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Heplevant, Nimla; Yaser, B. S.

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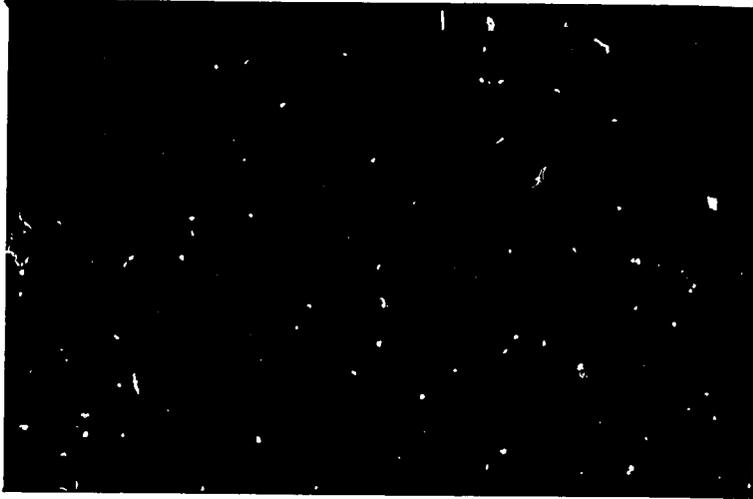
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Discussion Paper No. 13

ANALYSIS OF FISCAL PERFORMANCE: TURKEY

By
Nimla Heplevent
and
Betty Slade Yager

Economic Analysis Staff
United States Agency for International
Development
Vali Dr. Resit Caddesi No. 16
Ankara, Turkey

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ANALYSIS OF FISCAL PERFORMANCE: TURKEY

INTRODUCTION

The purpose of this paper is to present pertinent data and analysis regarding the saving and investment patterns of the consolidated central government and of the public economic enterprises for the recent past and the near future. Financial and direct revenue sources available to finance investment are shown in some detail. Recent legal and administrative changes which have affected revenue sources are discussed. The TFY 1971 and 1972 budgets are examined in detail with some reference to the proposed budget for TFY 1973. Finally Third Five Year Plan public sector macro targets are described. Tables and annexes are found at the end of the paper.

This examination of the financial situation of the Turkish public sector points out some problems which forebode difficulties in the ability of this sector to generate the necessary Turkish lira savings to meet investment targets in the following years.

CENTRAL GOVERNMENT ACCOUNTS

The central government revenue and expenditures have become increasingly more important in relation to GNP from 1965 to 1972. (See Table 2.) Domestic current revenue has increased 281 percent, whereas current expenditures have increased 249 percent. Expenditures on physical capital formation doubled of which surplus on current account was able to finance only some fifty percent. (See Table 7.)

PUBLIC ENTERPRISE ACCOUNTS

Consistent operating surplus data for public enterprises are not available. However, Table 3 is a consolidation of data aimed at consistent concepts of physical investment expenditures and savings. Actual investments of public enterprises increased five and a half fold between 1965 and 1972 doubling their share of GNP. (See Table 4.) On the other hand, their operating surpluses were only sufficient to finance a very small amount (3.9 percent) of all investment during this period. Dissavings were realized between 1969 and 1972. (See Table 3.) Loans from the State Investment Bank (itself a financial public enterprise), general budget transfers and foreign project credits provide the major portion of finance for public enterprise investments.

COMBINED PUBLIC SECTOR INVESTMENTS: FUNCTIONAL BREAKDOWN

Public sector investments as a whole increased 177 percent over the period 1966 through 1972, with public enterprises increasing their proportion. A functional breakdown reveals a shift from investment in agriculture to manufacturing, while investment in the transportation and energy sectors commanded large resources. (See Table 5.)

PERFORMANCE RATIOS

Both public and private sector investments show increasing proportions of GNP from 1966 to 1970, with corresponding drops in consumption ratios. (See Table 8.) The public sector increased its proportion of expenditures (consumption plus investment) over this period relative to that of the private sector. The increasing tax ratios reflect this fact. ^{1/} However, the increase in taxes was used for an increase in public consumption mainly as a result of implementation of the State Personnel Law (which raised the wage bill) and of increased costs as a post-devaluation phenomenon.

In 1971, the public sector consumption ratio increased sharply while the investment ratio dropped significantly. There were drops however in both the consumption and investment ratios of the private sector. ^{2/} Investment activities of the private sector were slow in 1971; however GNP growth was high because of a good agricultural performance and factor income from abroad. This combination led to a smaller ratio in 1971.

COMBINED PUBLIC SECTOR SAVINGS

Despite significant data problems, Table 7 provides an indication of the trends of the savings and investment ratio for the Central Government and the public enterprises. The public enterprises have only generated 5.5 percent of funds to finance their investment, whereas the central government has financed about half of its investment from current account surplus.

^{1/} See Annex 1 on Turkey's tax revenue performance relative to selected countries.

^{2/} The 1971 marginal ratios show that only 5.1 percent of the change in GNP is reflected in public investment and 24.3 percent of the change in GNP is reflected in public consumption.

THE 1971 CENTRAL GOVERNMENT BUDGET PERFORMANCE

The 1971 fiscal year (March 1, 1971 - February 29, 1972) closed with central government expenditures at TL 47.3 billion, 23 percent above budget targets. (See Table 9.) Total revenues (including long-term borrowing) were TL 41.6 billion, 8 percent above comparable budget figure. This resulted in a TL 5.8 billion shortfall that was met through extra-budgetary sources - largely through increases in the liability balance of the treasury to the Central Bank. 1/

The increase in overall expenditures over budget targets was mainly a function of the unexpected 64 percent increase in transfer expenditures and the 11 percent above budget increase in current expenditures. Since regular revenues (excluding long-term borrowing) also increased 10 percent more than expected, the unexpected TL 8.9 billion increase in expenditures was offset to the extent of TL 3.7 billion in regular revenues. However, a TL 0.6 billion shortfall in anticipated borrowing contributed to the total TL 5.8 billion shortfall in the sum of regular and borrowed income minus total expenditures.

The facts revealed by and underlying these data can be summarized as follows:

1. The expenditure burden of the public sector was not calculated in a consistent manner; there are indications that budgeting for the several major components of expenditures was not coordinated. For example, TFY 1971 budget transfers to state economic enterprises (SEEs) were set at a level below the TFY 1970 realized figure despite an anticipation of wage increases through collective bargaining agreements which by virtue of their legal set up would have to result in increased budgetary transfers - these enterprises not being free to raise their own prices. The government raised prices of key SEE products in July 1971 in recognition of the inability of the budget to carry this burden. Despite this, budgetary transfers to SEE's reached TL 6.5 billion compared with a budgeted amount of TL 3.1 billion.

<u>Central Government</u>	<u>TFY 1971</u> <u>(TL Bil)</u>		Percent <u>(2) / (1)</u>
	<u>Budget</u> (1)	<u>Actual</u> (2)	
Regular Revenues*	35,572	39,237	10.3
Long-term Borrowing	<u>2,900</u>	<u>2,347</u>	-19.1
Total Revenues	38,471	41,584	8.1
Less: Total Expenditures	<u>-38,471</u>	<u>-47,345</u>	23.1
Equals: Extra-budgetary needs	-	5,761	-

*includes revenues from savings bonds.

