Budgeting in Turkey

Dirk-Jan Kraan
Daniel Bergvall
Ian Hawkesworth

OECD Secretariat
Subjects of presentation

• General characteristics of the budget
• Key features of the budget formulation process
• Budget documentation for Parliament
## Growth in real GDP

**Per cent change on previous year**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU 15</strong></td>
<td>1.1</td>
<td>1.1</td>
<td>2.3</td>
<td>1.5</td>
<td>2.7</td>
<td>2.2</td>
<td>2.3</td>
<td>n.a</td>
</tr>
<tr>
<td><strong>EU 10 (new)</strong></td>
<td>4.1</td>
<td>4.3</td>
<td>5.3</td>
<td>5.8</td>
<td>6.2</td>
<td>5.5</td>
<td>5.1</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Turkey (EU)</strong></td>
<td>7.9</td>
<td>5.8</td>
<td>8.9</td>
<td>7.4</td>
<td>6.0</td>
<td>6.4</td>
<td>6.3</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Turkey (PEP2006)</strong></td>
<td>7.9</td>
<td>5.8</td>
<td>8.9</td>
<td>7.4</td>
<td>6.0</td>
<td>5.0</td>
<td>5.7</td>
<td>6.0</td>
</tr>
</tbody>
</table>
## Size of central and local government

<table>
<thead>
<tr>
<th></th>
<th>Per cent of primary general government expenditure</th>
<th>Per cent of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government and Social Security</td>
<td>90.5</td>
<td>33.3</td>
</tr>
<tr>
<td>Local Government</td>
<td>9.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>
Central government expenditure and revenues (per cent of GDP)
## General and Central government deficit

**Per cent of GDP**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary balance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central government</td>
<td>4.2</td>
<td>5.1</td>
<td>6.3</td>
<td>8.0</td>
<td>5.5</td>
<td>5.7</td>
<td>5.6</td>
<td>5.6</td>
</tr>
<tr>
<td>Public sector</td>
<td>4.1</td>
<td>6.4</td>
<td>7.0</td>
<td>6.5</td>
<td>6.7</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Total balance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central government</td>
<td>-14.5</td>
<td>-11.2</td>
<td>-6.8</td>
<td>-1.4</td>
<td>-2.1</td>
<td>-1.4</td>
<td>-0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Public sector</td>
<td>-13.6</td>
<td>-9.0</td>
<td>-4.7</td>
<td>-1.9</td>
<td>-0.9</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>
Net debt of public sector (per cent of GDP)

Forecasts
Key features of budget formulation process

- Centralisation and fragmentation
- IMF Stand-by agreement as de facto fiscal rule
- Detailed line item classification
Centralisation and fragmentation

- Strong top-down steering
- Two central budget authorities
- Complicated planning process
From planning to budgeting

Sectoral and thematic plans, Regional development plans, Provincial development plans, etc. → Development Plan/Long-term strategy (SPO) → Medium Term Programme (SPO) → Annual Programme (SPO) → Annual Public Investment Programme (SPO) → Medium-Term Fiscal Plan (MoF) → Annual budget (MoF)
Recommendations

a. Replace targets by ceilings during budget formulation

b. Introduce request stage for line ministries and agencies

c. Streamline planning procedures

d. Create central forecasting and policy analysis institution
The IMF stand-by agreement as de facto fiscal rule

• Target: primary surplus of 6.5 per cent

• Revenue windfalls can be used for debt redemption, tax relief and investment

• Expenditure windfalls can be used for new spending

• Stand-by agreement expires in 2008
Recommendations

a. Maintain medium term expenditure target based on primary surplus, to be determined in consultation with EU and IMF

b. Move in the longer run to medium term expenditure target based on total budget balance below 3 per cent GDP
Detailed line item budget

• Combination of institutional, functional, financing and economic classifications

• Around 34,500 line item appropriations
Recommendations

a. Reduce the number of line items to 10-20 per line ministry

b. Use only institutional/programmatic classification for budget

c. Maintain the existing classification for the financial accounts
Budget documentation for Parliament

1. Multi-annual estimates disconnected from budget line item estimates

2. Outcome estimates for current and previous year disconnected from budget line item estimates

3. No “horizontal” explanation of budget estimates and multi-annual estimates

4. No “vertical” explanation of budget estimates and multi-annual estimates
Recommendations

a. Put outcomes of current and previous year as well as budget estimates and multi-annual estimates on the same line:

<table>
<thead>
<tr>
<th>t-2</th>
<th>t-1</th>
<th>budget</th>
<th>t+1</th>
<th>t+2</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

b. Provide horizontal and vertical explanations for each line item