

Budgeting in Turkey

by

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The Turkish budget process has three features which set it apart from other OECD countries: a centralised yet fragmented decision-making process; the IMF standby agreement as a de facto fiscal rule; and a very detailed line-item classification. This article analyses these features and makes suggestions for policy adjustment to improve effectiveness and efficiency. The article examines all stages of the budget process (preparation, parliamentary approval, execution, and accounting and auditing) and assesses Turkey's recent rapid progress with reform. The article offers suggestions for next steps and new priorities for Turkey in the light of other OECD country experience.

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1. Introduction

1.1. General characteristics

Turkey is a member of the OECD which joined the organisation at its creation in 1960. Since then there has been remarkable economic progress in the country, but this development has been accompanied by many shocks and upheavals. These convulsions originated sometimes in external economic circumstances, such as the oil crises of the 1970s and the Russian default of 1998, but more often in internal economic and political circumstances. Since the 1960s, Turkey has gone through many political and economic crises with severe repercussions on the management of public finance. The latest crisis occurred in 2001 and resulted in a very difficult economic situation. Since then a positive development has begun which has led to rapid economic growth and enormous improvements in public finance management. This article takes stock of these improvements and makes some suggestions about next steps in the light of experiences with budgetary reform in other OECD countries.

Turkey is a large country with a population of 72.1 million, situated partly on European and partly on Asian soil. The population is relatively young compared to western Europe. The average annual rate of change of the population has in recent decades been comparatively high (1.6% in the period 1995-2005; OECD, 2006a), but has declined rapidly since 2000 (from 1.41% in 2000 to 1.26% in 2005). By 2010, the number of inhabitants is expected to be around 76 million, somewhat smaller than the population of the most populous EU country, Germany (84 million in 2010).

Most of the Turkish people are Muslim. Since the foundation of the Republic in 1923 by Mustafa Kemal Ataturk, Turkey has been a secular republic. At the time of its foundation, the system of governance of the Turkish Republic was inspired by that of the French Republic. Some features of this system are still present and are considered as important or even essential parts of the constitutional or legal structure of the Turkish state. Apart from a strong emphasis on the secularity of the state, these features include: the strong centralisation of service provision with uniform countrywide quality standards; the limited role of private initiative in health care, education and social services; the absence of sub-national tax autonomy; and the special position of the civil service. In the area of public finance management, typical French republican features include the judicial role of the Court of Accounts,

the centralisation of the accounting function for the entire central government in the Ministry of Finance and, until very recently, the “Napoleonic” system of preventive spending control by the Ministry of Finance.

According to the Constitution, Turkey has a unicameral parliament, the Grand National Assembly, with 550 seats. It is directly elected by universal suffrage on the basis of proportional representation with an electoral threshold of 10% of the total poll. The Assembly is elected for a period of five years. As a consequence of the relatively high threshold, it is difficult for small parties to enter parliament. Since the elections of 2002, there are two main parties in parliament, namely the Justice and Development Party led by Mr. Erdogan, the present Prime Minister, with 352 seats on the basis of 34% of the electoral vote, and the Republican Peoples Party led by Mr. Baykal, with 151 seats on the basis of 19% of the vote. In addition to the two main parties, five smaller parties (28 seats) and independent deputies (11 seats) are represented in parliament, mainly as a consequence of resignations and realignments.¹

Of the working population of 22.3 million (civilian employment), about 27.3% (6.1 million) is employed in agriculture (as opposed to 6% on average in the OECD area). The sectors of industry and construction employ 25.4% (5.7 million), and the services sector 47.3% (10.2 million). The population that makes its living from agriculture is mostly scattered over villages in the countryside. There are 34 500 villages in Turkey with their own elementary form of local administration. Industry and service employment is mainly concentrated in the big cities (Istanbul 10 million, Ankara 4 million and Izmir 3.4 million inhabitants) and in a number of fast growing medium-sized cities (“Anatolian tigers” such as Bursa, Denizli, Diyarbakir, Eskisehir, Gaziantep, Kayseri and Konya). In view of the low productivity of labour in agriculture (less than a third of that in industry), this leads to a large dispersion in income and prosperity between the cities and the countryside, which in turn induces a continuous exit from agricultural employment to urban employment (around 10% of agricultural employment between 2002 and 2005).

Although Turkey has made considerable progress since the financial crisis of 2001, there is still a long way to go before the Turkish economy can achieve the level of prosperity which characterises the member states of the European Union. GDP per person measured at purchasing value of the currency is a third of the EU average. In view of the large population growth, Turkey would have to achieve a real growth of 4% per year just to make sure that the gap with the EU does not widen. Real growth in the 1990s amounted to 3.1% a year. Only since the beginning of the century has the growth performance improved, albeit at a quite volatile rate (between 5 and 10%). Real growth is now somewhat higher than the average in the new central European

and Baltic EU member states, but its take-off level has been much lower. Convergence with the European level of prosperity will not occur unless Turkey grows at a rate of at least 8% a year for the next 25-50 years.

The macroeconomic performance of Turkey is impaired by a number of structural shortcomings that the government has put at the top of the political agenda only since the financial crisis of 2001. Two of these shortcomings which have a major impact on the budget process are: 1) the large size of the informal and half-formal parts of the Turkish economy; and 2) a lack of institutional barriers against off-budget and back-door public spending.

It is estimated that of the 18.9 million persons working in the private business sector, 50.1% are informally employed (88.2% in the agricultural, forestry, hunting and fishing sector; 32% in the manufacturing sector; 64.3% in the construction sector; 43.8% in the wholesale, retail, trade, restaurant and hotel sector; 39% in the transportation, communication and storage sector; and 21.6% in the finance, insurance, real estate and business service sector). Informal firms are mostly micro-enterprises (family enterprises and self employment). Half-formal firms are mostly medium-sized enterprises (between 10 and 249 employees). Informal firms avoid labour regulations and labour taxes, environmental and safety regulations, corporate and other income taxes, and value-added taxes. Half-formal firms, typically run by families and employing both formal and informal personnel, while being registered, comply only partly with regulations and tax obligations. Generally, they use special arrangements to avoid the burdens of formality. A popular avenue is to employ workers under sub-contracting agreements, outside company payrolls (OECD, 2006a).

A lax attitude on public spending control has been characteristic for consecutive cabinets in the last decades of the 20th century. The state has played a leading part in the development of the Turkish economy since the foundation of the Republic. The first factories built in the 1930s were owned and operated by the state. The same was true for mines, utilities and railways. Most banks were also state owned. In the second half of the century, consecutive governments promised to reduce the stake of the public sector in the economy but it has not happened. Privatisation never took off, and the public sector remained overmanned. Its efficiency was impaired by political interference. Transfers were made for political reasons to business sectors (agriculture, construction, transport) through credits from state banks, covered by state guarantees (quasi-fiscal activities), off-budget spending (loans, guarantees, off-budget revolving funds) and back-door spending (tax exemptions, entitlements in substantive legislation). Similarly, there was a deeply ingrained culture of electoral spending for regional development through bank credit and for social purposes through extension of entitlements without funding. The resulting losses were often covered by Treasury

borrowing from the Central Bank which until 2001 was not independent but under tight political control. In the last three decades of the 20th century, annual inflation oscillated between 60% and 100% or more. In 2001, a number of state banks had to be rescued by the central government in the worst financial crisis that the Turkish Republic had ever experienced. The crisis led to an IMF standby agreement, in which the Turkish government committed itself to a programme of far-reaching structural and institutional reform.

Since the beginning of the 21st century, macroeconomic and fiscal developments are promising. The Turkish authorities seem firmly committed to the reform programme. Reform of the budget process is only a small part of this programme and is dependent on structural reform in related areas such as deregulation, tax relief, public enterprise reform, social security reform and privatisation. Deregulation, tax relief and social security reform are needed to rein in the informal economy. Public enterprise reform and privatisation are needed to cut off quasi-fiscal activities and off-budget spending on the part of publicly owned entities. However, in combination with these structural reforms across a broad front, institutional reform of the budget process has to play its own important role. Without other structural reforms, the budget process cannot successfully be improved. Without improvement of the budget process, structural reforms in other sectors may remain ineffective or become undermined.

Since the beginning of the 21st century, Turkey's growth record has been good. Until 2005, the country's economic performance was 1.5% to 3.5% better than the average of the 10 new EU countries. After 2001, due to strong currency devaluation after the fiscal crisis, initially net exports started to grow. Simultaneously, capital inflows increased, both in portfolio investment and foreign direct investment, mainly as a consequence of the start of the EU accession process, political stability and increasing confidence in macroeconomic policy. However, capital inflows also led to gradual currency appreciation in subsequent years. Together with strong domestic demand, this provoked a widening of the current account deficit, which reached a record level of more than 6% of GDP in 2005. A tightening of the international capital market conditions in the spring of 2006 (due to decreased risk appetites in developed countries) triggered once more a sharp and sudden currency depreciation in May-June 2006. Following this depreciation, inflation surged well beyond the end-of-year target set in the IMF agreement. The Central Bank reacted with sharp successive increases of its policy interest rates which reached a level of 17.5% in July 2006. As a consequence, real incomes, household consumption and business investment were weakened in the second part of 2006. On the other hand, exporting sectors picked up again due to the depreciation.

While both exports and domestic demand have been increasing in all major sectors of the economy, some sectors have been more exposed to competition from low-wage Asian countries and have seen their profit margins squeezed and their growth impaired. Highly competitive sectors which experienced no profit squeeze as a consequence of Asian competition and in which a strong increase in employment took place since the beginning of the 21st century included the car and electronic industries. Declining sectors that lost market share and employment included textiles and clothing. The intermediate sectors that combined good and bad performance in competitive markets and had a modest increase of employment included food and plastics. Table 1 shows the total growth record of the Turkish economy since 2002 in comparison to both the older EU15 countries and the 10 central European and Baltic accession countries. Forecasts from the EU and from the Turkish government are also shown.

Table 1. Growth in real GDP
Per cent change on previous year

	2002	2003	2004	2005	2006	2007	2008	2009
EU15	1.1	1.1	2.3	1.5	2.7	2.2	2.3	<i>n.a.</i>
EU10 (new)	4.1	4.3	5.3	5.8	6.2	5.5	5.1	<i>n.a.</i>
Turkey (EU)	7.9	5.8	8.9	7.4	6.0	6.4	6.3	<i>n.a.</i>
Turkey (PEP 2006)	7.9	5.8	8.9	7.4	6.0	5.0	5.7	6.0

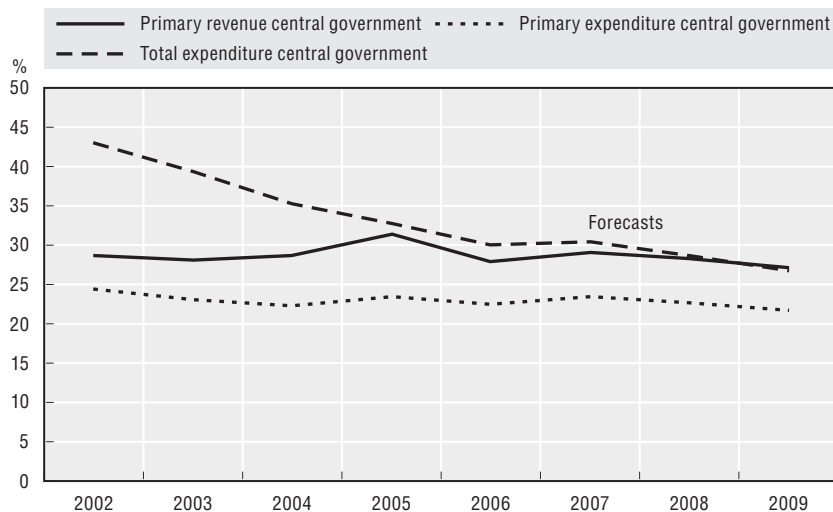
Sources: Realisations: Eurostat; forecast EU15, EU10 and Turkey (EU): Eurostat; forecast Turkey (PEP): Pre-accession Economic Programme 2006, SPO, Turkey.

Fiscal policy is a cornerstone of Turkey's macroeconomic strategy. Since the crisis of 2001, Turkey has achieved very impressive fiscal outcomes, especially for central government. A significant problem for the assessment of Turkish fiscal policy is that, apart from Mexico, Turkey is the only OECD country that does not publish government fiscal accounts according to national accounting standards (SNA93 or ESA95). However, in 2006, the accounting framework for the government sector was revised in accordance with international standards (although not yet entirely, see Box 1). Figure 1 shows the development of primary and total expenditures and revenues of central government. The latter numbers are the targets of the Medium-Term Fiscal Plan as submitted to parliament with the 2007 budget.

The IMF monitors Turkish fiscal policy as part of consecutive standby agreements. The latest agreement was concluded in May 2005 and will expire in May 2008. The IMF has developed its own performance measure, named the Public Sector Primary Balance (Box 1). Table 2 shows the development of the

Figure 1. **General government expenditure and revenues**

Per cent of GDP



Note: The numbers for 2002-05 have been retrospectively revised in accordance with international accounting standards (see Box 1).