2. Current expenditures increased 48.8 percent over 1970; 10.7 percent more than expected. Prices overall increased some 20 percent during TFY 1971, with particularly sharp increases in heating, lighting and communication expenses of government agencies. These factors partially explain the increase in current expenditures. 1/

3. Although total investment expenditures were only slightly below budgeted amounts, it is misleading to say that investment goals were realized. Price increases of domestic industrial raw materials, wage increases (included in cost of investments) and underutilized planned foreign exchange funds for imports suggest that actual physical investment targets were not met.

4. The great increase in the transfer expenditures of the budget (64 percent above budget) is mainly accounted for by:

- a. increased transfers to SEE's. (TL 6.5 billion)
- b. increased debt servicing (approximately TL 3.7 billion against a budgeted TL 2.3 billion), and
- c. increased expropriations of land.

THE 1972 BUDGET

The first Erim Government proposed a balanced budget for TFY 1972 in December 1971. The proposed budget called for expenditures of TL 51,930 million, 34.9 percent above 1971 budgeted expenditures and 9.7 percent above 1971 actual expenditures. Revenues were set 26.6 percent above 1971 actual revenues (including long-term borrowing). New taxes and amendments to existing tax laws were proposed by the fiscal authorities to finance this budget. Arguments by the Minister of Finance that new taxes and increased rates were essential to relieve inflationary pressure did not convince the budget's critics. Scholars and parliamentarians argued that personal disposable income simply would be transferred to finance larger current government expenditures; accordingly increased taxes would not be anti-inflationary.

A recent

1/ OECD report puts emphasis on an increase in employment as an important contribution to current expenditure increases. A January 1973 statement by Finance Minister Mlezzinoglu supports this contention. (Cumhuriyet, January 19, 1973.)

By the time a balanced budget was passed by the parliament, expenditures were set at TL 51,968 million. (See Table 1.) The uncertainty of enacting all the proposed revenue bills led to the insertion of a mandatory ten percent cut on total expenditures of each General and Annexed Budget Agency (excluding the items on debt servicing). This mandatory expenditure cut would have reduced 1972 budget expenditures to TL 47,382 million (almost equal to actual total expenditures in 1971 but 23.1 percent above the approved budget total of 1971).

The financial transfers from the Central Government to SEE's were divided into two components in the 1972 budget for the first time: (i) the traditional direct transfers from the budget - TL 5 billion budgeted and (2) an investment fund at the State Investment Bank (SIB). (See Table 3.) The SIB fund, TL 4 billion to be financed through long-term borrowing, was planned to be administered by a board of experts. It would eventually become a revolving fund which would constitute the main outside financial source of SEE's thus reducing their burden on the central government budget. Traditionally, all government financing of SEE's was made through the budget. Therefore, for proper comparison this TL 4 billion should be added to the revenues as borrowing and to expenditures as transfers to SEE's of the Central Government. The purpose of separating out the fund appears to have been both a desire to present a balanced budget and to give a different status to this fund. The 1972 budget law contains clauses to record TL 3.5 billion of the long-term borrowing in the final budgetary accounts.

The SIB Investment Fund's sources were planned as follows:

Domestic borrowing:	TL Million
Development bonds	2,500
Government Employees' Retirement Fund	500
Foreign borrowing:	
Program loans from the U.S.	500
Government bonds to be sold to workers abroad	500
	4,000

1972 BUDGET PERFORMANCE AND THE 1973 BUDGET PROPOSAL

Data on the 1972 consolidated budget performance shown in Table 10 are State Planning Organization estimates. The 1973 budget proposal is that submitted to Parliament and differs slightly from the 1973 Annual Program estimate. Presented for comparison with the TFY 1973 budget proposal are regular revenue collections and total expenditures (1969-1972) broken down as current, investment and transfer expenditures. (See Tables 10 and 11.)

The years 1970 and 1971 are not typical; the former being the year of the devaluation, the latter being influenced by several public finance changes described above. The year 1969 is more typical.

Revenue collections for 1972 were 14 percent lower than anticipated. This lower collection is attributable mainly to failure to enact several of the anticipated amendments in tax laws. Total "regular revenues" increased by 20.0 percent in 1972^{1/}. Of these, "tax revenues" showed a 20.3 percent increase in 1972. According to some studies in Turkey direct tax revenues have a 1.3 - 1.5 elasticity coefficient to GNP. 1971 was characterized by high price increases. Therefore the 20.3 percent increase in 1972 direct tax revenues probably reflects in great part collections on inflation - affected incomes of 1971. Nonetheless, annual revenues were about ten percent lower than expected. ^{2/}

The total expenditure estimate, on the other hand, is TL 53,855 million, 3.6 percent above the original budget and 13.8 percent above the authorized amount including the ten percent mandatory cut. The fact that total expenditures rose by only 13.8 percent in 1972 suggests great efforts on part of the Government to hold down expenditures, ^{3/} especially in consideration of a 14.7 percent increase in the general wholesale price index between November 1971 and November 1972. This attempted restraint, however, has not been sufficient to produce a balanced budget - nor one which could be financed through planned borrowing. (See Table 10, line 1.c.)

A closer look at the composition of expenditures is useful. Since 1969, current expenditures have comprised a rather constant proportion (45-48 percent) of budget totals, whereas the shares of investments have kept declining and those of transfer expenditures have increased. 1972 budgeted investments make up 18.0 percent of total expenditures, while estimated actual investments make up only 16.3 percent of the total expenditures, a ratio lower than in preceding years.

^{1/} Compared with 15.4% in 1969.

^{2/} A significant portion of the increase of 36.2 percent in "tax revenues" in 1971 is attributable to the increase in personal income taxes generated by higher wages and salaries in the public sector, new capital gains taxes on real estate, retail sales taxes, taxes on football pools, vehicle and real estate purchase taxes and the construction tax. The high increase in overall "regular revenues" (30.6 percent) in 1970 was not so much a result of higher tax revenues (20.6 percent in 1970 over 1969) but rather a high jump in other regular revenues (102.0 percent). The increase in this category cannot be identified by specific source because of lack of detail in the accounts.

^{3/} Annual actual expenditures increased 14.3 percent in 1969, 26.7 percent in 1970, 44.2 percent in 1971, 13.8 percent (estimated) in 1972 and are expected to be 15.1 percent more in 1973 than the estimated actual amount of 1972.

. An attempt to reverse this trend is apparent in the 1973 budget. Investment expenditures in 1973 are planned to increase 63.2 percent to reach 23.1 percent of the total budget. This proportion although not high in comparison with 1969 and 1970 performances implicitly assumes that the SEE's will achieve positive savings on current account and will not have to resort to further budgetary support to finance investments. During recent years transfers to SEE's have been the main factor in increasing the share of transfer expenditures in the budget.^{1/} Whether or not the government can keep the lid on transfer expenditures is a key issue in the 1973 budget implementation.

for 1972

As regards the components of the so-called SIB Investment Fund, TL 2.5 billion in development bonds has been said to be sold and TL 700 million is expected from program loan counterpart. The plan to float TL 500 million in bonds in Europe was not carried through.^{2/} The board to administer the Fund has not been set up. As a result the estimated realization of TL 3.2 billion in borrowing may show up as a direct budget item with transfers made to SEE's on the expenditure side.

