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IMPACTS AND RESULTS OF THE GLOBAL FINANCIAL CRISIS ON TURKEY'S CENTRAL ADMINISTRATION BUDGETS IN 2008–2010

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ABSTRACT

Together with the global financial crisis, the increased economic uncertainty in Turkey is seen to have negatively affected trust and forward-planning. During the global crisis, Turkey's economy contracted and its national budget was negatively affected. Due to the overall decline in growth, tax reductions were enacted to support the real sector, which in turn decreased public revenues and quickly increased the administration's budget deficit. To reduce the effects of the crisis, some areas of spending were increased, as well. As a result of these developments, the budget deficit and treasury debt load ratio increased past the previously projected levels.

1. INTRODUCTION

In 2007, the financial crisis occurring in the USA mortgage market gained a global dimension by spreading first into the developed countries and then into the developing countries. The global financial crisis caused a worldwide shrinkage in trade volume, decrease in domestic and foreign demand, decline in the growth rate of countries, increase in unemployment rates, slowdown in international capital movements and decline in public revenues. The economic, social and geographical structures of countries are the root causes of the differences of the negative effects experienced by countries. Depending upon these differences, some countries were deeply influenced by the crisis while others were less affected. As in the USA and the EU, the economic crisis was very damaging and had an important impact on Turkey's foreign trade, and, due to the intensity in the capital movements in an ever-globalizing world, Turkey was inevitably influenced by this crisis.

In times of crisis, a decrease in economic activities and decline in per capita national income is realized; therefore, a decline in indirect taxes levied on consumption and direct taxes levied on personal and corporate income are expected events. Another factor that reduces tax revenues is tax reduction practice within the scope of incentive policies for the real sector. On the other hand, within the framework of fiscal policies practised for stimulating the demand (i.e., public investment expenditures and policies directed at softening the effects of widespread unemployment), the increase in public expenditures, especially social security and social assistance spending, is also an expected event. The reduction in income and the increase in expenditures have pressurized the budget, so the budgets have had deficits created or existing deficits are made worse.

The aim of this study is to present how much budget of Turkish central administration was affected by the 2008 global financial crisis. In this context, comparing points of central budget administration in Turkey between 2008 and 2010, previous data with Short Term Fiscal Plans and with values aimed in Budget Laws, the effects of global financial crisis on central administration budget of Turkey are tried to be explained.

2. ECONOMIC CRISES AND PUBLIC FINANCE

It can be said that world economy has had a tendency of globalizing intensely, especially in the last thirty years. (Salvatore, 2004:543 – 551). In this process, foreign capital, financial institutions and domestic markets have extended to foreign goods (Mishkin, 2007: 259 – 287). At the same time, it is seen that the dependency of countries to each other has increased (Tanzi, 2004:525-542). Especially the effects of innovations in computer and information technology on financial tools and services, and the increase in new financial tools have eased the acceleration of capital movements. However, they have also played an accelerating role in the dissemination and perception of crisis (Nissanke and Thorbecke, 2006:1338-1360).

The basic reason for the occurrence of a financial crisis is the high alienation of financial markets. In other words, crisis is the decline of financial markets, which can create destructive effects on real economy and can spoil the effective running of markets (Taylor, 2009). The fluctuation, beginning with the decline of the USA subprime mortgage market in August, in 2007 and affected global financial markets, has been the biggest financial crisis since the Great Depression (Mendoza, 2010:24-29). The intense alienation, which has been created by a global financial crisis, has had a narrow result in households, firms and the spoils in financial statements of institutions, global growth, and volume of trade and capital movements (BRSA, 2008). Accordingly, there have been sharp declines in the growth rates of especially developed countries (IMF,2010). As a result of precautions taken due to the crisis, budget deficits and public debt stocks have increased rapidly (Yılmaz, 2010). In fact, the global crisis has highlighted the existing weaknesses in the financial system of world (Nanto, 2009).

Public fiscal policy practiced in Turkey since 2002 can be said to aim to decrease the rate of debt stock to national income as to increase the efficiency of monetary policies by removing the fiscal dominancy. Budget deficits have decreased considerably together with the practice of stability programs and the sustaining of the fiscal discipline in the post – 2001 crisis period. Since 2007, with the effect of global instability, a tendency in budget deficits to increase again has emerged (Yılmaz, 2009).

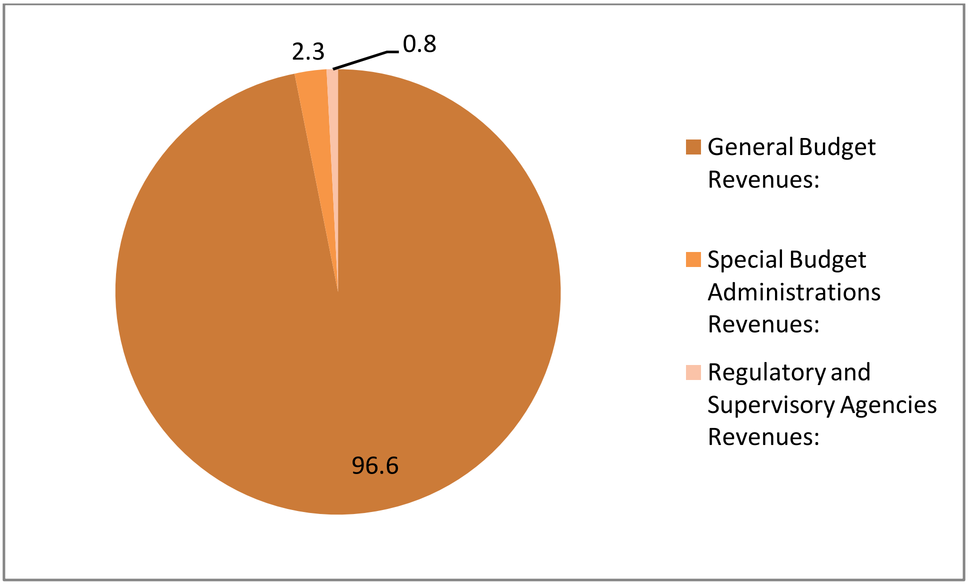
It is seen that, with the global crisis, uncertainties increased in Turkey, as well, and environment of trust and prospective expectations were negatively affected from this increase of uncertainty. Thus, adjournments occurred in private investment and consumption decisions, and contraction occurred in economic activities. It can be said that the global crisis affected mostly developed countries and EU countries in particular. During the global crisis, both the increase in the production capacity of Turkey having a significant trade volume with these countries was restricted and existing capacity utilization was negatively affected. The economic shrinkage experienced during the global financial crisis also negatively influenced the budget balances in Turkey. It is possible to say that the size of the budget deficit will be directly affected by the economic shrinkage. Fiscal policies applied for decreasing the effects of the economic crisis are targeted to have positive effect on economic growth. However, expansionary fiscal policies may have an effect on the budget deficit by means of corroding the fiscal discipline. The economic stimulus package that was announced in Turkey in 2009 loosened the fiscal discipline. The fiscal policies applied in 2009 to ease the risk of slowdown and deflation in growth broke the budget balances in Turkey as it did all over the world. With decreases in revenues and increases in expenses, the central administration budget deficit rose significantly in 2009, thus public sector borrowing requirement increased. It can be said that, in the same period, not only Turkey but also the whole world encountered this phenomenon. Due to the decline in growth in Turkey, as a result of the tax reductions enacted to support the real sector, the public revenues decreased and the central administration budget deficit increased rapidly. To reduce the effects of the crisis, some spending items increased as well. With the shrinkage in economic activities, an important result of the crisis on the real sector is the failure in payment of social security contributions. Since the collection of social security contributions remained below the targets, a significant increase emerged in the deficit of the social security system. As a result of these developments, the budget deficit, debt burden and Treasury's domestic debt rollover ratio increased above the level projected (Karakurt, 2011:46-47).

