



Republic of Turkey  
Undersecretariat of Treasury

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

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6<sup>th</sup> Meeting of Senior Budget Officials of CESEE Countries  
Budva, Montenegro  
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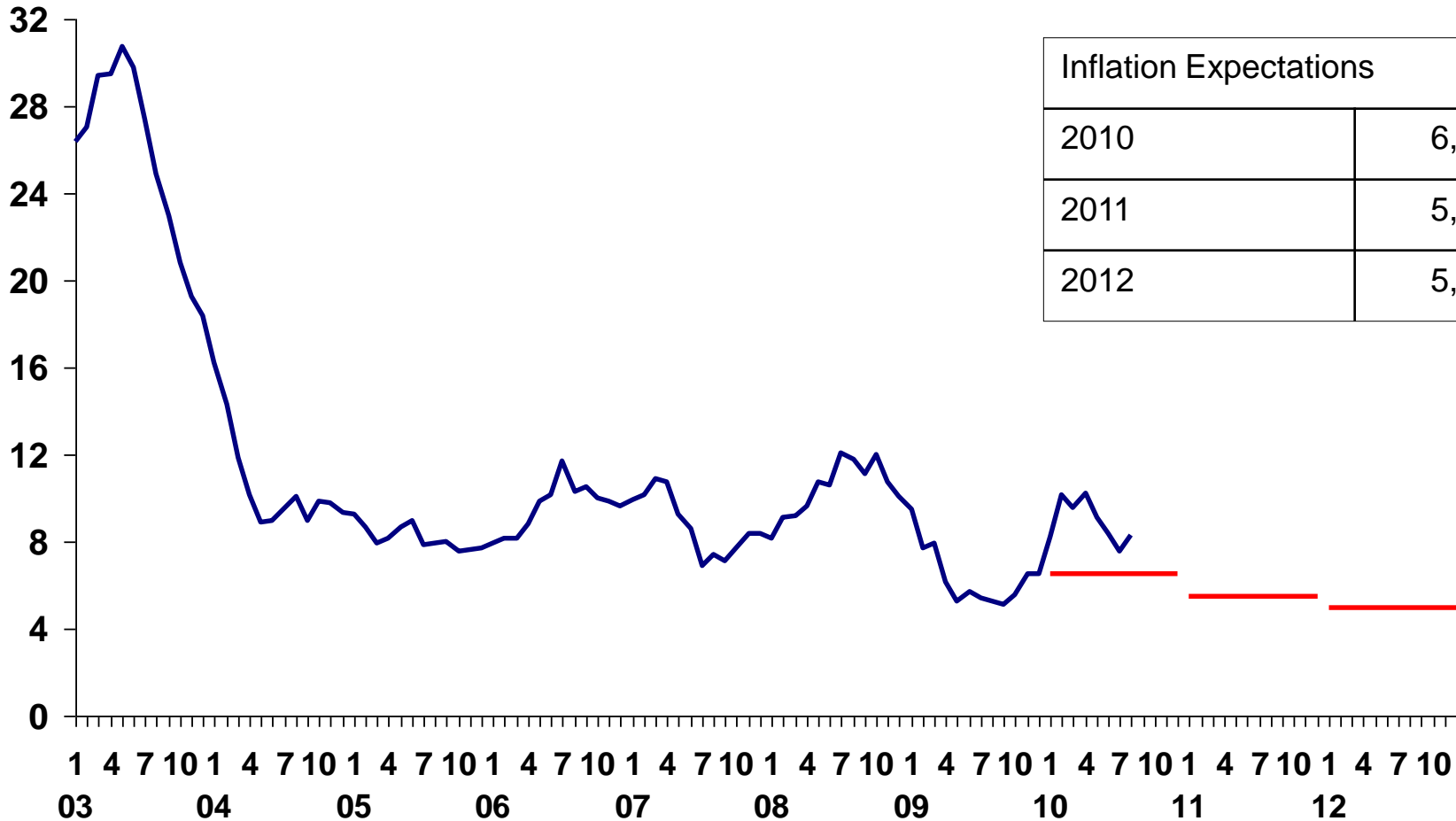
# Content