Sources: Years 2002-06: Financial Accounts Central Government, Ministry of Finance, Turkey. Years 2007-09: Medium-Term Fiscal Plan, Ministry of Finance, Turkey.

Table 2. **General government deficit**

Per cent of GDP

	2002	2003	2004	2005	2006	2007	2008	2009
Primary balance central government	3.5	4.9	5.3	5.5	5.8	5.2	5.0	5.0
Primary balance public sector ¹	5.1	6.2	7.2	6.8	6.6	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Total balance central government	-14.5	-11.2	-6.8	-1.4	-0.7	-2.7	-0.8	0.9
Total balance public sector ¹	-12.5	-9.1	-4.6	-0.3	-0.4	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>

1. IMF definition.

Sources: Estimates IMF and Ministry of Finance, Turkey, April 2007.

central government balance as well as the public sector primary balance since 2002. The IMF programme target was set at 6.5% of GDP in 2002. Since then, the target has been exceeded twice: in 2004 (by 0.7%) and 2005 (by 0.3%).

The public debt ratio has declined in recent years far more rapidly than programmed. This was mainly due to higher-than-expected privatisation receipts, higher primary surplus, stronger-than-projected economic growth, an appreciating lira, and a further decline in the domestic interest rate (apart from the recent jump). The financing structure of public debt has also improved in recent years. The share of foreign currency debt has been

Box 1. The scope of the government sector in Turkish financial accounts

The general government sector in Turkey is divided into three parts: the central government, social security institutions and local governments. This is in accordance with national accounting standards (SNA93 and ESA95). Social security institutions and local governments all prepare their own budgets. Information on expenditures, revenues and balance of social security institutions and local governments is comprised in the budget documentation of the central government and submitted to parliament, but not for the purpose of authorisation. The central government budget does however comprise the current and capital transfers to social security institutions and local government (including tax shares) which are subject to authorisation in the central government budget process.

The **central government budget** consists of three parts, totaling 159 agencies: 1) the general budget agencies: ministries and agencies directly affiliated to ministries (50 agencies);¹ 2) special budget agencies: agencies belonging to the central government but with some degree of autonomy (101 agencies, of which 70 are universities and bodies of higher education);² and 3) regulatory and supervisory agencies: agencies belonging to the central government but with a larger degree of autonomy (8 agencies).³

Until 2006, the special budget agencies and regulatory and supervisory agencies were included in the central government budget on a net basis (the so-called **consolidated budget**). This implied that their revenues and expenditures were not subject to authorisation but only net transfers to their budgets from the central government budget. As from 2006, the scope of the central government budget has broadened so that now 25 special budget agencies and all regulatory and supervisory agencies are included in the central government budget.⁴

Although general government accounts in accordance with international accounting standards are not yet entirely completed,⁵ the Turkish government publishes a primary and total balance of the **consolidated government sector** (CGS). This comprises the primary balances (primary revenue minus non-interest expenditures) of: 1) the consolidated budget/central government budget;⁶ 2) three extra-budgetary funds;⁷ 3) all four social security institutions;⁸ 4) the unemployment fund; and 5) 23 state-owned enterprises. This CGS primary balance summed with the balance of local government provides a measure of the general government primary balance but, since it is not prepared in accordance with international standards, it is unclear what might be missing (OECD, 2006a). For one thing, the CGS does not include the İller Bank which is a state-owned bank operating under the supervision of the Ministry of Public Works and which has some extrabudgetary fund characteristics, providing financing of infrastructure and financial services for municipalities (IMF, 2006a).

Box 1. **The scope of the government sector in Turkish financial accounts** (cont.)

For the purpose of fiscal monitoring, the IMF has defined its own measure of fiscal performance, named the Public Sector Primary Balance. This measure does not aim at exhaustive general government accounting but focuses on the key and fiscally most risky components of public finance. The difference between the CGS balance and the IMF's measure are considerable (for instance, 3% of GDP in 2004 and 4% of GDP in 2005; OECD, 2006a).

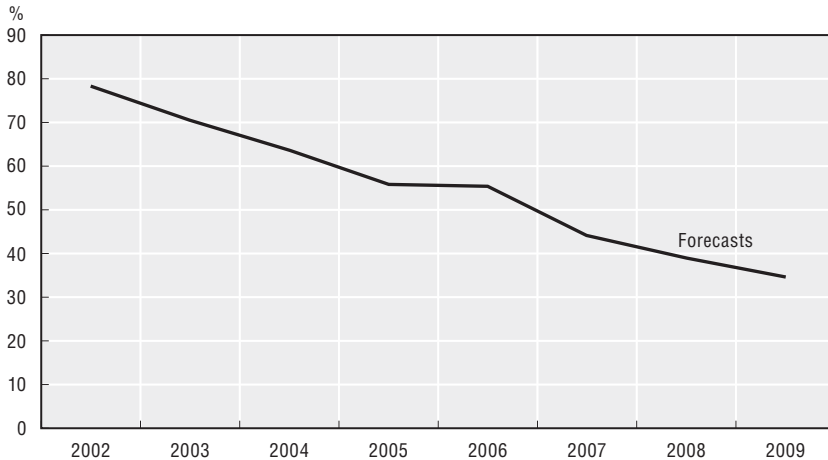
1. Listed in Chart 1 of the Public Financial Management and Control Law (PFMC).
2. Listed in Chart 2 of the PFMC.
3. Listed in Chart 3 of the PFMC.
4. Listed in Annex F of the Letter of Intent of 7 July 2006 from the Minister of State for Economic Affairs and the Governor of the Central Bank of Turkey to the Managing Director of the International Monetary Fund (IMF, 2006, pp. 80-86).
5. Public sector statistics have been compiled in Turkey for decades. These statistics are disseminated in the Economic and Social Indicators report which covers the entire public sector and is published by the State Planning Organisation every year. The publication of national accounts statistics in accordance with ESA95 standards has been a huge project (for example, the consolidation of the accounts of 3 225 municipalities required for the general government and the local government statistics) and has largely been completed successfully.
6. See above for the move from the consolidated budget to the central government budget in 2006.
7. Namely the Defence Industry Support Fund, the Privatisation Fund, and the Social Aid and Solidarity Incentive Fund.
8. Namely the Pension Fund (for civil servants), the Social Insurance Institution (for workers and contracted personnel), BAG-KUR (for craftsmen, artisans and other self-employed persons) and the Turkish Labour Agency.

reduced, maturities have been lengthened and the share of fixed-rate debt (as opposed to floating lira notes) has been increased. However, the recent lira depreciation and the increased risk perception of Turkey's government bonds may slow down the debt reduction trend of the past years. The lira depreciation is estimated by the IMF to have added some six percentage points to the net debt ratio of 2006, while the impact of higher interest rates will be felt in the coming years. These effects have so far been offset by strong economic growth, a primary public sector surplus in 2006 of 6.7% of GDP, and privatisation receipts of over 2.5% of GDP. The public sector debt burden is projected to continue declining in the coming years. According to the Medium-Term Fiscal Plan, net debt should be reduced to 34.4% of GDP in 2009. However, the achievement of this target is predicated on continued economic growth of 7% of GDP and the maintenance of a public sector primary surplus of 6.5% of GDP (IMF, 2006b).

Since 2001, various international organisations have written reports in which the Turkish budget process has been assessed and recommendations for institutional reforms have been formulated. These assessments and recommendations will be reviewed in the next paragraph. The present article builds on these reports and adds some new findings and suggestions. Because

the OECD does not lend or provide other benefits, the findings are not influenced by conditionalities frequently found in the reports of other institutions.

Figure 2. **Net debt of the public sector**
Per cent of GDP



Sources: Years 2002-06: IMF (2006b); years 2007-09: Medium-Term Fiscal Plan, Ministry of Finance, Turkey.

1.2. Institutional policy in the recent past

In the recent past, and on several occasions, international organisations have assessed the progress of institutional reform of the budget process in Turkey. In the light of these assessments, they have also made recommendations for priorities in the reform efforts. Here particular attention shall be paid to the findings and suggestions concerning budget institutions in the economic surveys of the OECD (OECD, 2002, 2004 and 2006a), the “Report on the Observance of Standards and Codes – Fiscal Transparency Module” (Fiscal ROSC) of the IMF (IMF, 2006a), and the assessment of the public expenditure management system of Turkey by OECD/SIGMA at the request of the European Union (OECD, 2006b).

The OECD economic survey of 2002 provided a general overview of the shortcomings of the public finance management system soon after the economic crisis of 2001. Many of these shortcomings have been addressed in the “Strategic Framework for Public Management Reform” that the Turkish government established in response to the crisis. This reform programme focused on three objectives: 1) widening the coverage of the budget

preparation and execution process and increasing its capacity to assess performance; 2) enhancing accounting standards, procurement procedures and audit functions; and 3) introducing modern and transparent public liabilities management practices. The OECD report noted that in each of these areas important progress had already been made. The number of extrabudgetary funds was drastically reduced. Subsidies to state-owned banks were being put on budget. A start was made on the improvement of the financial accounts in accordance with national accounting standards. Budget arrears were inventoried. Investment plans were streamlined. The debt management system was improved. The Public Procurement Law, which established a modern procurement system, was adopted. The report noted, however, that these improvements were only the very first steps of a far-reaching reform effort that would be required in order to modernise the Turkish budget process. The report recommended in particular to move towards multi-annual fiscal planning, to reform the audit system and to speed up the implementation of the new procurement system (OECD, 2002).

The OECD economic survey of 2004 treated the quality and cost efficiency of public expenditure as a special theme. The report noted that the improvement of budget institutions was of crucial importance for Turkey in order to avoid future financial crises similar to the one that occurred in 2001. The report noted that on top of the reform of the budget institutions, the Turkish government had launched a far-reaching governance reform that entailed an ambitious legislative programme. Regarding public expenditures, the report noted that up to the mid 1990s Turkey had one of the lowest shares of general government expenditures in the OECD area, and that this share had soared in the previous decade to end up among the highest shares (total expenditure) or around the average share (primary expenditure) in 2002. The report identified the factors behind this development, mainly in the spheres of social security, infrastructure investment, quasi-fiscal activities of banks, earthquakes and high interest on foreign borrowing. It also identified future pressures in the areas of public pay, pensions, education and funding of earthquake damage. The report noted major shortcomings in the budget institutions, in particular: the non-accordance of financial accounts with international accounting standards; massive off-budget funding of investment; rigidity of public sector pay; pre-commitment of investment expenditures; and the large share of entitlement spending. The report discussed the Public Financial Management and Control Law that had been passed by parliament in 2003, and made recommendations for implementation policies. It emphasised among other things the improvement of the accounting system, a better registration of liabilities from grants, and better control of the expenditures of sub-national government and social security. As to the efficiency of service delivery, the report recommended far-reaching

decentralisation, more autonomy for executive agencies, more room for private supply and competition in public services (hospitals, social services), the application of user fees, and social security reform (OECD, 2004).

In March 2006, the IMF published a “Report on the Observance of Standards and Codes – Fiscal Transparency Module” (Fiscal ROSC) in Turkey. The report concluded that considerable progress had been made since the previous fiscal ROSC (of 2002), especially in the area of transparency and improvement of financial reporting. The Law on Public Financial Management and Control (PFMC Law) was seen as a major step forward in the direction of modernising the Turkish financial management system. The report noted that confusion could arise because of inconsistency of various laws pertaining to the budget process. The report also drew attention to the fragmentation of the budget process arising from the division of competences between the Ministry of Finance, the State Planning Organisation and the Treasury. The report recognised that full implementation of the PFMC Law would eliminate most but not all remaining omissions in the coverage of central government. The report noted that the absence of a system of commitment controls weakened the accuracy of cash planning. It also characterised the compensation system for civil servants as extremely complex and not transparently managed. The report stated that the development of internal control was still at an early stage and that auditing remained fragmented, with overlapping responsibilities between different units. The report recommended clarifying the relations between laws pertaining to the budget process and ensuring that the PFMC Law has primacy in this matter. The report stated that good co-ordination had to be imposed in view of fragmented responsibilities. It recommended the speedy integration in the budget of the remaining forms of off-budget spending so that full coverage of the financial accounts in accordance with international standards would be achieved. The report also recommended the notification of commitments to the Treasury, as well as the overhaul of the compensation system for civil servants. The early implementation of the PFMC Law in the areas of internal control and internal auditing were seen as priorities (IMF, 2006b).

