Turkey

1. Economic situation

The Turkish economy has undergone a decade of reform including a move towards a more disciplined fiscal framework. Economic growth was well in excess of the OECD average in the years before the economic crisis. GDP then contracted by 4.8% in 2009 (Figure 1A).

The government deficit and debt levels have outperformed the OECD average over the past five years (Figures 1B and 1C), except for a somewhat higher deficit in 2007.

Turkey's economic recovery began in the last quarter of 2009 and remained strong during 2010. The OECD projects real GDP growth to remain above 5% in 2011 and 2012 supported by strength in exports, consumption and investment.

Figure 1. **Key economic indicators**

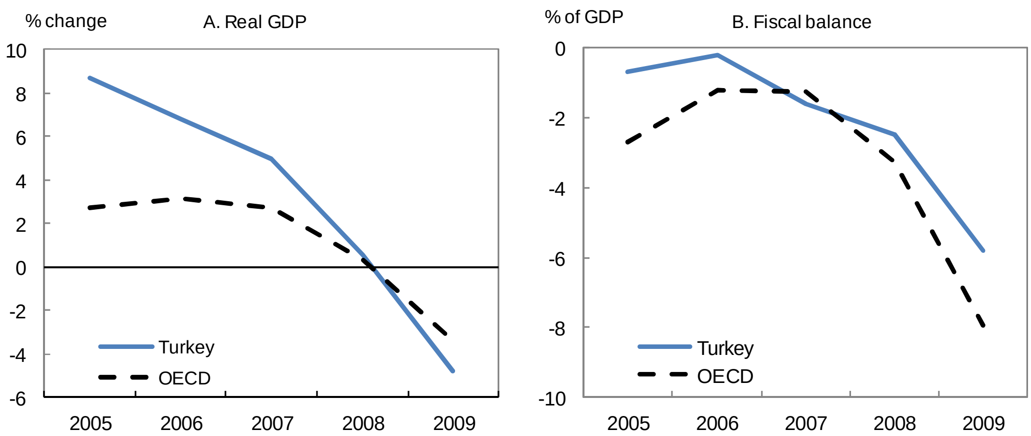
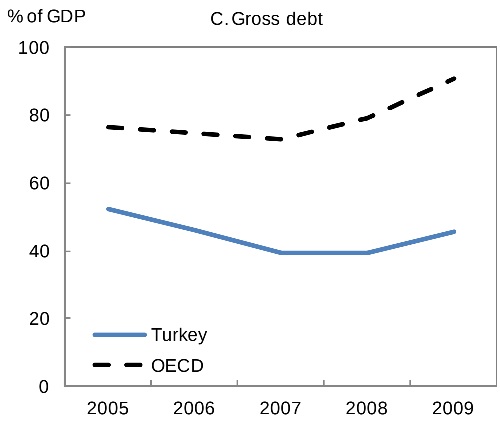


Figure 1. **Key economic indicators** *(cont'd)*



Note: Fiscal balance and gross debt figures are provided by Turkish authorities for the *OECD Economic Survey*.

Sources: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), doi: 10.1787/data-00533-en; OECD (2010), *OECD Economic Surveys: Turkey 2010*, OECD Publishing, Paris.

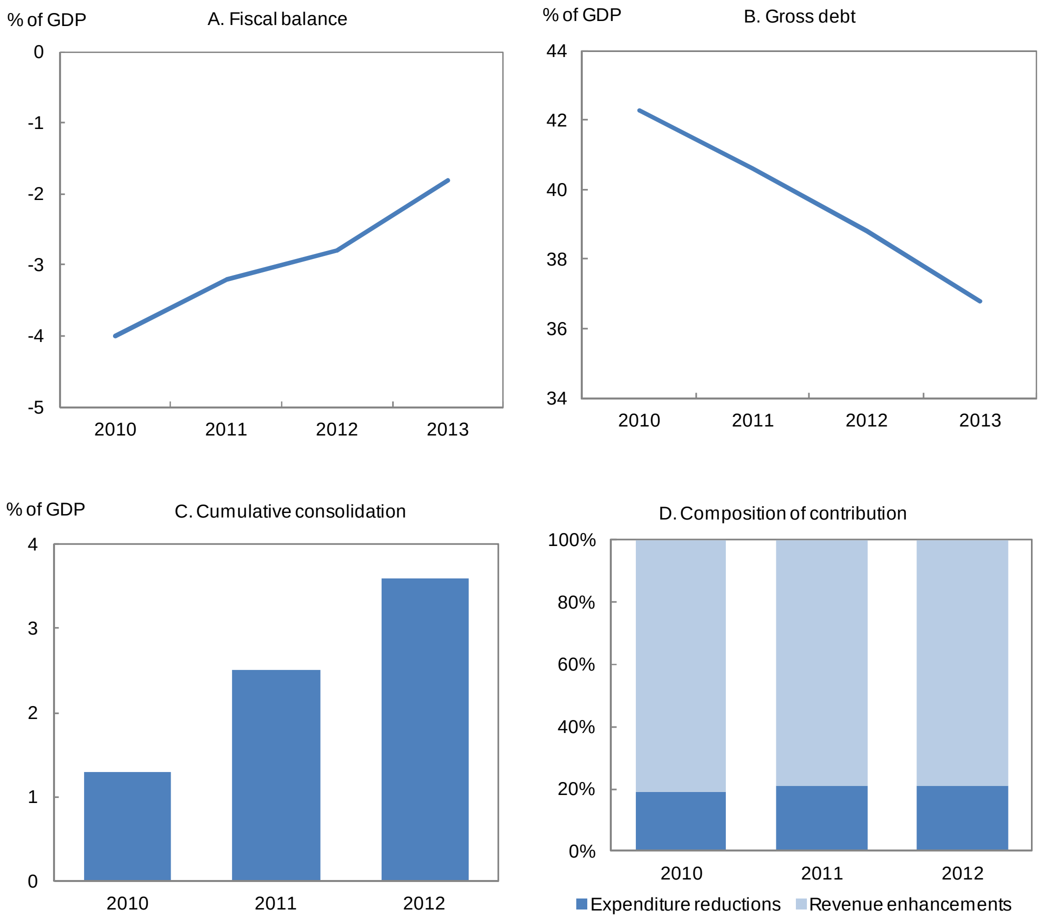
2. The government's fiscal consolidation strategy