Some conclusions about the 1972 budget performance and its ramifications on 1973 can be drawn.

1. A balanced budget in 1972 as indicated by Table 10 was not achieved nor is one predicted for 1973. The revenue estimates of the 1972 budget were based on assumptions of amendments in tax laws which did not materialize. However the 1973 estimates seem realistic, ceteris paribus. Furthermore, if the tax amendments are enacted then the revenues may be more than expected resulting in a lower deficit for 1973.

^{1/} Consolidated transfers consist mainly of various forms of payments to SEE's, debt servicing and social welfare payments.

^{2/} Neither will this scheme be implemented in 1973 since all TL 4 billion of anticipated borrowing is to be ^{from} domestic resources.

2. Local governments remain in grave financial difficulty especially in face of rapid urbanization. The municipal revenues bill that was to yield TL 600 million has not been passed. The rates of the real estate tax bill which was to yield TL 400 million were reduced in Parliament; estimated revenue collection is about TL 200 million.

1973 finds local governments especially in the metropolitan areas, facing expensive-to-solve problems of air and water pollution, insufficient water supplies, deteriorating utilities and services. The Minister of Finance is urging the Parliament to pass the Municipal Revenues Bill, but there is no news as to any definite action for 1973.

3. The financial situation of the SEE's is such that there is a continuing requirement for large scale budgetary support. Unless their current financial situation improves drastically and quickly, a highly unlikely phenomenon, there is little reason to expect less need for outside resources in 1973.^{1/}

4. The public sector investment performance was above that targetted for 1972 as a result of public economic enterprises surpassing expectations. Central Government investments which include military investments were 96 percent realized. On the other hand the 1973 program public enterprise investments are about eight percent above 1972 realized estimates, while central government investments are expected to increase 63 percent. There may be difficulty in holding to these program targets.

THIRD FIVE YEAR PLAN PUBLIC SECTOR MACRO TARGETS

Public sector income and expenditure, subdivided as central government, public enterprises and local administrations are treated in some detail in tables 107 through 117 of the TFYP. ^{2/}

Total public sector income is estimated to increase 10.6 percent per year, while expenditures will increase 9.2 percent per year. As a result "additional financing requirements" at TL 5.6 billion in 1972 will decrease to TL 3.3 billion by 1977. Current public expenditures increasing at 8.0 percent per year

^{1/} For example, the Ministry of Commerce has announced a "price stabilization" measure to be that SEE's will not raise prices. On the other hand budgetary support is called for to subsidize lower interest rates to industries, to establish the aircraft industry, etc.

^{2/} See Official Gazette No. 14374, November 27, 1972 for Third Five Year Plan tables referred to in this section. A translation of these tables is also found in USAID "Unofficial Translations and Summaries of Selected Sections and Tables of the Third Five Year Development Plan (1973-1977) - Turkey," December 1972. Article Code 50.

will allow public savings to increase at 18.9 percent per year. (See Tables 111-115.) Public sector savings at TL 16.6 billion in 1972 are expected to reach TL 39.5 billion in 1977, rising from 2.7 percent of GNP to 14.1 percent, respectively, thus reducing the public savings - investment gap to TL 100 million. (See Table 105.)

Factor income particularly from profits of producing public enterprises will rise from 12.8 percent to 20.1 percent of public sector income. Social funds' net contribution on the other hand are expected to be negative by 1977. Foreign credits will also decline significantly. (See Table 110.)

Public enterprises disposable income (savings) is estimated to increase 15.6 percent per year, but because of their high investment level (despite a lower annual rate of increase in investment during the TFYP, 12.5 percent) a savings gap will remain. (See Table 116.) Social security fund resources 1/ decline during the TFYP so the main savings' burden falls on producing enterprises.

Paragraph 2116 of the Reform Section of the TFYP states that public administration is behind the times and short of the requirements for development via industrialization established in the New Strategy and the requirements of integration with the EEC 2/. On the other hand, paragraph 2113 states that the realization of plan targets, resource allocation and the necessary follow up depends on the effectiveness and efficiency of public administration. Principles and measures are suggested in paragraphs 2135 through 2141. Overall reorganization of SEE's is envisaged according to paragraphs 2142 through 2196.

The emphasis of the twenty-two year strategy and the Third Five Year Plan (TFYP) is on industrialization based on heavy capital investment expenditures. The TFYP foreshadows an increase in the marginal savings rate of the public sector as the provider of the bulk of funds to finance this investment. In 1972 public savings were estimated at TL 16.6 billion, 8.7% of GNP compared with private savings of TL 20.9 billion, 10.9% of GNP. By 1977 public savings will reach TL 39.5 billion, 14.1% of GNP, while private savings will be TL 31.5 billion, 11.3% of GNP. (That is out of TL 280.7 billion domestic savings generated in the TFYP, the public sector will be responsible for 54 percent). 3/ It is difficult to see these goals attained given performance in the recent past, the state of inflation still existing in Turkey and political realities.

1/ Social security funds are already seen to be "shaky". See speech of Minister of Labor Uzuner reported in Milliyet, January 27, 1973.

2/ See Annex 2 for comments by international organizations on Turkey's budgetary management.

3/ See Table 105 of TFYP.

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TABLE 1

CONSOLIDATED CENTRAL GOVERNMENT ACCOUNTS
(Current Prices, TL Million)

	A c t u a l				B u d g e t			
	1965	1966	1967	1968	1969	1970	1971	1972
REVENUE (DOMESTIC)	11,667	13,665	18,208	18,841	23,287	26,887	33,807	48,263
a. Direct Taxes	3,213	3,966	4,809	5,385	6,600	8,350	10,600	14,800
b. Indirect Taxes	7,112	8,534	10,122	10,855	14,649	15,710	19,122	27,260
Total Tax Revenue	10,324	12,500	14,931	16,240	21,249	24,060	29,722	42,060 ^{3/}
c. Non-tax Revenues	1,343	1,165	3,277	2,601	2,038	2,827	4,096	6,203
Loss:								
CURRENT EXPENDITURES	10,180	11,716	13,933	14,571	16,965	19,316	25,394	34,719 ^{4/}
a. Defense	3,421	3,864	4,300	4,771	4,878	5,125	7,149	9,024
b. Agriculture	421	497	562	532	670	820	1,309	2,045
c. Education	1,906	2,256	2,519	2,800	2,932	3,109	4,834	7,715
d. Health	536	635	701	761	879	881	1,217	2,100
e. Transportation & Communication	538	691	661	757	1,168	1,135	1,490	2,124
f. Interest payments	450	568	664	788	1,040	981	1,696	1,844
g. Other	2,908	3,205	4,526	4,162	5,398	7,265	7,699	9,867
Equals:								
GOVERNMENT SAVING	1,487	1,949	4,275	4,270	6,322	7,571	8,413	13,544
Less:								
CAPITAL EXPENDITURES	4,833	6,019	7,084	8,104	9,705	10,580	13,078	17,249 ^{4/}
a. Physical Investment	3,619	5,060	5,886	6,664	7,497	7,500	8,767	10,405
(of which purchases of land)	(222)	(233)	(319)	(512)	(816)	(762)	(963)	(1,070)
b. Debt Repayment	770	722	855	841	1,236	1,926	2,375	3,716
1. Domestic	(286)	(445)	(526)	(507)	(634)	(960)	(933)	(1,714)
2. Foreign	(484)	(277)	(329)	(334)	(602)	(966)	(1,442)	(2,002)
c. Increase in Financial Assets	444	237	343	599	962	1,154	1,936	3,128

CONCEPTS AND DEFINITIONS FOR TABLE 1

REVENUE

- a. Direct Taxes include income and corporation taxes only in line with the United Nation's definition. (The Ministry of Finance includes other items.
- b. Indirect Taxes include all taxes other than income and corporation plus state rights on minerals and petroleum.
3. Non-tax Revenues include property income, fees and fines and transfers from individuals. Some debt repayments to government and foreign transfers are also included because they cannot be separated out.