In June 2006, OECD/SIGMA published an assessment of the public expenditure management system of Turkey at the request of the European Union (OECD, 2006b). This was the second standard assessment against the baselines set by OECD/SIGMA for EU candidate countries. The report noted that Turkey had made considerable progress in budget reform since the previous assessment of 2005. Reform measures included the decentralisation of the internal control procedures to line ministries and agencies, the implementation of a Medium-Term Fiscal Plan, and the inclusion of revolving funds and extrabudgetary funds in the budget. The report mentioned that various secondary laws and decrees on the basis of the PFMC Law were enacted, but that not all of these were yet implemented. The law on the Turkish Court of

Accounts was not yet enacted. The report noted the need for checking the consistency between the laws. It also drew attention to the fact that the Ministry of Finance, the State Planning Organisation and the Treasury share the responsibility for the budget process and that this required costly co-ordination. According to the report, the budget documentation had very much improved but shortcomings remained, for instance the fact that budget documents did not distinguish between existing commitments and new policies. The scope of the budget had been further broadened but not all revolving funds had been brought on budget, and the position of some agencies, such as the Iller Bank, remained unclear. Domestic borrowing by local governments still posed potential risk. Financial reports and national accounts still showed discrepancies with ESA95 norms. The report noted that the new budget formulation calendar was respected but that there were inefficiencies in resource allocation attributable to the fragmented responsibilities for the budget process. The report saw the rapid implementation of the decentralised system of internal control and internal audit and the modernisation of the cash management system as high priorities. The report stressed the need for organisational arrangements for the management of the reform process and recommended that the new strategic development units (decentralised financial services units) in the line ministries and agencies should take the lead in this respect.

The OECD economic survey of 2006 again paid attention to institutional reform of the budget process. Against the backdrop of the most recent disturbances in the international capital markets that have affected the Turkish economy quite severely, the report noted that fiscal policy is crucial to protect the domestic economy against such shocks. Budget institutions must ensure that fiscal policy contributes to risk containment. The report noted that, to ensure a longer-term commitment to strong fiscal control and public spending efficiency, budget institutions and processes will need to be made more robust to both economic and political cycles, and greater attention will need to be devoted to controlling current expenditures. The report emphasised the remaining shortcomings in the coverage of the budget and the financial accounts, and showed the quantitative difference between the various measures for the deficit. The report enumerated the remaining challenges for managing public finances, which include: the improvement of the legislative environment by improving the consistency of key laws; better co-ordination between the key players in the budget process; further broadening of the coverage of the budget and the financial accounts; more transparency of the tax system; improved training of civil servants; the establishment of a unit to ensure that PPPs will not lead to excessive risk for public finances; and more decentralisation of service delivery to local governments.

2. Budget formulation

2.1. The Public Financial Management and Control Law

After the financial crisis of 2001, Turkey modernised the legislation concerning the budget process. The main change was the introduction of the Public Financial Management and Control Law (PFMC), adopted by the Turkish parliament in December 2003 (Law No. 5018, amended in 2005, Law No. 5436). This law replaced the General Accounting Law of 1927, which was outdated in many respects. The purpose of the PFMC Law is stated in its first article:

The purpose of this Law is to regulate the structure and functioning of the public financial management, the preparation and implementation of the public budgets, the accounting and reporting of all financial transactions, and financial control in line with the policies and objectives covered in the development plans and programmes, in order to ensure accountability, transparency and the effective, economic and efficient collection and utilization of public resources.

The PFMC Law is being implemented step by step, covering public financial management and control at all levels of government. Although not an organic law in the sense of legal prevalence,² it has the structure of a frame law and requires in many instances secondary legislation for its implementation. At present, all secondary legislation has entered into force except one. The aim of the Turkish authorities is to complete the required secondary legislation by the end of 2007. Other laws that are important for financial management (although not secondary legislation of the PFMC Law) are the 2005 Municipality Law and the 2005 Law on the Organisation and Duties of the Revenue Administration. Many laws imply far-reaching changes and require extensive training of the personnel charged with their execution.

2.2. Key characteristics

Key characteristics of the Turkish budget formulation process are:

- The combination of centralisation and fragmentation of decision making;
- The IMF standby agreement as a *de facto* fiscal rule;
- The detailed line-item budget classification.

2.2.1. Centralisation and fragmentation

The Turkish budget formulation process can be described as simultaneously centralised and fragmented. It is centralised in the sense that there is strong top-down steering from the centre, in particular by the committee known as the High Planning Council. This council is chaired by the Prime Minister and has members determined by the Prime Minister. Other ministers can attend by invitation of the Prime Minister (see Box 2). The High

Box 2. **The High Planning Council**

The High Planning Council is chaired by the Prime Minister and has members determined by the Prime Minister. At present the members of the Council are: the Prime Minister, the Deputy Prime Minister, the Undersecretary of the State Planning Organisation, the Undersecretary of the Treasury, the Minister of Finance, the Minister of Industry and Commerce, the Minister of Transport, the Minister of Energy and Natural Resources, and the Minister of Public Works and Settlement. Secretarial services for the Council are provided by the State Planning Organisation.

The High Planning Council is responsible for the macroeconomic forecast, prepared by the SPO, and adopts the Medium-Term Fiscal Plan prepared by the Ministry of Finance.

Planning Council is responsible for the annual updating of the Medium-Term Fiscal Plan, which contains the expenditure targets for the central government excluding regulatory and supervisory agencies. At the end of the budget formulation process, the High Planning Council decides on remaining points of difference that have not been solved in bilateral contacts between the Ministry of Finance and the line ministries.

Top-down steering is essential for budgetary control, but in the Turkish process there is little room for line ministries and agencies to propose new initiatives or to plead for reallocation between ministries or agencies. In the long run, this may undermine the legitimacy of the process, especially after the expiration of the IMF standby agreements. The Turkish authorities may make more room for new initiatives at the very beginning of the budget formulation process by soliciting budget requests before the decision is taken on targets for ministries and agencies. These requests may assume reallocation within the ministries and agencies, but also between ministries and agencies.³ The decision on the targets could then be strengthened by announcing them as ceilings and strictly enforcing them (apart from updating for macroeconomic factors, including inflation, at the very end of the process). Such a reform would simultaneously improve the legitimacy of the process for line ministries and agencies and strengthen top-down steering.

The Turkish budget formulation process is also fragmented, in the sense that there is no single budget authority responsible for all expenditures in the budget. Instead, there are three budget authorities: the Ministry of Finance, the State Planning Organisation (SPO) and the Treasury, each with different responsibilities.

- **The Ministry of Finance** has the overall responsibility for fiscal policy, including budget preparation, medium-term fiscal programming, budget

execution, revenue collection, reporting and accounting. It also bears the responsibility for the co-ordination and harmonisation of public internal financial control.

- **The Undersecretariat of the State Planning Organisation** is an agency reporting to a State Minister within the Prime Minister's Office. It is responsible for long-term development plans, macroeconomic monitoring and forecasting, medium-term strategic programming, and the preparation and execution of investment plans (see Box 3).

Box 3. The State Planning Organisation (SPO)

The State Planning Organisation was founded in 1960 to introduce planning and co-ordination in the Turkish economy. The duties and responsibilities of the SPO are described in the Decree Law on the Establishment and Duties of the State Planning Organisation.

The SPO is responsible for the Development Plan (long term), the Medium-Term Programme, the Annual Programme and the Annual Public Investment Programme. For the latter purpose, the SPO analyses and assesses the investment proposals of ministries and agencies and performs cost-benefit analysis. The SPO is also responsible for the "Pre-accession Economic Programme" that is submitted to the European Commission.

The tasks of the SPO also include macroeconomic modelling and forecasting, scenario analysis, and costing of entitlement programmes. The SPO serves as the secretariat of the High Planning Council.

The SPO also has extensive expertise in the area of regional development and regional policy, and it monitors and analyses the results and effectiveness of regional policies.

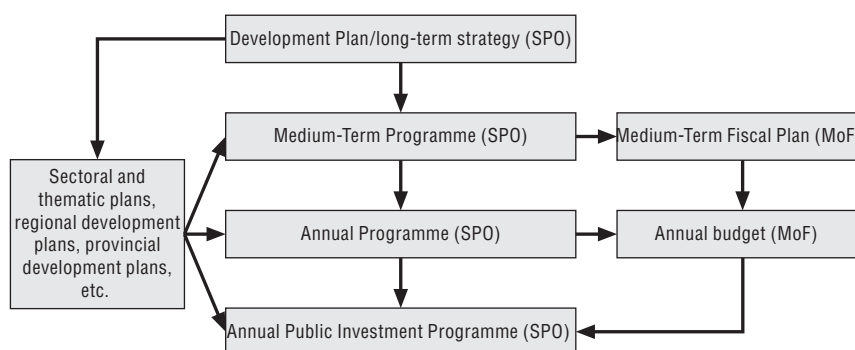
- **The Undersecretariat of the Treasury** is an agency reporting to a State Minister within the Prime Minister's Office. It is responsible for: cash management; short and long-term debt management in local and foreign currency; relations with international financial institutions; and monitoring the activities of state-owned enterprises and extrabudgetary funds.

The SPO is responsible for evaluating investment projects. This means that line ministries and agencies negotiate their current budget and capital investment projects separately with two different authorities. Apart from the split of responsibilities in the annual budget process, this split also applies to medium-term planning.

Like many transition countries and like many western European countries during the 1950s and 1960s, there is a plethora of planning procedures in

Turkey. For the economy as a whole, there is a Development Plan (for seven years), a Medium-Term Programme (for three years, annually updated), an Annual Programme and an Annual Public Investment Programme. Apart from these global plans, there are the sectoral plans of the line ministries and the regional and provincial plans of the sub-national governments. These plans are in turn supposed to inform the medium-term, annual and annual public investment programmes (see Figure 3).

Figure 3. **From long-term plans to the annual budget**



The Medium-Term Programme is a document stating overall policy priorities. It also contains a macroeconomic forecast for the next three years (the budget year and two out-years), including a forecast of general government expenditures and revenues, general government interest expenditures, the general government borrowing requirement, the public sector borrowing requirement, the public net debt stock and the tax burden. The Medium-Term Fiscal Plan contains budgetary targets for central government for three years (the budget year plus two out-years) and divides the central government target among line ministries and agencies. The Annual Public Investment Programme covers all public investment projects, including those funded by means outside the central government budget, such as those funded by the state-owned enterprises, the İller Bank, the social security institutions and the local governments. Each investment project is characterised by parameters such as total costs, previous cumulative expenditures, and current year allocation. The investment programme, for which the SPO is responsible, should be distinguished from the investment budget, which is the total of budget appropriations for investments. The responsibility for the investment budget is shared by the SPO, the Ministry of Finance and the Treasury. The investment programme is set up on the basis of the proposals of the ministries and agencies after the investment budget is decided. In recent years, more flexibility has been given to the agencies during

the implementation stage of investment projects, for example through aggregating many similar sub-projects under a single project, and through allowing reallocation and other changes in sub-projects.

OECD countries generally have a single budgetary authority, namely the budget bureau which is part of the Ministry of Finance.⁴ Moreover, most have never had, or have gradually abolished in the latter part of the 20th century, global planning procedures that were supposed to inform the budget process. In OECD countries, discussions about desired outputs and outcomes of government policies generally take place on the basis of sectoral plans of ministries. These plans are subject to debate and amendment in parliament and society at large. In this debate, the responsible line minister represents the government. Subsequently, trade-offs are made in the light of limited resources in the multi-annual budgetary framework and then in the annual budget process. This might in turn rebound on the sectoral plans in the sense of temporisation or restraint.

Turkey may consider a simplification of its budgeting and planning procedures. Strengthening co-ordination and gradually moving towards a single budget bureau would improve allocative efficiency by facilitating the trade-off between current expenditure and capital investment, and would reduce bureaucratic costs. Simplification of global planning procedures (Development Plan, Medium-Term Programme, Annual Programme, Annual Public Investment Programme) and integration with other planning documents would make the budget process more transparent and efficient, and would reduce the administrative burden. At the same time, care should be taken that the large expertise in the State Planning Organisation concerning long-term priority setting, regional policy, agriculture and capital budgeting is not lost but rather put to its best use. Reforms in this direction need not impair the various roles of the SPO, but could instead make them stronger. In particular, the role of central macroeconomic forecasting and policy analysis could be strengthened. Such an agency would then become comparable to similar indicative planning bureaus that exist in Austria, the Netherlands, Slovenia, Sweden and other countries. The experiences with such bureaus are generally very good; they provide an objective basis for the policy debate, and tend to depoliticise economic discussions. In general they have a strong impact on strategic decision making, since it is assumed that they possess a reputation of professionalism and impartiality. This requires among other things a certain protection of independence (of working methods and results, not of task assignment) by special statute and close contacts with the academic research community.

2.2.2. *The IMF standby agreement as de facto fiscal rule*

Turkey has had standby agreements with the IMF since 1998. The subsequent agreements of February 2002 and November 2005 committed Turkey to aim for a primary surplus of the public sector of 6.5% of the gross national product. This primary surplus target is divided into separate targets of 5.0% of GNP for the central government and 1.5% of GNP for the rest of the public sector (social security, local government, state-owned enterprises and extrabudgetary funds). The current standby agreement will end in May 2008 and, apart from this agreement with the IMF, no national fiscal rule exists.

The Turkish agreement with the IMF also includes provisions on how to use windfalls from higher-than-expected tax revenues and lower-than-expected spending. A better outcome than forecast can be used to repay debt or to decrease taxes in the banking and financial sector. There are also provisions for increased investment expenditure in the case of windfalls in tax revenue. Expenditure windfalls can be used for new spending, as long as the ceilings imposed by the agreement are kept.

