Republic of Turkey
Undersecretariat of Treasury

Fiscal Adjustment in Turkey

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IMF Fiscal Forum

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Outline

I. Fiscal Policy During 2001 – 2010

II. Fiscal Policy Outlook During 2011 – 2013

III. Results of Fiscal Consolidation

I. Fiscal Policy During 2001-2010

Four distinct periods:

1) 2003-2005: Strong and rapid fiscal consolidation

2) 2006-2008: Maintaining relatively low levels of deficit

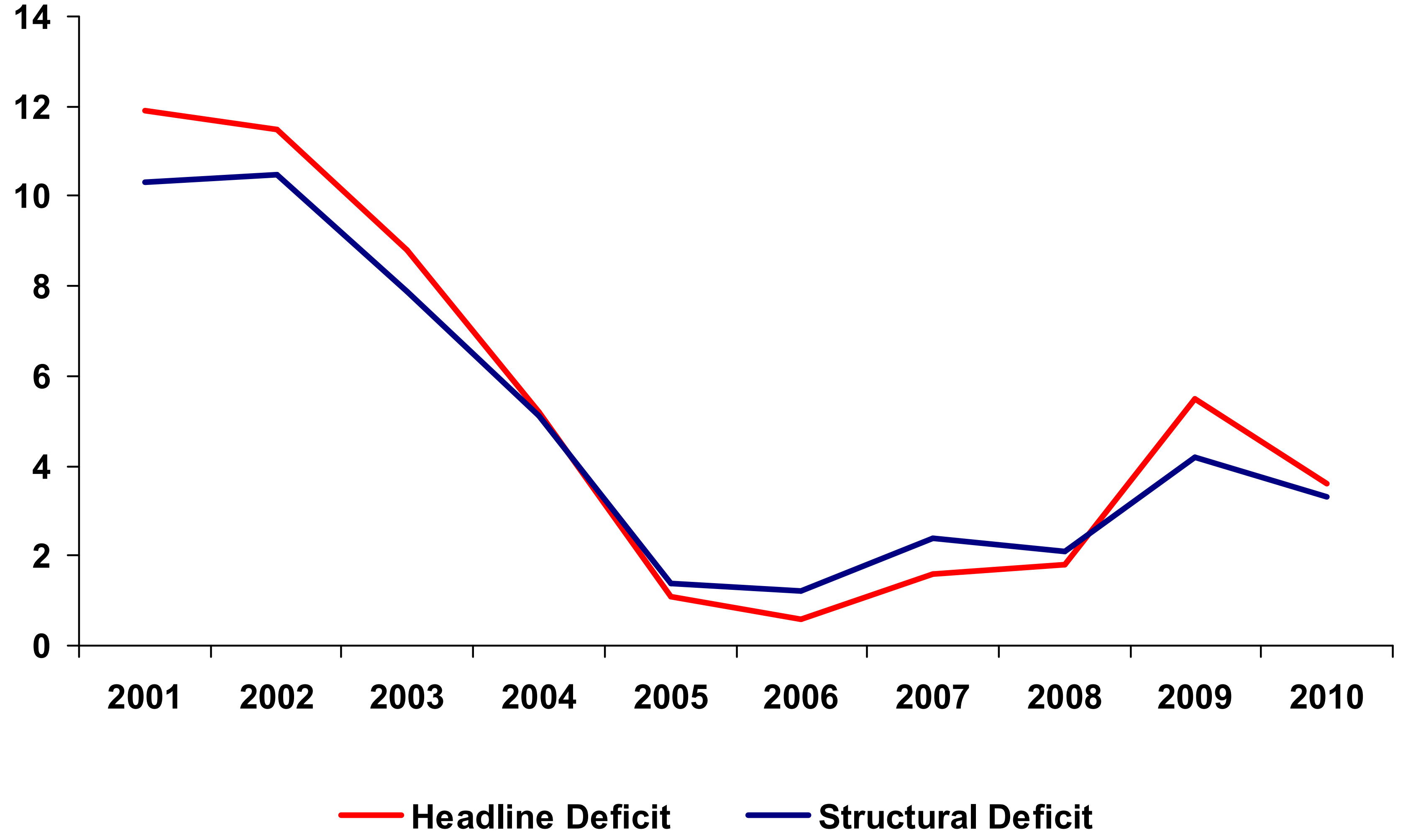
3) 2009: Fiscal Policy During the Crisis

    - Early 2009: Timely, well-targeted and measured fiscal stimulus

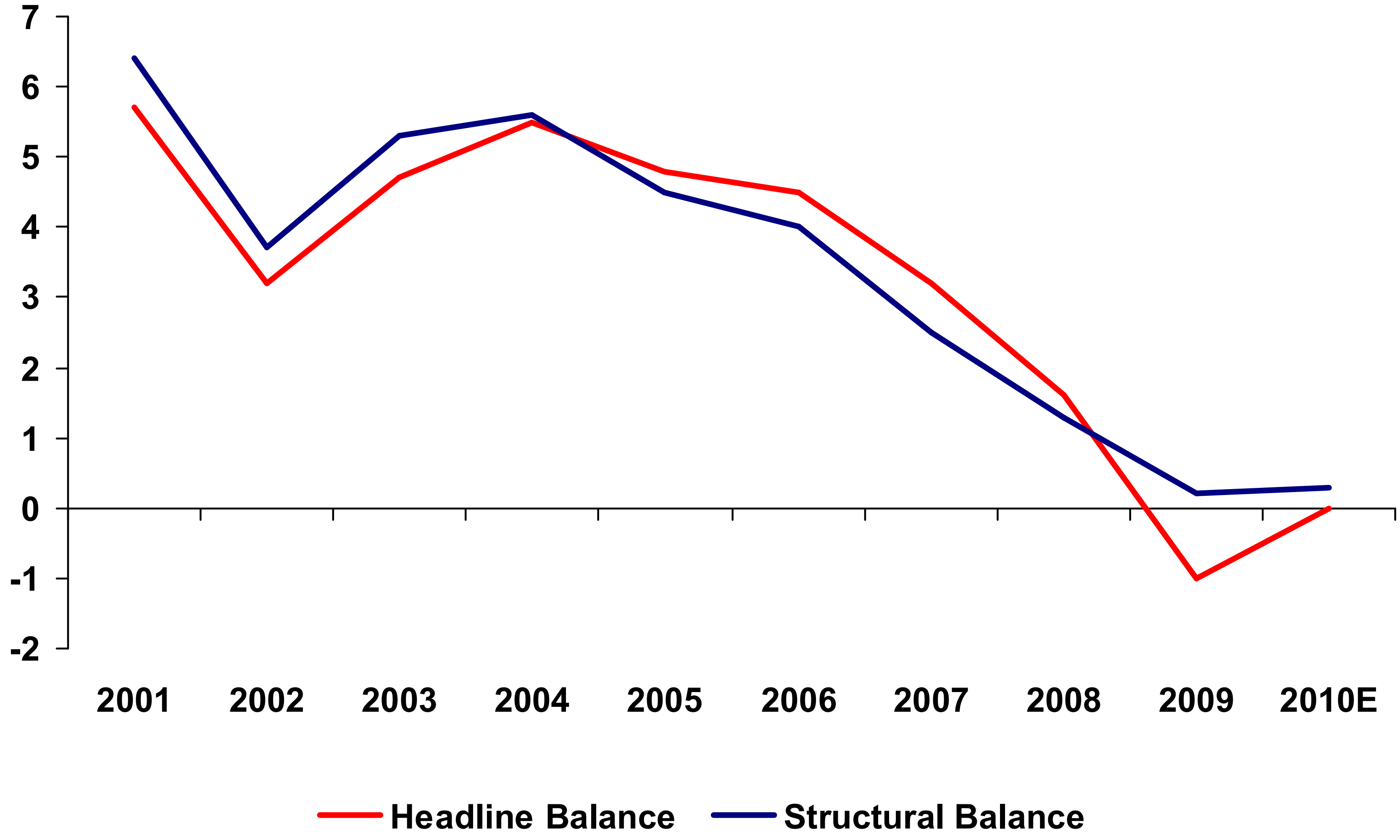
    - Late 2009: Announcement of “Exit Strategy” from fiscal stimulus