3. CENTRAL ADMINISTRATION BUDGET BALANCE DURING GLOBAL CRISIS

3.1. Central Administration Budget Revenues During Global Crisis

According to law no. 5018, central administration budget revenues consist of revenues of general budget, revenues of special budget administrations and revenues of regulatory and supervisory agencies. Among the budget revenues of central administrations, general budget revenues have the largest share. Of the central administration budget revenues, 96.9% is revenues of general budget, 2.3% is revenues of special budget administrations and 0.8% is revenues of regulatory and supervisory agencies (Figure 1).

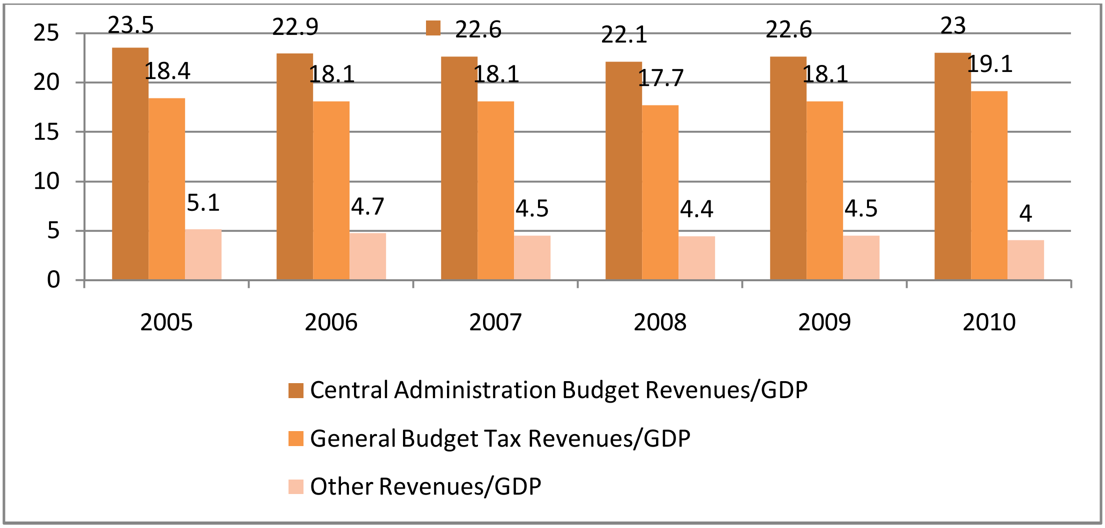
Figure 1: Distribution of Central Administration Budget Revenues (%)



Source: BFC, Budget Sizes and Budget Realizations, http://www.bumko.gov.tr

While the ratio of central administration budget revenues to GDP was 23.5% in 2005, it was 22.1% in 2008, following a decreasing course, and it increased to 22.6% in 2009 (Figure 2). The ratio of tax revenues to GDP between 2005 and 2010 was at its lowest level in 2008, when the global crisis was felt. This rate then increased beginning in 2009. In 2010 when the ratio of the Central Administration Budget (CAB) revenues to GDP increased to 23%, the ratio of tax revenues/GDP reached 19.1%. This value was the highest one between 2005 and 1010.

Figure 2: The ratio of Central Administration Budget Revenues to GDP (%)



Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

While evaluating the ratio of central administration budget revenues to GDP, it will be beneficial to compare the values realized with the targets of the three-year Medium Term Financial Plan (MTFP) prepared by the Ministry of Finance and accepted by the Higher Planning Council based upon Public Finance Management and Control Law no. 5018.

In 2007-2009 Medium Term Financial Plan, the ratio of Central Administration Budget (CAB) Revenues / GDP was projected 28.2% and 27.2% for 2008 and 2009, respectively. In 2008-2010 MTFP, the ratio of CAB Revenues / GDP was revised and targeted as 28.7% and 27.9% for 2008 and 2009, respectively and the projected rate was 27.1% for 2010. It is seen that, in 2007-2009 and 2008-2010 MTFPs, the targeted ratio of CAB Revenues / GDP couldn't be achieved for the years of 2008, 2009 and 2010. Realizations were below the targets. It is possible to say that the shrinkage experienced in the growth due to the global crisis had an effect on staying away from the target in the ratio of CAB Revenues / GDP (Table 1).

Table 1: The Target Rate of Central Administration Budget Revenues (net) / GDP in MTFPs

	CAB Revenues / GDP (%)			GDP Increase (%)		
	2008	2009	2010	2008	2009	2010
MTFP (2007–2009)	28.2	27.2	-	7.0	7.1	-
MTFP (2008–2010)	28.7	27.9	27.1	5.5	5.7	5.7
MTFP (2009–2011)	-	22.0	21.5	-	5.5	6.0
Realizations	**22.1**	**22.6**	**23.0**	**0.7**	**-4.8**	**9.0**

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

In 2007-2009 and 2008-2010 MTFPs, the targeted GDP growth rates of 7.0% and 5.5%, respectively, for 2008 wound up outstripping the actual growth rates. Similarly, in these MTFPs, the targeted growth rates of 7.1% and 5.7% for 2009 remained just 4.8%. In 2008 and 2009, especially, the shrink in domestic and foreign demand and the slowdown in economic activities were reflected on the negative statement in growth and caused decreases in direct and indirect taxes due to the inevitable decline in earnings and consumptions of individuals and corporations. Furthermore, reduction of rates of the transaction taxes such as the Value-Added Tax and the Private Consumption Tax (in order to invigorate the domestic demand in 2008-2009) is another important factor reducing the tax revenue. The CAB revenues in 2008 overcame the targets (with 13,335 million TL and 2,647 million TL positive differences). The targets for 2009 showed a relatively acceptable deviation with a score of % ±2.5 in 2007-2009 and 2008-2010 MTFPs, however, for the same year, the realization in 2009-2011 MTFP remained below the targets with a rate of 13.1% and 28,134 million TL. According to the 2010 results of the budget, realized CAB revenues were 7.4% point above the 2008-2010 MTFP target and 5.5% point below the 2009-2011 MTFP target (Table 2).

