate in the collection of direct taxes, but also the slowdown in the performance of indirect taxes -primarily in domestic VAT and SCT- have been determinant in the increase of the share of direct taxes, as we continuously emphasize in the fiscal monitoring reports.

*Graphic 8. Development of Share of Indirect and Direct Taxes within General Budget Tax Revenues 2004-2008 May End (%)*



## *II. Developments in Budget Funding and Debt Stock*

Cash balance of the Treasury has had a deficit of about 1.4 billion as of end of May 2008.

*Table 7. Treasury Cash Balance (May)*

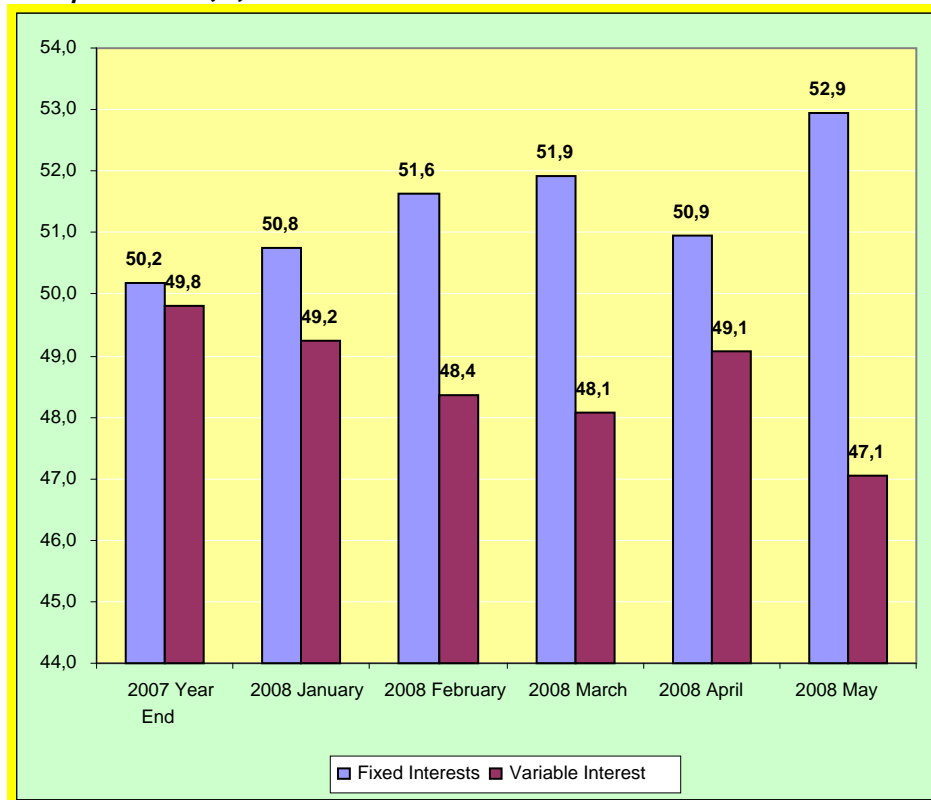
(million YTL)	January*	February*	March*	April*	May*	Total*
<b>REVENUES</b>	16.520	17.281	12.286	13.568	23.214	82.869
<b>EXPENDITURES</b>	15.344	17.742	17.680	18.223	15.251	84.240
Primary Expenditures	11.374	12.943	13.702	13.954	13.677	65.649
Interest Payments	3.970	4.799	3.979	4.269	1.573	18.590
<b>PRIMARY BALANCE</b>	5.146	4.339	-1.416	-386	9.537	17.220
<b>CASH BALANCE</b>	1.176	-461	-5.394	-4.655	7.963	-1.371
<b>FUNDING</b>	-1.176	461	5.394	4.655	-7.963	1.371
<b>BORROWING (NET)</b>	1.597	2.214	1.003	1.902	-1.801	4.915
<b>INTERNATION. BORROWING (NET)</b>	-998	-587	-930	-396	4.267	1.357
Utilization	1.214	4	1.203	158	4.678	7.257
Payment	2.212	591	2.132	554	411	5.900
<b>DOMESTIC BORROWING (NET)</b>	2.594	2.801	1.933	2.297	-6.068	3.558
Utilization	5.726	4.970	4.212	11.338	2.586	28.832
Payment	3.132	2.169	2.279	9.040	8.654	25.275
<b>PRIVATIZATION REVENUE</b>	52	0	0	0	1.992	2.044
<b>TRANSFERS FROM SDIF</b>	0	0	0	0	0	0
<b>ASSG. – GUARANTEED DEBT</b>						
<b>RETURNS</b>	8	28	30	36	19	122
<b>BANK UTILIZATION</b>	-2.833	-1.782	4.361	2.718	-8.173	-5.710
<b>EXCHANGE RATE DIFFERENCE</b>	129	132	1.205	0	-602	865
<b>BANK UTILIZATION (NET)</b>	-2.962	-1.914	3.156	2.717	-7.571	-6.575

The cumulative net borrowing of the Treasury as of end of May has been 4.9 billion YTL. While the emphasis was on domestic borrowing in cash borrowing until May, the securities export revenues used during May have helped to return once again to international borrowing funding. Again the Treasury has transferred a considerable amount of cash to June thanks to the surplus achieved in the cash balance this month.

*Table 8. Comparative Table of General Budget Balance and Central Government Budget Balance (May)*