The IMF agreements have probably helped to acquire and maintain political and public support for major reforms and fiscal consolidation efforts and have also contributed to investor confidence by the implied monitoring of the Turkish fiscal accounts. After 2008, when the latest IMF agreement will expire, the Turkish government has to take a clear decision on the fiscal rule it will adopt and on the next steps of the reform programme. The EU notification process that started in 2000 (five years before the opening of accession negotiations) may play a useful role to support the new fiscal rule and the next steps of the reform process. For this purpose it would help if the adjustment of the financial accounts in accordance with the ESA95 system would be entirely completed before the expiration of the IMF agreement.⁵ In addition, it would be useful for the Turkish government to again commit itself for the coming years to a fiscal rule of total expenditure ceilings aiming in the medium term at a primary surplus of general government. Consultation with the IMF and the EU about the size of the surplus would contribute to the confidence of the international capital markets. In the longer term, when the vulnerability of interest expenditures to current account volatility and risk appetites in capital markets has substantially declined, the expenditure ceilings could be retargeted at the total balance of general government in the medium term and aim at a level compatible with fiscal sustainability in the long term. Such a target could be a balance of between 0% and 3% deficit of GDP to which the euro zone countries have committed themselves in the European Stability and Growth Pact.

2.2.3. Detailed line-item budget classification

As part of the reform of the budget process, the budget classification system was changed, starting with a pilot phase for six ministries and agencies in 2002 and full implementation for the central government at the end of 2004. As from the 2006 budget, the new classification has been prescribed for all parts of the general government, including social security institutions and sub-national governments (see Box 4).

Box 4. Budget classification

The budget classification consists of four levels: institutional, functional, financing, and economical.

Institutional classification

The institutional classification consists of four hierarchical levels, each with a two-digit code. The first level identifies ministries and regulatory and supervisory agencies. The second level identifies divisions that directly report to the first level. The third level covers units operating under the second-level divisions. The fourth level refers to support and logistics units as well as certain executive units. Depending on the organisation, not all appropriations have all codes: all appropriations have code levels 1 and 2, but some might have only one of the level 3 and level 4 codes.

Functional classification

The functional classification follows the international "Classification of Functions of Government" (COFOG). This classification divides government expenditure into 10 functions, each of which is divided into sub-functions up to four levels of detail (with one-digit and two-digit codes).

Financing classification

The financing classification consists of a one-digit code and shows the source of funding, for example the general budget, social security institutions, revolving funds or extrabudgetary funds.

Economical classification

The economical classification consists of four levels (with one-digit and two-digit codes). The first level includes codes for personnel expenditure, intermediate consumption, social benefits in kind, interest payments, current transfers, gross capital formation and capital transfers. Levels 2 to 4 provide further details.

All in all, the Turkish budget contains around 34 500 legally binding line-item estimates (appropriations). This has significant implications for managerial flexibility and reallocation during budget execution (to be discussed in Section 4). Parliament votes only at a more aggregate level (the

first level of the institutional classification and the first level of functional classification) so that each vote authorises a large number of appropriations.

Since the 1990s, budget classifications have been adjusted in a number of OECD countries in connection with reforms aimed at more results-oriented financial management. In general this has led to a stark reduction of the number of line items, to 10 to 20 per ministerial portfolio, based on programmatic-institutional criteria. Such a limitation of the number of line items does not preclude that, for purposes of fiscal accounting in accordance with international standards (for instance ESA95, including COFOG), line items can be subdivided into smaller units. However, these smaller units only serve for accounting purposes and have no legal status. Such a reduction of the number of line items provides more flexibility to programme managers and makes it easier for parliamentarians to focus their discussion with ministers on results (value for money). Given the very systematic classification that Turkey has now achieved, a next step in this direction would be relatively easy to implement. For that purpose, it would suffice to redefine the concept of line-item estimate (appropriation) at a fairly aggregate level (for instance the level at which voting presently takes place) and remove all further detail from the budget (for relegation to the fiscal accounts).

The annual budget also contains general principles and ceilings for new recruitment. The Ministry of Finance and the State Personnel Directorate are responsible for recruitment and staff control. The entire system of separate staff control is presently under discussion and may have to be rationalised or integrated into the system of internal expenditure control (to be discussed in Section 5).

2.3. Budget formulation process

The budget formulation process as described in this section applies to the ministries and the special budget agencies (see Box 1 above). Regulatory and supervisory agencies follow a somewhat different procedure and submit their budget proposals directly to parliament (with a copy to the Ministry of Finance to be included in the central government budget law). Within the Ministry of Finance, the General Directorate of Budget and Fiscal Control bears the main responsibility for the co-ordination of budget formulation (see Box 5).

A recent feature of the budget process is that all ministries and agencies under the central government since 2006 have their own “local” financial services units. These units are called Strategic Development Presidencies in ministries and Strategic Development Departments in other agencies. Before 2006, there were budget offices in line ministries and agencies which were staffed by and under the responsibility of the Ministry of Finance. This major reform implies that the line ministries and agencies are now

Box 5. The General Directorate of Budget and Fiscal Control

The General Directorate of Budget and Fiscal Control of the Ministry of Finance is the most important actor in budget preparation. It consists of circa 20 divisions with responsibilities grouped into five areas, each headed by a deputy director general, namely: 1) budget policy and international relations; 2) budget preparation and implementation; 3) state personnel issues; 4) health economy, social security system, public vehicles and labour law; and 5) implementation of the PFMC Law.

The main responsibilities of the General Directorate are:

- Co-ordination of the budget preparation process and determination of the principles that ministries and agencies shall take into account during budget preparation.
- Review of appropriation requests and control of consistency with the Development Plan, the Medium-Term Programme, the Annual Programme, and the Medium-Term Fiscal Plan.
- Compilation of the consolidated budget of the central government and drafting of the annual budget law.
- Overall responsibility for performance-based budgeting, including the development of procedures for linking expenditures to performance targets and central co-ordination and harmonisation of public internal financial control.

themselves responsible for budget formulation and execution in their own organisations.

The annual process of budget preparation takes place between May and October according to a fixed timetable (see Box 6).

The budget formulation process starts in May when the SPO prepares and presents the three-year Medium-Term Programme (the upcoming budget year and two out-years) to the Council of Ministers. The Medium-Term Programme includes a macroeconomic forecast containing general government revenue estimates and main priorities and objectives presented in short bullets. The objectives include an inflation target for the medium term. The programme also presents estimates for general government expenditures, revenues and borrowing for the next three years. The document is a Cabinet Decree and is published in the *Official Gazette*.

After the Council of Ministers has adopted the Medium-Term Programme, the Ministry of Finance prepares the Medium-Term Fiscal Plan, covering the same years as the Medium-Term Programme (the budget year plus two out-years). The Medium-Term Fiscal Plan is a more operational

Box 6. Budget formulation timetable Budget year = calendar year

End May	The Council of Ministers takes a decision on the Medium-Term Programme prepared by the SPO. The programme includes policy objectives, priorities and macroeconomic forecasts.
Mid June	The High Planning Council adopts the Medium-Term Fiscal Plan prepared by the Ministry of Finance.
End June	The Ministry of Finance prepares and publishes the Budget Call and the Budget Preparation Guide. These include general principles and standards on the budget preparation process.
End June	The SPO prepares and publishes the Investment Preparation Guide.
July	Line ministries and special budget agencies prepare their budget proposals.
End July	Line ministries and special budget agencies submit budget proposals to the General Directorate of Budget and Fiscal Control of the Ministry of Finance, and investment project proposals to the SPO.
August	Evaluation of budget proposals by the General Directorate of Budget and Fiscal Control (non-investment expenditure) and the SPO (investment proposals).
September	Negotiations between the General Directorate of Budget and Fiscal Control, the SPO and line ministries and special budget agencies on budget proposals.
End September	The SPO finalises the macroeconomic forecast.
End September	The Ministry of Finance compiles and finalises the draft budget.
First week of October	The High Planning Council debates and finalises the macroeconomic forecast and the draft consolidated budget.
Mid October	The budget bill is approved by the Council of Ministers (no less than 75 days before the end of the year).
Mid October	Submission of the budget bill to the Turkish Grand National Assembly. The Court of Accounts, the parliament and regulatory and supervisory agencies submit their budget proposals to the Grand National Assembly by end September.

document. It includes overall expenditure targets for central government but, more importantly, it divides these overall figures over separate ministries and special budget agencies for all three years of the plan. The expenditure targets are based on the medium-term inflation target of the Medium-Term Programme. The targets can be adjusted from year to year in the light of recent macroeconomic developments and political priorities. This provides a certain flexibility to accommodate unexpected macroeconomic developments that Turkey will still need in the near future.⁶ The targets are not formally binding but rather serve as the first bid of the Ministry of Finance in the budget process. They can still be changed in the subsequent negotiations between the Ministry of Finance and the ministries or agencies.

In early June, the Medium-Term Fiscal Plan is presented to the High Planning Council (see Box 2 above) for adoption in mid-June and it is subsequently published in the *Official Gazette*.

At the end of June, the Ministry of Finance prepares and sends out the Budget Call and the Budget Preparation Guide, and the SPO prepares and sends out the Investment Circular and the Investment Preparation Guide. Within the framework of these guidelines, line ministries and agencies prepare their budget proposals (see Box 7). The proposals are submitted to the Ministry of Finance (except investments) and the SPO (investments) before the end of July. Line ministries find the time available for responding to the Budget Call generally too short and indicate that this time limitation impairs the quality of their submissions. The Ministry of Finance may consider sending out the Budget Call at the beginning of June, instead of at the end of that month. This adjustment of the timetable would give the line ministries four more weeks to prepare their submissions. It would require a similar shift forward of the adoption of the Medium-Term Fiscal Plan by the High Planning Council to the third week of May.⁷ Revenue estimates for ministries (including tax estimates) are made by the Ministry of Finance. Special budget agencies prepare and submit their own revenue estimates to the Ministry of Finance.

After the General Directorate of Budget and Fiscal Control of the Ministry of Finance and the SPO have received the budget requests, the

Box 7. Budget preparation in line ministries

Budget preparation in line ministries is co-ordinated by the Strategic Development Presidencies and Departments (SDPs and SDDs) which are the financial services units in the line ministries and special budget agencies respectively. Until 2006, there were similar offices in line ministries and special budget agencies which had important duties in the budget formulation and implementation process but which were part of the Ministry of Finance.

Local units of the ministries submit appropriation requests to the relevant general directorate of the ministry by the end of May. When the Budget Preparation Guide is published at the end of June, SDPs and SDDs send instructions to all spending units. These instructions include macroeconomic assumptions, targets derived from the Medium-Term Fiscal Plan and requests for information that should be reported together with request estimates.

Spending units then prepare their request estimates by the end of July and enter their estimates into the budget system.

SDPs and SDDs review the requests and compile the budget request of the ministry or special budget agency for submission to the General Directorate of Budget and Fiscal Control of the Ministry of Finance or to the SPO.

evaluation and negotiation phase starts. This process takes place in August (evaluation) and September (negotiations). In this phase, meetings are held between line ministries or special budget agencies and the Ministry of Finance/SPO with the purpose of harmonising proposals within the constraints of the overall targets for the central government. According to the Ministry of Finance, differences between request estimates and targets are usually not large, but there is still an upward drift which requires correction in order to maintain the overall targets. Negotiations take place at various hierarchical levels but rarely reach the level of ministers.

At the end of September, the Ministry of Finance and the SPO finalise their respective budget proposals. The Ministry of Finance then compiles the documents and prepares the draft annual budget law. This document, together with the final macroeconomic forecast of the SPO, is then presented to the High Planning Council in the first week of October. The High Planning Council discusses the bill, resolves final problems and submits it to the Council of Ministers. This may also lead to adjustment of the multi-annual estimates/targets in the Medium-Term Programme and the Medium-Term Fiscal Plan.

The Council of Ministers submits the budget bill with accompanying documentation to the Turkish Grand National Assembly no later than 75 days before the start of the new budget year, i.e. in mid October, as stated in Article 162 of the Constitution.

2.4. Conclusion

Many changes have been introduced in the budget process in recent years. The establishment and implementation of the PFMC Law have been the main processes through which these reforms have been achieved. Important elements of these reforms have been:

- Broadening the scope of financial management and fiscal control; extending the budget and financial accounts to the entire sectors of central government and general government in accordance with international standards of national accounting (SNA93, ESA95).
- Introducing a Medium-Term Fiscal Plan covering three years (the budget year and two out-years).
- A new classification system for the budget.
- Moving the responsibility for financial services units in line ministries and special budget agencies from the Ministry of Finance to the ministries and special budget agencies.

The introduction of the PFMC Law is a major achievement, but increasing its efficiency is a high priority. As the PFMC Law, although being a frame law,

has no automatic prevalence over other laws, it is important that secondary legislation is thoroughly checked for conformity with the PFMC to avoid confusion and contradictory legislation. This has been highlighted also by the OECD (2006a) and the IMF (2006a).