A medium-term programme for fiscal reform was published in October 2010 aimed at improving the fiscal situation over the medium term. Plans of introducing a new fiscal rule have been postponed. Turkey's consolidation strategy targets several revenue-enhancement measures, and growth in government expenditures below the rate of nominal GDP growth.

Decade long reforms have limited the need for further fiscal consolidation following the short-lived recession. However, spending policy changes have been announced in an effort to control the cost of healthcare, public sector wages and infrastructure. In addition, revenues will benefit from an increase in excise taxes, the fight against the informal economy and the planned broadening of the tax base. Consolidation measures sum to a cumulative 3.6% of GDP over the next three years (Figure 2C) with revenue enhancements to contribute around 80% of projected savings (Figure 2D).

An updated medium-term economic programme for 2011-13 was announced in October 2010. This programme sets a deficit target of 1.8% of GDP in 2013 (Figure 2A). General government debt is expected to decline gradually from 42.3% in 2010 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

Turkey has announced spending policies that address both prudent public sector wage increases and cost savings to healthcare, public investment, and public consumption. Each of these measures will yield savings of roughly 0.2% of GDP.

Most of fiscal adjustment will take place on the revenue side since a wide range of increase in excise duties and fees has been announced. Extra excise duties on tobacco and fuel will increase revenue by almost 2% of GDP in 2010-12.

Table 1. **Major consolidation measures**

Billions TRL (% of GDP[1])

		Budgetary impact 2010-12
Expenditures		**8.7 (0.62)**
1. Operational measures		3.0 (0.22)
– Public administration	Policies have been announced that address prudent public sector wage increases.	n.a.
– Public consumption	Cost of purchasing goods and services (excluding health care and family medicine) was frozen in 2010, and is to increase at the rate of the deflator in 2011 and 2012.	3.0 (0.22)
2. Programme measures		5.7 (0.4)
– Investment expenditures	Investment expenditures are to increase by the same as the growth rate in 2010 and at growth plus the deflator rate in 2011 and 2012 (excluding transfers from unemployment insurance fund).	2.6 (0.19)
– Health	Decreasing the generic/original medicine price margin from 80% to 66%	2.9 (0.21)
Revenues		**34.0 (2.47)**
– Excise duties on tobacco and fuel	Increase to excise duties on tobacco, diesel, gasoline and LPG	27.2 (1.98)
– Other excise duties and fees	Increases to taxes on alcohol, stamp duty, mobile phones and bank branch fees	6.8 (0.49)

1. OECD calculations using OECD forecasts of nominal GDP for 2012.

Source: "OECD Fiscal Consolidation Survey 2010".

4. Institutional reforms

Turkey's planned fiscal rule remains at the draft law stage, but would target an average budget deficit (general government deficit) of 1% of GDP over the cycle.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013
Consolidation measures (cumulative)	1.3%	2.5%	3.6%	
Total deficit/surplus	-4%	-3.2%	-2.8%	-1.8%
Total level of debt	42.3%	40.6%	38.8%	36.8%
Fiscal consolidation by expenditure reductions and revenue enhancements (total = 100%)				
Expenditure reductions	19%	21%	21%	
Revenue enhancements	81%	79%	79%	

Notes: The total deficit figures exclude privatisation revenues. Total level of debt is EU-defined general government nominal debt stock.

Source: "OECD Fiscal Consolidation Survey 2010".