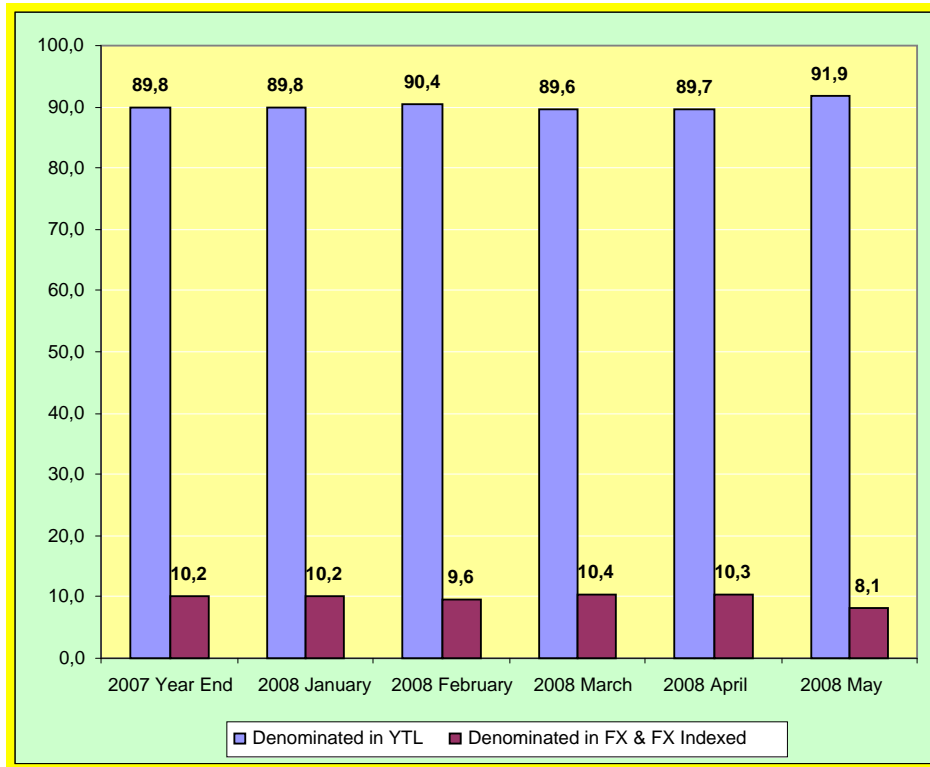
General Budget Balance		Central Government Budget Balance	
(million YTL)	May End	(million YTL)	May End
Budget Balance	-2.109	Budget Balance	-2.060
Escrows	-1.687	Escrows	-1.853
Advances	79	Advances	162
Cash Balance	-3.717	Cash Balance	-3.751
Funding	3.717	Funding	3.751
Total Net Borrowing	7.013	Total Net Borrowing	7.013
Net Loaning (-)	-130	Net Loaning (-)	-119
Privatization Revenues	64	Privatization Revenues	64
Change in Cash & Other Items (-) Entry (+) Exit	-3.490	Change in Cash & Other Items (-) Entry (+) Exit	-3.445

*Graphic 9. Central Government Domestic Debt Stock Interest Composition (%)*



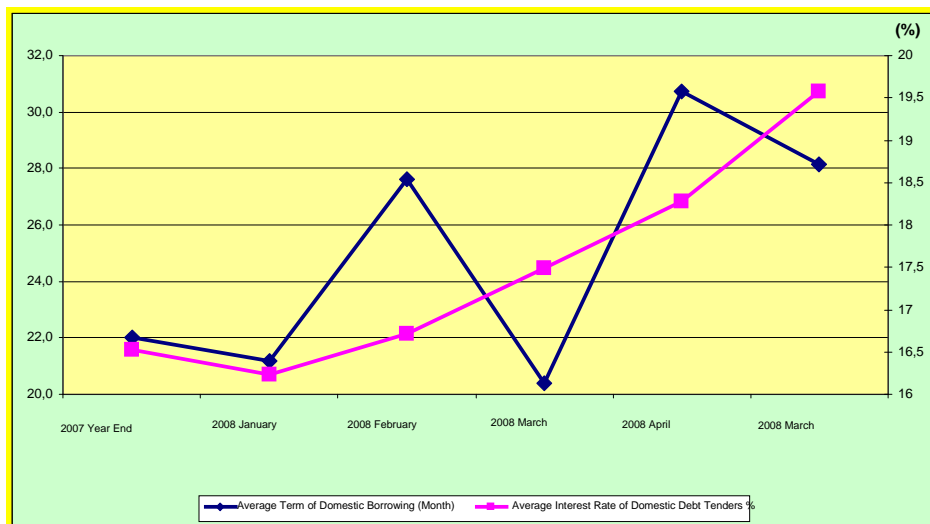
We see in the interest composition of the central government domestic debt stock that the share of variable interest bills declined by 2.7 points as of end of May 2008, compared to 2007 year end.

**Graphic 10. Central Government Domestic Debt Stock YTL-Foreign Exchange Structure**



In terms of the domestic debt stock YTL-FX composition; there has been a decline in the share of bills denominated in foreign exchange and foreign exchange indexed.

**Graphic 11. Average Term of Domestic Borrowing and Interest Rate**



Treasury domestic borrowing interests, on the other hand, have continued their increase in May 2008 and realized as 19.6% on average. It is observed that this trend of increase has also continued in June.

