

Principles of Modern Fiscal Management

Presentation to Parliamentarians
Cumhuriyet University, Sivas
October 21, 2010





5 Principles of Fiscal Management

- ▶ Sustainability
- ▶ Quality
- ▶ Predictability
- ▶ Counter-cyclical
- ▶ Scrutiny



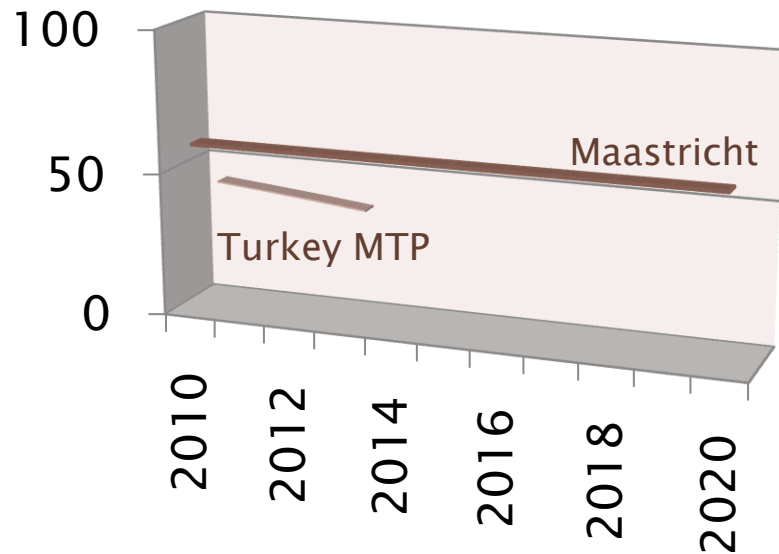
Sustainability

»» Definitions and considerations



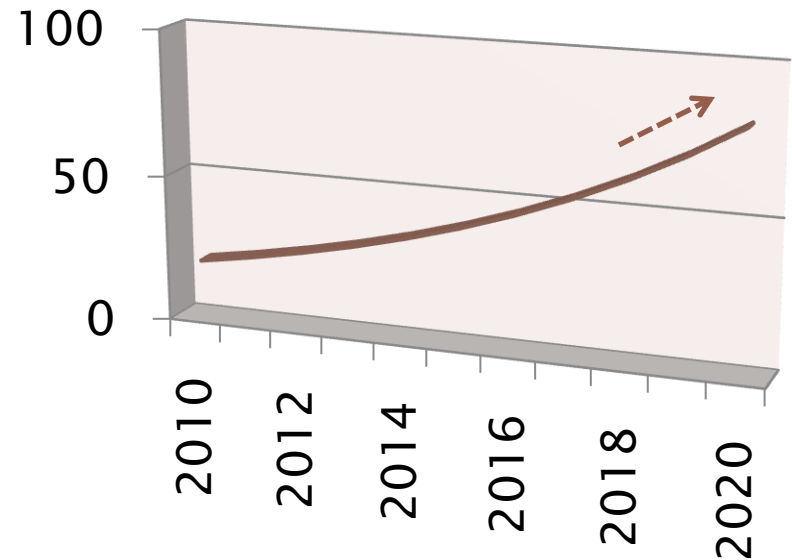
Sustainability: definitions

Public Debt to GDP Ratio



Debt Sustainability

Public Debt to GDP Ratio



Fiscal Sustainability



Sustainability: considerations

- ▶ Existing debt stock
- ▶ Interest rates
- ▶ Foreign/domestic split
- ▶ Maturity
- ▶ Growth rate (link to quality)
- ▶ Primary fiscal deficit
- ▶ Contingent liabilities
- ▶ Shocks (link to maturity/composition)



Quality

»» Revenue and expenditures





Quality: the revenue side

- ▶ Reliability
- ▶ Fairness
- ▶ Distortions



Quality: the spending side

- ▶ “What is the ‘G’ in ‘GDP’?”
 - ▶ Current spending versus capital spending
 - ▶ The quality of capital spending: double investment or double the efficiency of investment
- “An improved project evaluation system that significantly increases the rate of economic productivity will have a permanent and continuing effect on the country’s growth rate”

(Arnold Harberger, 2005)





Chile's National Investment System

- ▶ Methodologies for project preparation and assessment according to socio-economic returns
- ▶ Continuous training of officials at all government levels
- ▶ Publicly available project data bank
- ▶ Political choices are made only between options that have passed a threshold cost-benefit test



Chile's National Investment System

2005 Workflow

Pre-Assessment		Assessment		Budget	
IDs entered into the BIP: 19,262	IDs entered into the SNI: 11,821 61%	New IDs 8,954 76%	Entered in 2004 6,166 69%	Positive 2,851 46%	Budget 1,695, 59%
			Entered in 2005 2,788, 31%	Positive 1,896, 68%	Budget 1,408, 74%
		IDs from Proj in Execution 2,867, 24%	→	Positive 2,578 90%	Budget 2,350, 91%
	IDs not entered into the SNI: 7,441 39%				
				<i>Total number of projects in the Budget:</i>	5,453
				<i>% of Total BIP:</i>	28%

Source: BIP, MIDEPLAN.

