

An Assessment of the Public Financial Indicators with Budget Data in Turkey: Review post- 2000

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Abstract

There have been changes in public financial indicators in Turkey after the year of 2000. In this paper, these changes were evaluated together with the budget data. In this context, this paper aims to reveal positive or negative effects of budget data on public financial indicators. The 2008 global financial crisis formed the external direction of the negativity in public financial indicators. In particular, before and after 2008, negative developments have been experienced in public financial indicators except for some years. The 2008 global financial economic crisis had also negative impacts on public financial indicators. Moreover, both general and local elections are a negative factor in public spending discipline in Turkey. Since the local elections, the ruling government has chosen extender budget policies as fiscal policies to win the elections. According to the findings of this study, it was determined that Turkey moved away from the Maastricht criteria after 2008, which stemmed from negative developments in budget data.

Keywords: Public financial indicators; budget data; primary surplus; public debt; fiscal discipline.

JEL Classification: H11, H61, H62, H63, H68

1 Introduction

Turkey has experienced many years of chronic budget deficit and debt problems in the post-1980 period. Along with 1994 economic crisis in Turkey, the 1997 Asian economic crisis and the crisis that occurred in Russia in 1998 negatively affected Turkey's economy. Within the framework of the stand-by agreement signed with the IMF to correct the macroeconomic environment, a comprehensive medium-term stabilization program has been launched since the beginning of 2000. However, during the implementation of the program, inflation rates increased and the current account deficit increased. In addition to all these drawbacks, the open foreign exchange positions of banks, the real sector and the public, job losses in state-owned banks and capital deficiencies in the financial sector triggered the 2001 crisis in Turkey. Therefore, various reforms and policies were implemented in order to escape the effects of the economic crisis and ensure fiscal discipline. Regarding financial sustainability, the suggestions of international organizations such as IMF and WTO were taken into consideration. As well as the suggestions of these organizations, other steps were compliance with Maastricht criteria and reforms in public fiscal management. In this framework, IMF's primary surplus policy has been implemented to reduce public debt stock. Thus, with the primary budget surplus targeted as 6.5% of the national income, international credibility and credibility would be provided, and the country's risk would decrease with increasing credibility, resulting in a decrease in real interest rates. With the decrease in interest rates, both consumption expenditures would be stimulated and a healthy investment environment would be created and a sustainable growth would be provided in the economy.

Two sizes are important in assessing the fiscal discipline of the public sector. These sizes are the ratio of budget deficits to GDP and the primary surplus. In this context, it is possible to evaluate by looking at the size of the budget over the effects of the fiscal policy implemented in after 2000 in Turkey. The effects of the policies implemented in the economy show up over time.

In line with this, the evaluations were carried out of budget size changes following the policies implemented after the crisis of 2001 and 2008 in Turkey.

1.1 The Concept of Fiscal Discipline and Connection of the Economic Crisis

The most basic definition of fiscal discipline concept is the preparation of the equivalent of the public budget. However, the budget deficits and borrowing of the states since the 1970s have necessitated the redefinition of this concept. Today, fiscal discipline is to achieve a sustainable debt level with a moderate budget deficit. When the budget deficits are off limits, negative internal and external shocks will be inevitable in the economy. Faced with these shocks, economies will engage in the fight against the economic crisis. The economic crisis is simply the deterioration in the economy due to the negative change in macroeconomic data. Given that there are various reasons for the crisis, negative indicators in public budget data are the triggers of the economic crisis. Market balances may begin to change as the public goes to borrow to finance budget deficits resulting from the imbalance of revenue and expenditure. Credit and liquidity squeeze that may start with the increase in interest rates in the market may occur. After this situation, with the increase in financing costs, production shrinks and unemployment starts to increase. The economic crisis that creates negative indicators such as the decrease in demand in the market, the increase in prices and in costs should be eliminated. For this, it is important to eliminate the deterioration in fiscal discipline, which is seen as a trigger for one aspect of the economic crisis. It should be aimed to achieve a sustainable fiscal discipline by decreasing the public expenditures in the public budget and increasing the public revenues. With the implementation of this policy, fiscal discipline will be re-established and the side of the economic crisis that may arise for different reasons will be eliminated. Governments should take into account the effects of budgetary decisions on public finances, taking into account structural and demographic factors, increasing public debt levels and evolving cyclical situation changes [1]. According to Allen Schick, maintaining fiscal discipline depends on the ability of governments to allocate public resources in line with strategic priorities and objectives, and the effectiveness of government activities [2].