# ANNEXES

## Annex Table 1. 2008 Central Government Appropriations and Expenditures (May End)

	January	February	March	April	May	Total	2008 Budget	(%) Realization	Distribution of %
<b>Expenditures</b>	<b>16,305.696</b>	<b>16,607.569</b>	<b>18,648.608</b>	<b>18,637.973</b>	<b>15,808.820</b>	<b>86,008.666</b>	<b>222,553.217</b>	<b>38.65</b>	<b>100.00</b>
<b>Primary Expenditures</b>	<b>12,022.554</b>	<b>11,893.205</b>	<b>13,895.275</b>	<b>14,472.353</b>	<b>14,127.418</b>	<b>66,410.807</b>	<b>166,553.167</b>	<b>39.87</b>	<b>77.21</b>
<b>I. Personnel Expenditures</b>	<b>4,841.110</b>	<b>3,855.601</b>	<b>3,815.917</b>	<b>4,013.666</b>	<b>3,995.886</b>	<b>20,522.175</b>	<b>48,672.049</b>	<b>42.16</b>	<b>23.86</b>
Civil Servant	4,289.467	3,228.100	3,210.697	3,281.325	3,292.744	17,302.333	40,520.597	42.70	20.12
Workers	153.846	281.982	242.865	284.900	335.39	1,298.984	3,707.208	35.04	1.51
Other	397.797	345.519	362.355	447.436	367.75	1,920.856	4,444.244	43.22	2.23
<b>II. Social Security Inst. Gov. Premium</b>	<b>622.053</b>	<b>482.950</b>	<b>480.375</b>	<b>488.486</b>	<b>493.819</b>	<b>2,567.683</b>	<b>6,405.463</b>	<b>40.09</b>	<b>2.99</b>
Civil Servant	554.603	389.389	387.082	384.372	383.418	2,098.864	5,249.058	39.99	2.44
Worker	20.860	44.278	44.889	53.015	58.356	221.395	649.292	34.10	0.26
Other	46.590	49.286	48.404	51.099	52.045	247.424	507.113	48.79	0.23
<b>III. Goods &amp; Service Procurements</b>	<b>1,058.671</b>	<b>1,192.957</b>	<b>1,528.206</b>	<b>1,832.848</b>	<b>1,812.957</b>	<b>7,425.639</b>	<b>22,905.423</b>	<b>32.42</b>	<b>8.63</b>
Defense- Security	89.447	211.258	435.675	637.000	685.543	2,058.924	8,410.568	24.48	2.39
Ministry of Defense	67.348	144.923	355.977	508.373	551.944	1,628.565	6,783.580	24.01	1.89
General Directorate of Gendarmerie	4.837	35.846	49.164	73.125	92.421	255.393	1,033.708	24.71	0.30
General Directorate of Security	17.262	30.489	30.534	55.503	41.178	174.966	593.280	29.48	0.20
Health Expenditures	699.281	501.846	408.446	503.009	489.239	2,601.821	6,741.000	38.61	3.03
Health Services Related to Green Card	496.929	242.684	264.693	295.198	319.659	1,619.163	3,850.000	42.06	1.88
Medication	76.049	96.365	52.102	75.068	64.030	363.614	1,089.414	33.38	0.42
Treatment & Health Equipment	126.303	162.797	91.651	132.743	105.556	619.044	1,801.586	34.38	0.72
Gov. Debts General Expenditures	0	7.305	7.016	8.664	22.998	45.987	130.000	35.37	0.05
Other Goods & Service Expenditures	269.943	472.544	677.069	684.174	615.177	2,718.907	7,623.855	35.66	3.16
<b>IV. Current Transfers</b>	<b>5,136.224</b>	<b>5,643.299</b>	<b>6,734.851</b>	<b>6,531.372</b>	<b>6,229.289</b>	<b>30,275.035</b>	<b>69,206.600</b>	<b>43.75</b>	<b>35.20</b>
Duty Losses	65.750	215.784	186.115	95.655	117.275	680.579	1,551.334	43.87	0.79
SEE Duty Losses	20.000	120.000	120.000	40.000	62.000	362.000	733.000	49.39	0.42
Financial Institutions	39.000	87.110	34.924	34.000	39.000	234.034	611.000	38.30	0.27
Other Duty Losses	6.750	8.674	31.191	21.655	16.275	84.543	207.334	40.78	0.10
Treasury Subsidies	3,571.197	2,944.747	3,131.625	3,864.245	3,760.792	17,272.606	39,912.215	43.28	20.08
Treasury Subsidies to Social Security Institutions	74.457	74.307	73.353	72.955	76.124	371.196	932.000	39.83	0.43
Unemployment Insurance Fund	74.457	74.307	73.353	72.955	76.124	371.196	932.000	39.83	0.43
Health, Pension & Social Assistance Expenditures	3,341.000	2,662.995	2,870.978	3,599.998	3,368.802	15,843.769	37,031.000	42.78	18.42
Funding Social Security Deficit	3,006.883	2,302.700	1,565.300	3,069.550	2,778.000	12,722.432	28,804.000	44.17	14.79
Local Administrations	109.122	141.333	134.986	129.401	265.088	779.924	1,235.100	63.15	0.91
Subsidies to Municipalities	380	570	150	350	49.555	1,510	50,000	102.01	0.06
Other (special provincial administrations and villages)	108.743	140.763	134.836	129.05	215.528	728.919	1,185.100	61.51	0.85
Other Treasury Subsidies	46.622	66.112	52.313	61.89	50.785	277.723	714.116	38.89	0.32
SPSF	30.000	29.000	30.000	29.000	29.000	147.000	350.000	42.00	0.17
Other	16.622	37.112	22.313	32.89	21.785	130.723	364.116	35.90	0.15
Transfers to Non-Profit Organizations	84.298	8,081	23.782	67.800	7,425	191.386	335.894	56.98	0.22
Transfers to Households	46.619	52.130	116.647	160.22	129.629	505.237	1,101.438	45.87	0.59
Scholarships and Allowances	35.688	38.593	45.552	73.677	76.836	270.344	508.388	53.18	0.31
Other Educational Transfers	1,710	2,208	52.786	59.402	33.434	149.540	466.52	32.05	0.17
Health Transfers	3,763	3,705	3,416	4,598	4,944	20,426	65,271	31.29	0.02
Transfers for Food	4,970	6,189	13,900	21,790	13,502	60,351	54,894	109.94	0.07
Transfers for Housing	491	1,433	993	754	904	4,575	6,368	71.90	0.01
Agricultural Subsidization Benefits	185.000	696.065	1,388.887	935.572	715.033	3,920.557	5,400.000	72.60	4.56
Direct Income Support	0	0	844.000	570.000	0	1,414.000	2,554.000	55.36	1.64
Product Support Benefits	50.000	513.000	0	150.000	635.000	1,348.000	1,758.000	76.68	1.57
Livestock Husbandry Support Benefits	105.000	140.000	528.872	175.000	80.000	1,028.872	731.000	140.73	1.20
Other	30.000	43.065	16.013	40.572	33	129.688	357.000	36.33	0.15
Other Transfers to Households	5.833	113.093	12.397	13.298	17.39	162.013	632.824	25.60	0.19
Social Transfers	3,282	14,193	23.133	28.305	26.579	95.492	227.791	41.92	0.11
Transfers to Abroad	35.765	26.843	72.591	55.062	27.915	218.176	654.057	33.36	0.25
Shares from Revenues	1,138.480	1,572.368	1,779.674	1,311.213	1,427.259	7,228.989	19,391.040	37.28	8.40
<b>V. Capital Expenditures</b>	<b>15.692</b>	<b>117.364</b>	<b>797.179</b>	<b>995.944</b>	<b>1,034.222</b>	<b>2,960.405</b>	<b>11,775.030</b>	<b>25.14</b>	<b>3.44</b>
<b>VI. Capital Transfers</b>	<b>29.463</b>	<b>280.574</b>	<b>235.962</b>	<b>140.464</b>	<b>109.368</b>	<b>795.831</b>	<b>2,084.420</b>	<b>38.18</b>	<b>0.93</b>
Loaning	319.34	320.46	302.786	469.574	451.877	1,864.039	3,933.510	47.39	2.17
Domestic Loaning	319.34	320.46	282.786	419.574	429.877	1,772.039	3,708.510	47.78	2.06
SEE	229.000	224.600	177.500	241.000	210.689	1,082.789	1,577.500	68.64	1.26
Risk Account	0	0	0	17.450	19.500	36.950	590.000	6.28	0.04
Other	90.34	95.86	105.286	161.124	199.688	652.309	1,541.010	42.33	0.76
International Loaning	0	0	20.000	50.000	22.000	92.000	225.000	40.89	0.11
Cyprus	0	0	20.000	50.000	22.000	92.000	225.000	40.89	0.11
VIII. Auxiliary Appropriations	0	0	0	0	0	0	1,570.672	0.00	0.00
Interest Expenditures	4,283.142	4,714.368	4,753.332	4,165.620	1,681.402	19,597.859	56,000.050	35.00	22.79
I. Domestic Debt Interests	3,621.818	3,828.329	3,793.296	3,911.475	1,437.208	16,592.126	46,055.000	36.03	19.29
II. International Debt Interests	661.324	886.750	786.244	250.422	244.199	2,826.942	7,066.050	40.01	3.29
III. Discounts & Short Term Transactions Interests	0	1,284	173.792	3,711	0	178.796	2,879.000	6.21	0.21