4) 2010: First year of a successful implementation of the Medium Term Exit Strategy

Central Government Overall Deficit (% of GDP)

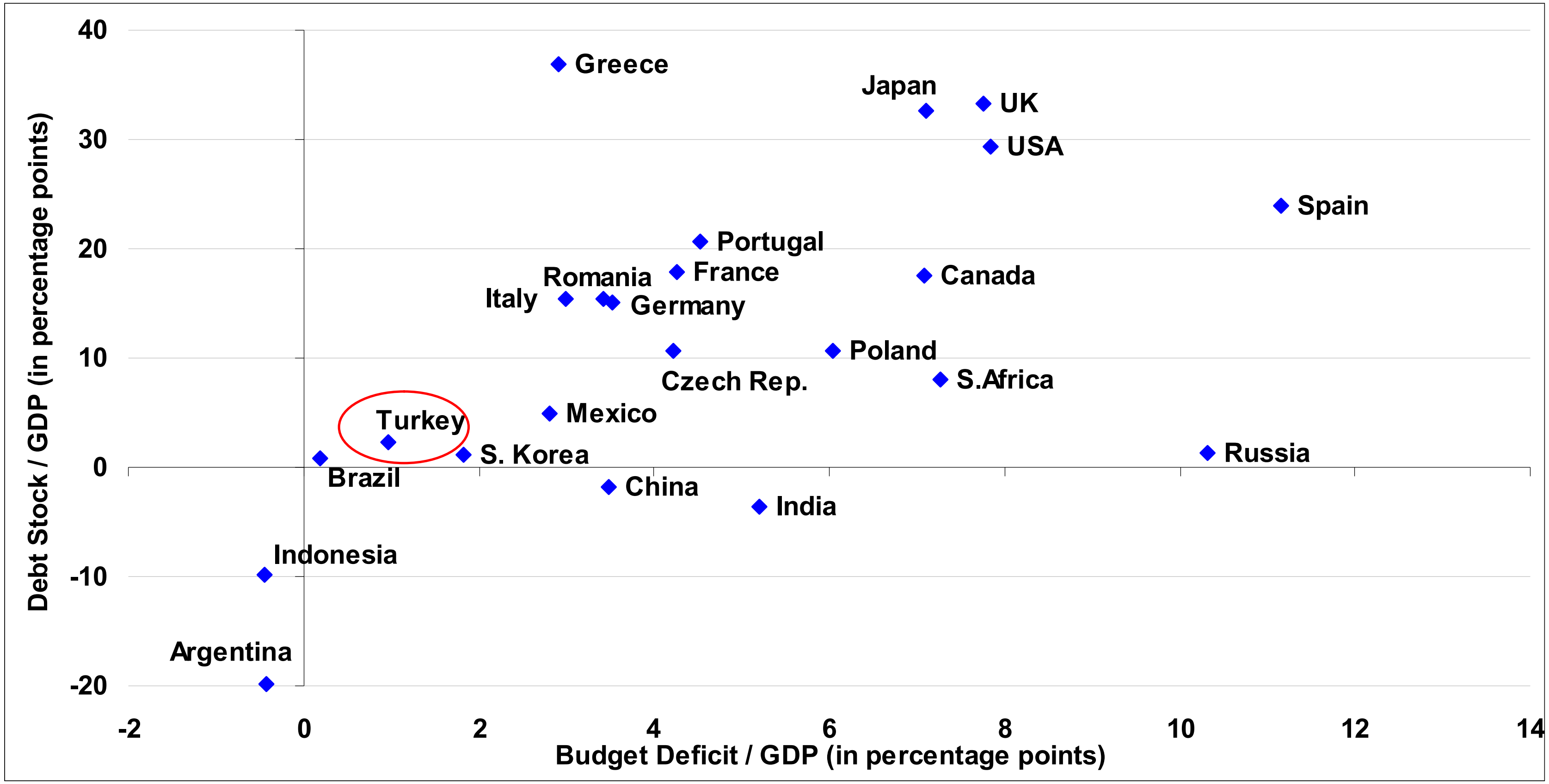


IMF Defined Public Sector Primary Balance (% of GDP)



