BUDGET REFORM IN TURKEY

Dogan ALANTAR
Head of Department

St. Petersburg June 25, 2009
OUTLINE

I. MILESTONES OF THE REFORM

II. CHANGES INTRODUCED BY NEW PFMC LAW
   Fiscal Discipline
   Multi-year Budgeting
   Performance Based Budgeting
   New Internal Control System
   Transparency and Accountability

III. ROAD AHEAD

IV. CONCLUSION
MILESTONES OF THE REFORM-1

- 2001: Say2000i System established
- 2001: Budgetary and extra budgetary funds abolished
- 2002: “Public Financing and Dept Management Law”
- 2003: E-Budget System established
- 2003: “Public Procurement Law”
MILESTONES OF THE REFORM-2

- 2004: New budget classification (Based on GFSM)
- 2004: International Accounting Standards
- 2005: Presidency of Revenue Administration founded
- 2006: PFMC law implemented
FISCAL DISCIPLINE

- Borrowing ceiling and guaranties to be provided by the Treasury are determined in the central government budget law.

- All revenues and expenditures are recorded in the budget at gross basis.

- Agencies are not allowed to overspend exceeding current appropriations without transferring appropriations from other line items or permission of the Parliament.

- General budget administrations can use budget appropriations in conformity with the detailed expenditure programs adopted by Ministry of Finance and with release rate of the appropriations.
MEDIUM TERM BUDGETING

- Macro framework decisions before enforcement of Law No 5018

- MTEF was included in the legislation following the adoption of Law No 5018 (Art.15,16,17,18) in 2003,

- Multi-annual budgets began to be prepared as of 2006.

- 2009 -2011 period is the fourth implementation term of the medium-term budgeting.
WORKS DONE TO INTRODUCE MEDIUM TERM BUDGETING SYSTEM IN TURKEY - I

- MATRA Project jointly executed by Turkish and Dutch Ministries of Finance

- Dutch model was discussed in the training programs organized in Turkey with the participation of state budget experts of DG Budget (BUMKO) and the personnel of other ministries taking part in budget preparation process

- Study visit was paid to the Netherlands in January 2005 so as to see the multi-annual budgeting practices.

- The models of The Netherlands, Sweden, Australia, New Zealand, UK, South Africa, Germany and some developing countries were examined.

- The conditions to be provided in order to introduce multi-annual budgeting system were discussed in the meeting held with the participation of World Bank experts.
An international conference was jointly organized with Dutch Ministry of Finance on May 4, 2005.

A conference was organized with the participation of the officials from the public administrations within the scope of central government.

Multi-annual budgeting training guide was prepared.

Budget preparation guide was reviewed.

Budget management information system was harmonized with multi-annual budgeting approach.

Public administrations were provided with training assistance.

Budget law, annexed charts and budget memorandum were harmonized with the multi-annual budgeting approach.
FUNCTIONING OF MEDIUM TERM BUDGETING SYSTEM IN TURKEY -I

1. Adoption of Medium Term Program by Council of Ministers *(End of May)*,

   I. Main objective
   II. Macroeconomic policy and targets
      A. Macroeconomic policies
      B. Targets and indicators pertaining to program term
   III. Program term development axes
   IV. Sectoral policies

2. Adoption of Medium Term Program by High Planning Council *(15 June)*,

   I. Basic Macroeconomic Indicators and Policies Central Government Budget is Based on
   II. Central Government Budget Figures
   III. Financing of Central Government Budget Deficit
   IV. Issues regarding Institutional Appropriation Proposal Ceilings and Budget Preparation Process
3. Publication of Budget Call and Budget Preparation Guide as Its Supplement as well as Investment Circular and Investment Program Preparation Guide as Its Supplement (End of June),

4. Debate on Appropriation Proposals and Delivery of The Proposal (End of July),

5. Finalization of Macro Estimates by High Planning Council (First week of October)

6. Submission of Central Government Budget Draft Law to the Parliament (17 October),

MEDIUM TERM BUDGETING DOCUMENTS

- MEDIUM TERM PROGRAM
  - MEDIUM TERM FISCAL STRATEGY
    - BUDGET PREPARATION GUIDE
    - BUDGET CALL
    - INVESTMENT CIRCULAR
    - INVESTMENT PROGRAM PREPARATION GUIDE
    - BUDGET PROPOSALS
    - BUDGET DRAFT LAW
SOME CHALLENGES ENCOUNTERED IN IMPLEMENTATION

- Macroeconomic indicators of Turkey, a developing country, change rapidly,
- More than one medium term document exist
- Insufficiency of infrastructure in public administrations in terms of medium term planning
- Very short time allocated to line ministries for budget preparation
- Non-binding appropriation ceilings
REQUIREMENTS FOR SUCCESSFUL IMPLEMENTATION OF MTEF

- Political support and decisiveness
- Realistic macroeconomic estimates,
- Calculating of the cost of deviations from policies,
- Efficient control of expenditures,
- Reporting and publicizing of the results,
- Efficient use of information system.
PERFORMANCE BASED BUDGETING

- Strategic Plans
- Performance Programs
- Annual Accountability Reports
NEW INTERNAL CONTROL SYSTEM-1

☐ Introduction of internal control

☐ Ex-ante Control

☐ Strategy Development Unit

☐ Internal Audit

☐ External Audit
Financial management and control based on managerial responsibility

Functionally independent internal audit
FISCAL TRANSPARENCY AND ACCOUNTABILITY

- Publication of Financial Statistics
- Unit Accountability Reports
- Local Administrations General Accountability Report
- General Accountability Report
- Budget Estimates Report
- Monthly Budget Realizations Reports
- Increasing audit scope of TCA
- Final Account
ROAD AHEAD

- Completing secondary and tertiary legislation
- Transition to Performance Based Budgeting system
- Reforming public personnel regime
- Implementing the health and pension reform
- Restructuring revolving funds
- Enhancing capacity of SDUs
CONCLUSION

☐ Changing people is harder than changing regulations

☐ Reforms take long time, but getting results takes even longer

☐ Not only reforms but also sound fiscal policies are necessary for a good fiscal stance
THANKS FOR YOUR PATIENCE...

For further information:
www.bumko.gov.tr