CURRENT EXPENDITURES

- a. Defense includes all expenditures by and for the account of (as far as identifiable) the Ministry of Defense and the general command of the gendarmery.
- b. Agriculture includes current transfers, purchases of goods and services of the Ministry of Agriculture (other than schools), State Production Farms and the Forestry Administration. Current purchases and transfers for irrigation services (Topraksu, for example) are included.
- c. Education includes all current purchases and transfers for schools, museums, and other cultural services (other than military) regardless of the ministry under which such line items appear.
- d. Health includes current purchases and transfers by the Ministry of Health (excluding schools) and the General Directorate of Health on Coasts and Borders.
- e. Transport and Communication includes current expenditures of the Ministry of Communication and the State Highways Department.
- f. Interest payments are on public debt and may include overdue payments.
- g. Other includes all items not elsewhere classified. Current expenditures of the (DSI) State Hydraulic Works and the Ministry of Public Works (despite their investment activities in irrigation and transportation, respectively) are included because it is impossible to distinguish the share of current expenditures that should be allocated to irrigation and transportation.

GOVERNMENT SAVING

Government saving is conceptually equal to surplus on current account.

CAPITAL EXPENDITURES

- a. Physical Investment includes annual investment in land, construction, machinery and equipment and major repairs.
- b. Debt Repayment of principal is a decrease in financial liabilities.
- c. Increase in Financial Assets, included in capital expenditures in the AID 10-74 Forms, is separated out. It is composed of long-term loans to both the private and public sector enterprises (mainly) and capital participation in public enterprises.

BALANCE

Balance is the deficit of the central government. It is financed by:

Domestic Borrowing which includes long and short term borrowing.

a., b. Savings and Development Bonds are issued against long-term borrowing.

c. Extra-budgetary Sources are a result of short-term advances to the Treasury from the Central Bank, deferred budgetary expenditures and cash assets of the Treasury. The figure represents an annual flow of the combined balances.

Foreign Borrowing is distinguished between general and Annexed Budgets only. All foreign borrowing is long-term.

a. Local Currency Proceeds of Foreign Loans for General Budget include U.S. program loans, other consortium loans, etc.

TABLE 2

CONSOLIDATED CENTRAL GOVERNMENT ACCOUNTS
AS PERCENT OF GNP

	Actual				Budget			
	1965	1966	1967	1968	1969	1970	1971	1972
REVENUE (DOMESTIC)	15.6	15.4	18.5	17.2	19.2	19.1	18.8	22.5
a. Direct Taxes	4.3	4.4	4.8	4.9	5.4	5.9	5.9	6.9
b. Indirect Taxes	9.5	9.6	10.3	9.9	12.1	11.1	10.6	12.7
Total Tax Revenue	13.8	14.1	15.1	14.8	17.6	17.1	16.5	19.6
c. Non-tax Revenues	1.8	1.3	3.3	2.3	1.6	2.0	2.2	2.9
Less:								
CURRENT EXPENDITURES	13.6	13.2	14.1	13.3	14.0	13.7	14.1	16.2
a. Defense	4.5	4.3	4.3	4.3	4.0	3.6	3.9	4.2
b. Agriculture	0.5	0.5	0.5	0.4	0.5	0.5	0.7	0.9
c. Education	2.5	2.5	2.5	2.5	2.4	2.2	2.6	3.6
d. Health	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.9
e. Transportation and Communication	0.7	0.7	0.6	0.6	0.9	0.8	0.8	1.0
f. Interest payments	0.6	0.6	0.6	0.7	0.8	0.6	0.9	0.8
g. Other	3.9	3.6	4.6	3.8	4.4	5.1	4.2	4.6
Equals:								
GOVERNMENT SAVING	1.9	2.2	4.3	3.9	5.2	5.3	4.6	6.3
Less:								
CAPITAL EXPENDITURES	6.4	6.8	7.2	7.4	8.0	7.5	7.2	8.0
a. Physical Investment (of which purchases of land)	4.8	5.7	5.9	6.1	6.2	5.3	4.8	4.8
b. Debt Repayment	(0.2)	(0.2)	(0.3)	(0.4)	(0.6)	(0.5)	(0.5)	(0.5)
1. Domestic	1.0	0.8	0.8	0.7	1.0	1.3	1.3	1.7
2. Foreign	(0.3)	(0.5)	(0.5)	(0.4)	(0.5)	(0.6)	(0.5)	(0.8)
c. Increase in Financial Assets	(0.6)	(0.3)	(0.3)	(0.3)	(0.4)	(0.6)	(0.8)	(0.9)
	0.5	0.2	0.3	0.5	0.7	0.8	1.0	1.4

TABLE 2 (Continued)

	A c t u a l				B u d g e t			
	1965	1966	1967	1968	1969	1970	1971	1972
BALANCE	4.4	4.6	2.8	3.5	2.8	2.1	2.6	1.7
Financing of the Balance:								
Domestic Borrowing:	2.5	2.4	1.3	2.1	1.6	1.0	1.1	1.4
a. Savings Bonds	0.8	0.8	0.9	0.5	0.6	0.6	0.6	0.6
b. Development Bonds	0.5	0.7	0.5	0.4	0.4	0.4	0.4	-
c. Extra-Budgetary Sources	1.2	0.7	0.0	1.1	0.4	0.0	-	0.8
Foreign Borrowing:	1.8	2.1	1.5	1.3	1.1	1.1	1.4	0.3
a. Recorded in the General Budget	1.8	2.1	1.3	1.2	0.9	0.9	1.1	-
b. Annexed Budget Project Loans	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.3

Source: Table 1 data. GNP is new series. See Annex 3.