Table 2: Estimations and Realizations of Central Administration Budget Revenue in MTFPs (Net)

	CAB Revenues (Net, Million TL)			Deviations (Million TL - %) (Estimations – Realizations)		
	2008	2009	2010	2008	2009	2010
MTFP (2007–2009)	196,263	210,143	-	-13.335 **(-6.4 %)**	-5.315 **(-2.5 %)**	-
MTFP (2008–2010)	206,951	220,755	235,526	-2.647 **(-1.3 %)**	5.297 **(2.5 %)**	-18.751 **(-7.4 %)**
MTFP (2009–2011)	-	243,592	268,309	-	28.134 **(13.1 %)**	14.032 **(5.5 %)**
Realizations	**209,598**	**215,458**	**254,277**			

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

When the estimations of revenue in budget laws are examined, a similar situation draws attention. While the central administration budget revenues were targeted as 204,556m TL for 2008, 248,758m TL for 2009 and 236,794m TL for 2010, a positive outlook was maintained by overcoming the estimations with approximately 17,500m TL. The realizations remained approximately 33m TL below the estimations of the budget in 2009 (Table 3).

Table 3: Estimations and Realizations of Central Administration Budget Revenue in the Budget Laws (Net)

(Million TL)	2008	2009	2010
Budget Revenues	**204,556**	**248,758**	**236,794**
General Budget Revenues	199,411	242,957	229,947
Tax Revenues	171,206	202,090	193,324
Tax-Free Income	28,205	40,867	36,623
Own Revenues of Special Budget Administrations	3,417	3,878	4,898
Revenues of Regulatory and Supervisory Agencies	1,728	1,924	1,949
Realizations	**209,598**	**215,458**	**254,277**

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

3.2. Central Government Budget Expenditures during the Global Crisis

The Public Finance Management and Control Law (PFMCL) no. 5018 began to take place in the budget on the basis of public expenditures economic classification and functional classification. So, it has been possible to analyze and make assessments by the basing functions on the public expenditures. The public expenditures featured in the PFMCL functions were classified as; 1) General public services, 2) Defense services, 3) Public order and defense services, 4) Economic activities and services, 5) Environmental protection services, 6) Housing and social welfare services, 7) Health services, 8) Recreational, cultural and religious services, 9) Training Services, 10) Social security and social aid services (Sağbaş, 2011:9).

One of the indicators concerning the growth of public expenditures is the ratio of central administration expenditures to GDP. When the growth of public expenditures between 2005 and 2010 are examined on the basis of economic classification, it is seen that the expenditures/GDP ratio running in 23-24% band between 2005 and 2008 increased to 28.2% in 2009 and that it is realized as 26.7% in 2010 with a decrease compared to the previous year even though it did not decrease to the level before the global crisis.

Table 4: The ratio of CAB to GDP on the basis of Economic Classification

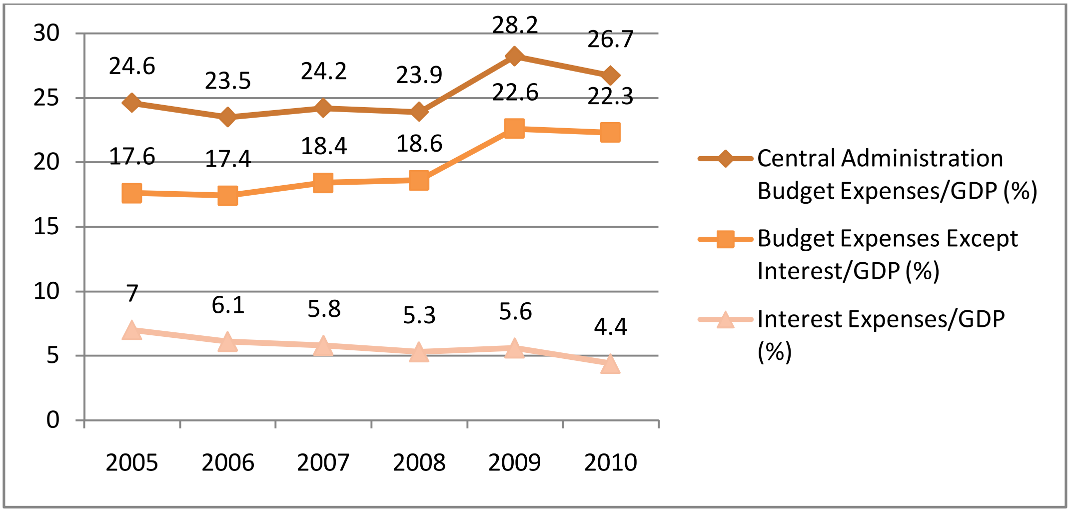
	2005	2006	2007	2008	2009	2010
Central Admin. Budget Revenues	24.6	23.5	24.2	23.9	28.2	26.7
Budget Revenues Except the Interest	17.6	17.4	18.4	18.6	22.6	22.3
I. State Contributions of Staff and Social Security Institutions	5.8	5.7	5.9	5.8	6.6	6.6
II. Expenses of Purchase of Goods and Services	2.3	2.5	2.6	2.6	3.1	2.6
III. Current Transfers	7.1	6.6	7.5	7.4	9.7	9.2
IV. Capital Expenses	1.6	1.6	1.5	1.9	2.1	2.4
V. Capital Transfers	0.2	0.3	0.4	0.3	0.5	0.6
VI. Lending	0.6	0.8	0.5	0.5	0.6	0.8
VII. Replacement Allowance	0.0	0.0	0.0	0.0	0.0	0.0
VIII. Expenses of Interest	7.0	6.1	5.8	5.3	5.6	4.4

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

In 2008-2009 when the effects of the global crisis were much more felt, the interest expenses/GDP ratio that was realized as 5.3% and 5.6%, respectively, was lower than the pre-crisis period and this rate remained as 4.4% in 2010 with a remarkable decrease. The ratio of budget expenditures to GDP, except the interest, reached the highest levels in 2009 and 2010 with 22.6% and 22.3%, respectively. When looked at the subcomponents of non-interest budget expenses, the ratio of state contributions of staff and social security institutions, expenses of purchase of goods and services, current transfers and capital expenditures to the GDP increased in 2009 compared to the 2005-2008 period. Similarly, in 2010, the ratio of state contributions of staff and social security institutions, current transfers and capital expenditures to the GDP was higher than pre-crisis period even though it was below the present rate in the previous year (Table 4).

