

# 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

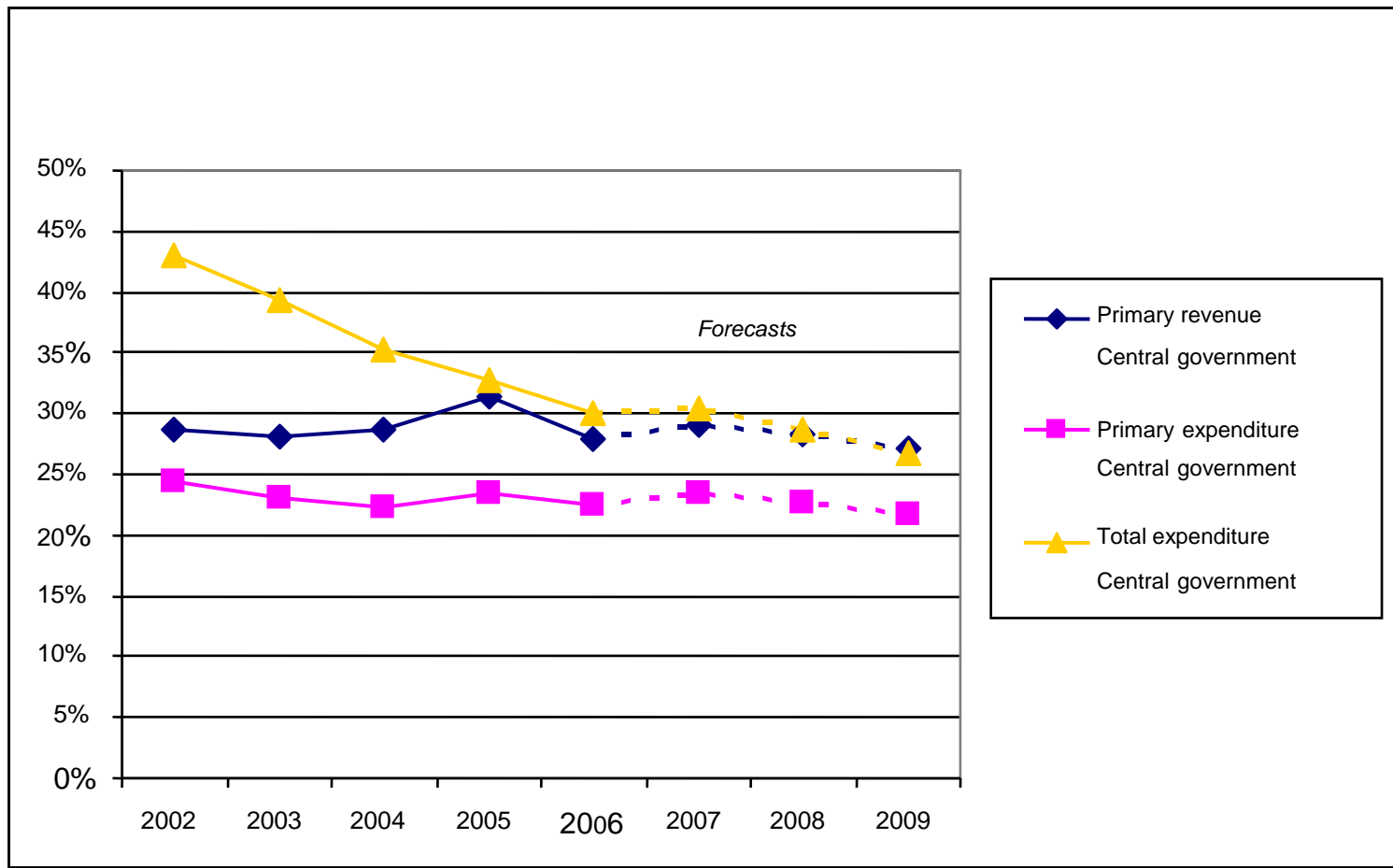
Per cent change on previous year

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>EU 15</b>	1.1	1.1	2.3	1.5	2.7	2.2	2.3	n.a
<b>EU 10 (new)</b>	4.1	4.3	5.3	5.8	6.2	5.5	5.1	n.a.
<b>Turkey (EU)</b>	7.9	5.8	8.9	7.4	6.0	6.4	6.3	n.a.
<b>Turkey (PEP2006)</b>	7.9	5.8	8.9	7.4	6.0	5.0	5.7	6.0

# Size of central and local government

	<b>Per cent of primary general government expenditure</b>	<b>Per cent of GDP</b>
Central Government and Social Security	90,5	33.3
Local Government	9.5	3.5