- 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 (%)



Inflation Expectations	
2010	6,5
2011	5,5
2012	5,0

# 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

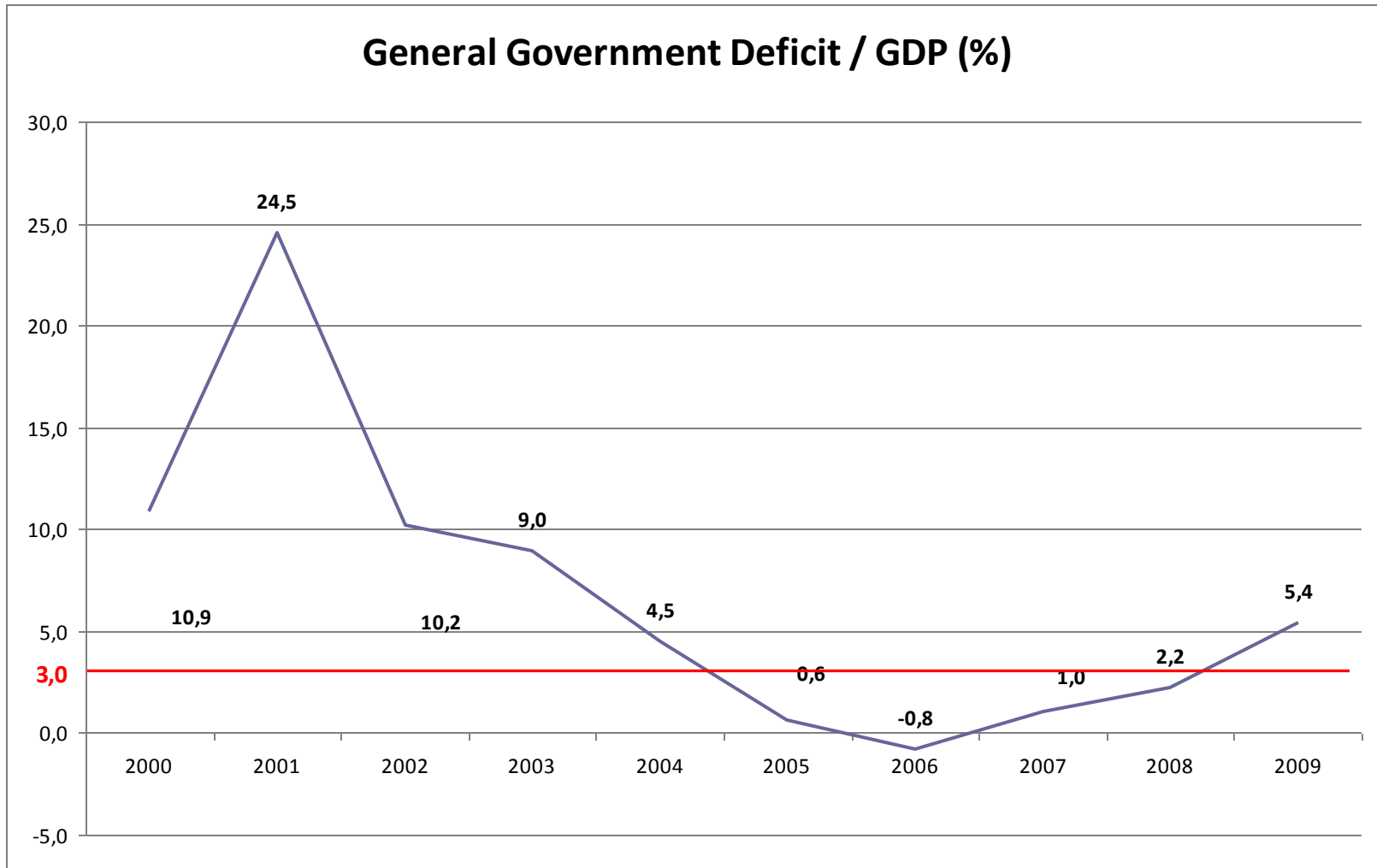
→ Fiscal response: tax credits on consumer goods and incentives for private sector investments