The financing requirement that the government needs to perform the public functions it needs during the fiscal year is defined as the primary budget balance. In other words, the primary budget balance shows how much resources the government uses for its basic functions and how much borrowing is needed. If there is a difference in favor of income in primary budget balance, primary surplus is mentioned. Excessive primary budget balance indicates that net debt repayment is achieved and debt stock can be reduced. However, the primary surplus target is required for fiscal sustainability. In this context, primary surplus policy is applied in countries with high debt burden, especially after crises [3]. Otherwise, it is not possible for the state to repay its debts by borrowing. Repayment of these debts in the long run depends on the value of the primary surplus. If the present value of the primary surplus is equal to or greater than the value of the budget deficit, the budget deficit will be sustainable [4]. The main reasons for the selection of primary surplus as a criterion for the success of fiscal policy in economies with high debt stock and some risks in sustaining debt are the relationship between primary surplus and debt repayment capacity, the interaction between price stability and debt stock and the positive effect of fiscal discipline provided by the achievement of the primary surplus target on growth [5]. The common practice in assessing the sustainability of debts is to focus on gross or net government debt as a share of the country's GDP. A sustainable government debt is one in which the debt ratio remains constant or decreases over time. Whether the primary surplus target is realized is important for determining the next year's debt ratios [6]. Achieving the primary surplus target leads to a decrease in the public sector borrowing requirement and risk premium, a decrease in crowding out effect and a reduction in the financing constraint of the private sector.

In the relationship between fiscal discipline and economic crisis, countries should take into account the long-term costs of programs and government policies and the sustainability of fiscal policies in preparing their state budgets. This is particularly important given the effects of budgets on national debt. However, a medium-term outlook is also required for budgets since the time range of an annual budget is too short to set spending priorities. Macroeconomic estimates are based on the identification of targets and instruments in areas such as monetary policy, fiscal

policy, exchange rate and trade policy, foreign debt management, regulation and promotion of private sector activities and reform of public enterprises. For instance, the policy goal of reducing inflation normally corresponds to targets such as deficit and debt / GDP ratio. At the same time, special tools used in policy implementation may include changes in direct and indirect tax balance and credit policy measures [7].

Turkey, which is the scope of the study, has faced in the past and present in a variety of economic crisis. Along with crises stemming from its own internal dynamics, it was also exposed to the effects of economic crises in developed and developing countries in the 1990s and 2000s. The 2008 crisis was a similar to former crises. Economic events both nationally and internationally in the decade before 2000 have been the determinant of the fiscal policies implemented during the exit from the economic crisis in 2001. Given the impact of Turkish financial crisis in 2001 and 1994 and the increase of public deficit and Public Sector Borrowing Requirement (PSBR), the most important issue of fiscal policies has become sustainability of debts. The rules as it deems necessary to restore fiscal balance by the Maastricht were targeted for the fiscal balances in Turkey. In this context, the ratio of budget deficit to GDP should not exceed 3% and the ratio of public debt stock to GDP should not exceed 60%. Another indicator of fiscal discipline within the framework of the Transition to the Strong Economy program was seen as primary surplus of 6.5% of the GDP suggested by the IMF.