The Turkish budget formulation process is simultaneously centralised and fragmented. It is centralised because it is based on a strong top-down steering process. Top-down steering is essential for budgetary control, but in the Turkish process there is little room for line ministries and agencies to propose new initiatives or to plead for reallocation between ministries or agencies. In the long run, this may undermine the legitimacy of the process. The Turkish authorities may consider making more room for new initiatives at the very beginning of the budget formulation process by soliciting budget requests before the decision is taken on targets for ministries and agencies. The decision on the targets could then be strengthened by announcing them as ceilings and strictly enforcing them (apart from updating of macroeconomic factors, including inflation, at the very end of the process). Such a reform would simultaneously improve the legitimacy of the process for line ministries and agencies and strengthen top-down steering.

The Turkish budget formulation process is also fragmented. Turkey may consider a simplification of its budgeting and planning procedures. Strengthening co-ordination and gradually moving towards a single budget bureau would improve allocative efficiency by facilitating the trade-off between current expenditure and capital investment, and would reduce bureaucratic costs. Simplification of global planning procedures (Development Plan, Medium-Term Programme, Annual Programme, Annual Public Investment Programme) and integration with other planning documents would make the budget process more transparent and efficient, and would reduce the administrative burden. At the same time, care should be taken that the large expertise in the State Planning Organisation concerning long-term priority setting, regional policy, agriculture and capital budgeting is not lost but rather put to its best use. Reforms in this direction need not impair the various roles of the SPO, but could rather make them stronger. In particular the role of central macroeconomic forecasting and policy analysis could be strengthened. Such an agency would then become comparable to similar indicative planning bureaus that exist in Austria, the Netherlands, Slovenia, Sweden and other countries.

After the expiration of the IMF standby agreement in May 2008, it would be useful if the Turkish government would commit itself on a more permanent basis to a fiscal rule of total expenditure ceilings aiming in the medium term at a primary surplus of general government. Consultation with the IMF and the EU about the size of the surplus would contribute to the confidence of the international capital markets. In the longer term, when the vulnerability of

interest expenditures to current account volatility and risk appetites in capital markets has substantially declined, the expenditure ceilings could be retargeted at the total balance of general government in the medium term and aim at a level within the band of between 0% and 3 % deficit of GDP to which the euro zone countries have committed themselves in the European Stability and Growth Pact.

The Turkish budget classification is very detailed. Reducing the level of detail would improve the accountability of managers and make it easier for parliamentarians to focus the budget debate on results and value for money. The good and very systematic classification that has been achieved in Turkey could be used for the financial accounts, rather than for the budget.

Line ministries find the time available for responding to the Budget Call generally too short and indicate that this time limitation impairs the quality of their submissions. The Ministry of Finance may consider sending out the Budget Call at the beginning of June, instead of at the end of that month. This adjustment of the timetable would give the line ministries four more weeks to prepare their submissions. It would require a similar shift forward of the adoption of the Medium-Term Fiscal Plan by the High Planning Council to the third week of May.

Turkey has made large progress on the improvement of its financial accounts in accordance with international standards of national accounts (SNA93 and ESA95). This has been a very difficult exercise that has mainly achieved its aims and that is now in its last phase. However, this effort has not yet entirely be completed. Its completion should retain the highest priority, and the pace of progress should not be allowed to slip. Reliable accounts are essential for effective fiscal monitoring and fruitful international co-operation.

3. Parliamentary approval

3.1. The Turkish parliament

The Turkish central government budget is a law which is subject to the approval of the Grand National Assembly like all laws (see Box 8). Furthermore, no special restrictions apply to the parliamentary right of amendment as far as the content of amendments is concerned. However, according to the Constitution, amendments to the budget bill that increase expenditures or decrease revenues must originate in the Plan and Budget Committee of the Assembly and cannot be introduced directly in the plenary session of the Assembly. The Assembly can only accept or reject the bill as it emerges from the committee stage.

Box 8. The Grand National Assembly

The Grand National Assembly – *Türkiye Büyük Millet Meclisi* – is a unicameral parliament consisting of 550 deputies who are elected for a term of no more than five years. The right to vote in elections is granted to all citizens over 18. A member of parliament has to be at least 25 years old and must hold Turkish citizenship. By-elections to fill empty seats are held once between general elections unless more than 5% (28 MPs) of the total seats are empty. General elections can be called earlier than planned if the Assembly so decides by simple majority.

Since the elections of 2002, the Justice and Development Party holds a majority of 352 seats. The main opposition party is the Republican Peoples Party with 151 seats. These two parties were the only ones that passed the electoral threshold of 10% of the vote necessary to get into parliament in the 2002 elections. Since the elections of 2002, a small number of MPs have changed party affiliation.

Members of parliament are elected from 85 electoral districts through proportional representation. The 10% threshold is an effective barrier against parliamentary fragmentation.

3.2. Parliamentary budget process

According to the Turkish Constitution and the PFMC Law, the Council of Ministers shall present the draft annual budget law to parliament no later than 75 days prior to the start of the fiscal year, *i.e.* in mid October. A special rule applies to the regulatory and supervisory agencies; these entities have a special budget process and submit their budget bills directly to parliament before the end of September. The budget bill must be voted on before the start of the budget year (ultimately on 31 December). Table 3 shows the parliamentary timetable.

The PFMC Law has expanded the requirements for information to be submitted in the budget documentation or attached to the final accounts draft law of the previous year.⁸ This documentation should include:

- Budget memorandum, including the Medium-Term Fiscal Plan.
- Annual economic report (a comprehensive report on economic developments in the previous year).
- List and figures for tax exemptions, discounts, etc.
- Report on public debt management.
- (Provisional) outcomes of the two previous years and estimates for the following two years for both expenditures and revenues for the general government sector.

Table 3. **Parliamentary budget timetable**

Date	Activity	Legislation
30 September	Regulatory and supervisory agencies, the parliament and the Court of Accounts submit their budget proposals directly to the Grand National Assembly.	PFMC Law: Article 18
Mid October (no later than 75 days prior to the beginning of the new fiscal year)	The government submits the draft budget law to parliament.	Constitution: Article 162; PFMC Law: Article 18
End of October	The Minister of Finance presents the draft budget law to the Plan and Budget Committee.	Parliamentary custom
Early November – early December (within 55 of the 75 days; in practice approximately 20-25 days)	Draft budget law discussed in the Plan and Budget Committee.	Constitution: Article 162
Mid December (within 20 of the 75 days; in practice approximately 12 days)	Draft budget law and amendments deliberated and voted upon in parliamentary plenary session.	Constitution: Article 162
31 December (at the latest)	Draft budget law that has been approved by parliament has to be signed by the President.	Constitution: Article 162
1 January	Start of fiscal year.	
Early January	Publication of Annual Public Investment Programme.	

- Budget estimates of local governments and social security institutions.
- A list of public agencies which are not included in the Turkish definition of central government but which receive funding from the central government budget.

The budget bill itself is an extensive document (1 920 pages including articles, annexed tables and appropriations and revenues sheets). It enumerates all estimates at the line-item level. The information provided in the budget bill does not show the difference between the present estimates for the upcoming budget year and the multi-annual estimates of the previous year for that same (upcoming) year. It does not explain either to what extent the present estimate is determined by current law or current policy and possible estimation updates (which may explain deviations from the multi-annual estimates of previous years), nor to what extent it is determined by new policy initiatives that have been taken since then. The absence of this information makes it very hard for parliamentarians to assess the proposals. The interpretation of the estimates is also impaired by the fact that outcomes of previous years and multi-annual estimates for future years are provided at a different level of aggregation and in different parts of the budget documentation.

In Turkey, like in all other OECD countries, a large part of expenditures is determined by entitlements provided in substantive law outside the budget process. However, the documentation accompanying substantive bills is not always clear about the consistency of the budgetary consequences with the current budget and the multi-annual ceilings.

The parliamentary budget process, covering the 75 days between the government submission of the draft budget bill to parliament and the beginning of the fiscal year, can be divided into two phases. In the first phase, according to the Constitution, the Plan and Budget Committee (see Box 9) must review, make amendments and adopt the revised budget bill within 55 days. In the second phase, after debates, amendments and adoption of the budget bill in the Plan and Budget Committee, the bill must be discussed and approved in the plenary session of the Assembly before the beginning of the fiscal year (i.e. during the 20 remaining days). This stage is more political and ceremonial, as the power to make amendments for expenditure increases and revenue decreases is exclusively vested in the Plan and Budget Committee.

Box 9. The Plan and Budget Committee

The Plan and Budget Committee is the main locus for discussion of financial matters in the Turkish parliament. It is one of 17 parliamentary committees and it is the only one dealing with the budget. The budget bill is not presented or deliberated in other sectoral committees of the parliament. However, members of other committees can participate in the discussion of their respective areas when they are discussed in the Plan and Budget Committee. This committee has 40 members, currently 25 from the governing party and 15 from the opposition. Members of the Plan and Budget Committee are often former civil servants with experience in the budgeting area.

The Plan and Budget Committee plays a leading role in the parliamentary budget process and considers not only the draft budget law, but also all other legislation that might have a budgetary impact. If legislation affects expenditure or revenues, the Plan and Budget Committee has the right to analyse and scrutinise the bill to assess whether the proposed legislation is in line with the overall budgetary strategy and budgetary situation. Besides these tasks, the Plan and Budget Committee also reviews the long-term Development Plan.

The discussion in the Plan and Budget Committee proceeds in two sittings. The first is devoted to an overall discussion on macroeconomic and budgetary issues; the second is devoted to a detailed discussion on budget chapters and articles, followed by voting in the committee.

The parliament, including the Plan and Budget Committee, has limited access to analytical resources to analyse the budget bill and to prepare amendments. In general, staff employed by the parliament are involved in the administrative process of the budget, not in the analysis of the content (see Box 10).

Box 10. Analytical capacity of parliament

The analytical capacity available to parliament for budget issues is limited. There is a General Secretariat Organisation attached to the president of parliament; it employs approximately 60 experts divided among six departments. One of these departments supports the Plan and Budget Committee and is responsible for the day-to-day organisational matters of the committee. In practice this means preparing documents and organisational matters of the committee, not supporting members of parliament in analysing the budget. The staff of the department supporting the Plan and Budget Committee is approximately 15.

Apart from this, financial support is available to individual MPs for the purpose of employing one expert and one secretary for each member. But as MPs are involved in a wide range of topics, these resources are not often used to employ experts in the budget area.

There is currently a discussion on a proposal to set up a special unit to support MPs in the budget process, but nothing has been decided yet.

3.2.1. First sitting of the Plan and Budget Committee

The first sitting of the Plan and Budget Committee in mid October starts with the Minister of Finance presenting the overall budget, including the macroeconomic development in Turkey and internationally, targets for the budget, expenditure reforms, and changes to the tax system. There is also a presentation and discussion of the final accounts of the previous year.

After this presentation, the committee decides on the procedures for the budget discussion in the second sitting (allocation of time to speakers, order of treating the chapters, etc.). Then there is a general discussion on the budget where the Minister of Finance represents the government. This discussion is on overall macroeconomic and fiscal policy and does not address separate line items. Members of the committee usually receive the draft budget law on the evening before the meeting. This first sitting usually lasts one day. The meeting can be attended by journalists.

After the first sitting, the Plan and Budget Committee retires for one week, thus allowing committee members to study the budget bill and its annexes and prepare the discussion.

3.2.2. Second sitting of the Plan and Budget Committee

The second sitting of the Plan and Budget Committee last for about 20-25 days. The appropriations and final accounts (for the previous year) for each budget chapter are discussed separately in the order decided during the first

sitting. Usually, each chapter is allocated one day, with the responsible minister representing the government.

During the discussion of chapters, individual members of the Plan and Budget Committee have the **exclusive** right in the parliamentary process to introduce amendments. Any kind of amendment can be introduced according to the Constitution (Article 162). Revenues and expenditures can be increased or decreased and reallocations can be proposed but, given the high party discipline, amendments usually have to be supported by the majority party to be successful. During the voting on amendments, the view of the Minister of Finance is requested, but his views are not binding.

The number of amendments amounts to approximately 300-400 per year. For most ministries and special budget agencies, 2-4 amendments are proposed. The total upward effect on the budget in the years 2001-07 was 0.2% of total expenditures (central government) on average.

After discussion of all chapters and amendments, votes are taken on the amendments, the draft budget law and the final accounts of the previous year. Members of other committees can participate in the discussion but not in the votes. The vote on the entire budget finalises the committee stage of the parliamentary process.

3.2.3. Parliamentary plenary session

Around mid December, the draft budget law, including approved amendments, is submitted to the plenary Assembly. In the plenary session, members of parliament can make amendments to the articles of the draft budget law but they cannot propose amendments that increase expenditures or decrease revenues. The right of amendment concerning expenditure increases or revenue decreases lies exclusively with the Plan and Budget Committee.

Thus the plenary Assembly has a more formal role. Still, the plenary Assembly votes on the draft budget law. Rejection of the budget would normally result in the resignation of the cabinet (by parliamentary custom, not by constitutional provision). However, the rejection of the draft budget law by the plenary Assembly is a rare event. It has happened, though, showing that the plenary vote is not merely a rubber-stamp procedure.