# Central government expenditure and revenues (per cent of GDP)

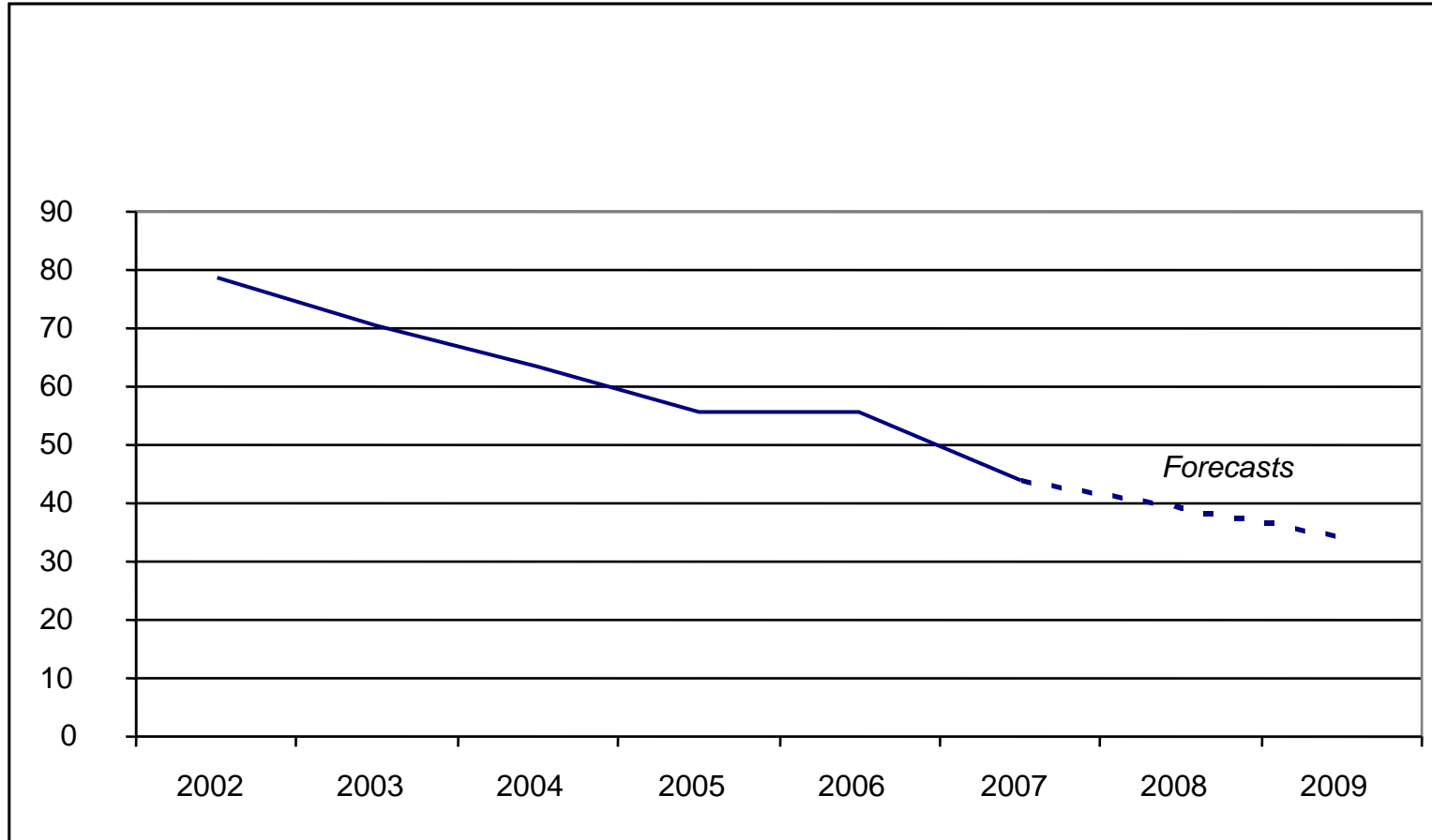


# General and Central government deficit

Per cent of GDP

	2002	2003	2004	2005	2006	2007	2008	2009
<b>Primary balance Central government</b>	4.2	5.1	6.3	8	5.5	5.7	5.6	5.6
<b>Primary balance Public sector</b>	4.1	6.4	7	6.5	6.7	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
<b>Total balance Central government</b>	-14.5	-11.2	-6.8	-1.4	-2.1	-1.4	- 0.4	0.6
<b>Total balance Public sector</b>	-13.6	-9	-4.7	-1.9	-0.9	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>

