



SCREENING CHAPTER 17 ECONOMIC AND MONETARY POLICY

AGENDA ITEM I: FISCAL POLICY

**Country Session: The Republic of TURKEY
23 March 2006**



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I. BASIC OBJECTIVES OF THE FISCAL POLICY

- Adhering to fiscal discipline
- Generating high primary surplus
- Reducing public debt stock
- Contributing to sustainable growth environment in economy
- Supporting struggle against inflation
- Establishing a taxation system, supporting growth and employment policies and reducing unregistered economy
- Completing reform activities in public financial management



II. CONSOLIDATED BUDGET

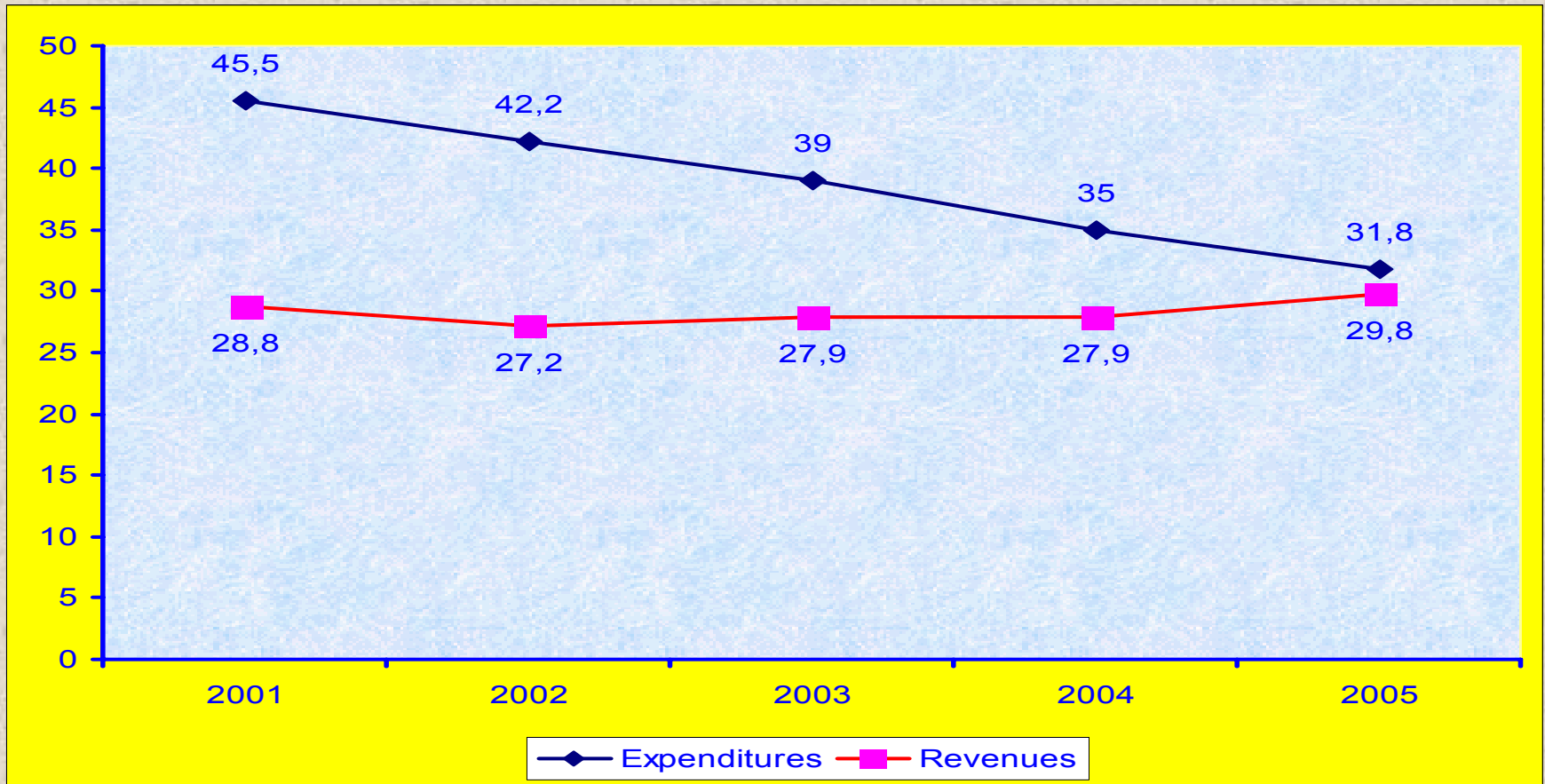
CONSOLIDATED BUDGET BALANCE / GDP (%)	2001	2002	2003	2004	2005
Expenditures	45,5	42,2	39	35	31,8
Non-Interest Expenditures	22,5	23,5	22,7	21,8	22,4
Current Expenditures	11,4	11	10,7	10,4	10
Personnel	8,5	8,3	8,4	8,5	8,2
Other	2,9	2,7	2,3	1,9	1,8
Investment	2,7	3	2	1,8	1,9
Transfer	31,4	28,2	26,3	22,8	20
Non-Interest Transfer	8,4	9,5	10	9,7	10,6
Interest Payments	23	18,7	16,3	13,1	9,4
Revenues	28,8	27,2	27,9	27,9	29,8
General Budget	28,4	26,9	27,4	27,5	29,4
Tax Revenues	22,3	21,5	23,4	23,1	24,1
Non-Tax Revenues	4,2	3,9	2,8	3,9	5,1
Special Revenues and Funds	2	1,5	1,1	0,5	0,2
Annexed Budget	0,3	0,4	0,5	0,4	0,4
Primary Surplus	6,3	3,7	5,1	6,1	7,4
IMF-Defined Primary Surplus	4,4	2,5	4,9	5,1	5,0
Budget Deficit	-16,7	-15,0	-11,2	-7,0	-2,0