As in the Plan and Budget Committee, the plenary session starts with a presentation of the budget by the Minister of Finance, followed by a discussion on fiscal policy. Then follows a chapter-by-chapter discussion and voting (by first-level institutional and functional classification; see Section 2). The discussion in the plenary session is not as detailed as in the Plan and Budget Committee.

After the budget has been approved by parliament, it has to be signed by the President. This is only a formal procedure. The President has no power to veto the budget but, according to the Constitution, must countersign the budget law before the beginning of the fiscal year. If the budget bill is not adopted before the start of the fiscal year, the Constitution sets the conditions for a provisional budget (see Box 11).

Box 11. Provisional budgets

In the event that the budget is not enacted in time, Article 19 of the PFMC Law takes effect. This article calls for the adoption of a provisional budget law, which cannot last longer than six months. Rules for the provisional budget basically imply that 1/12th of the budget of the previous fiscal year can be spent in each of the six months.

In practice, a provisional budget has been enacted 17 times between 1923 and 2007. The latest provisional budget covered the first three months of 2003. The second-latest provisional budget was the one for the first six months of 1999.

3.3. Conclusion

The concentration of budgetary authority in the Plan and Budget Committee reduces the involvement, accountability and ownership of the sectoral committees for the separate ministries. In many OECD countries, the budget committee is responsible for overall fiscal policy but the detailed consideration of line items is the responsibility of the sectoral committees. A move in this direction would ease the burden of the Plan and Budget Committee.

The information provided in the budget bill does not show the difference between the present estimates for the upcoming budget year and the multi-annual estimates of the previous year for that same (upcoming) year. It does not explain either to what extent the present estimate is determined by current law or current policy and possible estimation updates (which may explain deviations from the multi-annual estimates of previous years), nor to what extent it is determined by new policy initiatives that have been taken since then. The absence of this information makes it very hard for parliamentarians to assess the proposals. The interpretation of the estimates is also impaired by the fact that outcomes of previous years and multi-annual estimates for future years are provided at a different level of aggregation and in different parts of the budget documentation.

A motion is currently under consideration in the Turkish parliament to improve the functioning of the parliamentary process. This includes: 1) the

creation of two permanent sub-committees of the Plan and Budget Committee with separate responsibilities for the budget process and the evaluation of the final accounts; 2) a larger participation of sectoral committees; and 3) the improvement of the research capacity of parliament and a larger participation of civil society in the budget process. Reforms in these directions are very useful and would strengthen the parliamentary budget process.

4. Budget execution

4.1. The organisation of budget execution

The PFMC Law reforms provide for the transfer of internal control from the Ministry of Finance to the line ministries and agencies. Internal control is now integrated in the new financial services units of these agencies (the Strategic Development Presidencies and Departments mentioned in Section 2.3).⁹ The previous Ministry of Finance control staff has largely been transferred to these units. The units report to the head of the agency.¹⁰

General budget agencies prepare their detailed expenditure programmes at the beginning of the budget year and submit them to the Ministry of Finance (General Directorate of Budget and Fiscal Control) for approval. On the basis of principles determined by the Ministry of Finance, budget appropriations are released on a quarterly basis with a view to cash planning. Special budget agencies and social security institutions prepare their own detailed expenditure programmes, while quarterly release rates are determined by the Ministry of Finance.

The standards and procedures for the financial management and internal control processes are developed and set by the Ministry of Finance as a central co-ordination and harmonisation unit, and those for internal auditing by the Internal Audit Co-ordination Board (affiliated to the Ministry of Finance). Within the line ministries and agencies, the financial services units perform the control function in co-operation with the agency's authorising officers. The authorising officers have to issue spending instructions stating policy conditions for the commitment and payment decisions. The authorising officers are responsible for the effective, economic and efficient utilisation of appropriations. Accounting services are provided by the Ministry of Finance's accounting offices within general budget agencies, while accounting services of special budget agencies and regulatory and supervisory agencies are provided by their own accounting offices located within their financial services units.

The realisation officer initiates a spending request that is approved by the authorising officer. The payment request is submitted by the general budget agencies to the local accounting officer of the Ministry of Finance. In other agencies, accounting officers belong to the financial services units. The accounting officer checks the documents for the signature of the authorising

Table 4. **Execution steps**

Step	Person	Institution	Activity
1	Realisation officer	Line ministry/agency	Initiates spending request according to law.
2	Authorising officer	Line ministry/agency	Checks compliance of request with law and policy.
3	Accounting officer	Ministry of Finance	Checks technical aspects of request.
4	Treasury Accounting Office	Treasury	Transfers funds to relevant institution.
5	Realisation officer	Line ministry/agency	Checks timely delivery and quality of goods and services.
6	Accounting officer	Ministry of Finance/agency	Records the transaction and makes it available for MoF in Say2000i system.

officer, completeness of the documents and other errors – in essence whether the details of the payment order are correct. This is a purely technical control. The responsibility for the policy execution lies with the line ministry. The accounting officer records the transaction in the central IT system (called Say2000i), which allows the Ministry of Finance instant access to monitor transactions and aggregate cash spending. In the past, there were sometimes disagreements between the line ministry and the Ministry of Finance accounting officers about whether the payment was in compliance with legislation. This is now the sole responsibility of the line ministry; the Ministry of Finance’s role is limited to a technical check.¹¹

The payment requests made by the line ministry are transmitted to the Treasury via the accounting officers. The Treasury does not receive any prior notification about payment commitments made in the line ministries, and commitment information is not used in the cash planning process.

In Turkey, the Treasury has a number of accounts both in the Central Bank and in the state-owned Ziraat Bank (see Table 5). All government spending units have their own accounts in the Central Bank of Turkey. This is the so-called “central system”. All government income is deposited in the Treasury’s accounts and all payments are made from these accounts. Upon request of the accounting officers, the Treasury transfers funds to the line ministry’s or agency’s account at the Central Bank and the line ministry or agency effects payments from these accounts. There is no sweeping, and balances are kept in the line ministry’s or agency’s accounts. Regional offices of the central government are supplied with cash via the Ziraat Bank. As the Central Bank of Turkey does not have branches throughout the country, it uses the Ziraat Bank as correspondent bank in the provinces. Revenues collected in a specific area are used for the payment of expenditures made in that area. If revenues in a region are insufficient so that there is not enough cash in the accounts of an agency in the region, the agency can still perform its payments via Ziraat Bank resources. The Central Bank of Turkey makes a weekly

Table 5. **Treasury cash accounts**

Institution	Name	Type	Users
Central Bank of Turkey	410	Revenues and payments of line ministries and agencies	Treasury
	411	Receipts from domestic borrowing and domestic debt service	
	412	Revenues and payments of regional offices of central government	
	416	External debt service	
	85	Foreign exchange account and receipts from foreign borrowing	
	NN	Risk account for guarantees	
Ziraat Bank	Deposit account	Same as the 410 account (revenues and payments), but no overdraft facility	Regional offices of central government if no Central Bank of Turkey facilities are available

settlement with the Ziraat Bank and transfers funds from the 412 account to the Ziraat Bank deposit account.

Recently a project has been started to modernise the payment system in the provinces. It is planned that the regional offices will send their cash requirements to the Treasury via the Say2000i system and that the Treasury will transfer the cash to the accounts of the regional offices in accordance with their cash plans and priorities determined by the Ministry of Finance and the Treasury. Regional offices will no longer be allowed to make payments before the Treasury has deposited their accounts. Moreover, revenues collected in the provinces will be transferred to the 410 account on a daily basis.

With the full implementation of the PFMC Law, the Turkish budget execution system will have many aspects in common with most OECD countries: a relatively simple pre-control system centred on an agency's own financial services unit, a Treasury responsible for cash delivery and management (discussed in further detail below), and a unified accounting system.¹² However, the system has been reformed very recently and it will take some time before it is fully operational.

4.2. Budget flexibility and reallocation

The general rule in the PFMC Law about appropriations transfers is that line ministries and agencies of central government are entitled to transfer up to 5% of the appropriation in the line item from which the appropriation is transferred, unless a different ratio is specified in the annual budget law. This rather low limit of 5% was raised to 20% in the annual budget law of 2007. The Ministry of Finance has to be notified of the transfer within seven days. Parliament does not need to be notified. Transfers are not allowed from

personnel expenditure items, from items to which transfers have already been made, nor from items to which transfers have been made from contingency appropriations.

The PFMC Law allows the government to set up a contingency appropriation of maximum 2% of total appropriations of the general budget. The Ministry of Finance is responsible for the transfers from the contingency appropriation. According to Article 23 of the PFMC Law, the contingency appropriation can be used to realise the services and objectives stated in the annual budget law, to remedy any appropriation shortage or to perform services not foreseen in the budget. The contingency fund is used, among other things, for the compensation of inflation in excess of the target inflation that is already put into the line-item estimates. However, there is no automatic compensation. The difference between target inflation (embodied in the line-item estimates) and real inflation is assessed on a case-by-case basis. Only if the deviation creates problems for service levels are funds transferred from the contingency appropriation. Excess inflation in personnel appropriations (caused by salary increases) is compensated automatically, although not from the contingency appropriation but rather from *ad hoc* adjustments of the personnel appropriations (compensated by reallocation). Within 15 days following the end of the fiscal year, the Ministry of Finance reports the distribution of the transfers from the contingency appropriation.

Public administrations are not allowed to spend or to commit in excess of appropriations (Article 20 of the PFMC Law). In principle, no commitment can be made for expenditures for which adequate appropriations are not provided in the budget. Similarly, appropriations that could not be used during the budget year are cancelled at the end of the year. In case of insufficient appropriations, a supplementary budget bill is possible which provides for increased appropriations and simultaneously identifies new sources of funding. In practice the need for a supplementary budget bill arises only if the contingency appropriation is insufficient. This occurs only rarely in Turkey.

Subject to approval of the head of an agency, commitments can be made beyond the budget year for certain specific tasks that cannot be limited to a fiscal year and are continuous by their nature, provided that, for each task, the funds to be committed beyond the budget year do not exceed 50% of the appropriation and provided that the task is completed by June of the subsequent year and the term of the contract does not exceed twelve months. Agencies of central government can carry over committed funds to the subsequent years for the investment projects that cannot be completed in one fiscal year.

The increase of the threshold for reallocation from 5% to 20% has increased the flexibility of budget execution considerably. Moreover, this change is in line with a more results-oriented way of budgeting in which ministers and agency

heads are held responsible for outputs. The same is true for the relatively lenient regime for the carryover of commitments. On the other hand, the reallocation rules call into question the need for the extremely detailed line-item classification of the budget (see Section 2). However, even if the line-item classification were less detailed, flexibility would remain important. Some OECD countries have put in place a regime of “rules of budgetary discipline” which in fact allow all reallocations without thresholds, provided that adequate compensation is provided for under the supervision of the Ministry of Finance and that parliament is informed in a timely manner. Such a regime avoids the need to interpret complicated rules and saves bureaucratic costs.

4.3. Cash and debt management

Article 6 of the PFMC Law stipulates that cash planning and debt management are the responsibilities of the Treasury. All revenues of all government agencies shall be deposited in the Treasury’s bank accounts, from which all expenditures shall be paid.

On the basis of the monthly budget revenue estimations and the current expenditure appropriations and in the light of the cash flow patterns of previous years, the Treasury prepares an annual cash flow programme of the central government. This programme is broken down into monthly, weekly and daily programmes. The cash flow programme is revised monthly by the Treasury on the basis of the conclusions of the monthly cash management co-ordination meeting. The Ministry of Finance, the Treasury and the relevant agencies, if necessary, participate in these meetings. The Treasury also takes into account the cash requirements of other government agencies (not central government).

If a deficit is projected in the cash flows, the Treasury finances through domestic and external borrowing.¹³ A modern system of borrowing and debt management was put in place by the Law on Public Financing and Debt Management of 2002. Apart from unexpected cash needs, borrowing is based on a schedule for debt services and redemption and estimates of revenues and expenditures. Short-term excess liquidity stays in the government accounts. In the event of a build-up of cash in the government accounts, borrowing is reduced in the course of the year.

The Treasury publishes a monthly debt management report that contains detailed information and analyses on borrowing and guarantees. This report clearly distinguishes central government and other general government debt, external debt and domestic debt, and debt in domestic and foreign currency. It also includes sensitivity analysis for debt servicing. Quarterly information on debt is provided to parliament, and monthly statistics are published on the Treasury website (www.hazine.gov.tr/indexe.htm).

The potential liability that public guarantees represent for the Treasury is not added to direct public debt. However, a “risk account” appropriation is included in the budget to cover possible losses from guaranteed debt stock on the basis of a risk assessment. The guarantees related to PPPs are monitored in the same way as other guarantees. Law No. 5216 of July 2004 limits the debt stock of metropolitan municipalities¹⁴ to no more than 1.5 times their annual revenue, while the debt stock of other sub-national governments is limited to their annual revenue.¹⁵ New domestic borrowing of sub-national governments in excess of 10% of annual revenues requires the authorisation of the Ministry of the Interior. About 900 (of some 3 200) municipalities have already reached their maximum debt stock limits (OECD, 2006b).

The Turkish cash management system needs to be modernised (see Box 12). At present, idle cash is not consolidated, but is either kept in the

Box 12. **Systems of cash management**

There are basically three models of cash management in central governments.