TABLE 3

PUBLIC ECONOMIC ENTERPRISES
INVESTMENT AND ITS FINANCING
(Current Prices, TL Million)

	PROGRAM								ACTUAL							
	1965	1966	1967	1968	1969	1970	1971	1972	1965	1966	1967	1968	1969	1970	1971	1972
By Sector: ^{1/}																
Agriculture	30	21	28	46	60	17	11	19	21	15	15	35	51	12	n.a.	n.a.
Mining	563	621	587	393	380	422	665	1,314	534	675	483	385	417	571	n.a.	n.a.
Manufacturing	1,028	997	1,423	1,527	1,824	2,528	3,901	6,391	540	907	1,185	1,580	2,199	2,726	n.a.	n.a.
Energy	565	663	575	658	1,106	1,352	1,376	1,552	408	514	494	721	1,018	1,539	n.a.	n.a.
Transportation	542	559	608	671	521	684	765	1,470	359	497	515	716	727	981	n.a.	n.a.
Other Services	304	264	320	303	307	309	257	313	254	321	364	403	399	345	n.a.	n.a.
TOTAL INVESTMENT	3,032	3,124	3,541	3,599	4,198	5,314	6,975	11,059	2,115	2,928	3,057	3,839	4,810	6,173	7,363	11,620
TOTAL SAVINGS ^{2/} ^{3/}	1,948	1,472	1,715	2,227	-858	241	279	-3,343	287	940	75	353	-708	-579	-1,933	-778
EXTERNAL FINANCE:	1,084	1,652	1,826	1,372	5,056	4,973	6,696	14,402	1,828	1,988	2,982	3,486	5,518	6,752	9,296	12,398
General Budget Transfers	759	1,217	1,316	872	1,536	1,900	3,000	5,306	726	721	613	807	1,635	1,784	4,714	4,144
Foreign Project Credits	325	435	510	500	700	850	2,200	2,652	188	227	147	447	983	2,412	2,314	2,394
Loans of State Investment Bank ^{3/}	-	-	-	-	2,820	2,223	1,496	2,444	858	1,004	2,222	2,232	2,900	2,556	2,268	2,110 ^{4/}
Other Sources	-	-	-	-	-	-	-	4,000	55	37	-	-	-	-	-	2,750 ^{5/}

Details may not add to totals because of rounding. Public economic enterprises include all producing and financial firms defined by law 440.

^{1/} By sector of origin of spending firm.

^{2/} Savings are defined in general as "net surplus" of enterprises available to finance their investments. Changes in financial assets and liabilities and current transfers are included except for those listed as "external finance." Therefore this concept of "savings" is not equivalent to the UN definition of "operating surplus". It is estimated by subtracting "total external finance to finance investment" from "total investment" to arrive at a consistent series for this table.

^{3/} Until 1968, State Investment Bank loans are included in total savings of program data.

^{4/} This figure is taken from the 1973 Budget Proposal as SPO again returned to the pre 1969 form of classification (See footnote 3 above).

^{5/} TL 2,500 million of other sources is long-term borrowing through the SIB Fund and TL 250 million is net short-term borrowing. This adjustment for comparability is also taken from the 1973 Budget Proposal as SPO presentation lumps this amount with General Budget Transfers.

Source: SPO Annual Programs.

TABLE 4

PUBLIC ECONOMIC ENTERPRISES INVESTMENT
AND ITS FINANCING AS PERCENT OF GNP
(Current Prices)

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
By Sector: <u>1/</u>																
Agriculture	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-
Mining	0.8	0.7	0.6	0.3	0.3	0.3	0.4	0.6	0.7	0.8	0.5	0.4	0.4	0.4	-	-
Manufacturing	1.4	1.1	1.4	1.4	1.5	1.8	2.2	3.0	0.7	1.0	1.2	1.4	1.8	1.9	-	-
Energy	0.8	0.8	0.6	0.6	0.9	0.9	0.8	0.7	0.5	0.6	0.5	0.7	0.8	1.1	-	-
Transportation	0.7	0.6	0.6	0.6	0.4	0.5	0.4	0.7	0.5	0.6	0.5	0.7	0.6	0.7	-	-
Other Services	0.4	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3	0.4	0.4	0.4	0.3	0.2	-	-
TOTAL INVESTMENT	4.1	3.5	3.6	3.3	3.5	3.8	3.9	5.2	2.8	3.3	3.1	3.5	4.0	4.4	4.1	5.4
TOTAL SAVINGS <u>2/ 3/</u>	2.6	1.7	1.7	2.0	0.7	0.2	0.2	1.6	0.4	1.1	0.1	0.3	0.6	0.4	1.1	0.4
EXTERNAL FINANCE:																
General Budget Transfers	1.5	1.9	1.9	1.3	4.2	3.5	3.7	6.7	2.5	2.2	3.0	3.2	4.6	4.8	5.2	5.8
Foreign Project Credits	1.0	1.4	1.3	0.8	1.3	1.4	1.7	2.5	1.0	0.8	0.6	0.7	1.4	1.3	2.6	1.9
Loans of State Investment Bank <u>3/</u>	0.4	0.5	0.5	0.5	0.6	0.6	1.2	1.2	0.3	0.3	0.1	0.4	0.8	1.7	1.3	1.6
Other Sources	-	-	-	-	2.3	1.6	0.8	1.1	1.1	1.1	2.2	2.0	2.4	1.8	1.3	1.0 ^{4/}
	-	-	-	-	-	-	-	1.9	0.0	0.0	-	-	-	-	-	1.3 ^{5/}

See Footnotes on Table 3.

TABLE 5

TOTAL PUBLIC SECTOR INVESTMENT
(Current Prices, TL Million)

PROGRAM	PROGRAM						ACTUAL							ACTUAL Subsectors as Percentage of Total								
	1966	1967	1968	1969	1970 ^{1/}	1971	1972	1966	1967	1968	1969	1970	1971 ^{2/}	1972	1966	1967	1968	1969	1970	1971 ^{2/}	1972 ^{2/}	
Public Investment: ^{3/}	8,959	9,856	11,063	12,483	14,596	15,795	21,389	7,855	9,004	11,156	12,763	14,442	16,417	n.a.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.
Agriculture	1,733	1,847	2,195	2,230	2,298	2,025	2,239	1,430	1,606	1,974	1,944	1,956	1,873	n.a.	18.2	17.8	17.7	15.2	13.5	11.4	11.4	n.a.
Mining	702	698	518	511	577	840	1,533	750	580	500	40	725	845	n.a.	9.5	6.4	4.5	4.2	5.0	5.1	5.1	n.a.
Manufacturing	1,105	1,592	1,731	2,073	2,776	4,150	6,702	933	1,300	1,748	2,343	2,864	4,296	n.a.	11.9	14.4	15.7	18.5	19.8	26.1	26.1	n.a.
Energy	1,374	1,306	1,464	2,038	2,356	2,347	2,981	896	1,116	1,543	1,944	2,488	2,177	n.a.	11.4	12.4	13.8	15.2	17.2	13.2	13.2	n.a.
Transportation	1,810	1,914	2,219	2,237	2,904	2,913	3,964	1,710	2,004	2,348	2,626	3,054	3,499	n.a.	21.8	22.3	21.1	20.6	21.1	21.2	21.2	n.a.
Tourism	129	154	178	190	205	206	211	66	61	161	159	182	192	n.a.	0.8	0.7	1.4	1.2	1.3	1.2	1.2	n.a.
Housing	230	183	280	362	372	373	364	293	365	403	539	654	621	n.a.	3.7	4.1	3.6	4.2	4.5	3.8	3.8	n.a.
Education	951	1,131	1,334	1,364	1,465	1,422	1,553	871	1,000	1,278	1,175	1,172	1,401	n.a.	11.1	11.1	11.5	9.2	8.1	8.5	8.5	n.a.
Health	307	320	319	386	400	382	479	257	287	333	375	365	392	n.a.	3.3	3.2	3.0	2.9	2.5	2.4	2.4	n.a.
Other Services	620	711	783	1,040	1,168	1,068	1,353	590	686	837	1,047	924	1,092	n.a.	7.5	7.6	7.5	8.2	6.4	6.6	6.6	n.a.
Development Fund	-	-	42	53	75	70	10	-	-	30	49	56	30	n.a.	-	-	0.3	0.4	0.4	0.2	0.2	n.a.
By Branch of Public Sector:	8,959	9,856	11,063	12,483	14,596	15,795	21,389	7,855	9,004	11,156	12,763	14,442	16,417	21,777	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Central Government	4,809	5,188	6,293	7,009	7,987	7,575	9,140	4,174	5,021	6,206	6,771	7,240	8,000	8,755	53.1	55.8	55.6	53.1	50.1	48.6	40.2	40.2
Public Enterprises ^{4/}	3,124	3,541	3,599	4,198	5,314	6,975	11,059	2,928	3,057	3,839	4,810	6,173	7,363	11,620	37.3	34.0	34.4	37.7	42.7	44.7	53.4	53.4
Local Governments	699	733	682	771	800	800	690	497	615	650	688	611	600	762	6.3	6.8	5.8	5.4	4.2	3.6	3.5	3.5
Revolving Fund Agencies	327	396	489	505	495	445	700	255	311	461	494	418	454	640	3.2	3.5	4.1	3.9	2.9	2.8	2.9	2.9