Source: Pre-Accession Economic Programme 2005



II. CONSOLIDATED BUDGET

Consolidated Budget Expenditures and Revenues / GDP (%)

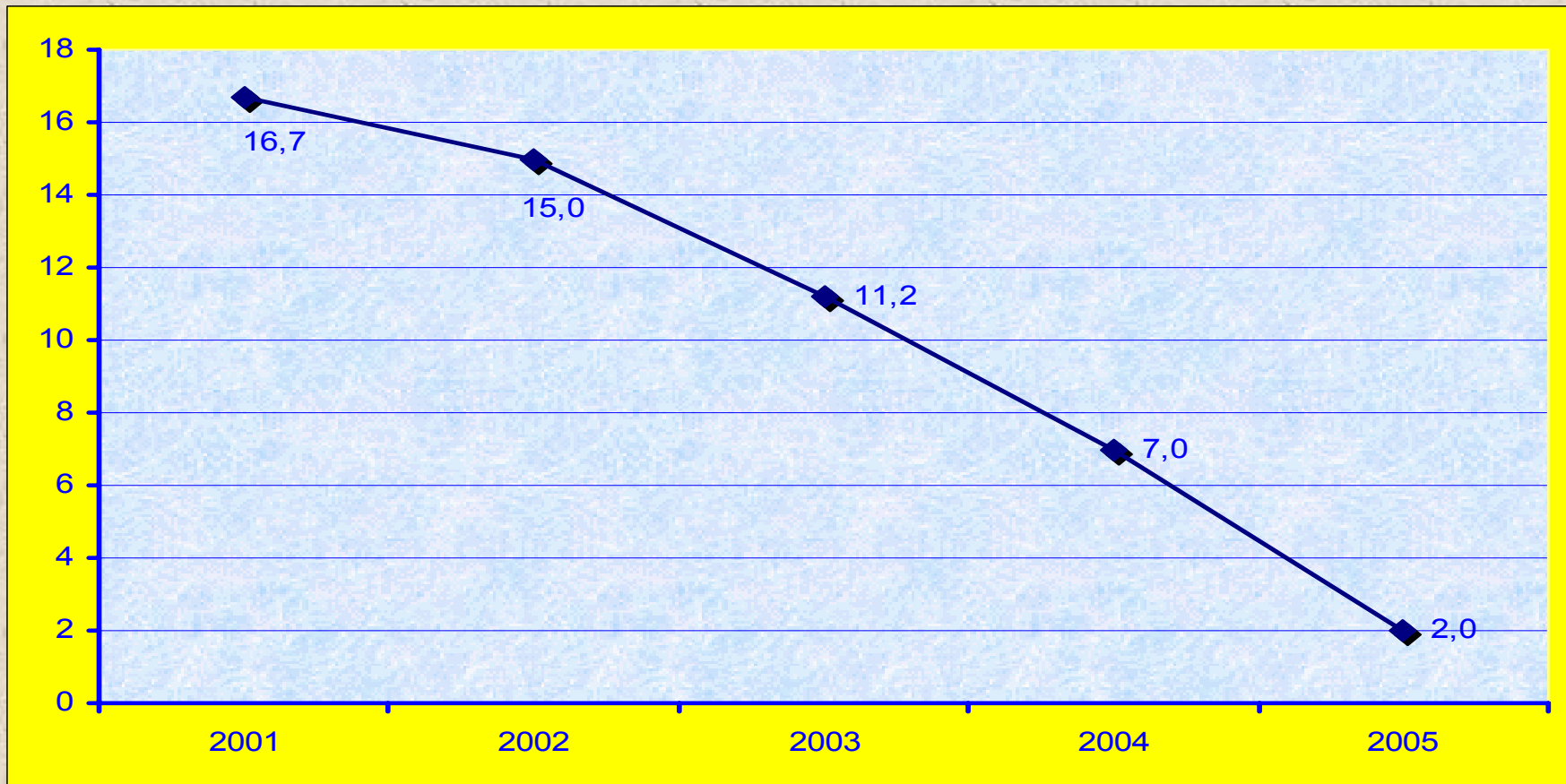


Source: Pre-Accession Economic Programme 2005



II. CONSOLIDATED BUDGET

Consolidated Budget Deficit / GDP (%)