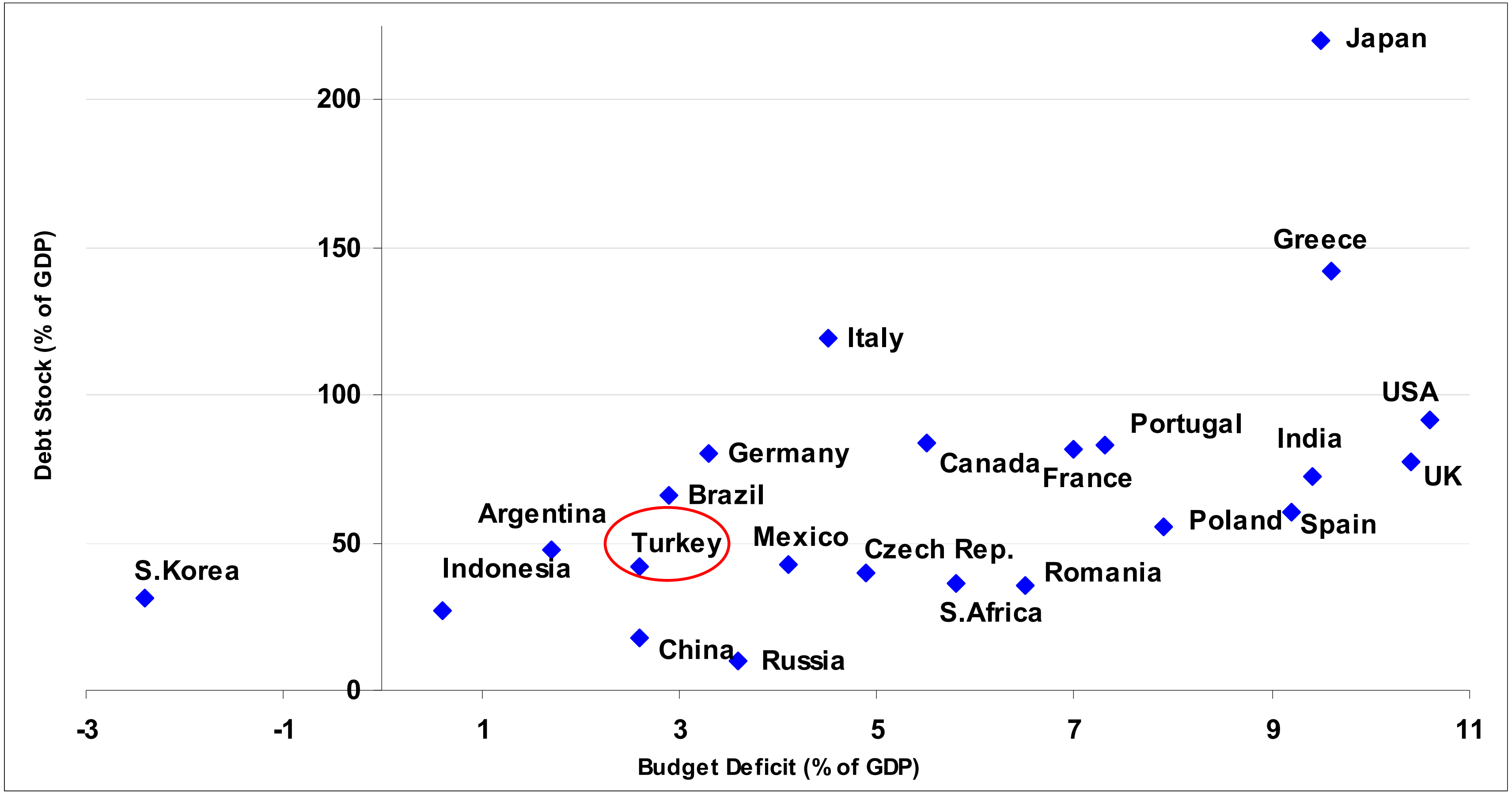
E: Estimate

Change in General Government Debt Stock and Budget Deficit between 2007 and 2010



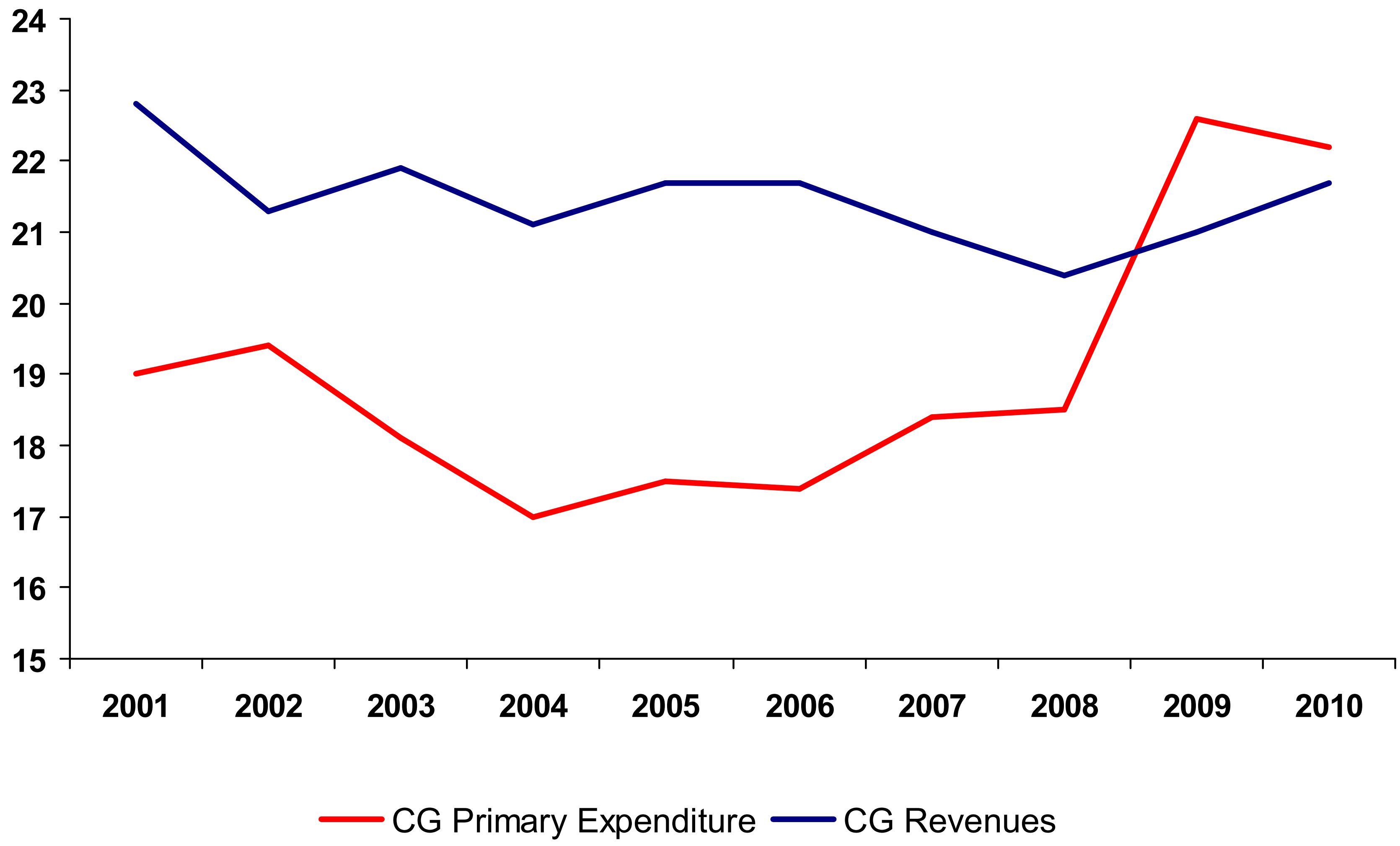
Source: IMF, Fiscal Monitor April 2011

General Government Debt Stock and Budget Deficit in 2010

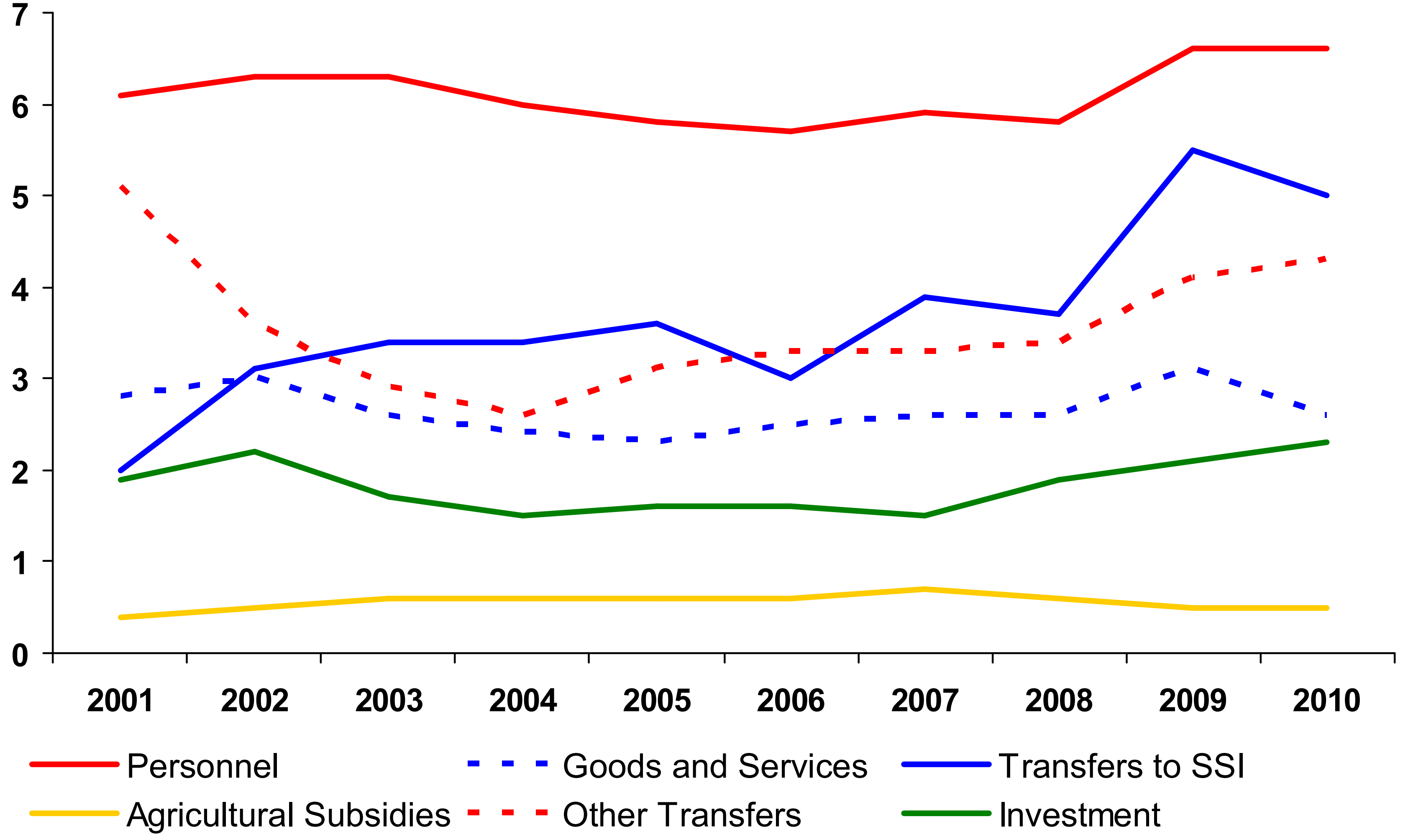


Source: IMF, Fiscal Monitor April 2011

Sources of Fiscal Adjustment (% of GDP)