Details may not add to totals because of rounding.

^{1/} Program data for 1970 were available only in 1969 prices. Adjustment was made by multiplying original data by 107.5

^{2/} Estimate.

^{3/} The plan documents usually base functional breakdown on the sector of origin of spending agency, i.e. Ministry of Education is in the education sector. Note this practice differs from that of USAID Form 10-74.

^{4/} Public enterprises include producing and financial enterprises.

Source: SPO, Annual Programs.

TABLE 6

TOTAL PUBLIC SECTOR INVESTMENT
AS PERCENT OF GNP

	PROGRAM							ACTUAL						
	1966	1967	1968	1969	1970	1971	1972	1966	1967	1968	1969	1970	1971	1972
Public Investment: ^{3/}	10.1	10.0	10.1	10.3	10.4	8.8	10.0	8.9	9.2	10.2	10.6	10.3	9.2	n.a.
Agriculture	2.0	1.9	2.0	1.8	1.6	1.1	1.0	1.6	1.6	1.8	1.6	1.4	1.0	n.a.
Mining	0.8	0.7	0.5	0.4	0.4	0.5	0.7	0.8	0.6	0.5	0.4	0.5	0.5	n.a.
Manufacturing	1.3	1.6	1.6	1.7	2.0	2.3	3.1	1.1	1.3	1.6	2.0	2.0	2.4	n.a.
Energy	1.6	1.3	1.3	1.7	1.7	1.3	1.4	1.0	1.1	1.4	1.6	1.8	1.2	n.a.
Transportation	2.0	1.9	2.0	1.9	2.1	1.6	1.8	1.9	2.0	2.2	2.2	2.2	2.0	n.a.
Tourism	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	n.a.
Housing	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.3	0.4	0.4	0.4	0.5	0.3	n.a.
Education	1.1	1.2	1.2	1.1	1.0	0.8	0.8	1.0	1.0	1.2	1.0	0.8	0.8	n.a.
Health	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.2	n.a.
Other Services	0.7	0.7	0.7	0.9	0.8	0.6	0.6	0.7	0.7	0.8	0.9	0.7	0.6	n.a.
Development Fund	-	-	0.0	0.0	0.0	0.0	0.0	-	-	0.0	0.0	0.0	0.0	n.a.
By Branch of Public Sector:	10.1	10.0	10.1	10.3	10.4	8.8	10.0	8.9	9.2	10.2	10.6	10.3	9.2	10.1
Central Government	5.4	5.3	5.8	5.8	5.7	4.2	4.3	4.7	5.1	5.7	5.6	5.2	4.5	4.1
Public Enterprises ^{4/}	3.5	3.6	3.3	3.5	3.8	3.9	5.1	3.3	3.1	3.5	4.0	4.4	4.1	5.4
Local Government	0.8	0.7	0.6	0.6	0.6	0.4	0.3	0.6	0.6	0.6	0.6	0.4	0.3	0.4
Revolving Fund Agencies	0.4	0.4	0.4	0.4	0.4	0.2	0.2	0.3	0.3	0.4	0.4	0.3	0.3	0.3

See footnotes on Table 5. GNP is new series. See Annex ?

TABLE 7

SAVINGS, FOREIGN BORROWING AND INVESTMENT
(Current Prices, TL Million)

	A C T U A L						
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
<u>Central Government</u>							
Savings	1,487	1,949	4,275	4,270	3,264	4,910	1,613
(Change in Savings)	-	462	2,326	-5	-1,006	1,646	-3,297
Investment	3,619	5,060	5,886	6,664	6,806	7,269	7,894
(Change in Investment)	-	1,441	826	778	142	463	625
Foreign Borrowing	1,410	1,908	1,492	1,440	1,245	2,846	1,547
(Change in Foreign Borrowing)	-	498	-416	-52	-195	1,601	-1,299
<u>Public Enterprises</u>							
Savings ^{1/}	287	940	75	353	-708	-579	-1,933
(Change in Savings)	-	653	-865	278	-1,061	-129	-1,354
Investment	2,115	2,928	3,057	3,839	4,810	6,173	7,363
(Change in Investment)	-	813	129	782	971	1,363	1,190
Foreign Borrowing	188	227	147	447	983	2,412	2,314
(Change in Foreign Borrowing)	-	39	-80	300	536	1,429	-98

AGGREGATE 1965 - 1971 RATIOS

Savings/investment
ratios:

Central Government 50.3
Public Enterprises ^{1/} 5.5

Foreign borrowing/investment
ratios:

Central Government 27.5
Public Enterprises 22.2

^{1/}Savings are "net surplus" shown on Table 3.

Source: Tables 1, 3, and 6.

TABLE 8

AVERAGE AND MARGINAL PERFORMANCE RATIOS

(CURRENT PRICES)

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
<u>Average Ratios</u> ^{1/}						
Total Investment	16.6	17.2	18.6	19.6	19.5	18.0
Public Sector	8.9	9.2	10.2	10.6	10.3	9.0
Private Sector	7.8	8.0	8.3	9.0	9.2	9.0
Total Consumption	82.1	82.0	81.2	80.8	80.5	80.9
Public Sector	11.9	12.2	12.0	12.2	12.6	15.1
Private Sector	70.3	69.8	69.2	68.5	68.0	65.7
Total Taxes	14.1	15.1	14.9	15.8	16.9	17.5
Direct Taxes	4.7	5.2	5.2	5.6	6.2	6.7
Indirect Taxes	9.4	10.0	10.2	10.2	10.2	10.8
<u>Marginal Ratios</u> ^{2/}						
Total Investment	23.1	21.7	31.6	28.6	19.1	13.0
Public Sector	12.8	11.6	20.0	13.7	8.6	5.1
Private Sector	10.3	10.0	11.6	14.9	10.5	7.9
Total Consumption	72.8	80.4	74.6	76.3	79.2	82.0
Public Sector	9.0	14.9	10.2	14.4	14.8	24.3
Private Sector	63.9	65.5	64.4	61.9	64.4	57.7
Total Taxes	15.6	24.5	12.6	24.5	19.9	21.5
Direct Taxes	5.7	8.9	5.8	9.2	9.5	8.8
Indirect Taxes	10.0	15.6	6.8	15.3	10.4	12.7

$$\frac{1/}{\text{GNP}_t} i_t$$

$$\frac{2/}{\text{GNP}_t - \text{GNP}_{t-1}} i_t - i_{t-1}$$

Details may not add to totals because of rounding.