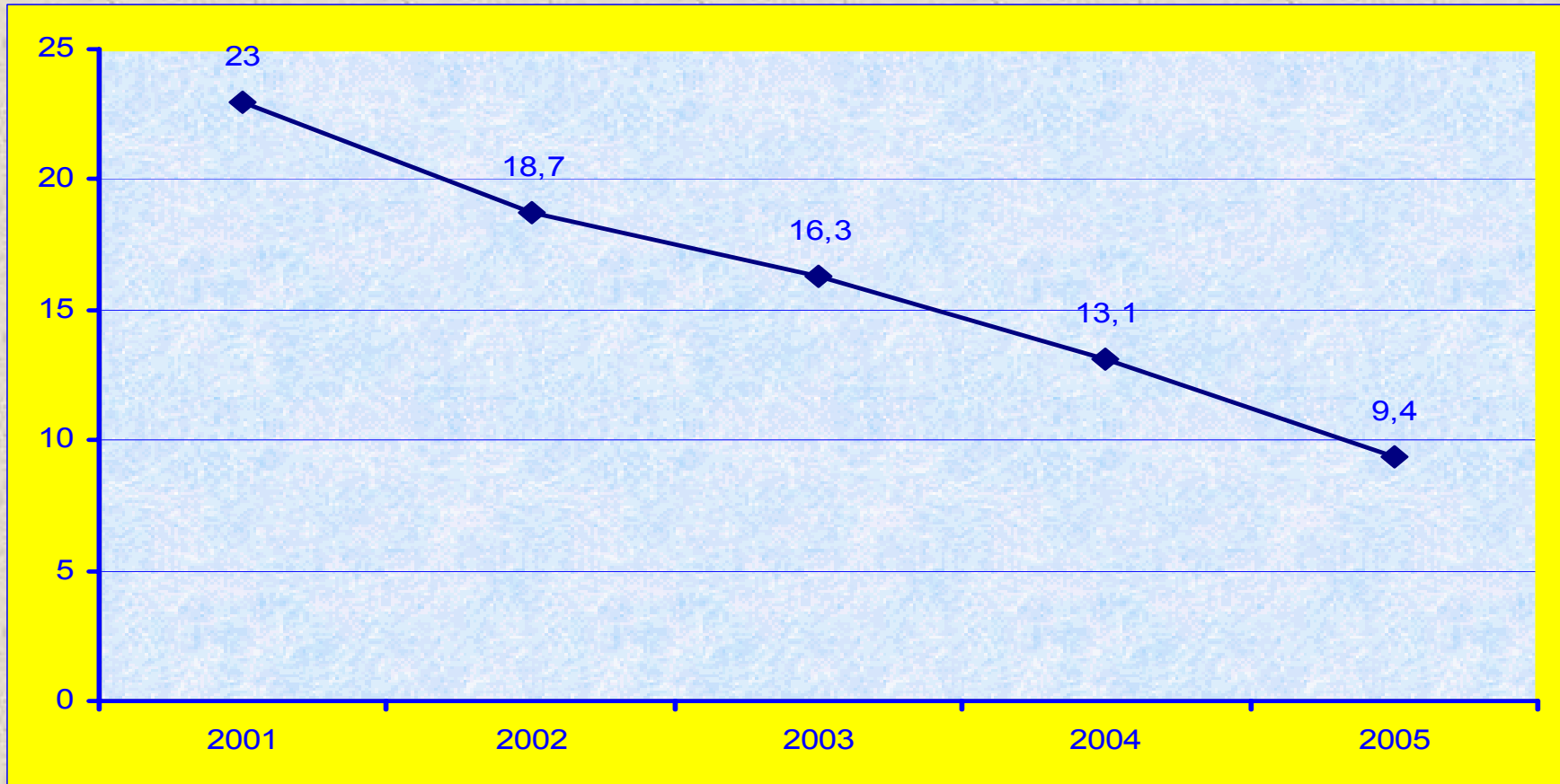


Source: Pre-Accession Economic Programme 2005



II. CONSOLIDATED BUDGET

Consolidated Budget Interest Payments / GDP (%)



Source: Pre-Accession Economic Programme 2005



II. CONSOLIDATED BUDGET

Consolidated Budget IMF-Defined Primary Surplus / GDP (%)



Source: Pre-Accession Economic Programme 2005



III. PUBLIC FINANCIAL MANAGEMENT AND CONTROL LAW (PFMC LAW - NO: 5018)

Adopted in December 2003 and entered into force fully on 1.1.2006

Main Purposes

to ensure:

- harmonisation with the EU practices and international standards
- effective, economic and efficient collection and utilization of public resources
- accountability and transparency

to regulate:

- structure and functioning of the public financial management
- preparation and implementation of the public budgets
- internal financial control (ex-ante financial control and internal audit)
- accounting and reporting of all financial transactions



III. PUBLIC FINANCIAL MANAGEMENT AND CONTROL LAW (PFMC LAW - NO: 5018)

MAIN CHARACTERISTICS OF THE LAW

- The connection between Development Plans-Annual Programmes and Budgets has been strengthened
- The scope of the budget is re-defined and enlarged,
- Multi-year budgeting is integrated into Turkey's financial management system
- The initiative of the public administrations in the budget process is increased
- An ex-ante control system and a functionally independent internal audit system are established
- Concepts of performance budgeting and strategic planning are integrated into public financial system
- The unity of public accounting is ensured



IV. NEW GOVERNMENT ACCOUNTING SYSTEM

MAIN CHARACTERISTICS OF THE NEW SYSTEM

- Scope is identical to the Law No. 5018
- Parallel with ESA 95 in terms of scope
- Public corporations are excluded from the scope
- Financial reports and statistics are produced through data in the financial records
- Intends to ensure accountability and fiscal transparency



IV. NEW GOVERNMENT ACCOUNTING SYSTEM

ACCRUAL BASED GOVERNMENT ACCOUNTING (General Government Accounting Regulation)