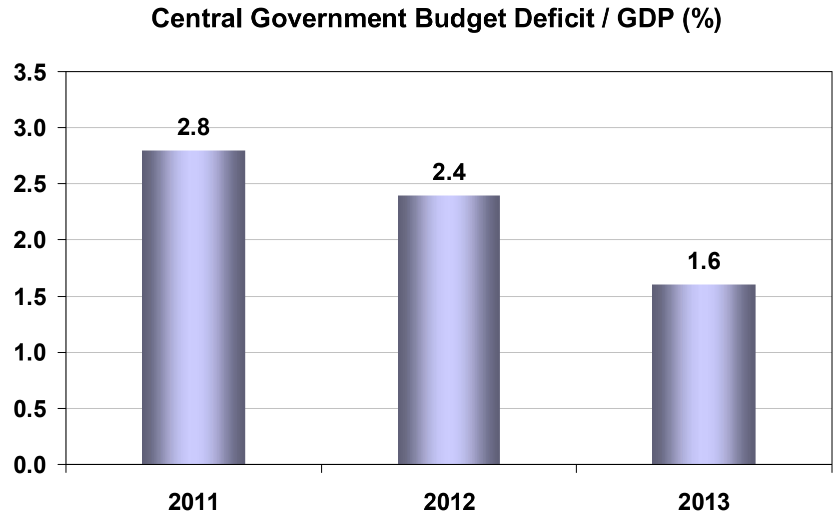
Central Government Primary Expenditures (% of GDP)

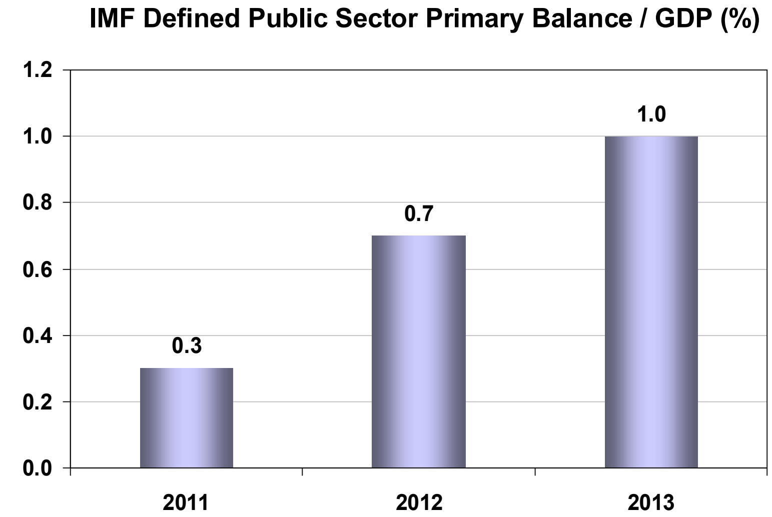


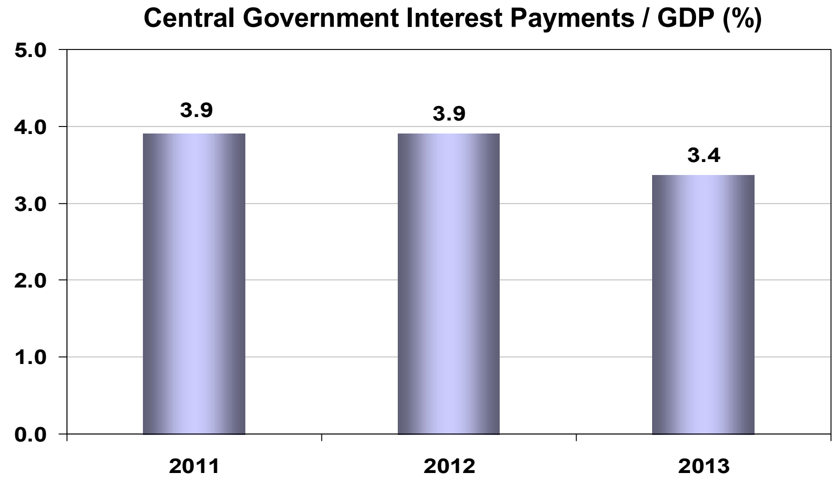
II. Fiscal Policy Outlook (2011-2013)

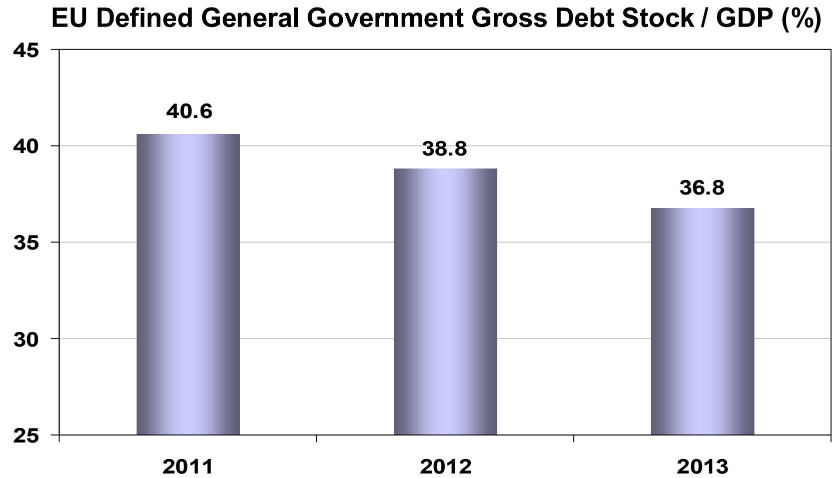
- Medium Term Program was updated in late 2010 covering 2011-2013 period and reiterating the commitment to fiscal consolidation
- Key Targets:
  - Cutting the Central Government Deficit / GDP ratio to 1.6% by 2013
  - Raising public sector primary surplus to 1% in 2013
  - Reducing EU Defined Debt / GDP ratio to 36.8% in 2013
- Improvements not only in headline figures, but in structural balances as well
- Fiscal effort will continue to be supported by structural reforms

Fiscal Policy: Medium Term Program Targets (2011-2013)