Source: Third Five Year Plan; 1973 Program Table 27. See Annex 3.

TABLE 9

PUBLIC SECTOR ACCOUNTS
(Current Prices)

	TFY 1969		TFY 1970		TFY 1971		TFY 1972	
	TL Million	Share in GNP	TL Million	Share in GNP	TL Million	Share in GNP	TL Million	Share in GNP
1. REVENUES	24,803	20.5	31,504	22.4	40,596	22.6	48,402	22.5
a. Central Government Current Revenue ^{1/}	22,611	18.7	29,526	21.0	39,237	21.9	47,070	21.9
b. Net Surplus of Public Enterprises ^{2/}	2,192	1.8	1,978	1.4	1,359	0.8	1,332	0.6
2. CURRENT EXPENDITURES ^{3/}	16,493	13.7	21,845	15.6	32,061	17.9	34,740	16.2
a. Central Government Current	12,075	10.0	14,898	10.6	22,171	12.4	25,750	12.0
b. Central Government Transfers	7,041	5.8	10,657	7.6	17,279	9.6	19,350	9.0
From which deducted:								
(1) Transfers to Public Enterprises	-1,635	1.4	-1,784	1.3	-3,819 ^{4/}	2.1	-6,644 ^{6/}	3.1
(2) Debt Repayment	-988	0.8	-1,926	1.4	-3,570	2.0	-3,716	1.7
3. SAVINGS (1-2)	8,310	6.9	9,659	6.9	8,535	4.8	13,662	6.4
4. INVESTMENT	11,616	9.6	13,442	9.6	15,257	8.5	20,375	9.5
a. Central Government	6,806	5.6	7,269	5.2	7,894	4.4	8,755	4.1
b. Public Enterprises	4,810	4.0	6,173	4.4	7,363	4.1	11,620	5.4
5. DEBT REPAYMENT	988	0.8	1,926	1.4	3,570	2.0	3,716	1.7
6. EXTERNAL FINANCING (4+5-3)	4,294	3.6	5,709	4.1	10,292	5.7	10,429	4.9
a. Domestic Bond Issues	600	0.5	600	0.4	800	0.4	2,500	1.2
b. Foreign Borrowing	2,000	1.7	5,257	3.7	3,861	2.2	4,094	1.9
(1) By Central Government	1,017	0.8	2,846	2.0	1,547	0.9	700	0.3
(2) Public Enterprises ^{5/}	983	0.8	2,411	1.7	2,314	1.3	3,394	1.6
c. Extra-budgetary Sources	1,694	1.4	-148	0.1	5,631	3.1	3,835	1.8

^{1/} Includes all regular revenues of General Budget agencies; net income of Annexed Budget agencies, and revenue from savings bonds which became a tax in 1972. (Savings bonds and Project Credits are part of "Borrowing" in Table 1.)

^{2/} Total income - (project credits + budget transfers) - (total expenditures - investment expenditures) = net surplus of 37 public enterprises listed in SPO, 1972 Annual Program, p. 85. Note that State Investment Bank (SIB) credits are included in net surplus because SIB is a public enterprise. Public Enterprise data are on calendar year basis.

^{3/} Current expenditures includes some increases in financial assets of central government.

^{4/} This item represents cash transfers only. TL 2.7 billion in bookkeeping transfers reportedly also were made.

^{5/} Foreign project loans.

^{6/} Budget figure, actual not available.

Source: Ministry of Finance, Monthly Economic Indicators and other unpublished sources.

TABLE 10

FINANCING OF THE CENTRAL GOVERNMENT BUDGET
(Current Prices, TL Million) ^{1/}

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
1. REGULAR REVENUES (CURRENT)	22,611	29,526	39,237	47,070	57,266
a. Direct Taxes ^{2/}	7,508	9,519	13,033	15,575	18,925
b. Indirect Taxes	12,337	14,421	19,565	23,645	29,096
(1.) Import	(4,445)	(5,141)	(6,942)	(8,580)	(9,559)
(2.) Domestic	(7,892)	(9,280)	(12,623)	(15,065)	(19,537)
TOTAL TAX REVENUE	19,845	23,940	32,598	39,220	48,021
c. Other Regular Revenues ^{3/}	2,766	5,586	6,639	7,850	9,245
2. TOTAL EXPENDITURES	25,922	32,824	47,345	53,855	61,967
a. Current	12,075	14,898	22,171	25,750	28,578
b. Investment	6,806	7,269	7,894	8,755	14,289
c. Transfers	7,041	10,657	17,279	19,350	19,100
3. BALANCE (A - B)	-3,311	-3,298	-8,108	-6,785	-4,701
BORROWING:	3,311	3,298	8,108	6,785	4,700
a. Domestic Long-Term	600	600	800	2,500	4,000
b. Foreign Long-Term	1,017	2,846	1,547	700	700
c. Domestic Short-Term ^{4/}	1,694	-148	5,761	3,585	

^{1/} 1969-1971 Actuals; 1972 SPO Estimate of Actual; 1973 Budget Proposal in 1972 prices.

^{2/} Includes revenues from savings bonds which in mid-1972 became the financial balance tax.

^{3/} Includes "other non-tax revenues of General Budget", "net revenue of Annexed Budgets" and "Special Funds".

^{4/} Represents extra-budgetary sources, mainly short-term advances from the Central Bank.

Source: Economic and Social Indicators, USAID Turkey, 1971; Data from SPO; and the 1973 Budget Proposal, Ministry of Finance, Turkey.

TABLE 11

ANNUAL PERCENTAGE CHANGES IN COMPONENTS OF THE
CENTRAL GOVERNMENT BUDGET AND THEIR PROPORTION TO GNP
(PERCENT)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u> ^{1/}
1. REGULAR REVENUES	15.4	30.6	32.9	20.0	21.7
a. Direct Taxes	13.8	26.8	36.9	19.5	21.5
b. Indirect Taxes	17.0	16.9	35.7	20.9	23.1
(1.) Import	(-1.4)	(15.7)	(35.0)	(23.6)	(11.4)
(2.) Domestic	(30.7)	(17.6)	(36.0)	(19.3)	(29.7)
TOTAL TAX REVENUE	17.8	20.6	36.2	20.3	22.4
c. Other Regular Revenues	1.6	102.0	18.9	18.2	17.8
2. TOTAL EXPENDITURES	14.3	26.7	44.2	13.8	15.1
a. Current	9.2	23.4	48.8	16.1	11.0
b. Investment	5.9	6.8	8.6	10.9	63.2
c. Transfers	35.7	51.4	62.1	12.0	-1.3
3. BALANCE=BORROWING	7.3	-0.4	146.5	-16.3	-30.7
GNP in current prices (Tr. Bill.)	117.1	135.6	173.5	214.8	230.9 ^{1/}
As Percent of GNP:					
Regular Revenues	19.3	21.8	22.6	21.9	24.8
Total Tax Revenue	16.9	17.6	18.8	18.2	20.8
Total Expenditures	22.1	24.2	27.3	25.0	26.9
Borrowing:	2.8	2.4	4.7	3.1	2.0
Domestic Long-Term	0.5	0.3	0.5	1.2	1.7
Foreign Long-Term	0.9	2.1	0.9	0.2	0.3
Domestic Short-Term	1.4	-	3.2	1.7	-

^{1/} In 1972 Prices.