Annex Table 2. Comparative Central Government Budget Expenditures 2007-2008 (May End)

	2007				2008				Increase Rate	
	May	Total	Realized	Realization Rate	May	Total	Budget Estimation	Realization Rate	May	Total
<b>Central Government Budget Expenditures</b>	<b>16.362.700</b>	<b>83.493.387</b>	<b>203.500.684</b>	<b>41,0</b>	<b>18.637.973</b>	<b>86.022.673</b>	<b>222.553.217</b>	<b>38,7</b>	<b>13,9</b>	<b>3,0</b>
<b>Primary Budget Expenditures</b>	<b>13.282.377</b>	<b>59.828.266</b>	<b>154.769.069</b>	<b>38,7</b>	<b>14.472.353</b>	<b>66.424.814</b>	<b>166.553.167</b>	<b>39,9</b>	<b>9,0</b>	<b>11,0</b>
<b>Personnel Expenditures</b>	<b>3.620.372</b>	<b>18.388.219</b>	<b>43.554.730</b>	<b>42,2</b>	<b>4.013.661</b>	<b>20.522.175</b>	<b>48.672.049</b>	<b>42,2</b>	<b>10,9</b>	<b>11,6</b>
<b>Gov. Premium Exp. To Social Security Inst.</b>	<b>440.374</b>	<b>2.290.643</b>	<b>5.800.916</b>	<b>39,5</b>	<b>488.486</b>	<b>2.567.683</b>	<b>6.405.463</b>	<b>40,1</b>	<b>10,9</b>	<b>12,1</b>
<b>Goods &amp; Service Procurement Exp.</b>	<b>1.881.916</b>	<b>7.021.336</b>	<b>22.154.275</b>	<b>31,7</b>	<b>1.832.848</b>	<b>7.425.639</b>	<b>22.905.423</b>	<b>32,4</b>	<b>-2,6</b>	<b>5,8</b>
Defense-Security	527.975	1.751.838	7.576.376	23,1	637.001	2.058.924	8.410.568	24,5	20,6	17,5
Health Expenditures	626.314	2.794.708	6.624.064	42,2	503.009	2.601.821	6.741.000	38,6	-19,7	-6,9
General Treatment & Health Equipm. Exp	200.928	686.190	1.735.246	39,5	132.743	619.044	1.801.586	34,4	<b>-33,9</b>	<b>-9,8</b>
General Medication Exp.	118.543	378.553	974.930	38,8	75.068	363.614	1.089.414	33,4	<b>-36,7</b>	<b>-3,9</b>
Green Card Health Services	306.843	1.729.965	3.913.888	44,2	295.198	1.619.163	3.850.000	42,1	-3,8	-6,4
Gov. Debt General Exp.	3.182	33.891	59.111	57,3	8.664	45.987	130.000	35,4	172,3	35,7
Other Goods & Service Procurement Exp.	724.445	2.440.899	7.894.724	30,9	684.174	2.718.907	7.623.855	35,7	-5,6	11,4
<b>Current Transfers</b>	<b>5.751.921</b>	<b>26.351.347</b>	<b>63.249.159</b>	<b>41,7</b>	<b>6.531.372</b>	<b>30.289.042</b>	<b>69.206.600</b>	<b>43,8</b>	<b>13,6</b>	<b>14,9</b>
<b>Duty Losses</b>	<b>193.944</b>	<b>440.512</b>	<b>1.401.345</b>	<b>31,4</b>	<b>95.655</b>	<b>680.579</b>	<b>1.551.334</b>	<b>43,9</b>	<b>-50,7</b>	<b>54,5</b>
SEE Duty Losses	140.000	250.000	699.891	35,7	40.000	362.000	733.000	49,4	-71,4	44,8
Financial Institutions	31.000	119.000	376.432	31,6	34.000	234.034	611.000	38,3	9,7	96,7
Other Duty Losses	22.944	71.512	325.022	22,0	21.655	84.545	207.334	40,8	<b>-5,6</b>	<b>18,2</b>
<b>Treasury Subsidies</b>	<b>2.933.634</b>	<b>14.863.513</b>	<b>36.273.127</b>	<b>41,0</b>	<b>3.864.245</b>	<b>17.272.606</b>	<b>39.912.216</b>	<b>43,3</b>	<b>31,7</b>	<b>16,2</b>
Treasury Subsidies to Social Security Inst.	190.500	318.608	807.545	39,5	72.955	371.190	932.000	39,8	-61,7	<b>16,5</b>
Unemployment Insurance Fund	190.500	318.608	807.545	39,5	72.955	371.190	932.000	39,8	-61,7	<b>16,5</b>
Health, Pension & Social Assistance Benefits	2.600.300	13.582.301	33.063.333	41,1	3.599.998	15.843.769	37.031.000	42,8	<b>38,4</b>	<b>16,7</b>
Financing Social Security Deficit	2.149.830	10.720.841	25.823.450	41,5	3.069.550	12.722.432	28.804.000	44,2	<b>42,8</b>	<b>18,7</b>
Treasury Subsidies to Local Administrations	97.162	696.690	1.706.350	40,8	129.401	779.924	1.235.100	63,1	33,2	11,9
Other Treasury Subsidies	45.672	265.914	695.899	38,2	61.891	277.723	714.116	38,9	35,5	4,4
<b>Transfers to Non-Profit Organizations</b>	<b>24.180</b>	<b>399.579</b>	<b>681.416</b>	<b>58,6</b>	<b>67.800</b>	<b>191.386</b>	<b>335.898</b>	<b>57,0</b>	<b>180,4</b>	<b>-52,1</b>
<b>Transfers to Households</b>	<b>121.356</b>	<b>425.679</b>	<b>994.286</b>	<b>42,8</b>	<b>160.221</b>	<b>505.237</b>	<b>1.101.438</b>	<b>45,9</b>	<b>32,0</b>	<b>18,7</b>
<b>Agricultural Transfers</b>	<b>1.101.718</b>	<b>3.744.485</b>	<b>5.555.090</b>	<b>67,4</b>	<b>935.572</b>	<b>3.934.564</b>	<b>5.400.000</b>	<b>72,9</b>	<b>-15,1</b>	<b>5,1</b>
Product Support Benefits	25.000	1.466.256	1.708.455	85,8	150.000	1.348.000	1.758.000	76,7	500,0	-8,1
Livestock Husbandry Support Benefits	50.000	610.000	740.690	82,4	175.000	1.028.872	731.000	140,7	<b>250,0</b>	<b>68,7</b>
Other Agricultural Transfers	1.026.718	1.668.229	3.105.945	53,7	610.572	1.557.692	2.911.000	53,5	<b>-40,5</b>	<b>-6,6</b>
<b>Other Transfers to Households</b>	<b>12.081</b>	<b>135.313</b>	<b>617.967</b>	<b>21,9</b>	<b>13.299</b>	<b>162.013</b>	<b>632.826</b>	<b>25,6</b>	<b>10,1</b>	<b>19,7</b>
<b>Social Transfers</b>	<b>2.942</b>	<b>11.672</b>	<b>67.400</b>	<b>17,3</b>	<b>28.305</b>	<b>95.492</b>	<b>227.791</b>	<b>41,9</b>	<b>862,1</b>	<b>718,1</b>
<b>Transfers to Abroad</b>	<b>32.676</b>	<b>165.428</b>	<b>500.571</b>	<b>33,0</b>	<b>55.062</b>	<b>218.176</b>	<b>654.057</b>	<b>33,4</b>	<b>68,5</b>	<b>31,9</b>
<b>Shares from Revenues</b>	<b>1.329.390</b>	<b>6.165.166</b>	<b>17.157.957</b>	<b>35,9</b>	<b>1.311.213</b>	<b>7.228.989</b>	<b>19.391.040</b>	<b>37,3</b>	<b>-1,4</b>	<b>17,3</b>
Local Administration Shares	987.874	4.787.504	13.285.805	36,0	942.979	5.744.086	15.059.000	38,1	-4,5	<b>20,0</b>
Shares to Funds	172.174	1.054.026	3.223.685	32,7	173.026	1.285.214	3.822.378	33,6	0,5	<b>21,9</b>
Other Shares	169.342	323.636	648.467	49,9	195.208	199.689	509.662	39,2	<b>15,3</b>	<b>-38,3</b>
<b>Capital Expenditures</b>	<b>1.075.635</b>	<b>3.193.182</b>	<b>12.915.236</b>	<b>24,7</b>	<b>995.948</b>	<b>2.960.405</b>	<b>11.775.030</b>	<b>25,1</b>	<b>-7,4</b>	<b>-7,3</b>
<b>Capital Transfers</b>	<b>276.745</b>	<b>1.237.152</b>	<b>3.542.631</b>	<b>34,9</b>	<b>140.464</b>	<b>795.831</b>	<b>2.084.420</b>	<b>38,2</b>	<b>-49,2</b>	<b>-35,7</b>
<b>Domestic Capital Transfers</b>	<b>274.495</b>	<b>1.220.327</b>	<b>3.354.759</b>	<b>36,4</b>	<b>127.097</b>	<b>780.844</b>	<b>1.862.447</b>	<b>41,9</b>	<b>-53,7</b>	<b>-36,0</b>
<b>International Capital Transfers</b>	<b>2.250</b>	<b>16.825</b>	<b>187.872</b>	<b>9,0</b>	<b>13.367</b>	<b>14.987</b>	<b>221.973</b>	<b>6,8</b>	<b>494,1</b>	<b>-10,9</b>
<b>Loaning</b>	<b>235.414</b>	<b>1.346.387</b>	<b>3.552.122</b>	<b>37,9</b>	<b>469.574</b>	<b>1.864.039</b>	<b>3.933.510</b>	<b>47,4</b>	<b>99,5</b>	<b>38,4</b>
<b>Domestic Loans</b>	<b>220.415</b>	<b>1.292.532</b>	<b>3.267.122</b>	<b>39,6</b>	<b>419.574</b>	<b>1.772.039</b>	<b>3.708.510</b>	<b>47,8</b>	<b>90,4</b>	<b>37,1</b>
<b>International Loans</b>	<b>14.999</b>	<b>53.855</b>	<b>285.000</b>	<b>18,9</b>	<b>50.000</b>	<b>92.000</b>	<b>225.000</b>	<b>40,9</b>	<b>233,4</b>	<b>70,8</b>
<b>Auxiliary Appropriations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1.570.672</b>	<b>0</b>	<b>0,0</b>		
<b>Interest Exp.</b>	<b>3.080.323</b>	<b>23.665.121</b>	<b>48.731.615</b>	<b>48,6</b>	<b>4.165.620</b>	<b>19.597.859</b>	<b>56.000.050</b>	<b>35,0</b>	<b>35,2</b>	<b>-17,2</b>