# Net debt of public sector (per cent of GDP)



# Key features of budget formulation process

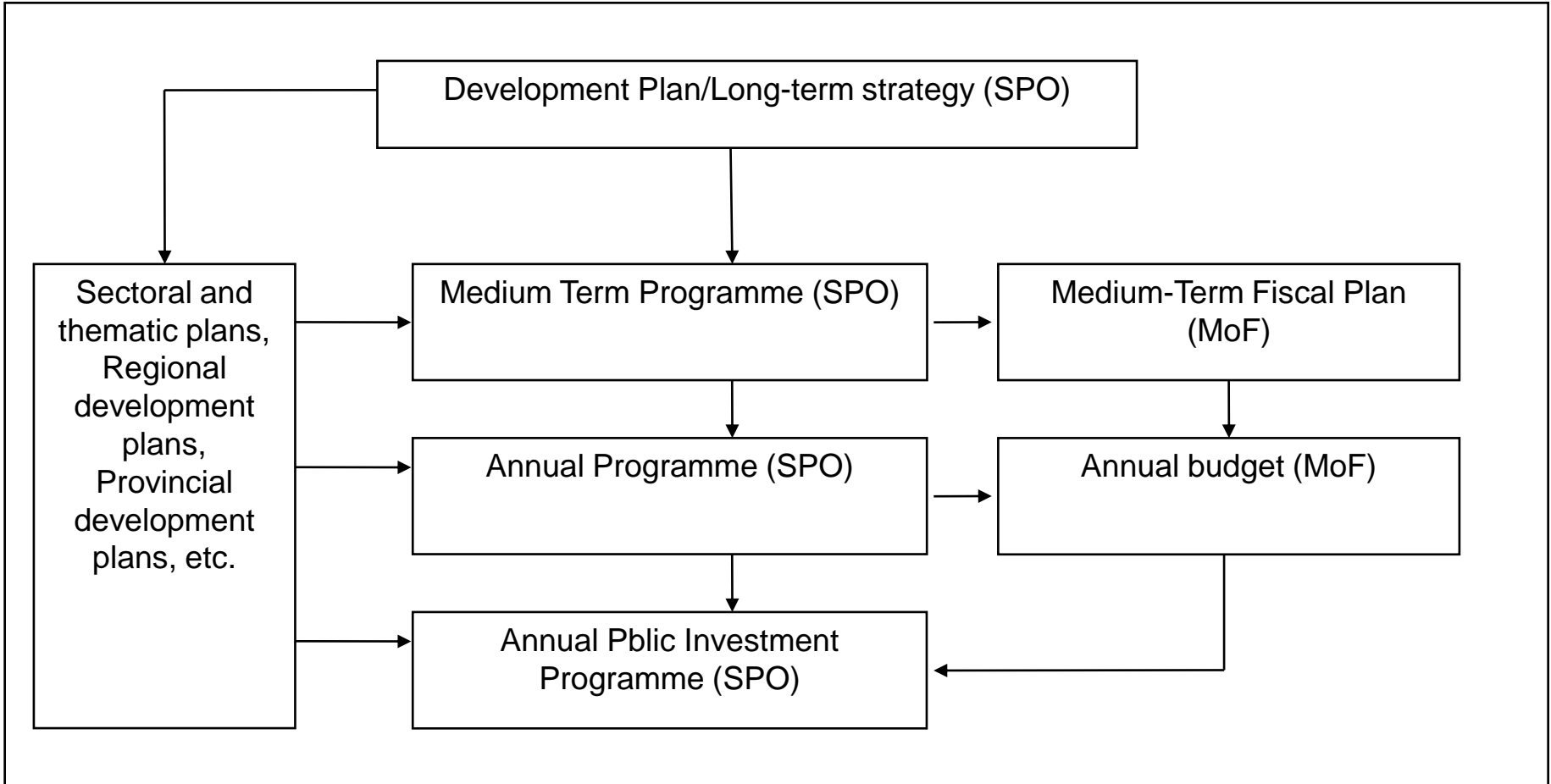
- **Centralisation and fragmentation**
- **IMF Stand-by agreement as de facto fiscal rule**
- **Detailed line item classification**



# Centralisation and fragmentation

- **Strong top-down steering**
- **Two central budget authorities**
- **Complicated planning process**

# From planning to budgeting



# 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:

<b>t-2</b>	<b>t-1</b>	<b>budget</b>	<b>t+1</b>	<b>t+2</b>

- b. Provide horizontal and vertical explanations for each line item