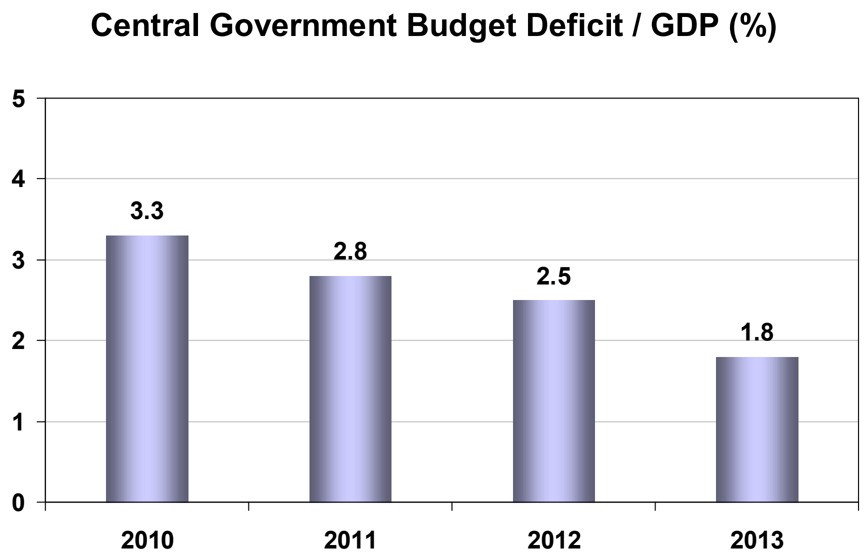


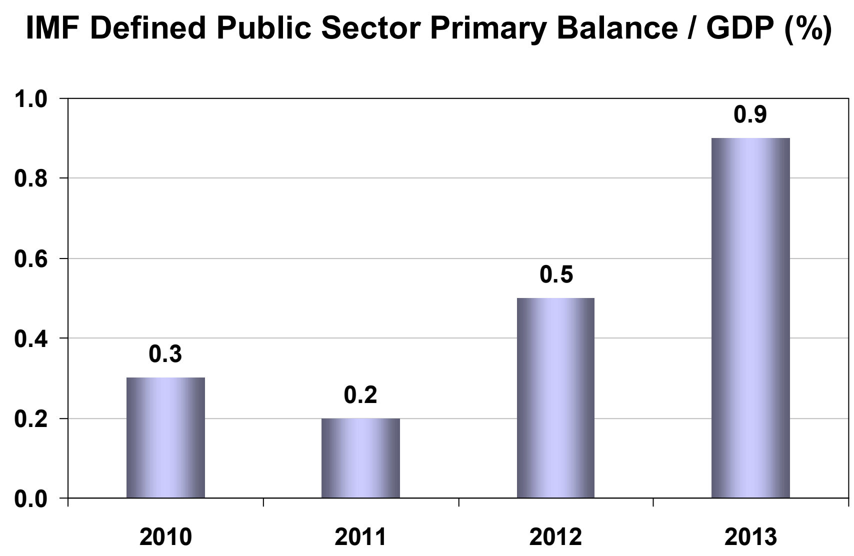




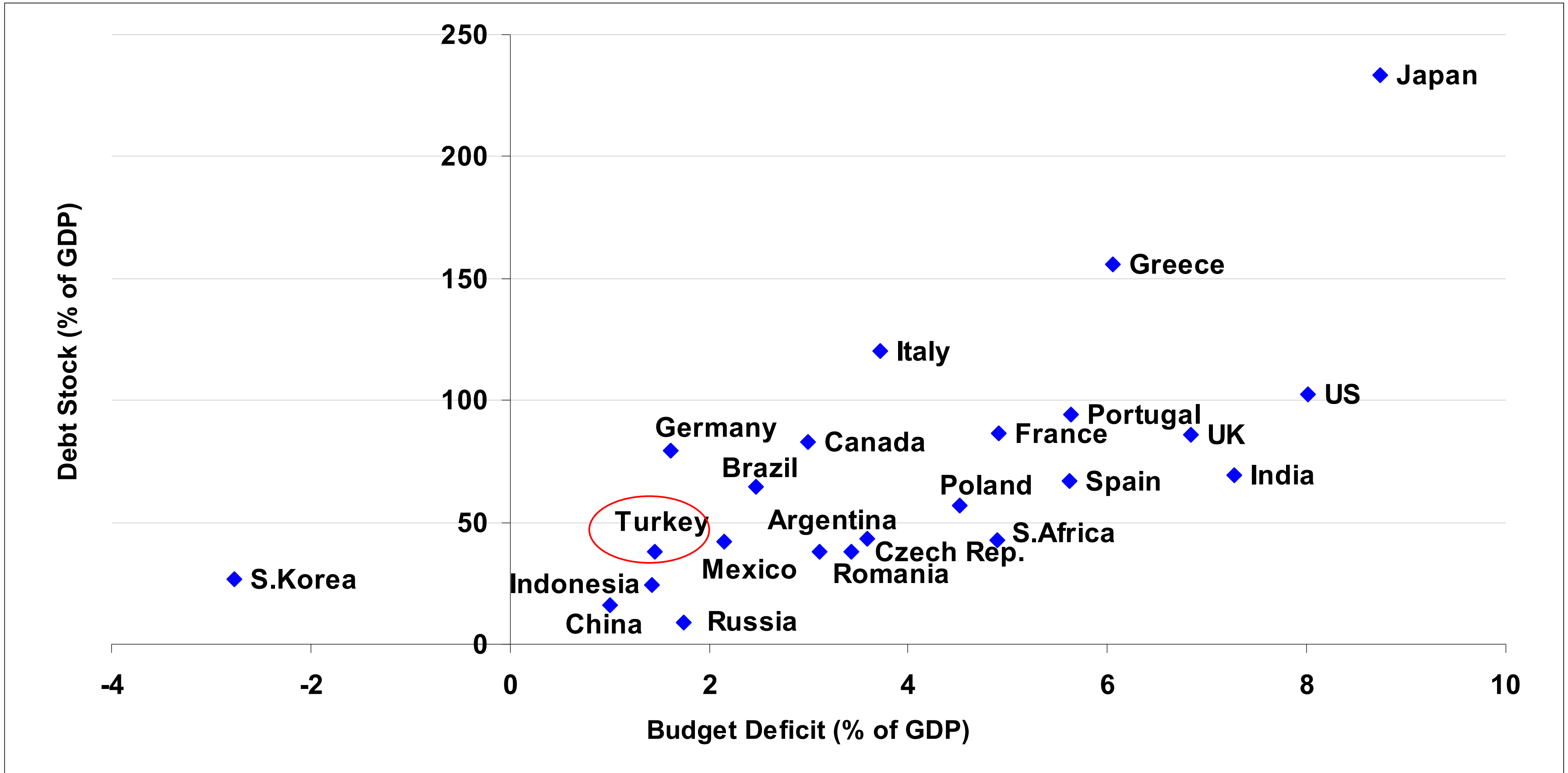
Source: SPO, 2011-2013 Medium Term Program

Fiscal Policy: Structural Balances





General Government Debt Stock and Budget Deficit (2011-2013, average)



Source: IMF, Fiscal Monitor April 2011

Sources of Fiscal Adjustment (2010-2013)

In percent of GDP	2010	2011	2012	2013	Cum. Change (in % points)
Public Sector Primary Balance (IMF Definition)	**0,0**	**0,3**	**0,7**	**1,0**	**0,9**
Central Government Primary Balance	**-0,5**	**0,0**	**0,4**	**0,8**	**1,3**
Revenues	**21,7**	**21,8**	**21,7**	**21,6**	**-0,1**
Tax revenues	19,1	19,1	19,1	19,0	-0,1
Non-tax revenues	2,7	2,7	2,7	2,6	0,0
Primary expenditures	**22,2**	**21,8**	**21,3**	**20,8**	**-1,4**
Personnel	6,6	7,0	6,8	6,6	0,0
Goods and services	2,6	2,5	2,4	2,2	-0,4
Current Transfers	9,2	9,5	9,4	9,2	0,0
Capital Expenditure	2,3	1,8	1,8	1,8	-0,5
Capital Transfers	0,6	0,4	0,3	0,3	-0,3
Lending	0,8	0,5	0,5	0,5	-0,3
Other Expenditure	0,0	0,1	0,1	0,1	0,1
Other Public Sector Primary Balance	0,5	0,2	0,2	0,2	-0,4
Memo:					
Central Government Interest Payments	4,4	3,9	3,9	3,4	-1,0