In 1980-2000 period, there were excessive increases in public expenditures in Turkey, which led to borrowing. The increase in the amount of debt caused the paid interest payments to increase. The interest payments of the domestic and foreign debts in the budget have increased gradually first and then exponentially since the beginning of the 1980s [8]. The primary factor determining the increase in public expenditures was interest payments. In the twenty-year period, the rate of increase of the share of interest expenditures in the budget was higher than the rate of increase of current and investment expenditures. In this period, it can be seen that the budget financed by debt increased the need for public sector borrowing. During the 1994 crisis, Turkey has met with the concept of primary surplus [9]. The primary surplus, which came to the fore in stand-by negotiations with the IMF in 1994, has attracted attention as an element of fiscal policy in negotiations since that year [10]. Given that the concept of primary surplus gained importance as the interest expenditures reached very high levels in Turkey, in the first letter of intent covering the period 2000-2002 for the stand-by arrangement between the IMF and Turkey, it was pointed out that the aim of the fiscal policy in the stabilization program would be achieved by reducing the public sector domestic debt stock and giving primary surplus in the public sector. Therefore, with the advance of stand-by agreement, Turkey's primary surplus target was determined as a performance criterion in proportion to GDP. Within this context, a budget policy based on primary surplus was in action as a fiscal policy application [11].

Initially, while combating economic crisis as the whole world, in Turkey monetary policy measures such as liquidity support loans, and interest rate cuts lowering the cost of the liquidity were taken. When these measures were insufficient, fiscal policy measures were taken to ensure financial recovery. In this context, public revenue and expenditure policies, which are fiscal policy instruments, were used to combat the crisis. The government made VAT and SCT reductions including selected sectors. In addition, incentive packages were prepared on the basis of regions and sectors. These measures both aimed at eliminating the problem of mistrust and uncertainty in the markets, and aimed at eliminating the demand contraction caused by the decrease in household consumption and private sector investment expenditures.

2 Material and Methods

As a method in the study, Primary surplus/ GDP, Interest expenditures/ GDP, Public sector borrowing requirement/ GDP, Gross Foreign debt/ GDP, Debt stock/GDP as well as budget data budgetary equilibrium, primary balance, budget revenue and expenditures were used as data within the scope of public financial indicators. All data used in the study were based on official data published (Strategy and Budget Presidency, Turkish Statistical Institute, Ministry of Treasury

and Finance) by the state of the Republic of Turkey. The evaluation is based on a period of seventeen years. 2019 data are realization estimates. International comparison of above-mentioned data was based on the Maastricht criteria. Turkey's fiscal discipline and sustainability will be analyzed within the framework of these data. Studies on fiscal sustainability analysis are grouped into two groups according to the method followed. Pioneers of these methods are Hamilton and Flavin [12] and Buiters' studies [13]. In this context fiscal sustainability analysis can be done by econometric methods and economic indicators. In both methods, the analysis of fiscal sustainability starts with the government's budgetary constraint. In this context, economic indicators were used as methods in the study. According to Buiters' study, fiscal sustainability can be mentioned if fiscal policy can keep the Public sector borrowing/GDP ratio steady. In the study, Turkey will be evaluated in the primary surplus from the economic indicators for the post-2000. As a result of our analysis with economic indicators, it will also be revealed whether there is a sustainable fiscal policy in Turkey from past to present.

2.1 Fiscal Discipline and Budget Data Connections

Although there are many reasons for the rapid increase in public debt and budget deficits, according to theoretical and empirical literature, inadequate fiscal discipline and weak fiscal management are the main reasons [14]. In theory, the benefits of a numerical target cannot be denied to ensure fiscal discipline. When a balanced budget law is applied, budget deficits caused by political distortion will disappear [15]. It is observed that budget deficits occur around the world especially in developing countries. Developing countries take various measures according to their own internal dynamics in combating their debts and budget deficits. Accordingly, emerging market economies (Chile, Brazil and Malaysia) have adopted some fiscal rules or targets. Spending or fiscal debt limits, structural accountabilities act, primary surplus target can be given as examples of the rules and targets. The ultimate target of all these fiscal rules or targets is to control public finance during elections, to prevent the increase of public debts, and to balance the spending or tax revenues decrease [16]. In post 2000 period, Turkey has resorted to similar measures for fiscal discipline and fiscal sustainability.