Annex Table 3. Comparative Central Government Budget Revenues 2007-2008  
(May End)

	2008 May	2007 May	Increase(%)	Foreseen in 2008 Budget	2007 Year-End	Realized as to 2008 Budget (%)	Realized as to 2007 Year-End (%)
<b>Central Government Revenues</b>	<b>83.962.428</b>	<b>80.149.514</b>	<b>4,76</b>	<b>204.556.459</b>	<b>189.617.246</b>	<b>41,05</b>	<b>42,27</b>
<b>General Budget Revenues</b>	<b>81.298.974</b>	<b>77.963.008</b>	<b>4,28</b>	<b>199.410.938</b>	<b>184.235.392</b>	<b>40,77</b>	<b>42,32</b>
<b>I- Tax Revenues</b>	<b>70.060.276</b>	<b>59.223.613</b>	<b>18,30</b>	<b>171.206.312</b>	<b>152.831.736</b>	<b>40,92</b>	<b>38,75</b>
<b>Taxes on Revenues, Profits &amp; Capital Earnings</b>	<b>23.658.222</b>	<b>19.023.869</b>	<b>24,36</b>	<b>52.600.000</b>	<b>48.197.403</b>	<b>44,98</b>	<b>39,47</b>
<b>Income Tax</b>	<b>16.119.914</b>	<b>13.164.312</b>	<b>22,45</b>	<b>38.100.000</b>	<b>34.446.780</b>	<b>42,31</b>	<b>38,22</b>
Declaration-Based Income Tax	912.253	776.916	17,42	1.512.910	1.505.819	60,30	51,59
Lump Sum Income Tax	113.699	111.751	1,74	214.798	197.097	52,93	56,70
Income Tax Withholding	14.511.400	11.761.707	23,38	35.141.082	31.678.554	41,29	37,13
Prepaid Income Tax	582.562	513.938	13,35	1.231.210	1.065.310	47,32	48,24
<b>Corporation Tax</b>	<b>7.538.308</b>	<b>5.859.557</b>	<b>28,65</b>	<b>14.500.000</b>	<b>13.750.623</b>	<b>51,99</b>	<b>42,61</b>
Declaration-Based Corporation Tax	525.716	-50.516	-1.140,69	220.000	156.122	238,96	-32,36
Corporation Tax Withholding	81.073	-54.242	249,47	16.000	42.494	506,71	-127,65
Prepaid Corporation Tax	6.931.519	5.964.315	16,22	14.264.000	13.552.007	48,59	44,01
<b>Taxes on Property</b>	<b>1.922.970</b>	<b>1.640.843</b>	<b>17,19</b>	<b>4.029.000</b>	<b>3.645.419</b>	<b>47,73</b>	<b>45,01</b>
Inheritance Tax	37.226	53.648	-30,61	152.000	124.603	24,49	43,06
Motor Vehicles Tax	1.885.744	1.587.195	18,81	3.877.000	3.520.816	48,64	45,08
<b>Domestically Collected Goods &amp; Service Taxes</b>	<b>26.696.947</b>	<b>24.053.937</b>	<b>10,99</b>	<b>71.382.312</b>	<b>63.589.293</b>	<b>37,40</b>	<b>37,83</b>
<b>Domestically Collected VAT</b>	<b>7.080.601</b>	<b>6.691.978</b>	<b>5,81</b>	<b>17.652.000</b>	<b>16.792.632</b>	<b>40,11</b>	<b>39,85</b>
<b>Special Consumption Tax</b>	<b>16.121.083</b>	<b>14.309.456</b>	<b>12,66</b>	<b>44.719.366</b>	<b>39.110.505</b>	<b>36,05</b>	<b>36,59</b>
SCT on Oil & Natural Gas Products	9.329.424	8.010.068	16,47	25.638.366	22.051.751	36,39	36,32
SCT on Motor Vehicles	1.681.774	1.376.109	22,21	4.611.000	4.293.326	36,47	32,05
SCT on Fizzy, Alcohol Drinks & Tobacco	4.703.009	4.505.162	4,39	13.207.000	11.720.469	35,61	38,44
SCT on Durable & Other Goods	406.876	418.117	-2,69	1.263.000	1.044.959	32,22	40,01
<b>Bank &amp; Insurance Transactions Taxes</b>	<b>1.546.153</b>	<b>1.302.843</b>	<b>18,68</b>	<b>3.975.946</b>	<b>3.149.139</b>	<b>38,89</b>	<b>41,37</b>
<b>Other Taxes on Goods &amp; Services</b>	<b>1.949.110</b>	<b>1.749.660</b>	<b>11,40</b>	<b>5.035.000</b>	<b>4.537.017</b>	<b>38,71</b>	<b>38,56</b>
<b>Transaction Tax on International Trade</b>	<b>13.970.783</b>	<b>11.076.489</b>	<b>26,13</b>	<b>33.502.000</b>	<b>28.970.325</b>	<b>41,70</b>	<b>38,23</b>
Customs Taxes	1.214.706	1.006.128	20,73	2.952.000	2.440.591	41,15	41,22
VAT on imports	12.737.901	10.055.112	26,68	30.500.000	26.492.642	41,76	37,95
Other Foreign Trade Revenues	18.176	15.249	19,19	50.000	37.092	36,35	41,11
<b>Stamp Tax</b>	<b>1.668.833</b>	<b>1.503.017</b>	<b>11,03</b>	<b>4.200.000</b>	<b>3.641.947</b>	<b>39,73</b>	<b>41,27</b>