In the ratio of non-interest budget expenses and general CAB expenses to GDP, a 1 point change was seen between 2005 and 2008, and, in 2009, 4 point increase in non-interest expenses and 0.3 point increase in interest expenses in proportion to the previous year and the ratio of CAB expenses/GP increased to 28.2% with 4.3 point increase in total (Figure 3).

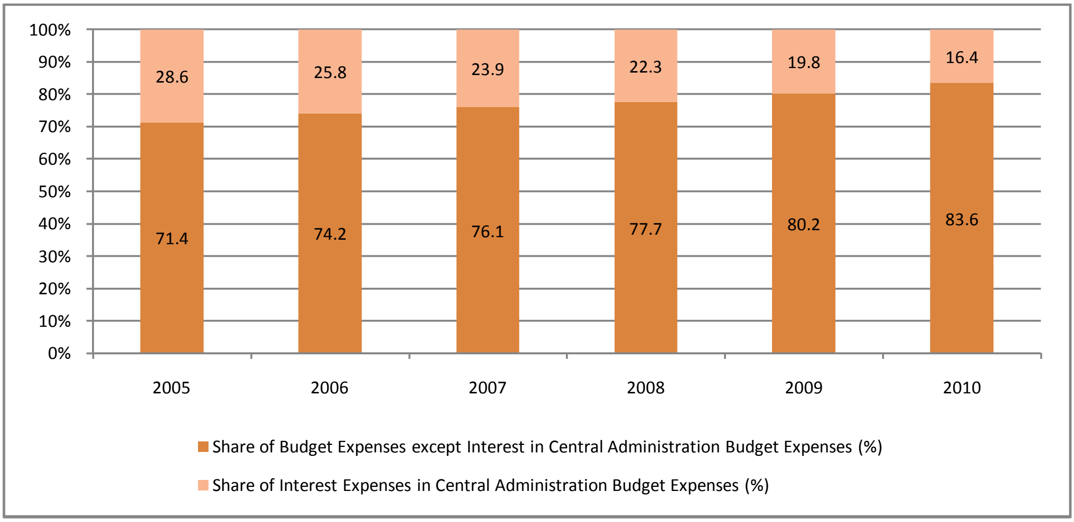
Figure 3: Interest and Non-Interest Expenses Ratio to GDP in CAB Expenses 2005-2010 (%)



Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

When the shares of interest expenses and non-interest budget expenses in central administration budget revenues between 2005 and 2010 were analyzed, the share of interest expenses in central administration expenses followed a decreasing course between 2005 and 2010. As the decreasing of interest expenses meant that more shares were allocated for expenses such as education, health and transport, it is possible to say that this trend was a positive development from the point of sustainable growth and fiscal sustainability. In other words, the difference between non-interest budget expenses and interest expenses gradually increased in this period (Figure 4). The difference which was 42.8 point in 2005 between the aforesaid items increased to 67.2 point in 2010 (Sağbaş, 2011:7-8).

Figure 4: The Shares of Interest Expenses and Non-interest Budget Expenses in Central Administration Budget Revenues 2005-2010 (%)



Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

In 2009 when the expense/GDP rate on the basis of functional classification was at its highest level when it comes to subcomponents with 28.2%, it is seen that the most apparent increase occurred in social security and social aid services compared to the previous years.

Table 5: The Rates of CAB Expenses to GDP on the basis of Functional Classification (%)

	GDP SHARES (%)				
	2006	2007	2008	2009	2010
Expenses	23.5	24.2	23.9	28.2	26.7
I- General Public Services	9.3	9.0	8.6	9.3	8.1
II- Defense Services	1.5	1.4	1.4	1.5	1.4
III- Public Order And Defense Services	1.4	1.5	1.5	1.7	1.7
IV- Economic Activities And Services	2.8	2.8	3.1	3.5	3.7
V- Environmental Protection Services	0.0	0.0	0.0	0.0	0.0
VI- Housing And Social Welfare Services	0.5	0.6	0.4	0.4	0.6
VII- Health Services	1.2	1.3	1.4	1.6	1.5
VIII- Recreational, Cultural And Religious Services	0.4	0.4	0.4	0.5	0.5
IX- Training Services	2.9	3.1	3.2	3.8	3.8
X- Social Security And Social Aid Services	3.5	4.1	4.0	5.9	5.4

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

From 2008 on, the hitches occurring in the revenues of social security contributions were due to the effects of the crisis, as well as the transfers into the Social Security Institution as social security contributions [increased or decreased?] within the scope of social security reform. This caused an increase in the expenses of health, pension and social aid in the 2009 budget. From October 2008 and on, another reason for the increase in aforesaid expenses was that the 5% employers' share of social security contributions was met by the Treasury (Ministry of Finance, 2009:34).

Table 6: The Share of CAB Expenses in the Budget on the basis of Functional Classification (%)

	BUDGET SHARES (%)				
	2006	2007	2008	2009	2010
Expenses	100.0	100.0	100.0	100.0	100.0
I- General Public Services	39.5	37.2	36.2	32.9	30.4
II- Defense Services	6.5	5.8	5.7	5.4	5.1
III- Public Order And Defense Services	5.9	6.1	6.2	6.1	6.4
IV- Economic Activities And Services	11.9	11.6	12.8	12.3	14.0
V- Environmental Protection Services	0.1	0.1	0.1	0.1	0.1
VI- Housing And Social Welfare Services	2.2	2.3	1.7	1.4	2.2
VII- Health Services	5.2	5.5	5.7	5.8	5.5
VIII- Recreational, Cultural And Religious Services	1.6	1.6	1.7	1.7	1.8
IX- Training Services	12.5	12.6	13.4	13.3	14.1
X- Social Security And Social Aid Services	14.7	17.1	16.6	20.9	20.3

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

When looked at the shares of expenses in CAB, it is seen that there was not a significant change in 2008 compared to the previous year. However, in 2009, the share of general public services in the budget decreased approximately 3.3% compared to the previous year, while the share of expenses concerning social security and social aid services increased to 20.9% (with about a 4.3% increase). Thus, it reached its highest level between the 2006 and 2010 period. Compared to 2009, the 2010 budget outcomes showed a more positive outlook, as it can be seen that the share of expenses of the general public services in the budget decreased approximately 2.5 point compared to the previous year, and there was a 1.7% and 1.2% increase in the expenses of economic activities, general services, and training services, respectively (Table 6).Primary expenditures, according to the economic classification method, are broken down into two parts; current and [long-term?] investment expenditures (capital expenditures as stated in PFMCL). Capital expenditures between 2005 and 2010 seemed greatest in the 2008 to 2009 period when the share of total public expenditures was effective during the global crisis. It is understood that between 2005 and 2010, the share of interest expenses decreased from 28.6 % to 16.4%. On the other hand, capital expenditures increased from 6.5% to 8.8% at the same time. (table 7). Thus, it is possible to say that the redundancy resulted from the decrease in interest expenses in the 2005 to 2010 period, and was used in financing transfers to social security institutions rather than investment. (Sağbaş, 2011:8).