Source: SPO, 2011-2013 Medium Term Program

Structural Fiscal Reforms: Achievements

- **Improvement of Budgetary Procedures and Financial Management**
  - Public Financial Management and Control Law
  - Public Finance & Debt Management Law
  - Turkish Court of Accounts Law
  - Laws on Local Governments
  - Public Procurement Law
  - Abolition of budgetary and extra-budgetary funds
- **Institutional Improvement**
  - Reforming Revenue Administration
  - Modernizing debt management
  - Restructuring public banks
- **Tax Reforms**
  - Corporate Income Tax Reform
  - Personal Income Tax Changes
- **Social Security Reform**
- **Accelerating Privatizations**

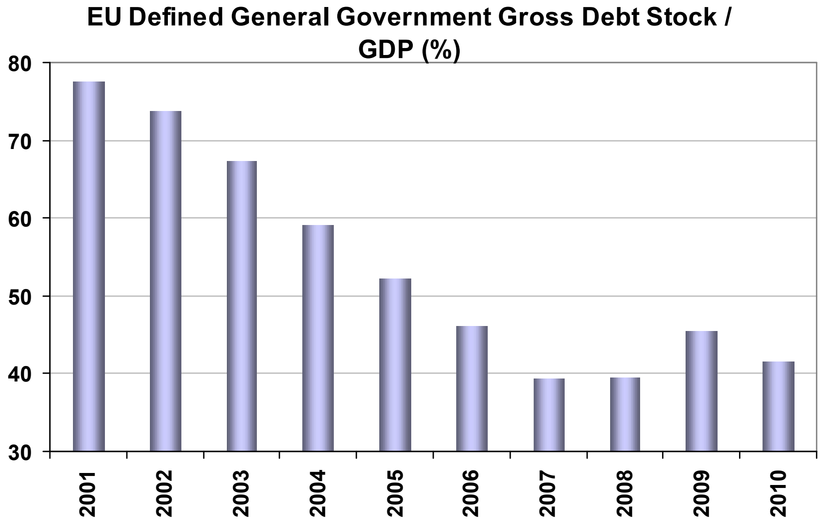
Structural Fiscal Reforms: Future Agenda

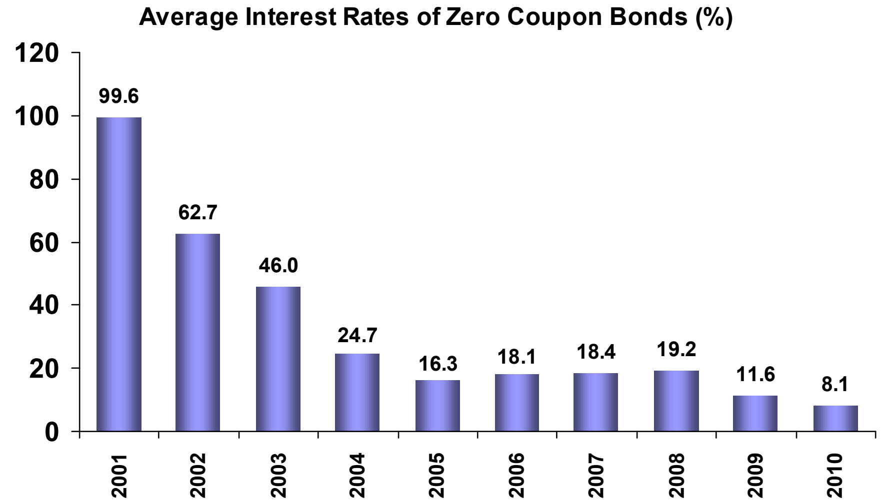
- Personal Income Tax Reform
- Strategy on Reducing Informality
- Local Administration Revenue and Financial Management Reforms
- SEE Governance Reform
- Privatization Agenda (Electiricity Generation, State Banks, Bridges and Motorways, National Lottery, etc.)
- Labour Market Reforms

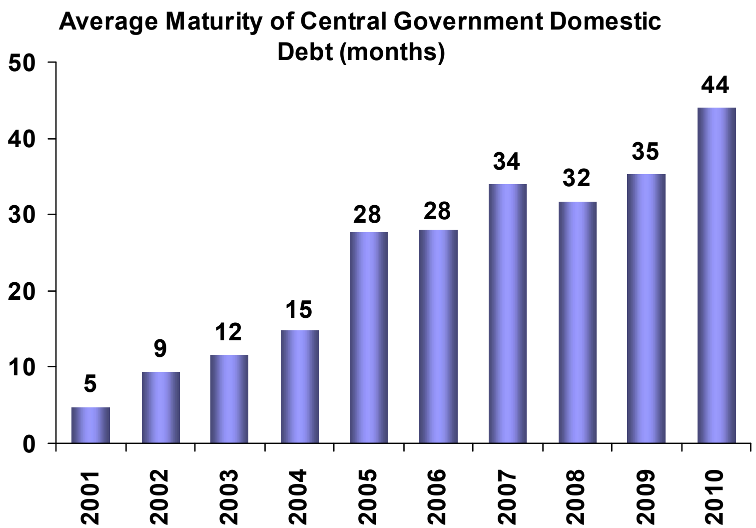
III. Results of Fiscal Consolidation

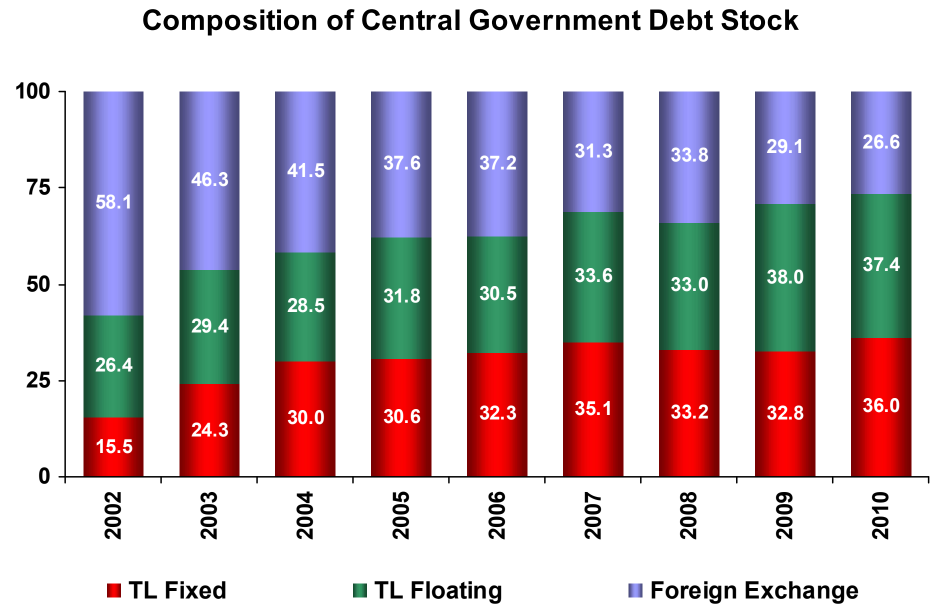
- Reduced public debt
- Lower interest rates
- Higher business confidence
- Crowd-in private demand
- High growth rates
- Lower inflation