<b>Fees</b>	<b>2.124.721</b>	<b>1.905.838</b>	<b>11,48</b>	<b>5.400.000</b>	<b>4.741.541</b>	<b>39,35</b>	<b>40,19</b>
<b>Other Taxes Not Classifies Elsewhere</b>	<b>17.800</b>	<b>19.620</b>	<b>-9,28</b>	<b>93.000</b>	<b>45.808</b>	<b>19,14</b>	<b>42,83</b>
<b>II-Enterprise &amp; Property Revenues</b>	<b>4.439.415</b>	<b>5.231.845</b>	<b>-15,15</b>	<b>8.978.314</b>	<b>7.903.902</b>	<b>49,45</b>	<b>66,19</b>
<b>Goods &amp; Services Sale Revenues</b>	<b>623.298</b>	<b>586.001</b>	<b>6,36</b>	<b>1.687.000</b>	<b>1.468.088</b>	<b>36,95</b>	<b>39,92</b>
<b>SEE &amp; Public Bank Revenues</b>	<b>2.871.720</b>	<b>3.749.287</b>	<b>-23,41</b>	<b>4.247.707</b>	<b>4.454.737</b>	<b>67,61</b>	<b>84,16</b>
<b>Profits of Institutions</b>	<b>454.734</b>	<b>474.840</b>	<b>-4,23</b>	<b>1.715.807</b>	<b>918.321</b>	<b>26,50</b>	<b>51,71</b>
<b>Rent Revenues</b>	<b>291.139</b>	<b>269.344</b>	<b>8,09</b>	<b>792.000</b>	<b>680.612</b>	<b>36,76</b>	<b>39,57</b>
<b>Other Enterprise &amp; Property Revenues</b>	<b>198.524</b>	<b>152.373</b>	<b>30,29</b>	<b>535.800</b>	<b>382.144</b>	<b>37,05</b>	<b>39,87</b>
<b>III-Donations, Aids &amp; Specific Revenues Received</b>	<b>418.958</b>	<b>248.030</b>	<b>68,91</b>	<b>801.520</b>	<b>1.801.328</b>	<b>52,27</b>	<b>13,77</b>
<b>Donations &amp; Aids from Abroad</b>	<b>336</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>51.820</b>	<b>0,00</b>	<b>0,02</b>
<b>Specific Revenues</b>	<b>418.622</b>	<b>248.018</b>	<b>68,79</b>	<b>801.520</b>	<b>1.749.508</b>	<b>52,23</b>	<b>14,18</b>
<b>IV-Interests, Shares &amp; Fines</b>	<b>6.296.368</b>	<b>7.322.741</b>	<b>-14,02</b>	<b>14.118.022</b>	<b>15.621.495</b>	<b>44,60</b>	<b>46,88</b>
<b>Interest Revenues</b>	<b>1.507.826</b>	<b>2.315.169</b>	<b>-34,87</b>	<b>2.225.152</b>	<b>4.615.880</b>	<b>67,76</b>	<b>50,16</b>
<b>Shares from Persons &amp; Institutions</b>	<b>2.942.686</b>	<b>2.321.283</b>	<b>26,77</b>	<b>6.393.236</b>	<b>5.438.273</b>	<b>46,03</b>	<b>42,68</b>
Government Shares	95.334	69.427	37,32	240.000	216.235	39,72	32,11
Shares of General Budget Institutions	2.847.352	2.251.856	26,44	6.153.236	5.222.038	46,27	43,12
<b>Fines</b>	<b>1.255.385</b>	<b>1.629.370</b>	<b>-22,95</b>	<b>3.399.900</b>	<b>3.675.028</b>	<b>36,92</b>	<b>44,34</b>
Judicial Fines	70.835	63.874	10,90	162.580	159.837	43,57	39,96
Administrative Fines	379.465	247.568	53,28	657.291	711.427	57,73	34,80
Tax Fines	758.124	1.272.420	-40,42	2.557.218	2.687.174	29,65	47,35
Other Fines	46.961	45.508	3,19	22.811	116.590	205,87	39,03
<b>Other Various Revenues</b>	<b>590.471</b>	<b>1.056.919</b>	<b>-44,13</b>	<b>2.099.734</b>	<b>1.892.314</b>	<b>28,12</b>	<b>55,85</b>
<b>V-Capital Revenues</b>	<b>83.957</b>	<b>5.936.779</b>	<b>-98,59</b>	<b>4.306.770</b>	<b>6.076.931</b>	<b>1,95</b>	<b>97,69</b>
<b>Revenues from Sale of Immovables</b>	<b>83.609</b>	<b>99.384</b>	<b>-15,87</b>	<b>401.300</b>	<b>231.148</b>	<b>20,83</b>	<b>43,00</b>
<b>Revenues from Sale of Movables</b>	<b>348</b>	<b>-4.576</b>	<b>107,60</b>	<b>5.470</b>	<b>3.812</b>	<b>6,36</b>	<b>-120,04</b>
<b>Other Capital Sale Revenues</b>	<b>0</b>	<b>5.841.971</b>	<b>3.900.000</b>	<b>5.841.971</b>	<b>0,00</b>	<b>100,00</b>	
<b>Revenues of Special Budgeted Institutions</b>	<b>1.557.443</b>	<b>1.351.730</b>	<b>15,22</b>	<b>3.417.133</b>	<b>3.795.238</b>	<b>45,58</b>	<b>35,62</b>
<b>Revenues of Regulatory &amp; Supervisory Institutions</b>	<b>1.106.011</b>	<b>834.776</b>	<b>32,49</b>	<b>1.728.388</b>	<b>1.586.616</b>	<b>63,99</b>	<b>52,61</b>