It is seen that central administration budget expenditures in 2008 increased when compared with the previous year and that the most important increase was on capital expenditures and interest expenditures. It is understood that while the increase in capital expenditures were due to the transfers to regional development projects such as the GAP Activity Plan, the increase in interest rates, nearly (1/3 of tax revenues) was a periodic situation because of the credit structure of debt stock. (TUSIAD, 2008: 59).

Table 7: Share of CAB Expenditures in Budget on the basis of Economic Classification (%)

(%)	Share of Expenditures in Budget					
	2005	2006	2007	2008	2009	2010
Central Administration Budget Expenditures	100.0	100.0	100.0	100.0	100.0	100.0
Budget Expenditures except interest	71.4	74.2	76.1	77.7	80.2	83.6
I. State Contributions of Staff and Social Security Institutions	23.4	24.1	24.2	24.3	23.5	24.9
II. Expenses of Purchase of Goods and Services	9.5	10.7	10.9	10.8	11.1	9.9
III. Current Transfers	28.7	28.0	31.0	31.0	34.3	34.6
IV. Capital Expenditures	6.5	6.8	6.4	8.2	7.5	8.8
V. Capital Transfers	0.9	1.5	1.7	1.4	1.6	2.3
VI. Loaning	2.4	3.2	1.9	2.0	2.1	3.0
VII. Reserved Fund	0.0	0.0	0.0	0.0	0.0	0.0
VIII. Interest Expenditures	28.6	25.8	23.9	22.3	19.8	16.4

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

According to the functional classification, it is seen that, in 2009, expenditures on CAB, social security and social aid services increased relatively when compared to the other years. On the basis of economic classification, the component (including transfers to institutions such as local administrations and social security institutions), which increased most in 2006 – 2010 was current transfer expenditures in 2009 because of treasury aids. (table 8)

Table 8: Change of CAB Budget Expenses, Social Security and Social Aid Services and Current Transfer Expenses in 2006-2010

		Change compared to previous year (%)				Change compared to initial fund (%)				
		2007	2008	2009	2010	2006	2007	2008	2009	2010
CAB Expenditures		14.6	11.3	18.1	9.7	2.2	-0.4	2.0	3.5	2.6
Functional Classification	Social Security and Social Aid Service	33.3	7.8	48.9	6.8	5.5	4.0	-4.1	12.7	-3.1
Economic Classification	Current Transfer Expenditures	27.0	11.2	30.7	10.7	1.5	4.0	1.7	4.6	-0.3
	Treasure aid	33.6	7.5	42.9	5.7	-.15	0.9	-1.5	19.1	-4.5

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

3.3. Budget Balance and Noninterest Surplus

That public budgets have a deficit in both developed and developing economies is a widely known notion. In order to follow a budget deficit, two basic indicators, the budget balance and noninterest surplus, are beneficial to know. While evaluating the performance of public finance, the proportion of budget deficits to GDP and the development of noninterest surpluses are criteria taken into consideration (Susam and Bakkal, 2008: 84). In almost all countries, governments aim at practicing effective money and revenue policy to provide fiscal discipline and to decrease budget deficits. The important thing at this point is the maintainability of budget deficits. To notice maintainability of budget deficits, many approaches have been developed. One of the recent approaches is the periodic loan limit approach. According to this approach, governments face some limits while loaning, and since loans cannot be paid by loans again, it will depend on the value of noninterest surplus to pay the loans in the long term. Noninterest surplus and budget deficits are compared and the budget deficit is accepted to be maintainable if the noninterest surplus is equal to or more than the budget deficit (Aslan,2009: 2-3). Thus, to evaluate a budget deficit, the budget deficit and noninterest surplus gain importance.

Table 9: CAB Expenditures, CAB Revenue and the Proportion of Budget Balance to GDP (%)

	2005	2006	2007	2008	2009	2010
Central Administration Budget Expenditures	24.6	23.5	24.2	23.9	28.2	26.7
1. NoninterestBudgetExp.	17.6	17.4	18.4	18.6	22.6	22.3
2. InterestExpenses	7.0	6.1	5.8	5.3	5.6	4.4
Central Administration Budget Revenue	23.5	22.9	22.6	22.1	22.6	23.0
1. General Budget TaxRevenues	18.4	18.1	18.1	17.7	18.1	19.1
2. OtherRevenues	5.1	4.7	4.5	4.4	4.5	4.0
Budget Balance	-1.1	-0.6	-1.6	-1.8	-5.5	-3.6
Noninterest Budget Balance (Defined by Treasury)	6.0	5.4	4.2	3.5	0.0	0.7

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

Between 2005 and 2008, the proportion of the budget deficit to the GDP was below 2%, while in 2009 it was 5.5%, which was almost 3 times more than the previous year. Even if the proportion was 3.6%, which meant a sudden fall compared to the previous year, it didn't fall to the pre-crisis level. The budget deficit, which emerged from an increase in central administration budget expenses in 2009, seemed to be affected by the crisis (table 9).

On the other hand, in analyzing the noninterest surplus development, it is seen that the proportion on noninterest surplus to GDP, which had a tendency to decrease between 2005 and 2009, had an important fall to 0.0% in 2009. The same rate increased but not to the pre-crisis level in 2010.

Table 10: Central Administration Deficit Predictions and Realizations in Budget Laws

	CAB Predictions			**CAB Realizations**			**Variation (Prediction – Realization Difference)**		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
CAB Balance (Million TL)	-18,909	-15,548	-50,034	-17,432	-52,761	-40,081	-1,477	37,213	-9,953
CAB Balance / GDP (%)	-2.6	-1.4	-4.9	-1.8	-5.5	-3.6	-0.8	4.1	-1.3
Noninterest Surplus (Million TL)	40,391	41,202	6,716	33,229	440	8,217	7,162	40,762	-1,501
Non interest Surplus / GDP (%)	5.6	3.7	0.7	3.5	0.0	0.7	2.1	3.7	0.0

Source: BFC, Budget Sizes and Budget Realizations (online) http://www.bumko.gov.tr

While especially the increase in investment expenditures and share having been given to local administrations made the public expenses beyond expectations in late 2008, it was seen that the revenue budget didn't increase at the same rate. While the erosion, at the indirect taxes at Christmas, is tolerated to some extent with the taxes from foreign trade, the reduction of foreign trade, during the year with the effect of crisis, has brought about some loss in VAT and customs, taken from imports. Budget deficits in central administration in 2008 accelerated in the last quarter of the year, and at the end of the year, the deficit was beyond expectations. While the real increase in the noninterest surplus was almost 5% in the last quarter of year, a decrease of almost 10% in budget revenues was recorded. This situation showed how much the Turkish tax system was affected by the periodic fluctuations that the system experienced (EPRFT, 2008).

