



MAIN ELEMENTS OF THE DRAFT LAW ON FISCAL RULE

May 11, 2010



Objectives

- Establishing long term predictability on fiscal policy
- Enhancing confidence and stability in the economy.
- Minimizing public sector borrowing cost by lowering risk premium and increasing credibility
- Extending maturity of deposits and loans by introducing a long term economic policy perspective
- Enabling private sector access to longer term resources at lower costs by increasing the predictability of long term borrowing requirement of public sector
- Entrenching fiscal discipline



Parties Consulted

- Academicians
- Research units of financial institutions
- Business circles
 - TOBB (The Union of Chambers and Commodity Exchanges of Turkey)
 - TÜSİAD (Turkish Industrialists' and Businessmen's Association)
 - TİM (Turkish Exporters Assembly)
 - TUSKON (The Union of Turkish Businessmen and Industrialists)
 - MÜSİAD (Independent Industrialists and Businessmen's Association)
 - TİSK (Confederation of Turkish Employer Unions)
 - YASED (International Investors Association of Turkey)
- International Institutions
 - OECD
 - EU Commission
 - IMF
 - World Bank



Scope

- General Government
 - Central Government
 - Social Security Institution
 - Local Administrations
 - Revolving Funds
 - Unemployment Insurance Fund
 - Other
- State Owned Enterprises (SOEs)
 - SOEs subject to Decree No. 233
 - Institutions subject to Law No. 4046



Principles

- Simplicity, integrity, transparency and accountability
- Following international and EU standards in determining accounting and reporting procedures and institutions to be covered by the rule



FISCAL RULE

- In any given year, the ratio of the general government deficit to the Gross Domestic Product may not exceed the figure arrived at by adding the general government deficit adjustment, to the ratio of the general government deficit to the Gross Domestic Product in the previous year.
- The general government deficit adjustment is the sum of the deficit effect and the cyclical effect.
- The deficit effect will be computed by multiplying -0.33 by the value arrived at by subtracting 1 percent that is the long-term target for the ratio of the general government deficit to the Gross Domestic Product from the ratio of the general government deficit to the Gross Domestic Product in the previous year.
- The cyclical effect will be computed by multiplying -0.33 by the value arrived at by subtracting the average long-term real growth rate of GDP, which is 5 percent, from the real growth rate of GDP in the relevant year.



The Fiscal Rule Formula

$$\Delta a = -0.33 (a_{(t-1)} - 1) - 0.33 (b - 5)$$

Δa : Adjustment in the general government deficit / GDP

$a_{(t-1)}$: Previous year's general government deficit / GDP

b : Real GDP growth rate



Other Aspects Supporting the Fiscal Rule

- Budgets of the **revolving funds** will be in balance
- Borrowings **of local administrations** will be limited to financing of their investment projects
- On an aggregate basis, there will be no borrowing requirement for **state owned enterprises**



Implementation of Fiscal Rule (1)

- General government deficit ceilings for the next three years calculated in accordance with fiscal rule will be determined in the Medium Term Program and Fiscal Plan
- In case of a change in general government deficit to GDP ratio of the pervious year and/or real GDP growth rate in a given year, the deficit ceiling will be updated and announced to the public.
- Whether there is a deviation from the rule in a given year shall be determined by comparing general government deficit to GDP ratio with the final ceiling



Implementation of Fiscal Rule (2)

- Budget performance will be continuously monitored during the year. If a possibility of exceeding the ceiling emerges, alternative measures will be prepared and submitted to the Council of Ministers by the Minister chairing the Economic Coordination Council
- In an event of declaration of state of emergency due to natural disaster, dangerous epidemics or heavy economic and financial crisis, additional central government expenditures directly related to the state of emergency that are not projected in the budget will be treated as exceptions from the rule



Reporting

- Minister of Finance and Minister in charge of the State Planning Organization shall inform the Planning and Budgetary Commission of the Grand National Assembly of Turkey in a special agenda meeting within fifteen days following the publication of Medium Term Program and Fiscal Plan
- Fiscal statistics on general government shall be disclosed quarterly and annually by the Ministry of Finance through the Fiscal Rule Surveillance Report
- Fiscal statistics on the state-owned enterprises shall be disclosed quarterly and annually by the Undersecretariat of Treasury
- Reports on long term actuarial balances of pension and general health insurance systems shall be published annually



Auditing

- The Turkish Court of Accounts will assess and announce
 - Accuracy
 - Reliability
 - Conformity with pre-determined standards

of the data provided in Fiscal Rule Surveillance Report within three months following its publication.



Other Supporting Regulations (1)

- Medium Term Program and Medium Term Fiscal Plan will be unified in a single document called “**Medium Term Program and Fiscal Plan**”
- Medium Term Program and Fiscal Plan will be prepared by taking into account all government policies that are being implemented or declared to be implemented, as well as all other developments that may have a material effect on the economic and fiscal outlook.
- There will be no “Special Revenue – Special Appropriation” implementation
- Netting-outs and write-offs will be budgeted



Other Supporting Regulations (2)

- Domestic borrowings of the local administrations exceeding the limit will be subject to the consent of the Undersecretariat of Treasury in addition to the already required approval of the Ministry of Interior.
- Exceptions to the limits of external borrowing of the local administrations will be restrained.