Impact of Increased Surveillance on EU Candidate Countries: Medium-Term Fiscal Stance of Turkey

Serdar Oztopal

6th Meeting of Senior Budget Officials of CESEE Countries
Budva, Montenegro
September 24th, 2010
Content

• A decade of fiscal consolidation as a general perspective

• Global financial turmoil and fiscal impact

• Medium Term Programme (MTP)

• Increased surveillance framework

• Impact on Turkey as a candidate country
Past Decade

- Emphasis on fiscal discipline after 2001 economic crisis together with the widening of the government sector and betterment of budget process in line with best practices (High primary surplus target)

- Tight monetary policy to reduce inflation (Inflation targetting and improved Central Bank Law)

- Stand-by agreement with the IMF (Targeting high primary surpluses of the public sector)

- Decade of structural reforms

- Privatization of state enterprises
Inflation and Expectations (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6.5</td>
</tr>
<tr>
<td>2011</td>
<td>5.5</td>
</tr>
<tr>
<td>2012</td>
<td>5.0</td>
</tr>
</tbody>
</table>
2008-2009: Global Financial Turmoil

- Turkey had very limited exposure to mortgage related securities
- The crisis hit the country through trade (50% of exports to the Euro Area) and credit channels (limited access to international funds)
- Negative expectations lowered internal demand and delayed investment decisions

Fiscal response: tax credits on consumer goods and incentives for private sector investments
Adopted Fiscal Measures

- Tax credit for investments, and temporary tax reductions on consumption
- Improvement of salaries of civil servants and retirees
- Reduction of social security premium (5 pp)
- Increase in public infrastructure investment
- Fiscal measures totalling 5.3% of GDP

Challenge: restoring fiscal sustainability with adequate “exit strategy”
General Government Deficit

General Government Deficit / GDP (%)

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

24,5 10,9 10,2 9,0 4,5 0,6 -0,8 2,2 5,4
General Government Debt
Exit Strategy

• In September 2009 a Medium Term Programme for the period 2010-2012 has been released

Main Goals of the MTP:
– Bring government deficit to GDP close to 3% by the end of 2012 (Mainly through cutting expenditure)
– Keep government debt to GDP ratio at sustainable levels
– Ensure sustained recovery and mitigate future macroeconomic volatility

Policy To Be Implemented: Control budget expenditure
– Avoid civil servants’ salary increase above inflation
– Limit new recruitment in public sector
– Determine SOE prices to ensure balanced budget
MTP Targets: Government Revenue and Expenditure
Better Outcomes Than Expected

- Strong economic recovery since the last quarter of 2009 generated high increase in tax revenues
- Revenue performance helped restoring both budget and debt sustainability
- 2010 outcomes are expected to be much better than envisaged in the MTP
- 2009 MTP’s goal to bring the deficit below 3% of GDP in 2012
MTP Targets: GDP Growth (%)
MTP Targets: Government Deficit / GDP Ratio (%)
MTP Targets: Government Debt / GDP Ratio (%)
Guideline Set For Increased Surveillance

European Council agreed on (Conclusions of the European Council – 17 June 2010):

- Strengthening the preventive and corrective arms of the Stability and Growth Pact (SGP)
- Emphasize on debt and sustainability
- Present Stability and Convergence Programmes to the Commission
- Ensure that all Member States have national budgetary fiscal rules and medium term budgetary frameworks
- Ensure the quality of fiscal data
Turkey’s Position

• **Improved quality of fiscal data**
  Ministry of Finance disseminates general government data as well as central government data
  Data dissemination calendar released beforehand

• **Medium term fiscal framework**
  Sets targets for the next three years and serves as a base for the preparation of the budget

• **Debt sustainability analysis**
  Already taken into account in the context of the medium term fiscal framework

• **Presentation of the stability and growth programme to the Commission**
  As a candidate country, Turkey submits its Pre-Accession Economic Program to the Commission
  The report covers all the main economic policy issues for the next three years