Annex Table 4. Distribution of 2008 Central Government Budget Expenditures in % as to Functional & Economic Classification (May End)

4 a)

	Personnel Exp.	SSI Premium Payments	Goods & Serv. Procu.	Interest Exp.	Curre. Transf	Capital Exp.	Capital Trans.	Loans	Total
General Public Services	7.1	0.8	2.2	65.1	23.0	0.3	1.1	0.4	100
Defense Services	54.3	6.3	39.1	0.0	0.0	0.2	0.0	0.0	100
Public Order & Security Services	71.6	7.3	17.5	0.0	0.0	3.6	0.0	0.0	100
Economic Affairs & Services	14.3	2.2	4.5	0.0	52.1	16.1	0.5	10.3	100
Environment Protection Services	51.0	7.0	8.1	0.0	0.0	0.9	33.0	0.0	100
Settlement & Community Welfare Services	0.5	0.1	0.3	0.0	63.2	8.8	27.0	0.0	100
Health Services	47.1	7.2	41.4	0.0	0.1	4.1	0.0	0.0	100
Recreational, Cultural & Religious Services	61.6	8.6	11.7	0.0	8.9	6.2	0.4	2.7	100
Education Services	64.7	8.3	12.1	0.0	4.8	4.7	0.3	5.0	100
Social Security & Social Assistance	0.5	0.1	0.9	0.0	98.3	0.1	0.0	0.0	100

4 b)

	Personnel Exp.	SSI Premium Payments	Goods & Serv. Procu.	Interest Exp.	Curent Trans.	Capital Exp.	Capital Trans.	Loans
General Public Services	10,4	9,0	9,0	100,0	22,9	3,0	42,3	6,9
Defense Services	11,1	10,4	22,1	0,0	0,0	0,3	0,0	0,0
Public Order & Security Services	17,8	14,5	12,0	0,0	0,0	6,2	0,0	0,0
Economic Affairs & Services	7,4	8,9	6,4	0,0	18,2	57,7	7,2	58,6
Environment Protection Services	0,2	0,2	0,1	0,0	0,0	0,0	3,4	0,0
Settlement & Community Welfare Services	0,0	0,0	0,1	0,0	2,5	3,6	40,7	0,0
Health Services	11,0	13,4	26,6	0,0	0,0	6,6	0,0	0,0
Recreational, Cultural & Religious Services	4,3	4,8	2,3	0,0	0,4	3,0	0,7	2,0
Education Services	37,3	38,4	19,3	0,0	1,9	19,0	5,0	32,1
Social Security & Social Assistance	0,4	0,4	2,1	0,0	54,1	0,5	0,7	0,3
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Annex Table 5. General Budget Financing (May End)