Public financial indicators and budget data are given in Table 1. In this context, in addition to fiscal discipline image in post 2000 period in Turkey scale, the changes experienced in public financial indicators and budget data have been demonstrated. According to Table 1, the ratio of budget deficit to GDP, which was 11.2% in 2002, decreased from 2003 to 6% in 2006. However, in 2009, the budget deficit increased to 5.3%. In the following years, it decreased to 1.1% in 2016. When we look at the data of the last three years, the budget deficit has increased again. While the share of interest expenditures in GDP was 14.4% in 2002, this rate has started to decrease since 2003. It reached 5.3% in 2009 and 2.4% in 2019. Considering the primary balance, while the primary surplus was 3.3% in 2002, this rate started to increase since 2003. According to the GDP targeted in accordance with the IMF recommendations in 2004, a primary surplus of 5.3% was achieved by approaching the 6.5% primary surplus rate. However, since 2005, primary surplus declined again as 4.3% in 2006, 3.0% in 2007 and 1.5% in 2008. In 2009, primary surplus realized as negative. Although primary surplus has increased again since 2010, it has remained below 2% until today. In 2013, 2014, 2015, average 0.5% primary surplus was given. In the last four years, primary surplus has decreased and realized as negative in 2019.

The data in Table 1 are based on the borrowing, Turkey's total gross external debt decreased in the period from 2002 until 2012. Foreign debts increased again after 2012 and approached the level of 2002 in the last 3 years. Public debt stock was reduced between 2002 - 2008. The debt stock increased slightly in 2009, but it decreased again in the next period. It was 32.6% in 2018. The borrowing requirement decreased after 2002. The borrowing requirement increased somewhat in 2009 and 2010. It decreased again after 2009 and became 1.6% in 2018.

Table 1: Central Government Budget Data (As of GDP, %)

	Expenditures	Non-interest Expenses	Interest Expenses	Revenues	Budget Balance	Primary Balance	Foreign Borrowing (gross)	Debt Stock	Borrowing Requirement
Years									
2002	34.1	19.4	14.4	22.7	-11.2	3.3	54.8	72.1	9.7
2003	31.1	18.2	12.5	22.2	-8.6	4.6	45.9	65.7	7.1
2004	27.2	17.1	9.8	22.0	-5.0	5.3	40.0	57.7	3.5
2005	24.6	17.6	6.8	23.5	-1.0	4.6	34.2	50.8	-0.1
2006	23.5	17.4	5.8	22.9	-0.6	4.3	38.0	44.7	-1.8
2007	24.2	18.4	5.5	22.6	-1.6	3.0	36.9	38.2	0.1
2008	23.9	18.6	5.1	22.1	-1.8	1.5	36.2	38.1	1.5
2009	28.2	22.6	5.3	22.6	-5.3	-1.0	41.6	43.9	4.8
2010	26.8	22.4	4.2	23.1	-3.5	0.7	37.8	40.1	2.2
2011	24.2	21.0	3.0	22.9	-1.3	1.6	36.7	36.5	0.1
2012	25.5	22.1	3.1	23.5	-1.9	0.9	39.3	32.7	0.9
2013	26.0	22.9	2.8	24.9	-1.0	0.9	41.3	31.4	0.4
2014	25.7	22.8	2.4	24.3	-1.1	0.5	43.4	28.8	0.5
2015	25.9	23.2	2.3	24.7	-1.0	0.6	46.4	27.6	0.0
2016	25.9	24.7	1.9	25.4	-1.1	-0.6	47.4	28.3	1.0
2017	26.8	24.4	1.8	24.2	-1.5	-1.0	53.4	28.3	1.8
2018	22.3	20.3	2.0	20.4	-1.9	-2.1	53.8	32.6	2.7
2019	23.2	20.8	2.4	20.3	-1.8	-0.2	*	*	1.6

Source: Strategy and Budget Presidency, Turkish Statistical Institute, Ministry of Treasury and Finance.