In the decentralised model, all budgetary institutions have their own account with the commercial banks. These accounts are funded by periodical cash advances supplied by the Treasury on the basis of cash flow estimates and cash allotment decisions. Budgetary institutions make payment orders by drawing on their own accounts.

In the centralised model (now in place in Turkey), budgetary institutions are not allowed to have their own accounts with commercial banks. There is only a single account (with sub-accounts), usually kept at the Central Bank, which belongs to the Treasury. Since the Treasury is not allowed to borrow from the Central Bank, the Treasury handles short-term borrowing by auctioning securities among the commercial banks. All budgetary institutions have to send payment orders to the Treasury in order to draw upon their sub-accounts.

In the hybrid model, budgetary institutions are allowed to have their own bank accounts with a single commercial bank, but any positive balances in these accounts are transferred daily to the Treasury account with the Central Bank and bank accounts are supplied daily with cash advances. The contract with the commercial bank is usually auctioned. Similarly, short-term borrowing is centralised at the Treasury. Budgetary institutions make payments by drawing on their own account with the commercial bank.

Both the centralised and the hybrid model realise efficiency gains through consolidation of balances and centralisation of short-term debt management at the Treasury.

agencies own accounts or only settled on a weekly basis. In fact, reforms are already under way but need to be enhanced. Cash planning needs to be based on a more analytical framework rather than on previous years' experiences. Furthermore, a commitment notification system should be put in place as soon as possible. In view of modern IT technology, there does not seem to be any reason for maintaining the Ziraat Bank system. Considerable savings could be generated by moving towards a centralised single treasury account with daily sweeping of cash balances and accommodation of short-term debt management to avoid idle cash balances.

4.4. Service delivery

The general government sector consists of three sub-sectors: the central government, the social security institutions and the local governments. This subdivision mainly coincides with the subdivision of general government in the national accounts (ESA95 and SNA93). Turkey is a strongly centralised country with a local government share of total primary spending of only 9.5% of GDP (see Table 6).

Table 6. **Size of central and local government**

	Per cent of primary general government expenditure	Per cent of GDP
Central government and social security	90.5	33.3
Local government	9.5	3.5

Source: OECD (2004).

In Turkey the central government budget consists of:¹⁶

- **General budget agencies** (50 ministries and directly affiliated agencies). Each of these may consist of: 1) central units, which set goals and policies and supervise and monitor delivery of services; 2) decentralised units, which are responsible for delivering services and implementing ministerial policies in a particular regional area and which reside under a provincial governor (see Box 13); and 3) units abroad, such as embassies, etc.
- **Special budget agencies** (70 universities, 31 others). These agencies are established for the performance of a certain public service as defined in a special law. They have their own budget line in the budget law and have a certain autonomy *vis-à-vis* the ministry that provides for their funding.
- **Regulatory and supervisory agencies** (8 agencies). These agencies are also established by special laws. They have financial and administrative autonomy. They prepare their own appropriation requests and submit them directly to the parliament, without negotiations with line ministries or the Ministry of Finance.

The social security institutions are established by law to provide social security services. They consist of the Pension Fund (for civil servants), the Social Insurance Institution (for workers and contracted personnel), BAG-KUR (for craftsmen, artisans, and other self-employed persons) and the Turkish Labour Agency. The government has proposed to merge the first three of these funds into a single social security institution covering all citizens.

The local governments consist of special provincial administrations, municipalities and villages (see Box 13).

In many OECD countries, the reform trend in service delivery has been to loosen input controls and to strengthen accountability for outputs. This is a road that Turkey wants to follow, and indeed has followed by granting more financial responsibility to line ministries. However, an important element is still largely missing: the split between the “purchaser/principal” and the “provider/agent” within line ministries. Separating policy making from service delivery enables each agency to focus on one thing. In addition, moving the responsibility for service provision as close as possible to users can improve efficiency and make it easier for the provider to respond to local needs and

Box 13. The organisation of sub-national government in Turkey

The Turkish sub-national government sector consists of special provincial administrations (SPA), metropolitan municipalities, municipalities and villages. In addition, the central government is represented at the regional level by the provincial administrations.

The 81 provincial administrations (PA), sub-divided into 849 sub-provinces, are decentralised units of the central government and not part of the sub-national level of government. Each PA is headed by a governor and each sub-province by a sub-governor. The governor and sub-governor are appointed by the Council of Ministers with approval of the President. The PA and sub-provinces are responsible for the management and co-ordination of field directorates of ministries within the geographical area of the province (and sub-province).

As part of the sub-national level of government, there are 81 **special provincial administrations** (SPA), each covering the same geographical area as the provincial administrations. The functions of the SPA are twofold: 1) general provincial functions belonging to the sub-national level of government, such as the provision of land for the construction of school buildings (primary and secondary education), social services and AIDS prevention, and the protection of soil; and 2) municipal functions for rural areas that are not incorporated in municipalities. These rural areas consist of roughly 35 000 **villages**. Villages have councils in which all citizens can participate (direct democracy), but their competences are very limited. The head of the SPA is the governor of the PA, but the SPA is still a separate administrative entity, with a directly

Box 13. The organisation of sub-national government in Turkey (cont.)

elected assembly as superior decision-making body. For tasks assigned to the SPA, the governor is accountable to the provincial assembly.

The local level consists of 3 225 **municipalities**. Municipalities are the most important level of sub-national government, established to meet the local need of citizens. Their combined territory covers about 75% of Turkey and their combined expenditures amount to approximately 90% of sub-national expenditure. Municipalities are divided into different groups depending on their size, but they are all subject to the same rules of governance (organisation, competences of decision-making bodies, etc.) The legal minimum size of municipalities is 5 000 inhabitants but this size limit is not enforced: of the 3 225 municipalities, almost 2 000 have between 1 000 and 5 000 inhabitants. The mayor and general assembly of municipalities are elected directly by the inhabitants. Services provided by municipalities are limited to local infrastructure, water, sewerage, waste treatment and fire protection. Public services such as education and health, which in many countries have been decentralised, are tasks of the central government in Turkey.

Of the 3 225 municipalities, 16 **metropolitan municipalities** enjoy a special status, introduced in 1984 and with a legislative basis in the Constitution (Article 127) which says that “for the big settlements special administrative systems may be established”. A metropolitan municipality is basically an umbrella organisation for one or more municipalities within a larger city.¹ A metropolitan municipality must have at least 750 000 inhabitants. A metropolitan municipality is headed by a mayor and a council. The council consists of representatives of the municipalities on its territory. Metropolitan municipalities have larger responsibilities than other municipalities. Apart from rendering ordinary municipal services transferred to them, they ensure the co-ordination between the municipalities on their territory and they implement large-scale projects (road construction, etc.).

The activities of the sub-national governments are mainly financed through a tax-sharing arrangement, grants from the central government and own non-tax revenue. The sub-national governments have only limited own tax revenues. For municipalities, revenue from tax sharing amounts to approximately 44% of total revenue, the rest coming from own tax revenues (13%) and non-tax revenues (43%). Municipalities receive 6% of total taxes collected by the central government, allocated on the basis of population size. SPAs receive 1.12% of total central government tax revenue, allocated on the basis of population size, and metropolitan municipalities receive an additional 5% of total central government tax revenue collected on the metropolitan territory. Grants are usually non-earmarked grants.

1. Ankara consists, for example, of 34 municipalities (IMF, 2006a).

preferences. This entails more autonomy for executive agencies *vis-à-vis* the parent ministry in the determination of the input mix, in personnel management and in procurement. Moreover, it requires a separate financial administration for executive agencies so that cost prices of services become available. Turkey has started to move in this direction, but it would be important to put more emphasis on these reforms.

4.5. Revolving funds

Revolving funds are a mechanism for agencies that collect considerable fees or other non-tax revenues, such as hospitals, to conduct their activity on a net basis and to have flexible carryover mechanisms. The number of revolving funds would have been reduced to 1 434¹⁷ but the total expenditures from revolving funds as a share of GNP increased from 1.8% in 1999 to 2.2% in 2004. The PFMC Law stipulates that revolving funds shall be reconstructed by the end of 2007. Spending from revolving funds is not subject to the same parliamentary scrutiny as spending from the central government budget. Including them on a gross basis will increase transparency and efficiency, but at the same time will require additional flexibility. Reforms to ensure managerial flexibility must go hand in hand with the abolition of the funds (OECD, 2004).

4.6. Human resource management

Public sector employment in Turkey amounted to about 2.6 million in 2005, or 12% of total employment. Central government employed 2 000 000 people, state-owned enterprises 345 000 and local government 240 000. Main functional sub-sectors of central government employment are general administration (296 000), security (police) services (175 000), health (250 000), education (including academic staff of public universities) (650 000), and administrative support services (145 000). Of the 2.6 million in public employment, 2 million (76%) are civil servants with life-time contracts, 528 000 (20%) are public sector workers with sheltered positions, and the remaining 120 000 (4%) are on fixed-time contracts.¹⁸

Cadre charts annexed to the Decree Law on General Cadres No. 190 determine the maximum number of civil service positions for each agency and the Council of Ministers determines the number of positions to be filled. The annual budget law determines the principles governing appointments and ceilings for recruitment. Hiring of civil servants is subject to approval of the State Personnel Directorate in the Office of the Prime Minister in conjunction with the Ministry of Finance (for central government agencies), the Ministry of the Interior (for local government) and the Treasury (for state-owned enterprises). The Constitution virtually guarantees a job for life once hired on the basis of a state examination. Despite the double lock (the

cadre charts¹⁹ and the budget law), central government civil service employment increased by 30% from 1990 to 2005, from 1 240 000 to 1 700 000, an annual growth rate of 2.3%.

The civil service employment procedures are clear and understood. However, there are a number of complexities that limit transparency, especially concerning pay. For civil servants there are 9 service groups, 15 grades and 3 steps in each grade. The wage system for civil servants is relatively rigid, based on educational starting levels and automatic steps according to seniority. The envelope for total civil service pay is subject to budget constraints and, since the grade structure is fixed, wage coefficients

Box 14. The public procurement system in Turkey

In 2002, the Turkish public procurement system was thoroughly reformed in order to address shortcomings such as:

- Most public agencies were not covered by the main procurement law and had the right to issue their own regulations on procurement.
- Publication of notifications was not always required and even when it was required, announcement periods were too short for interested economic agents to react.
- Selection and evaluation criteria were not objectively determined and announced.
- Unsuccessful bidders were not properly informed about the decisions of the contracting agency.

The purpose of the Public Procurement Law (PPL) No. 4734 of 2002 is to ensure transparency, competition, equal treatment, accountability, efficiency and effectiveness in public spending. With the PPL of 2002, the Public Procurement Authority was established as an administratively and financially autonomous entity at the central government level to regulate and monitor the public procurement process. The Authority consists of the Public Procurement Board, the Presidency and service units.

Information on tendering requirements is available via the website of the Public Procurement Authority (www.kik.gov.tr). In 2006, 4 602 complaints were filed out of a total number of 47 743 calls for tender.

The system is broadly in line with international standards: tender is required for large contracts, decisions are open to audit and a clear system for complaint procedures is in place. For contracting entities in the utility sectors, procurements below TRY 4 428 537 (approximately EUR 2.3 million) are not yet fully covered by the PPL. These procurements are covered by a simplified procedure until the necessary legislative arrangement is in place.

serve as a residual. Civil service pay is not transparent because of a complex allowance system and in-kind benefits (housing, food, transport, etc.). While the total basic salaries and the annual inflation adjustments are published and accounted for in the budget, information about total compensation costs is lacking. Many of the benefits are accounted for under other budget items than wages and are not part of the personnel budget.

The pay package for public employees seems to be competitive compared to the private sector, especially for public workers and civil servants with less than 10 years of experience. In contrast to civil servants, public sector workers are represented by strong unions that have achieved high pay levels and rapid wage growth. Since public sector workers are primarily employed by subsidised state-owned enterprises, the favourable compensation of public sector workers may partly be due to a lack of countervailing power on the part of employers. The ratio of the net pay of a public sector worker to that of a private sector worker with comparable duties was 1.5 in 2003. The result is a compressed wage structure between university-educated civil servants and low-skilled public sector workers.²⁰

Furthering the goals of the PFMC Law – more focus on performance and accountability – will require reform of the pay system in the direction of more flexibility. In addition, the costs of allowances and in-kind benefits should be brought on budget.

4.7. The sector of state-owned enterprises (SOE)

The Turkish state owns a substantial number of enterprises and banks. The Privatisation Authority also monitors state economic enterprises assigned to it. According to the State Planning Organisation, the 39 state-owned enterprises are expected to make earnings of about 2% of GDP before tax, interest, depreciations and amortisation. The government owns three large state banks, accounting for 36% of the banking system assets and 41% of deposits. Furthermore, the government is heavily involved in the running of the businesses. As far as the non-financial enterprises are concerned (not the banks), the Treasury can give directives about prices, employment, administrative expenses and borrowing. The State Planning Organisation has to scrutinise the investment programme of non-financial enterprises. This programme is approved annually by the Council of Ministers and published in January. Dividends are decided on an *ad hoc* basis in the light of the company's future needs.