# Adopted Fiscal Measures

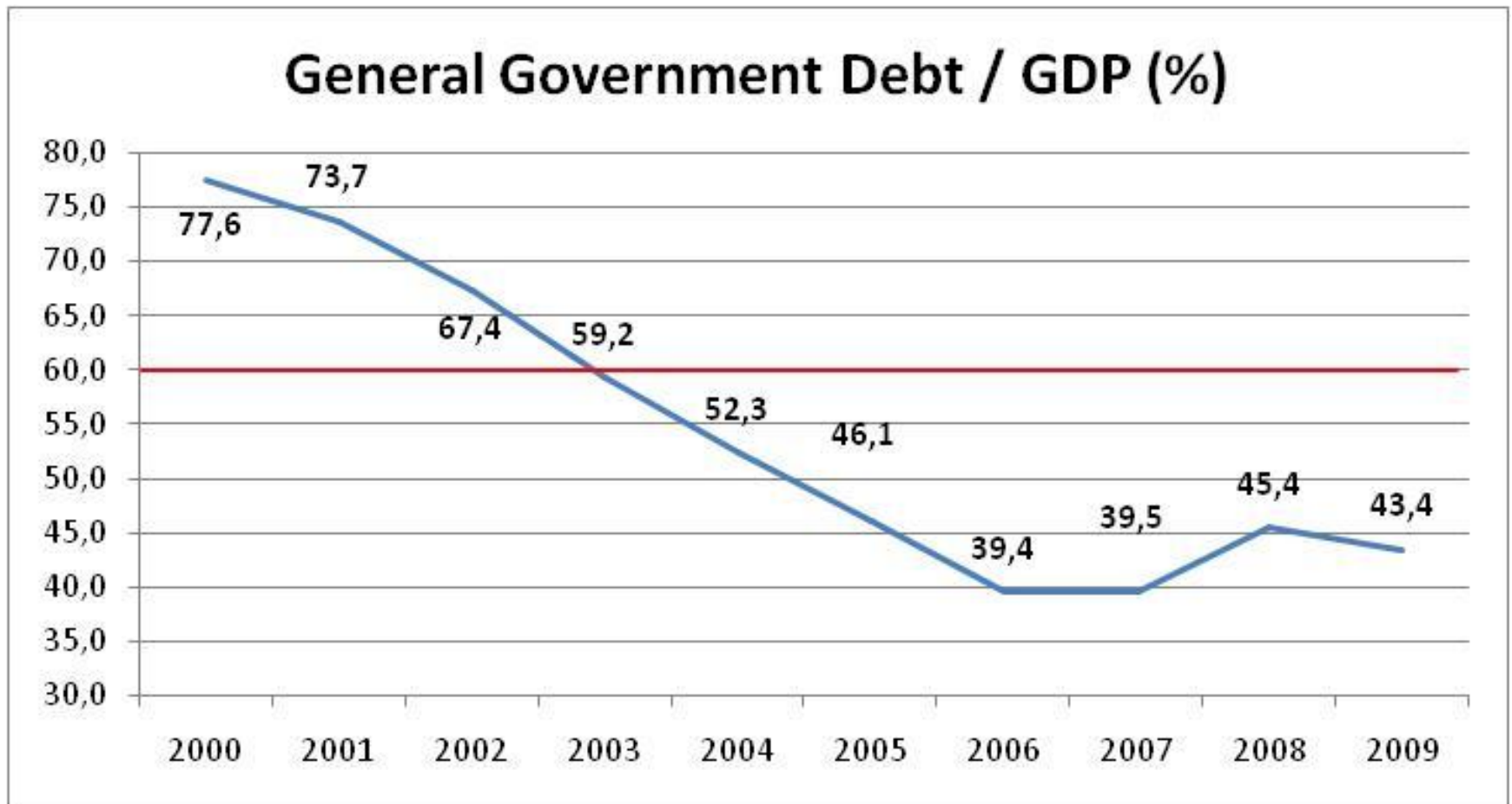
- Tax credit for investments, and temporary tax reductions on consumption
- Improvement of salaries of civil servants and retirees
- Reduction of social security premium (5 pp)
- Increase in public infrastructure investment
- Fiscal measures totalling 5,3% of GDP