Key Public Debt Indicators



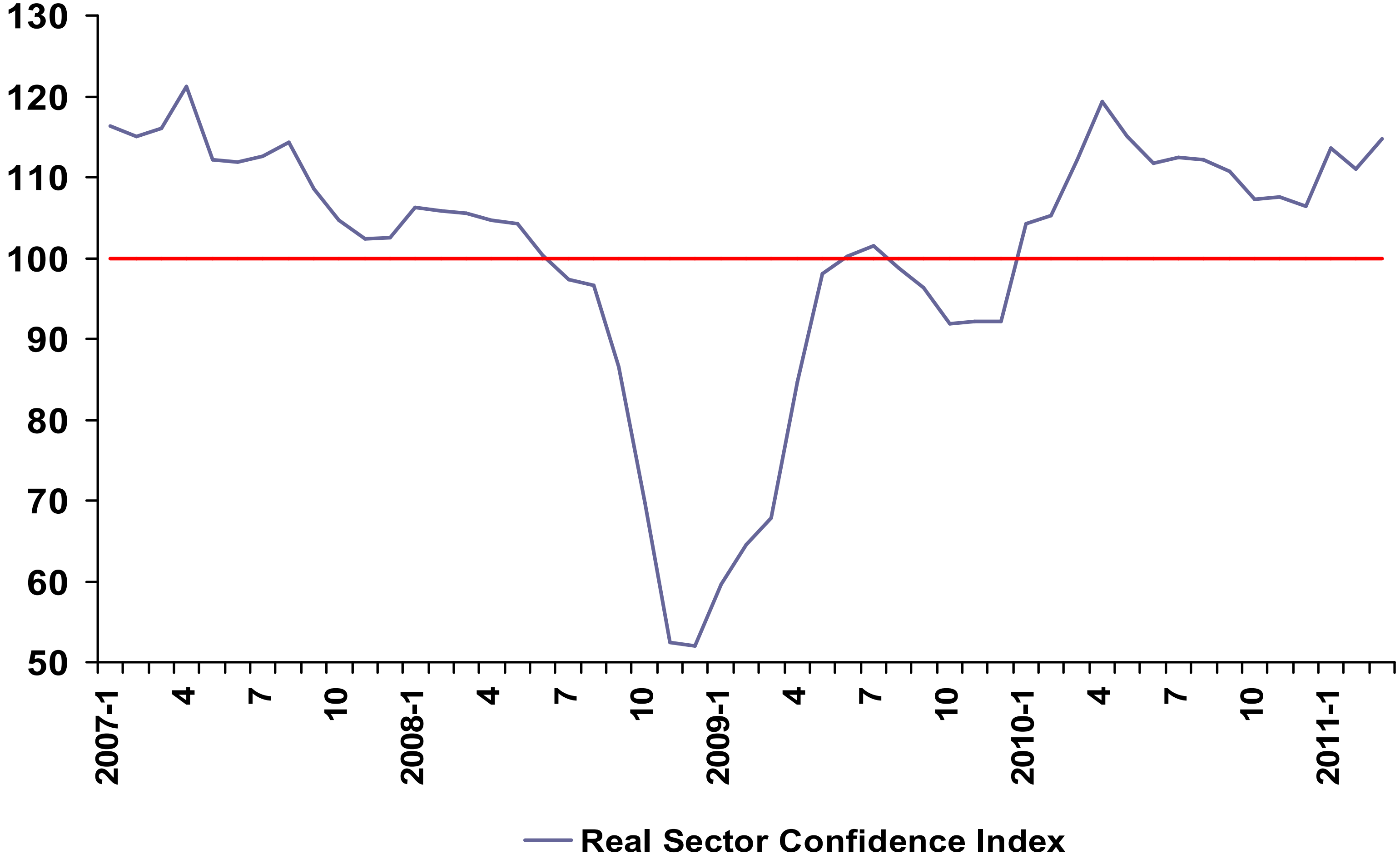






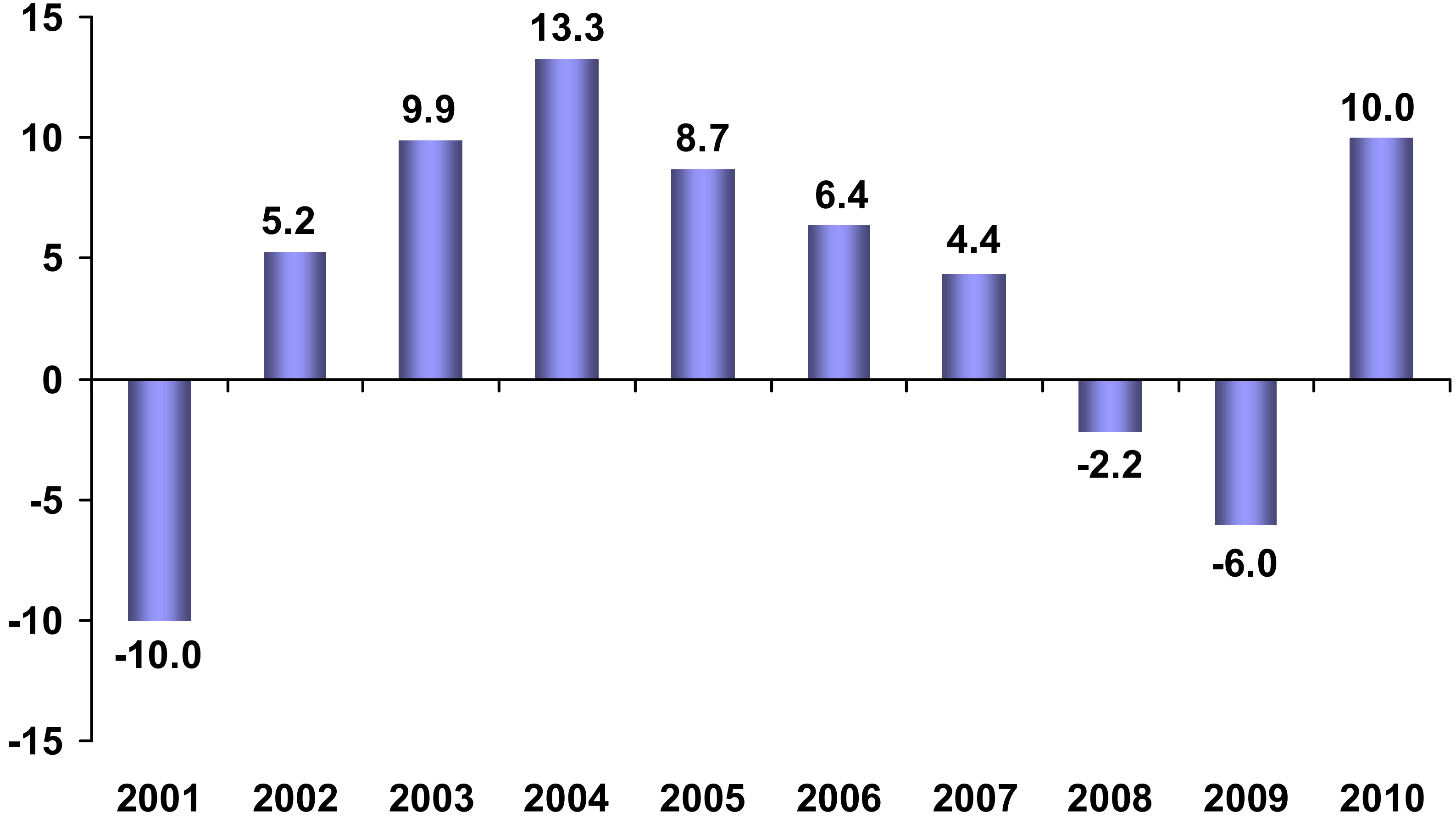
Source: TREASURY, MoF, TURKSTAT

Business Confidence



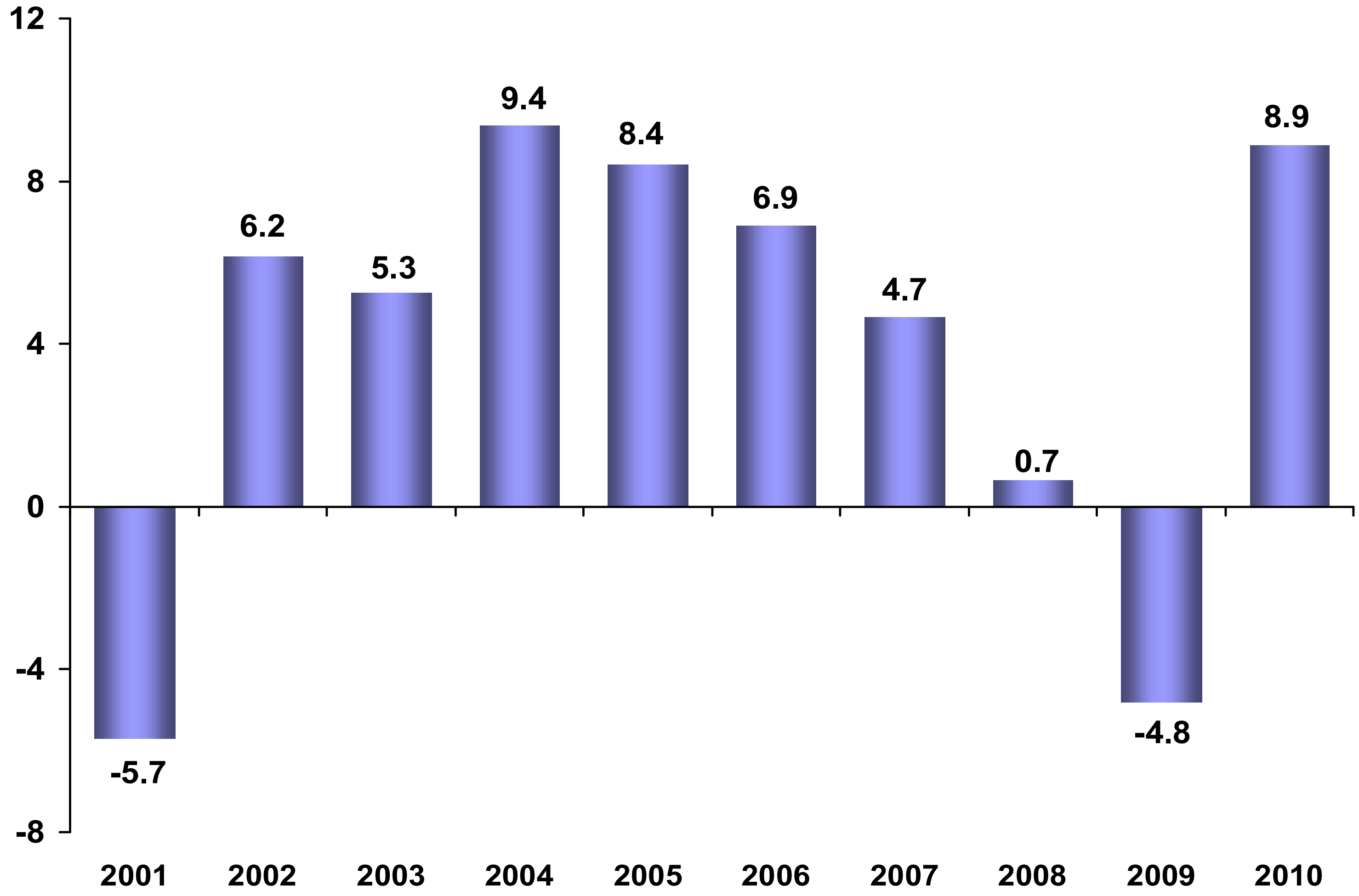