	January	February	March	April	May
<b>PRIMARY BALANCE</b>	<b>3.879.409</b>	<b>8.965.871</b>	<b>8.210.166</b>	<b>12.067.371</b>	<b>17.488.732</b>
<b>BUDGET BALANCE</b>	<b>-403.733</b>	<b>-31.634</b>	<b>-5.540.671</b>	<b>-5.849.086</b>	<b>-2.109.123</b>
BUDGET ESCROWS	1.283.528	-1.086.134	-1.234.121	-1.131.630	-1.277.054
OTHER ESCROWS	-1.432.399	-736.400	-1.504.497	-681.785	-409.841
ADVANCES	935.814	851.681	211.243	197.263	79.472
<b>Cash Balance</b>	<b>383.210</b>	<b>-1.002.487</b>	<b>-8.068.046</b>	<b>-7.465.238</b>	<b>-3.716.546</b>
<b>Treasury Funding</b>	<b>-383.210</b>	<b>1.002.487</b>	<b>8.068.046</b>	<b>7.465.238</b>	<b>3.716.546</b>
<b>Total Net Borrowing (Borrowing minus Repayment)</b>	<b>1.891.361</b>	<b>4.657.815</b>	<b>5.765.077</b>	<b>8.472.389</b>	<b>7.012.714</b>
<b>Total Borrowings So Far</b>	<b>8.327.310</b>	<b>15.537.429</b>	<b>21.227.182</b>	<b>33.704.143</b>	<b>41.364.249</b>
Domestic Borrowing	7.167.997	14.266.598	18.687.985	30.277.607	32.925.646
Bond	5.566.997	11.750.598	15.340.985	25.649.607	28.297.646
Bill	1.601.000	2.516.000	3.347.000	4.628.000	4.628.000
International Borrowing	1.159.313	1.270.831	2.539.197	3.426.536	8.438.604
<b>Total Capital Repayments</b>	<b>-6.435.949</b>	<b>-10.879.614</b>	<b>-15.462.104</b>	<b>-25.231.754</b>	<b>-34.351.535</b>
Domestic Borrowing	-4.226.664	-8.051.927	-10.478.559	-19.671.755	-28.375.777
Bond	-1.154.664	-4.188.927	-4.344.559	-12.894.970	-21.598.992
Bill	-3.072.000	-3.863.000	-6.134.000	-6.776.785	-6.776.785
International Borrowing	-2.209.285	-2.827.687	-4.983.545	-5.559.999	-5.975.759
<b>Funds Other Than Borrowing</b>	<b>90.365</b>	<b>79.024</b>	<b>116.137</b>	<b>187.504</b>	<b>193.775</b>
Privatization Revenues Transferred to Treasury	63.795	63.795	63.795	63.795	63.795
Net Loans (-)	-26.570	-15.229	-52.342	-123.709	-129.980
<b>Cash Movement (- entry + exit )</b>	<b>-2.364.936</b>	<b>-3.734.353</b>	<b>2.186.832</b>	<b>-1.194.656</b>	<b>-3.489.943</b>
Resource: Undersecretariat of Treasury					

Annex Table 6. Composition of Central Government Debt Stock (May End)

(million YTL)	Central Gov. Debt Stock (End of 2007)	%	Central Gov. Debt Stock (January 2008)	%	Central Gov. Debt Stock (February )	%	Central Gov. Debt Stock (March 2008)	%	Central Gov. Debt Stock (April 2008)	%	Central Gov. Debt Stock (May 2008)	%
<b>Composition of Domestic Debt Stock</b>	<b>255.310</b>	<b>100,0</b>		<b>100,0</b>	<b>262.019</b>	<b>100,0</b>	<b>266.477</b>	<b>100,0</b>	<b>268.794</b>	<b>100,0</b>		<b>100,0</b>
<i>In Terms of Holders</i>	255.310	100,0	258.468	100,0	262.019	100,0	266.477	100,0	268.794	100,0	261.317	100,0
To Government	66.876	26,2	67.423	26,1	68.499	26,1	69.038	25,9	69.120	25,7	67.488	25,8
To Market	188.434	73,8	191.044	73,9	193.519	73,9	197.439	74,1	199.674	74,3	193.829	74,2
<i>In Terms of Interest Composition</i>	255.310	100,0	258.468	100,0	262.019	100,0	266.477	100,0	268.794	100,0	261.317	100,0
Fixed Interests	128.148	50,2	131.184	50,8	135.278	51,6	138.386	51,9	136.920	50,9	138.354	52,9
Variable Interests	127.162	49,8	127.284	49,2	126.741	48,4	128.091	48,1	131.874	49,1	122.963	47,1
<i>In Terms of FX Composition</i>	255.310	100,0	258.468	100,0	262.019	100,0	266.477	100,0	268.794	100,0	261.317	100,0
YTL	229.168	89,8	232.109	89,8	236.761	90,4	238.756	89,6	241.152	89,7	240.100	91,9
Foreign Exchange (FX)	24.931		25.132	9,7	24.007	9,2	26.316	9,9		9,8	19.907	7,6
	1.211	0,5	1.226	0,5	1.251	0,5		0,5	1.391	0,5		0,5
<b>Composition of International Debt Stock</b>	<b>78.168</b>	<b>100,0</b>	<b>78.179</b>	<b>100,0</b>	<b>79.737</b>	<b>100,0</b>	<b>86.569</b>	<b>100,0</b>	<b>85.937</b>	<b>100,0</b>	<b>85.154</b>	<b>100,0</b>
<i>In terms of Interest Composition</i>	78.168	100,0	78.179	100,0	79.737	100,0	86.569	100,0		100,0	85.154	100,0
Fixed Interests	57.731	73,9	57.688	73,8	59.584	74,7		74,3	63.920	74,4	60.136	70,6
Variable Interests		26,1	20.491	26,2		25,3	22.224	25,7		25,6	25.018	29,4
<b>Composition of Total Debt Stock</b>	<b>333.478</b>		<b>336.646</b>	<b>100,0</b>	<b>341.756</b>		<b>353.046</b>	<b>100,0</b>	<b>354.730</b>		<b>346.471</b>	<b>100,0</b>
<i>In Terms of Holders</i>												
	66.876	20,1	67.423	20,0	68.499	20,0	69.038	19,6	69.120	19,5	67.488	19,5
To Market(1)	266.602	79,9		80,0	273.257	80,0	284.008	80,4	285.610	80,5	278.983	80,5
<i>In Terms of Interest Composition</i>	333.478	100,0	336.646	100,0		100,0	353.046	100,0	354.730	100,0	346.471	
Fixed Interests	185.879	55,7	188.872	56,1	194.861	57,0	202.732	57,4	200.840		198.490	57,3
Variable Interests		44,3	147.775	43,9	146.895	43,0	150.315	42,6	153.891	43,4	147.981	
<i>In Terms of FX Composition</i>	333.478	100,0	336.646	100,0	341.756	100,0	353.046	100,0	354.730	100,0	346.471	100,0
YTL	229.168	68,7	232.109	68,9	236.761	69,3	238.756	67,6	241.152	68,0	240.100	69,3
FX	103.099	30,9	103.311	30,7	103.744	30,4	112.885	32,0	112.187	31,6	105.061	30,3
FX Indexed	1.211	0,4	1.226	0,4	1.251	0,4	1.405	0,4	1.391	0,4	1.309	0,4
Average Term of Domestic Debt Stock (Month)	25,7		24,9		24,4		23,4		23,5		23,3	
Average Term of Domestic Borrowing (Month)*	22,0		21,2		27,6		20,4		30,7		28,1	
Average Interest Rate of Domestic Borrowings % (2)	16,52		16,23		16,72		17,49		18,28		19,57	

\*December 2007 Data has been used.

(1) It is assumed that the whole International Debt Stock is for the market.

(2) Discounted Sales

Resource: [www.hazine.gov.tr](http://www.hazine.gov.tr)