Although the noninterest surplus was 7,162 million TL and below the target, the budget deficit for 2008 was achieved. Thus, it is possible to say that positive performance in interest expenses was achieved. Thus, the rate of interest expenses / GDP from BFC statistics was 5.3%, the lowest level between 2000 – 2009 occurred in 2008 (BUMKO, 2011).

While noninterest expenses in the central administration budget in 2009 increased 22%, the increase in revenues was 3%. As a result, the budget deficit increased almost 200% compared to 2008. The budget deficit in 2009 was 5 times larger than predicted in the budget law draft of the same year (EPRFT, 2009: 4).

That budget revenues were sensitive to development, while an important part of development was independent and obligatory, had an important role in the negative budget table of 2009. Practices, having an impact on expenses and decreasing the revenues within the economic precautions taken against the crisis, were joined by other factors having negative impacts on the budget balance (Ministry of Finance, 2009:23).

These evaluations about the results of central administration budget in 2009 (EPRFT, 2009:45):

- It is seen that budget expenses increased 3.1% compared to the initial fund and the rate of increase in noninterest expenses was 4.8%. Thus, it is possible to say that the increase in budget expenses in 2009 was due to the increase in noninterest expenses.
- Capital expenses (because of spending arising from green card), purchase of goods and service (including transfers to Social Security Institution), current transfers were the most effective components in the variation of noninterest expenses compared to initial fund.
- While budget expenses were beyond expectations, budget revenues were 13.6%, which was lower than the initial target. It can be said that the decrease in tax revenues had the most important role in low budget revenues. The variation in budget deficit was 4 times more than the initial prediction.

Looking at the budget realizations in 2010, the budget deficit, which was aimed at 50,034 million TL, had a 10 million TL variation and the noninterest surplus exceeded the target. The most important contribution to overcome the target was CAB revenue resource, which was beyond targets at the end of year. (table 9).

It is possible to say that at first, indirect taxes, which exceeded the budget target of 11%, and the return of tax revenues were the determiners of the increase of 7.3% budget revenues in 2010. This increase in tax revenues was due to the positive reflection of VAT and SCT in import and the increase in the level of total demand (EPRFT, 2010: 5-6). That is, the basic development of budget performance in 2010 was due to the increase in tax revenues, which increased depending on rapid development tendency of economy.

A relative slowdown in noninterest expenses and a decrease in interest expenses, depending on interest rates in domestic debt, have all had positive contributions to the balance of public finance (CBRT, 2011).

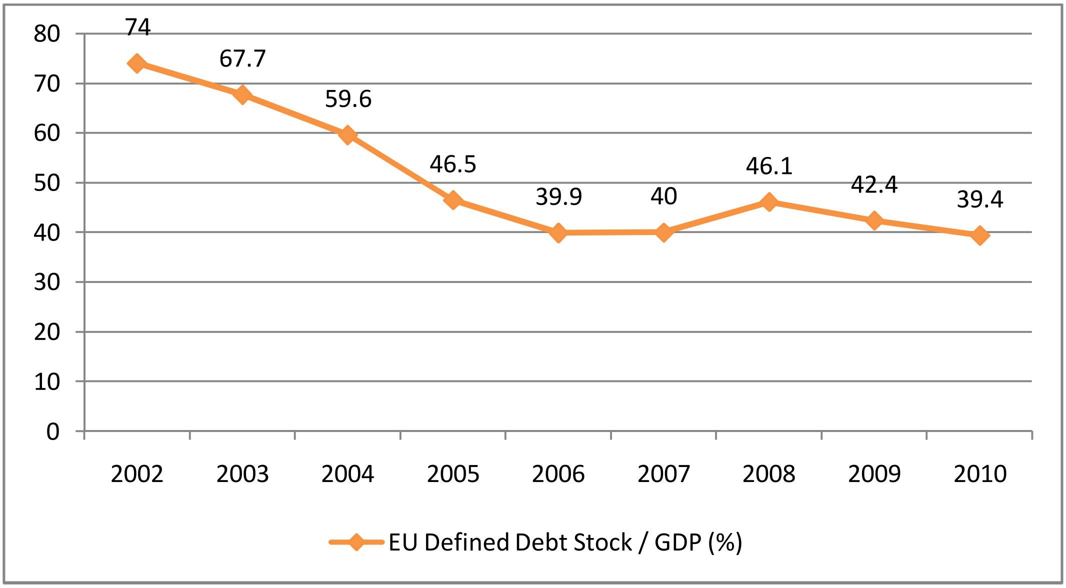
It is observed that the rate of the central administration budget balance, which showed a recovery tendency with the positive effect of budget performance to GDP in the economic development experienced in 2011, got a little bit bad as a result of decreasing budget revenues together with slowdown in financial activities since the first half of 2012. Central administration budget had a deficit of 6.7 billion TL in the first half of 2012 and noninterest balance had a surplus of 19.6 billion TL (CBRT, 2012).

3.4 Public Net Debt Stock and Public Sector Borrowing Requirement

Examining the rates of EU defined public debt stock (PDS) to GDP, it had a permanent decrease between 2002 and 2006 and decreased from 74% to 39.9%, had almost no change in 2007, it increased to 46.1% and again had a decrease tendency and at last decreased to the level of crisis in 2010 (figure 5).

The rate of public finance stock, decreasing until 2008, to GDP increased in 2009 but not beyond expectations because of the increase in public deficit and reduction in development. In this sense, rate of EU defined general state debt stock, which was expected to be 47.3%, to GDP was 42.4%. (Ministry of Development, 2010: 12).