→ Challenge: restoring fiscal sustainability with adequate “exit strategy”

# General Government Deficit



# General Government Debt





# Exit Strategy

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

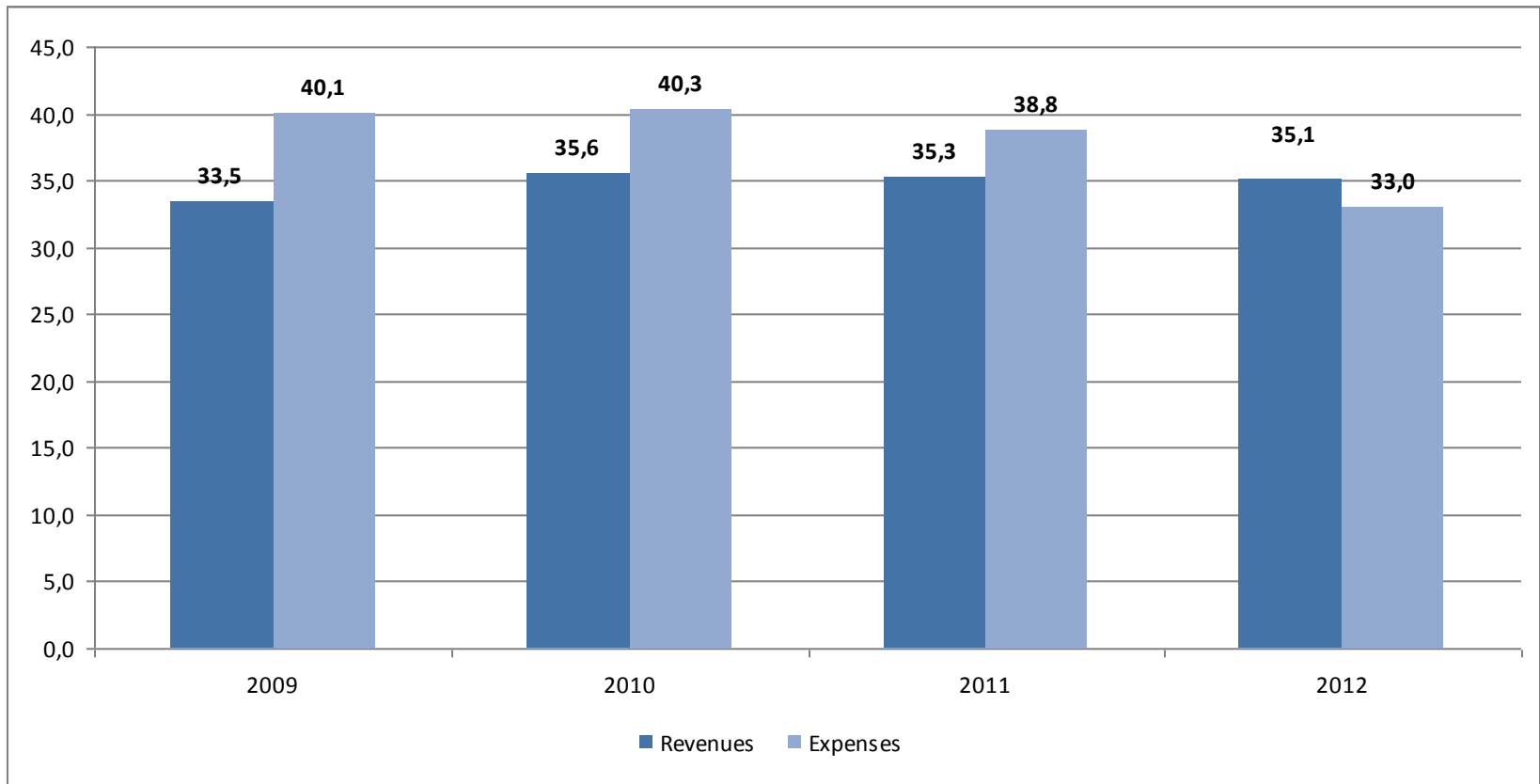
## Main Goals of the MTP:

- 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

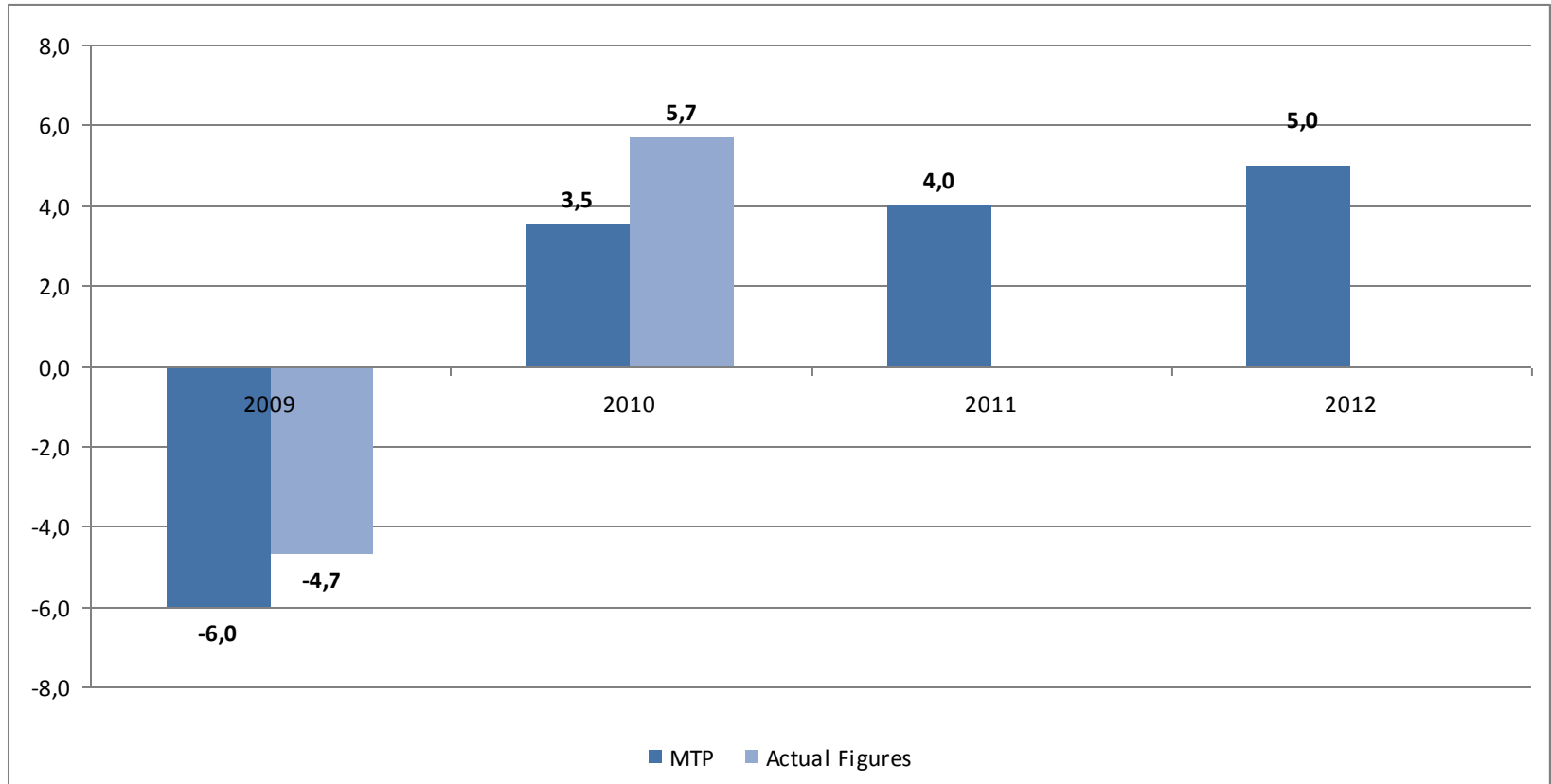
# MTP Targets: Government Revenue and Expenditure