In order to ensure accounting unity in public, General Government Accounting Regulation was prepared and issued by the Ministry of Finance (Official Gazette, 8.6.2005-25839)

The Regulation;

- is in parallel with ESA 95
- regulates framework chart of accounts, accounting standards and principles of reporting



IV. NEW GOVERNMENT ACCOUNTING SYSTEM

ACCRUAL BASED GOVERNMENT ACCOUNTING (General Budget Accounting Regulation)

A second General Budget Accounting Regulation was prepared and issued by the Ministry of Finance (Official Gazette-*bis*, 31.12.2005-26040)

The Regulation;

- complies with the General Government Accounting Regulation of the Public Administrations within the scope of general budget
- includes their detailed chart of accounts to be implemented
- defines accounts and explains their functions
- determines year-end operations
- indicates financial statements to be produced
- records budget implementation on cash basis
- records all other operations on accrual basis



V. GOVERNMENT FINANCIAL STATISTICS

COMPILATION OF FINANCIAL STATISTICS

- According to the New Public Financial Management and Control Law (No. 5018);
 - MoF is giving accounting services to the entities within general budget
 - Other institutions covered by the Law established their accounting units and began to apply new accounting system
- By using “say2000i” web based centralized accounting system, MoF is compiling data for the general and special budget institutions instantly
- Regulatory and supervisory institutions, social security institutions and local administrations will send their financial data to the MoF



V. GOVERNMENT FINANCIAL STATISTICS

CONSOLIDATION AND DISSEMINATION OF FINANCIAL STATISTICS

- The Ministry of Finance will consolidate accounting data;
 - at institutional level
 - separately for central government, social security institutions and local administrations
 - at general government level
- The Ministry of Finance will disseminate financial statistics for the General Government in accordance with the international standards, on the basis of accounting data.



V. GOVERNMENT FINANCIAL STATISTICS

FINANCIAL REPORTS TO BE PRODUCED

- Balance Sheet
- The Statement of Operating Results
- The Statement of Sources and Uses of Cash
- The Statement of Budget Execution Results
- Other Financial Statements



VI. REVENUE ADMINISTRATION

NEW REVENUE ADMINISTRATION

- Semi-autonomous organization under the MoF.
- Functional *versus* tax type
- Direct link between headquarter and local offices
- Focus on administrative issues. Shifting the policy function to the MoF



VII. TAX POLICY

MAJOR TAX POLICY DEVELOPMENTS

- Reform of taxes on consumption
 - Introduction of Special Consumption Tax (SCT)
- Reform of taxes on income
 - Rate reductions
 - Corporate Income Tax (CIT)
 - Personal Income Tax (PIT)
 - Base broadening
 - Investment Tax Allowance (ITA)



VII. TAX REFORM

INITIATIVES

- The CIT rate, which was reduced from 33 percent to 30 percent for corporate income earned in 2005, will be further reduced to 20 percent with a competitiveness consideration in parallel with the developments and the trends in the European Union and OECD countries
- After these rate reductions and the changes for the integration between CIT and PIT, the tax burden on dividends was reduced from 65 % in 2001 to 34 % in 2006
- On the other hand, the content of the exemptions and allowances in CIT will be narrowed. Within this framework, the ITA will be removed



VII. TAX REFORM

INITIATIVES

- A new final withholding tax was introduced for most of the capital income. The rate is 15 %. The new system puts the Turkish PIT more in line with the dual income tax approach.
- At the end of 2004, the marginal PIT rate was reduced from 40 percent to 35 percent for wage and from 45 percent to 40 percent for non-wage income to be earned in 2005. However, the structure of the PIT schedule will be rearranged by both reducing the tax rates and the number of tax brackets. The new PIT schedule will consist of four tax brackets instead of five brackets and the tax rates will be 15, 20, 27 and 35 percent, respectively. In addition to this, the different tariff schedules for wage and non-wage income will be unified.



THANK YOU FOR YOUR ATTENTION