Source: Table 10 data. For GNP series, see Annex 3.

Annex 3

GROSS NATIONAL PRODUCT BY USE
(Current Prices, TL Million)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Gross National Product	55,111	64,160	69,190	74,522	88,383	98,253	109,014	120,726	140,294	179,323	215,759
Net Balance of Payments											
Deficit on Current Account	2,205	2,943	981	684	1,422	1,026	1,998	1,926	1,956	1,635	420
Total Available Resources	57,316	67,103	70,171	75,206	89,805	99,279	111,012	122,652	142,250	180,958	215,179
Total Gross Investment	8,339	11,404	11,827	12,710	17,214	18,754	22,456	25,158	29,253	35,951	43,827
Gross Fixed Capital Formation	7,539	9,754	10,277	11,510	14,714	16,854	20,256	23,608	27,342	32,203	42,250
Public	3,689	4,754	5,427	6,080	7,855	9,004	11,156	12,763	14,442	16,203	21,400
Private	3,850	5,000	4,850	5,430	6,859	7,850	9,100	10,845	12,900	16,000	20,850
Stock Changes	800	1,650	1,550	1,200	2,500	1,900	2,200	1,550	1,911	3,748	1,557
Consumption	48,977	55,699	58,344	62,496	72,591	80,525	88,556	97,494	112,997	145,007	171,352
Public	6,550	7,421	8,325	9,255	10,498	11,966	13,066	14,750	17,653	27,133	29,400
Private	42,427	48,278	50,019	53,241	62,093	68,559	75,490	82,744	95,344	117,874	141,952
Domestic Savings <u>1/</u>	6,134	8,461	10,846	12,076	15,792	17,728	20,458	23,232	27,297	34,316	43,407

(Percent Share)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Gross National Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Gross Investment	15.1	17.8	17.1	17.0	19.5	19.1	20.6	20.8	20.9	20.0	20.4
Gross Fixed Capital Formation	13.7	15.2	14.9	15.4	16.6	17.1	18.6	19.6	19.5	18.0	19.7
Public	6.7	7.4	7.8	8.2	8.9	9.2	10.2	10.6	10.3	9.0	10.0
Private	7.0	7.8	7.0	7.3	7.8	8.0	8.3	9.0	9.2	8.9	9.7
Stock Changes	1.5	2.6	2.2	1.6	2.8	1.9	2.0	1.3	1.4	2.1	0.7
Consumption	88.9	86.8	84.3	83.9	82.1	82.0	81.2	80.8	80.5	80.9	79.8
Public	11.9	11.6	12.0	12.4	11.9	12.2	12.0	12.2	12.6	15.1	13.7
Private	77.0	75.2	72.3	71.4	70.3	69.8	69.2	68.5	68.0	65.7	66.1
Domestic Savings <u>1/</u>	11.1	13.2	15.7	16.1	17.9	18.0	18.8	19.2	19.5	19.1	20.2

1/ Domestic Savings: Total gross investments less net balance of payments deficit on current account.

Source: Combined SIS - SPO GNP Series. Third Five Year Plan, 1973 Program
Table 27.

Annex 1 Turkey's tax-revenue performance relative to selected countries

Turkey's performance for the period 1965-1968 is listed in comparison with eleven other countries in the ERP Document No. III-292 "Recent Fiscal Performance and Perspectives, Major Recipients of AID" 1970 Summer Research Project, by Jacob Meerman. In Table 1, "Revenue and Expenditure Ratios (1965-1968)", out of twelve less-developed countries, Turkey ranks as follows in the designated categories.

Category	Rank	Ratio
Growth of GNP	2	.072
GNP per capita	2	.333
Domestic revenue/GNP	5	.174
Marginal domestic revenue/GNP	6	.306
Current expenditures/GNP	8	.091
Total expenditures/GNP	6	.200
Domestic revenues/Total expenditures	2	.869

In Table 3, "Development Resources, 1966-1968 Average, by Domestic and Foreign Source" Turkey's performance is shown in the following categories.

Category	Rank	Ratio
Current expenditure Minus defense/GNP	7	.091
Gross National Savings/GNP	3	.150
Foreign Financing/GNP	8-9	.012

Annex 2 Comments on Turkey's Budgetary Management by International Organizations

According to foreign experts, the expenditure budget in Turkey has become overburdened with a number of support schemes and transfer items in the general and annexed budgets and by the excessive level of investment in relation to available budgetary resources. There is repetitive comment that there is a long overdue need to review, in detail, all aspects of current expenditure, to scrutinize and review the justification of an excessive volume of transfers, to reduce the payments to SEE's, in particular, and to relate investment to realistic estimates of available resources.

On the other hand, tax revenues must be increased to increase public savings ratios. The Second Five Year Plan postulated an increase in fiscal revenues through higher tax rates and new taxes. In practice "social needs, political realities, and the weakness of the administrative machinery"

Annex Continued

have stood in the way of these tax increases. An improvement of the system and administration of taxation and the development of budget programming is deemed necessary.^{1/} Major changes are considered necessary in the organizational control of those Ministries and Departments at present responsible for collecting taxes. The present taxation system is considered ill-equipped to perform any of the tasks for which it is the normal vehicle in more developed countries. There are statements however that the Government has already begun to extend the range and diversity of techniques of taxation but the range of impact is still limited.

Furthermore operating surpluses of SEE's, planned to increase an average of 18 percent per year, failed to materialize. New investment and even replacement needs have had to be financed through budgetary funds and short-term bank credits.

The 1971 IERD report put great emphasis on the achievement of a balanced budget for TFY 1971 as an indicator of the success of the stabilization program and of progress towards external viability. It was added that a rigorous control of expenditure was essential, balanced with domestic resources, and great restraint was necessary in the preparation of 1972 budget.

OECD reports took a pessimistic attitude toward the 1972 budgetary and fiscal policy as oriented towards the realization of Turkey's longer term goals and not taking adequate account of the principal short-term issue of acute inflation. The existence of structural imbalances within the public accounts are considered to impair prospects for controlling inflation and attaining a higher rate of growth and investment in 1972.

^{1/} According to the May 1971 end-of-tour report of USAID tax expert, Dan Tucker, "progress has been made in many significant areas of tax administration. Plans, in both the design and implementation stages, show promise of further progress."

USAID/TURKEY

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