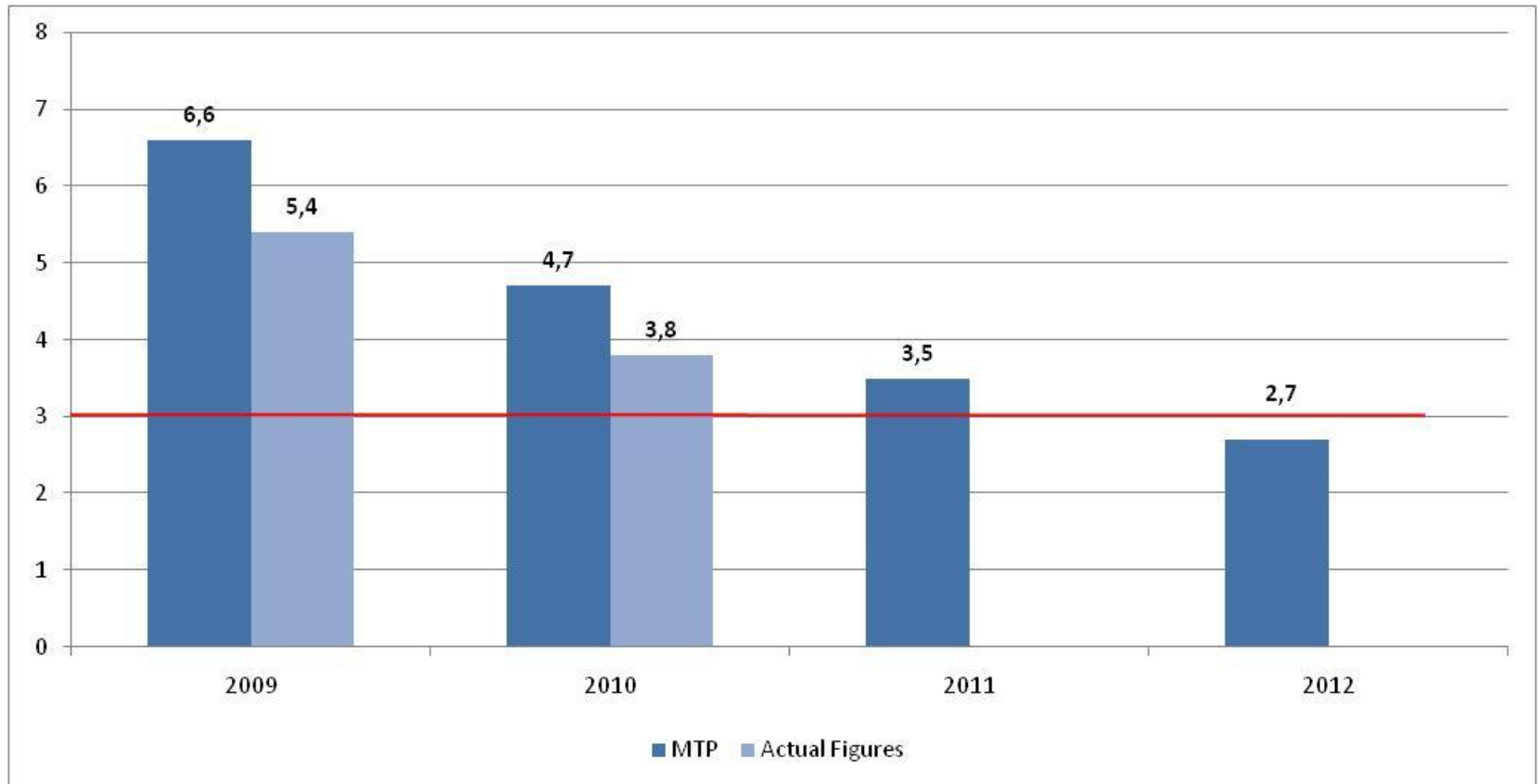
# Better Outcomes Than Expected

- 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