Source: CBRT

Private Demand Contribution to GDP (% points)



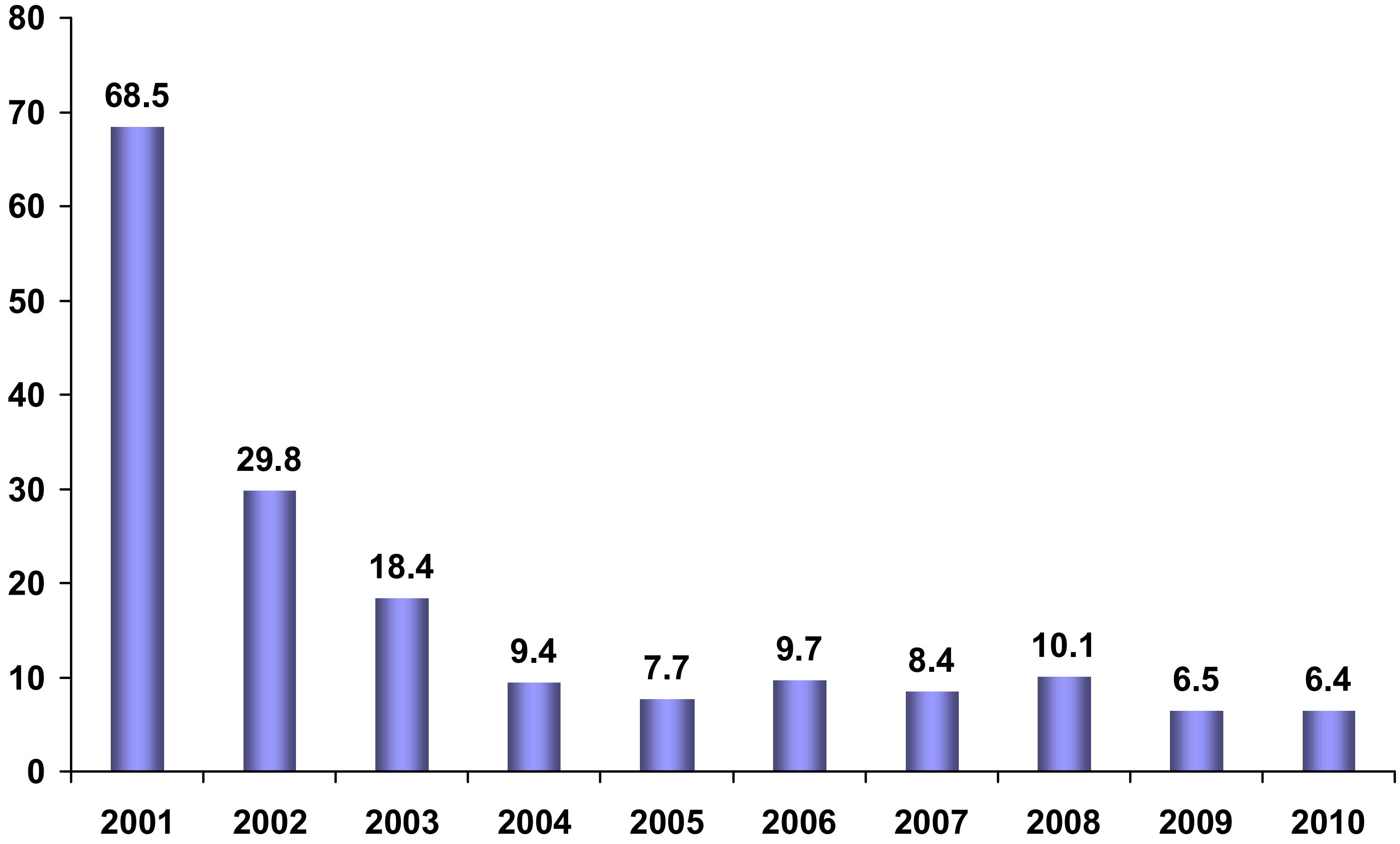
Source: TURKSTAT, TREASURY

GDP Growth (%)



Source: TURKSTAT

Inflation (End Year, %)



Source: TURKSTAT