Turkish government raises consumption taxes

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On Saturday the Turkish Justice and Development Party (AKP) government announced plans to the raise consumption tax on automobiles, petroleum products, and alcoholic drinks to help pay off the budget deficit.

In an interview with Reuters in early September, Finance Minister Mehmet Simsek warned that some kind of spending control could be implemented since Turkey was unlikely to meet its deficit target of 1.5 percent of gross domestic product.

The Turkish economy fell short of its forecast GDP growth rate for the second quarter, lowering its target growth to 4 percent for 2012 and reducing the expected tax revenues. Privatizations carried out by the government also raised less money than expected.

As a result, the Turkish ruling elites have decided to balance the budget and trade deficit at the expense of the working class and rural population.

The government-run *Official Gazette* disclosed the tax increases. Most vehicles will see a raise in consumption tax from 37 percent to 40 percent, alcoholic drinks will see varying tax increases, with the popular spirit *raki* seeing its tax increase by 17 percent. Taxes on gasoline will go up 15 to16 percent, and diesel fuel tax will increase by 23 percent.

According to *Today's Zaman*, the decision makes "a liter of 95 octane unleaded gasoline… TL 4.72, which corresponds to over $9.92 per gallon at Monday's US dollar/Turkish lira exchange rate (US$1 = TL 1.8010) in Istanbul. The TL 0.26 tax hike equaled a 10 percent increase on the price of liquefied petroleum gas (LPG)—bringing its price to TL 2.87 per liter—which has increasingly been used by Turkish car owners who seek to make some savings in their fuel expenditures."

Prior to the tax hikes, the Turkish government taxed gasoline at €1.04 per-liter (approximately $5.06 per gallon), giving it the highest gasoline tax in Europe, according to the Petroleum Industry Foundation of Turkey. A June article by *Today's Zaman* noted that gasoline in the country's capital of Ankara already cost 4.33 Turkish lira per liter, or roughly US$8.86 per gallon.

Representatives from the automotive sector stated their opposition to the tax increases at a sector-wide meeting with Nihat Ergun, minister of science, industry and technology. The biggest fear by executives at the meeting was tax hikes scaring off foreign investment in the industry, which has been seen as one of the engines of Turkey's recent economic growth.

The Turkish auto industry recently saw exports decline by 6 percent from last year, according to the Automotive Industry Association. The domestic passenger car and light vehicle market also shrank by 15.14 percent in the first eight months of 2012 compared to the same period last year. The industry picked up in August, selling 41,236 passenger cars or 6.1 percent more than August 2011.

The decision to increase the taxes on petroleum products and automobiles may stem from petroleum being one of the largest imports to Turkey. The state-owned Turkish Petroleum Corporation earned roughly $1 billion last year, reflecting the extent of the imports.

By increasing the prices of widely consumed goods, the consumption tax hike will hit the Turkish working class particularly hard, under conditions where the benefits of economic growth in Turkey have overwhelmingly accrued to the top layers of society.

The Turkish population had an annual equivalised household disposable income of only 10,774 Turkish lira ($5,985) in 2011, according to a statement from the Turkish Statistical Institute (TUIK). Some 61.8 percent were reportedly unable to afford "unexpected expenses". It also reported a material deprivation rate of 60.4 percent, meaning the majority of the population lacked four of nine essential items in the "economic strain and durables" dimension.

TUIK also reported that 41.7 percent of the population in 2011 had a "heating problem with their dwelling". This group could be the most damaged by the tax increases that risk pushing transportation or the home heating costs—particularly with generators—above their means.

Economic growth over the past two years has witnessed greater social polarization, with the top 20 percent of households receiving 46.7 percent of disposable income in 2011—up by 0.5 percentage points since 2005, according to TUIK. In the same period the bottom 20 percent of households saw their disposable income decline by .3 percent, to 5.8 percent.