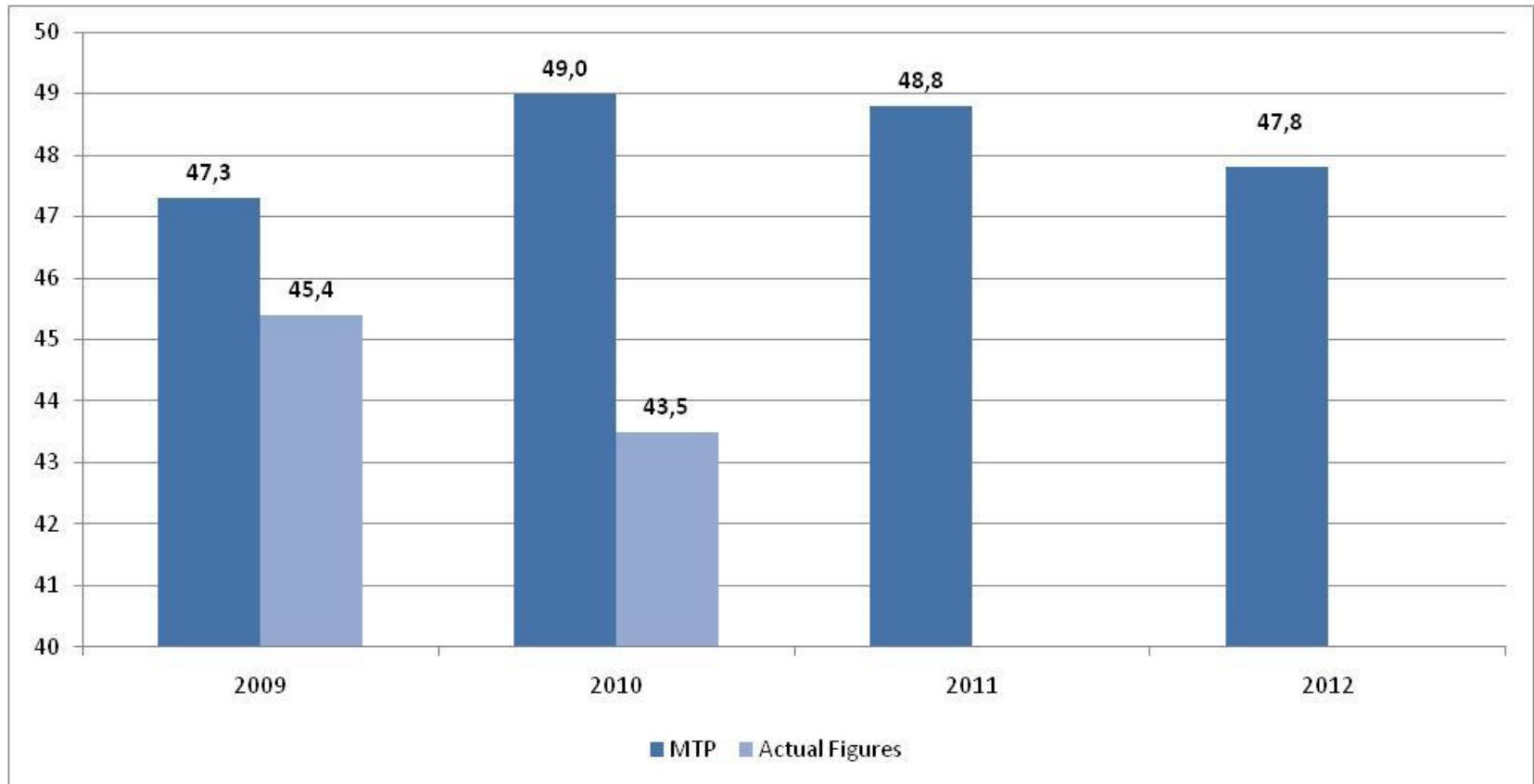
# MTP Targets: GDP Growth (%)



# 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