*The data is not included because it is not disclosed by the relevant institutions.

3 Results and Discussion

There are theoretical and empirical studies in the literature on fiscal discipline and sustainability worldwide. Studies on fiscal discipline and sustainability while Turkey in particular is limited. Turkey in particular on the issue of fiscal discipline and sustainability studies evaluating economic indicators or econometric methods are used. Using unit root test method and cointegration method with econometric method Sen, Sağbaş and Keskin evaluated fiscal sustainability over budget deficits, interest payments, and debt stock in 1975-2007 in Turkey [17]. According to the findings of this study, it has revealed no fiscal sustainability in Turkey in the period under review. In another study on the same period in Turkey, Gürdal dealt with the fiscal discipline of economic indicators [18]. In this context, Gürdal evaluated primary surplus, interest expenditures, budget deficit, PSBR, domestic and foreign debt stock and economic growth data in the period of 1975-2007. According to Gürdal's study, achieving the primary surplus target has a positive effect on the sustainability of debts and economic growth. In Turkey, there was a structural transformation occurred in 2001 with the economic crisis. In this context, another study in the literature that covers the period 2001-2007 belongs to Budina and van Wijnbergen [19]. Using fiscal sustainability forecasts, econometric analysis, and stochastic simulation methods and stress tests, Budina and van Wijnbergen showed financial sustainability projections after the 2001 crisis in Turkey. The authors revealed risks in fiscal sustainability and primary surplus for future projections in the study. In the study, it was stated that it would not be possible to maintain the 6.5% targeted especially in primary surplus. In the same study on Turkey's debt stock it has been stated that it would be reached below 50% of GDP respectively. We reached similar results in this study. In light of data that we have examined, in the period after 2000, Turkey has made some positive developments on the debt and budget deficit. However, according to the primary surplus target, it has been determined that Turkey has not reached the targeted level as regards to the fiscal discipline and fiscal sustainability.

4 Conclusion

As a result of data evaluation, within the framework of Primary surplus/ GDP, budgetary equilibrium/GDP, it can be said that the success of Turkey to achieve sufficient levels of public financial indicators is debatable. Budget balance in the period after 2000, Turkey has been fluctuated. Although there was a tendency to recover until 2009, the 2008 global crisis deteriorated the budget balance again. Although there were positive results in the budget balance in the following years, the budget balance deteriorated again in the last two years. According to Table 1 in the debt stock data in 2002, the public sector debt to GDP ratio was 72% in Turkey in 2018, this ratio stood at 32%. This ratio obtained in the debt stock is also compatible with the Maastricht criterion. The main objective of fiscal discipline for the period after 2000 was primary surplus. However, since 2000, 2001 period IMF policies targeted towards 6.5% primary surplus rate has not been realized in Turkey. Considering the relationship between primary surplus and debt payment capacity, low primary surplus rate is risky in terms of repayment of debts in the long run. In this context, it is important to increase the primary surplus value in the coming years. In order to reach this aim, reducing spending and increasing revenues is a solution. It will be easier to ensure fiscal discipline with the increase of primary surplus. In addition, the fiscal discipline achieved by achieving the primary surplus target will have a positive impact on economic growth. This will also be effective in terms of credibility and reliability in the international arena. In conclusion, to provide improvement on the public financial indicators, the primary surplus ratio, the ratio of public sector borrowing requirement/ GDP and the ratio of public sector debt stock need to be reached to the level of Maastricht Criteria. This condition has a great importance in terms of the re-establishment of Turkey's fiscal discipline and sustainability.

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