Quasi-fiscal activities, which consist of policy-driven spending implemented by government-owned banks and enterprises, were a major concern in the 1990s. These quasi-fiscal activities came under better scrutiny after the IMF standby agreement of May 2001. Since then, quasi-fiscal losses

(duty losses) began to be explicitly budgeted and reported. At present, the quasi-fiscal activities include purchase of agricultural produce at non-market prices, the provision of goods and services on non-commercial terms, and subsidised lending to students, small enterprises and the agriculture sector (Table 7).

Table 7. The duty loss mechanism

Step	Activity
1	The Council of Ministers assigns a state-owned enterprise (SOE) to carry out a duty.
2	In the Council Decree, the amount of loss due to the duty is also specified.
3	Once the duty is realised, the SOE calculates the loss and informs the Treasury.
4	The Treasury and the line ministry jointly determine the loss on the basis of the accounts.
5	The Treasury makes the duty loss payment to the SOE. The timing of this payment depends on the availability of appropriated funds. For financial SOEs, the appropriation is known before the fiscal year and the activity has to be stopped when the appropriation is spent.

Duty losses in non-financial enterprises have decreased from 0.4% of GDP in 2001 to 0.1% of GDP in 2006, and subsidised bank lending has declined from 0.2% of GDP in 2001 to less than 0.1% of GDP in 2005. Law No. 4603 of November 2000 stipulates that the state may not assign any duties to public banks without paying the due amount. Duty losses henceforth have to be funded from the central government budget. According to this law, banks must determine their credit policies in accordance with the appropriated subsidy; in 2005, this subsidy amounted to TRY 112.8 million (EUR 57.1 million), and in 2006, the budget allocation for this purpose was TRY 210 million (EUR 106.3 million). The state-owned enterprises are audited by the High Auditing Board, which reports the findings to the Prime Minister, Treasury and parliament.

Since 2001, the quasi-fiscal activities of state-owned enterprises have become more transparent. Nevertheless they have not yet been entirely abolished. Further effort is needed to implement and enforce Law No. 4603 of November 2000.

4.8. Conclusion

With the full implementation of the PFMC Law, the Turkish budget execution process will have many aspects in common with most OECD countries:

- Decentralisation of budget execution by financial services units of line ministries and agencies;
- A relatively simple pre-control system centred on the financial services units of ministries and agencies;

- A Treasury responsible for payments and cash management;
- A unified accounting system;
- Some end-year flexibility.

Aspects of the budget execution process that still need to be improved or require further reform include:

- The complicated rules for reallocation and carryover could be simplified.
- The methods for the projection of cash needs could be improved. Notification to the Treasury of commitments of a substantial size should be made mandatory.
- Cash management could be made more efficient. Idle cash is not consolidated, but is either kept in the agencies' own accounts (central system) or only settled on a weekly basis. Savings could be generated by moving towards a centralised single treasury account with regular sweeping of idle cash and improved co-ordination with short-term debt management.
- More emphasis on the separation between policy making and service delivery through more autonomy for executive agencies would be beneficial. In addition, moving the responsibility for service delivery as close as possible to users can improve efficiency and make it easier for the provider to respond to local needs and preferences.
- The current remuneration system for public employees is too fragmented and overly rigid. A first step in reforming the system could be to introduce a new uniform civil service pay system which gives managers more freedom to decide on grades and steps within grades.
- Quasi-fiscal activities of state-owned enterprises have not yet been entirely abolished. Further effort is needed to implement and enforce Law No. 4603 of November 2000.

5. Accounting and auditing

5.1. Accounting

Establishing a uniform accounting system for general government and supervising the system are the responsibilities of the Ministry of Finance's General Directorate of Public Accounts. In contrast to budget preparation and financial control, the accounting function in general budget agencies (ministries and directly affiliated agencies, see Box 1 above) has not been transferred to the line ministries and agencies. The Ministry of Finance continues to have 1 619 accounting offices in ministries and agencies. The offices are responsible for collecting revenue, ordering payments and recording the financial transactions of the line ministries and agencies

(Article 61 of the PPMC Law). The Ministry of Finance is responsible for compiling, consolidating and disseminating accounting data and financial statements for the central government on a monthly basis as defined in the PPMC Law. For other agencies (special budget agencies, regulatory and supervisory agencies, social security institutions and local governments), accounting services are provided by their own accounting units, but they report to the Ministry of Finance.

The accounting officers record the appropriations given to the relevant agency at the beginning of the year, conduct technical pre-control of payments, and record reallocations and cancellations of remaining appropriations during and at the end of each year. Accounting data are compiled instantly in the Ministry of Finance via the automated accounting system Say2000i. Special budget agencies and regulatory and supervisory agencies send their accounting data monthly, and social security institutions and local governments are obliged to submit their data quarterly to the Ministry of Finance. The Ministry of Finance (General Directorate of Public Accounts) has established a module for local governments in Say2000i, and in 2006 local governments transferred their data to the Ministry for the first time via Say2000i.²¹ The accounts of the state-owned enterprises – apart from appropriated transfers – are not included in general government accounts (IMF, 2006a).

The accounting and reporting standards for general government are set by the State Accounting Standards Board, which is established within the Ministry of Finance. The board consists of representatives from the Turkish Court of Accounts, the Ministry of Finance, the State Planning Organisation, the Treasury, the Higher Education Council, the Ministry of the Interior, and the social security institutions. The Ministry of Finance sets rules for the preparation of the final accounts and supervises the compilation. Final accounts are currently on a modified cash basis. The PPMC Law allows the Ministry of Finance to determine accounting principles for the preparation of final accounts. After completion, the final accounts law is submitted to the Turkish Court of Accounts and the Grand National Assembly. The Turkish Constitution mandates that the final accounts law should be submitted to parliament within seven months of the end of the fiscal year and that the Court of Accounts shall submit its certification no later than 75 days thereafter.

Currently the main fiscal policy indicators are the overall balance and primary balance of the central government budget, and the total and primary balance of the “consolidated government sector” (see Box 1 above). In order to submit fiscal notifications to the European Commission, huge efforts have been made to prepare accounts in accordance with ESA95 standards (see Section 2.2.2). The ambition is to produce accounts in accordance with ESA95 for the year 2009.

5.2. Internal audit

The line ministries will be responsible for the new internal audit units (ex post audit). For that purpose, internal auditors within the line ministries and agencies will be made responsible for system, performance, financial, compliance and IT audits. The internal auditors will report to the head of the agency. The new system entails a quite far-reaching reform. The target is to hire 1 200 new internal auditors with appropriate qualifications by the end of 2007. Only 50 were hired in 2006. In order to further the transmission process, a twinning project has been set up with the French Ministry of Finance. The overall framework is in line with international practice, but final evaluation of the new internal audits must await implementation.

5.3. External audit

External audit is regulated by the law on the Turkish Court of Accounts (TCA). Article 68 of the PFMC Law specifies that the TCA may audit all general government organisations (central government agencies, local governments and social security institutions). At present, the capacity of the TCA is not sufficient to fully cover the auditing of local government. However, the possibility of outsourcing contained in the new draft law might help solve this problem.

The independence of the TCA is secured. It prepares its own budget and presents it to parliament directly. It decides on its own audit programme. The president and the members of the court are elected by the parliament. The tenure of the president is seven years, eligible for re-election. The tenure of members and auditors continues until the age of 65. The president, members and auditors cannot be appointed to another position without their consent. Removal can only happen due to criminal conviction or medical reasons.

At present, the TCA predominantly carries out compliance audits, the results of which are dealt with through a judicial procedure. In addition, two to three performance reports a year are completed and presented to parliament. The TCA also submits a report to parliament on the general conformity of the central government. Both types of reports are published and publicly available. There is no legal arrangement concerning the process for dealing with audit findings and there is no legal requirement for the government to respond to the reports submitted to parliament. The Plan and Budget Committee of the parliament considers the TCA reports. Parliament does not have a special audit committee dedicated to scrutinising the reports.

To bring external audit in line with generally accepted international audit principles, a new law on external audit was submitted to parliament. The draft

law is in line with international best practice.²² In the new law, it is envisioned that the following reports will be prepared every year:

- A statement of general conformity. This is submitted to parliament and sums up the status of the compliance audit (compliance with rules and regulations) as in the present system.
- An external audit general evaluation report, divided into a financial audit report and a performance audit report. The performance audit is to be based on the new performance indicators that will be set up in 2007.
- A general evaluation report on activity, assessing the activity-based studies of the Turkish Court of Accounts.
- An evaluation report on financial statistics.
- Reports on public economic enterprises.

In the draft law, the term of office of the president of the TCA is reduced from seven years to four years, with the possibility of re-appointment.

In order to build up the capacity for the new external audit areas, the TCA has established a twinning project with the British National Audit Office and conducted a number of training exercises for staff. The TCA finds that it has sufficient resources to carry out its mandate despite the capacity problem mentioned above. The TCA currently has about 540 auditors, approximately half of whom are being trained in the twinning project. The long-term objective is to increase the number of professional auditors to 900 over ten years.

5.4. Conclusion

The current Turkish unified accounting system seems to be working appropriately. It is essential, however, that accounting is brought in line with international standards (ESA95 in particular) as soon as possible. It is too early to assess the new internal audit system. The framework looks promising, but training of the auditors and general implementation will be challenges. A further challenge will be for the TCA to move from more financial compliance control towards value-for-money audit, but the reform is well organised and firmly on the rails.

Notes

1. Namely: the Motherland Party, 20 seats, led by Mr. Mumcu; the True Path Party, 5 seats, led by Mr. Agar; the People's Ascent Party, 1 seat, led by Mr. Öztürk; the Social Democratic People's Party, 1 seat, led by Mr. Karayalçın; and the Young Party, 1 seat, led by Mr. Uzan. At present 8 parliamentary seats are empty.
2. Organic laws do not exist in the Turkish legal system. All non-constitutional legislation is on the same "level".

3. As long as the Turkish budget process works with ceilings that can be adjusted from year to year, the requests may even assume an increase in total expenditure. See Section 2.3.
4. In the United States, the budget bureau (the Office of Management and Budget) is located in the Executive Office of the President.
5. Turkey does compile general government statistics, which are submitted to the European Commission as part of the notification procedure. Until now, there are still small shortcomings in these statistics (see Box 1).
6. A number of OECD countries are using fixed expenditure ceilings that remain in place from year to year (or can only be adjusted for inflation). This is the case, for instance, in the Netherlands, Sweden and the United Kingdom. However, such a system requires a certain degree of macroeconomic stability in the sense that the balance fluctuations induced by the economic cycle remain moderate (within an acceptable band). Such stability has not yet been achieved in Turkey.
7. Perhaps it is not necessary to shift forward the adoption of the Medium-Term Programme, as this document may be treated simultaneously with the Medium-Term Fiscal Plan (see also Section 2.2.1).
8. Article 18 of the PFMC Law. Article 42 of the PFMC Law specifies information that should be attached to the draft budget law and final accounts draft law.
9. The term “financial services units” will be used for the new Strategic Development Presidencies/Departments in the ministries or special budget agencies where the functions of budgeting, accounting and internal control are now located.
10. Typically an undersecretary in ministries, the highest administrator in other agencies, the governor in special provincial administrations, and the mayor in municipalities.
11. PFMC Law (Amendment: 22.12.2005 – 5436/Article 10-a): “An accounting officer shall not request any evidencing document other than those set out in the applicable legislation. The responsibilities of accounting officers in relation to the controls they carry out as herein provided are limited to the documents they examine as required by their duties.”
12. In a number of OECD countries, the accounting function, although based on a uniform system, is decentralised to the line ministries and agencies as well. This is not the case in Turkey, where the Ministry of Finance remains responsible for financial reporting.
13. The funds raised via borrowing are recorded to either the 411 account or the 85 account (see Table 5). Debt servicing is realised by the accounts 411 or 416. If there is not enough cash in the 410 account, then funds are transferred from the 411 or 416 accounts.
14. See Box 13 for a description of local government.
15. Law No. 5393 of July 2005 for other municipalities, and Law No. 5302 of February 2005 for special provincial administrations.
16. See also Box 1.
17. SPO quoted by the “Report on the Observance of Standards and Codes – Fiscal Transparency Module” (IMF, 2006a).
18. Source: communication by the Ministry of Finance of Turkey.

19. The cadre chart does not serve as a ceiling in practice because 25% of the available positions are not filled.
20. The ratio of the highest to the lowest public sector wages has been estimated at 7 in 2004, considerably below internationally observed averages of around 12-13 (OECD, 2004).
21. Henceforth the Ministry of Finance will disseminate the local government statistics quarterly. (Until 2007, the data pertaining to local governments were being compiled by the State Planning Organisation through surveys.)
22. This includes: the Lima Declaration, INTOSAI auditing standards, European implementation guides, recommendations of the EU to candidate countries, and the compare and control lists on supreme audit institutions (SAIs) prepared by OECD/SIGMA. In addition, the current Article 68 of the PFMC Law envisages that external audit shall be performed in line with the generally accepted international auditing standards.

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