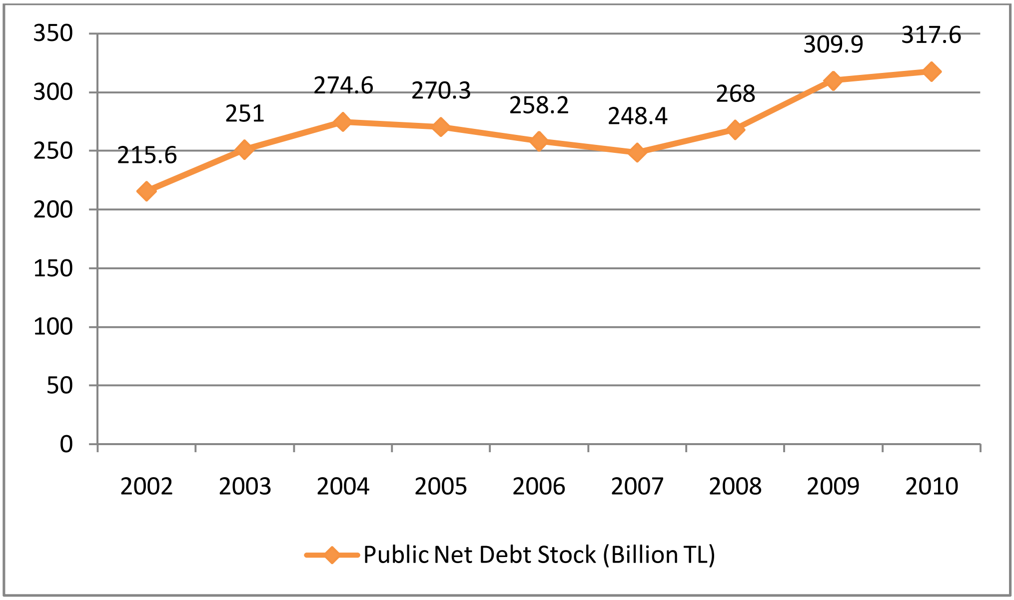
Figure 5: Rates of EU Defined Public Debt Stock to GDP between 2002 and 2010



Source: Treasury, Debt Determinants, (online) http://www.hazine.gov.tr

Public net debt stock trended upward in 2008, and in 2009 it was at its peak within the 2002 and 2010 timeframe with an almost 42 billion TL increase. Public net debt stock seemed to increase even when it was relatively low in 2010. (Figure 6).

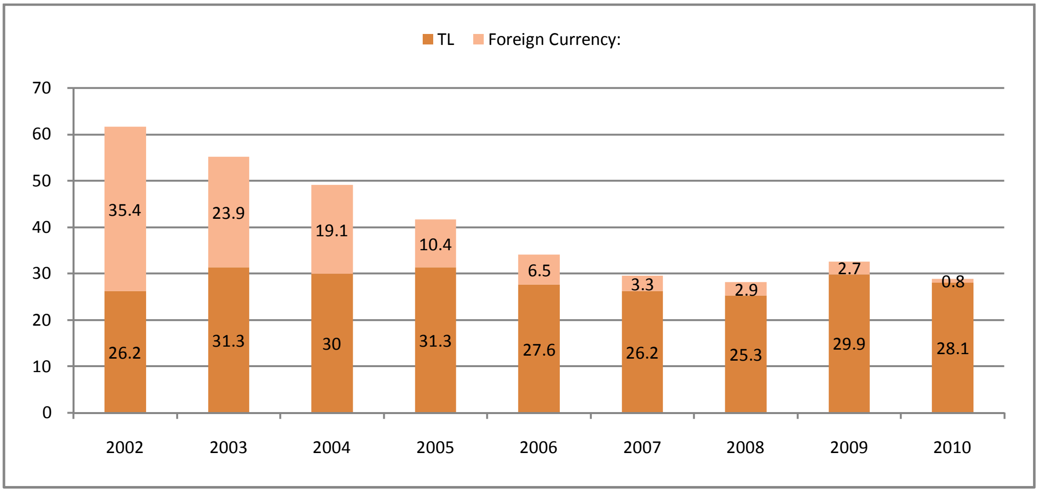
Figure 6: Amount of Public Net Debt Stock between 2002 and 2010 (Billion TL)



Source: Treasury, Debt Determinants, (online) http://www.hazine. gov.tr

Looking at the rate of public net debt stock to GDP, in terms of Turkish Liras as well as foreign currencies, it had a tendency to decrease between 2002 and 2008. The rate of PNDS to GDP in 2010 again decreased compared to the previous year. The most important thing is that rate of debt in the form of foreign currency to GDP permanently fell even within the crisis period. (Figure 7).

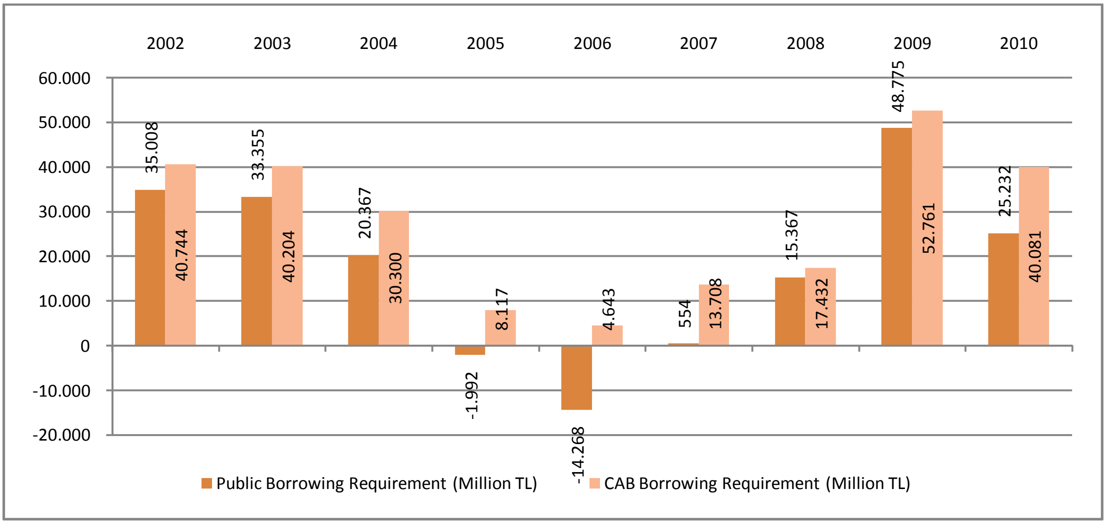
Figure 7: Rates of Public Net Debt Stock in the form of TL and Foreign Currency to GDP between 2002 and 2010(%)



Source: Treasury, Debt Determinants, (online) http://www.hazine. gov.tr

Examining the amount, PBR, in a general decrease, increased to its highest level in 2009. Looking in proportion, the rate of PBR to GDP, after 2004, caught its highest level in 2009 (Figure 9 and 10).

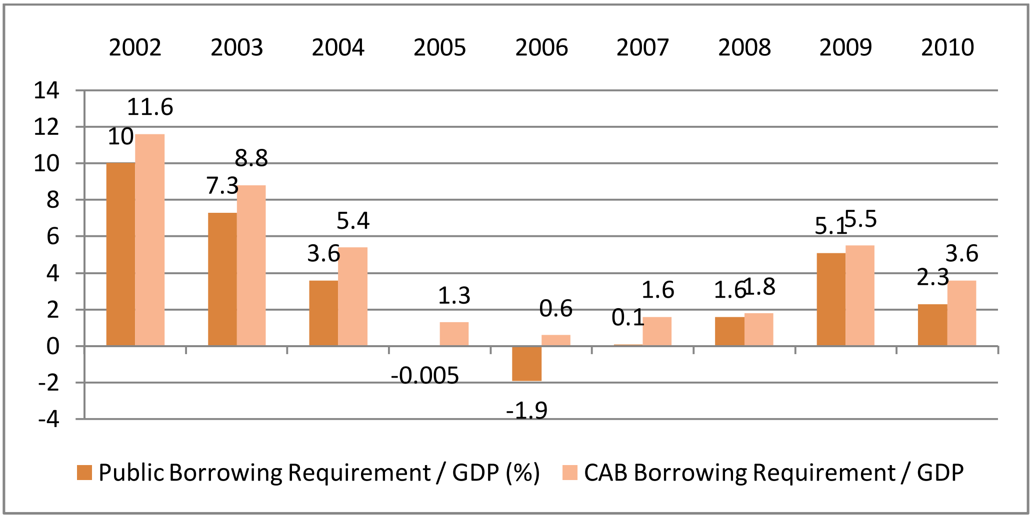
Figure 8: Public Borrowing Requirement and Amount of CAB Borrowing Requirement between 2002 and 2010



Source: Treasury, Debt Determinants, (online) http://www.hazine. gov.tr

Compared to the previous year, the increase in the public borrowing requirement in 2009 emerged because of the increase in noninterest expenses and the decrease in indirect taxes and in privatization revenues (Ministry of Development, 2009:45).

Figure 9: PBR / GDP and CAB Borrowing Requirement / GDP Rates



Source: Treasury, Debt Determinants, (online) http://www.hazine. gov.tr

The ecnomic recovery in 2010 had a positive impact on the public borrowing requirement. In 2009, the rate of the public borrowing requirement to GDP was 5.1, and in 2010 it decreased to 2.3, which was 1.1 more than the expected number. The rate of the EU-defined general state debt stock to GDP rate decrease to 42.2% (Ministry of Development , 2011: 13-14).

CONCLUSION

A global financial crisis has been faced throughout the world since 2008, because of the bankruptcy of some investment banks together with the collapse of the housing market in the United States and the nationalization of some of these banks with financial aid packages. International capital movements and world trade slowed down, domestic and foreign demand reduced in nearly all countries, production decreased and unemployment increased. Public finance was affected negatively because of the expanding finance policies to keep demand alive.

One of the countries affected by the global crisis is Turkey. Although there are some problems such as reduction in external financing opportunities and return of domestic loans, general thought is that the financial sector of Turkey, which displayed better risk management after the crisis, didn't face serious problems compared to the financial markets of many developed and developing countries, because of the many unique structural arrangements in banking sector. However, the same cannot be said about the real sector.

Lack of confidence became widespread as the result of uncertainty after the crisis, and expectations worsened. In this uncertain environment, the real sector had loan difficulties. Because of the reduction in economic activities, the reduction in domestic and foreign demand especially in 2009 had some negative impacts on development, employment, foreign trade and direct capital entry. For example, while development of GDP was in positive points since 2002, there was a decrease of 4.8% in 2009.

The unemployment rate was 15.8% in the first quarter of 2009, which was the highest level in recent years, and export rate decreased to 22.6% and so did the import rate, to 30.2%. In 2009, direct foreign capital entry, having decreased since 2008, was at its lowest level of the 2005 – 2010 period.

The reduction in financial activities, which emerged from the global economic crisis, led to an increase in public financial deficit and debt stock globally. Central administration budget revenues decreased remarkably. It was more about taxes. Because economic activities decreased in the crisis process, collection of indirect taxes, which depend on economic activities heavily and whose capacity improves with an increase in sale of goods and service, decreased. The rate of "Transaction Tax Revenues" increased, with a share of 45%, and its most important components were Value Added Tax and Special Consumption Tax (6.1% in 2008 and 7.1% in 2009). This situation was equal to the lowest levels between 2005 and 2010.

"Tax Revenues of International Trade and Transaction", including Customs Taxes and Value Added Taxes, decreased at a rate of 12.6% compared to the previous year in 2009 and stayed in negative for the first time nominally.

In 2009, Collection of Income and Corporate Tax, taken from income of individual and corporations, was at its worst performance with a decrease rate of -0.5% between 2005 and 2010.

When compared with Budget and Medium Term Financial predictions and targets, realizations in tax revenues had a negative variation of 3 million TL in 2008 and 29 million TL in 2009. The reduction of tax revenues in both 2008 and 2009 got better with a general review of the economy in 2010. Examining the development of tax revenues in between 2008 and 2010, they have a real increase of 0.5% in 2008, 2.8% real decrease in 2009 and 10.6% real increase in 2010.

The tax discounts to keep demand alive in crisis caused tax revenues to decrease and some problems in collection of social security premiums, because the recession increased central administration social security spending. According to functional classification, the share of social security and social aid services in the budget was 20.9% with an increase of 4 points in 2009, and it was the highest between 2006 and 2010.

The negation between central administration revenue and expense showed itself in noninterest surplus values and budget balance. The central administration budget balance's rates to GDP in 2008, 2009, and 2010 increased compared to previous three years. The rate of the budget deficit to GDP in 2009 was -5.5%, which was the highest between 2005 and 2010. The rate of the noninterest budget balance of the same year to GDP was at its lowest level (0.0%) after 2005. The rates of the CAB balance / GDP and noninterest surplus/GDP were beyond expectations (especially in 2009). In 2011, when compared to the last few months of 2010, the rate of central administration budget revenues, decreasing in a limited level, to GDP kept its level of late 2011 in the first quarter of 2012. [This sentence needs to be revised. Too clunky.]

The negative table of the balance of central administration budget balance and noninterest surplus value between 2008 and 2010 was reflected in the public net debt stock and public borrowing requirement. Thus, when compared the rate of public debt stock to GDP in previous periods, it was realized in high values between 2008 and 2010.

In brief, it is possible to say that the central administration budget was affected by the crisis in 2008 with almost parallel to macroeconomic determinants between 2008 and 2010, when the major effects of the crisis reverberated throughout the global economy. The budget displayed a bad performance in values of revenue-spending components in 2009, budget balance and public debt stock, and it showed a positive tendency with the economic recovery and the base effect of the previous year, 2010.

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