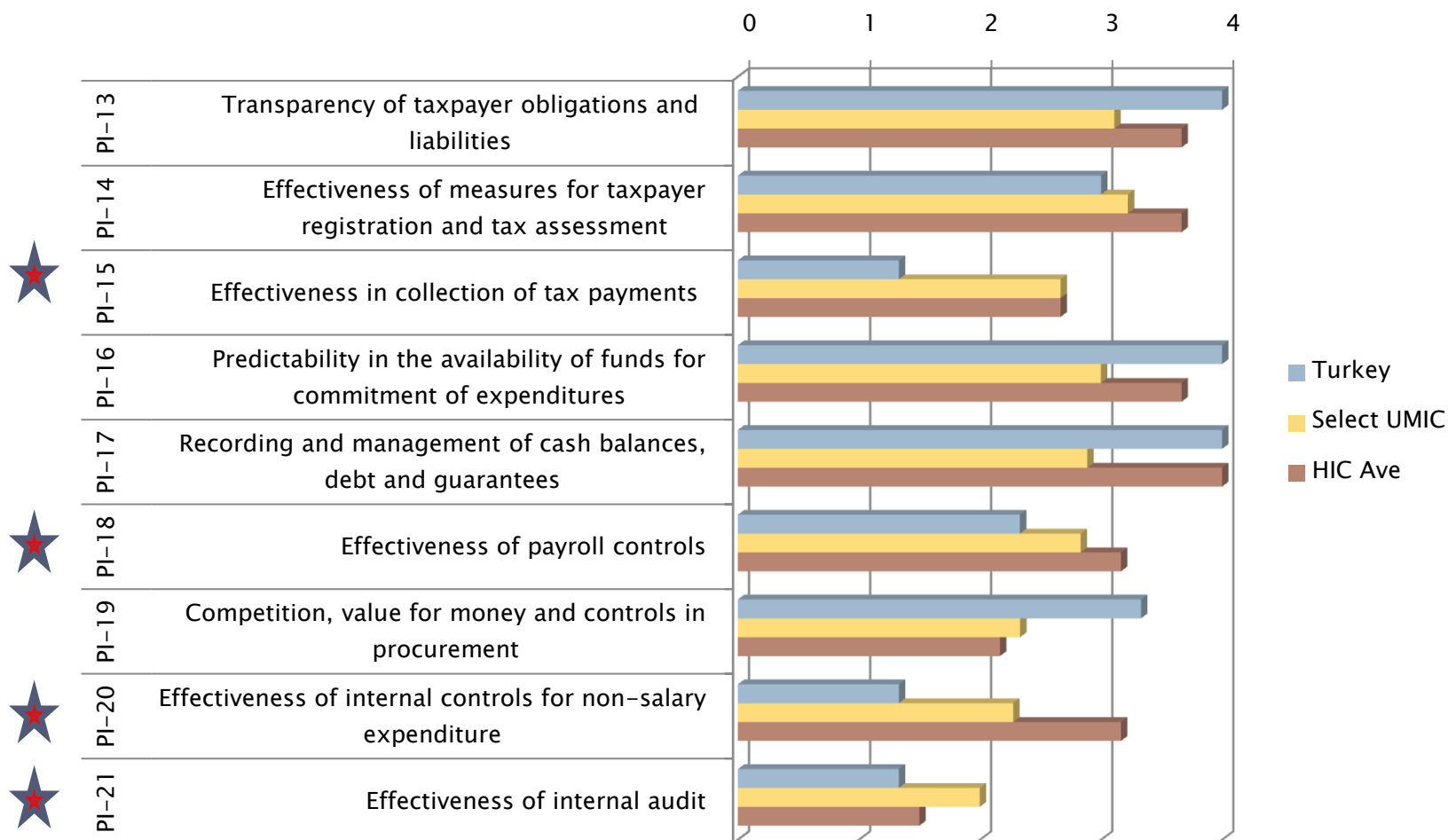


Predictability

»» Executing the budget



Predictability and Control in Execution



Source: PFMP

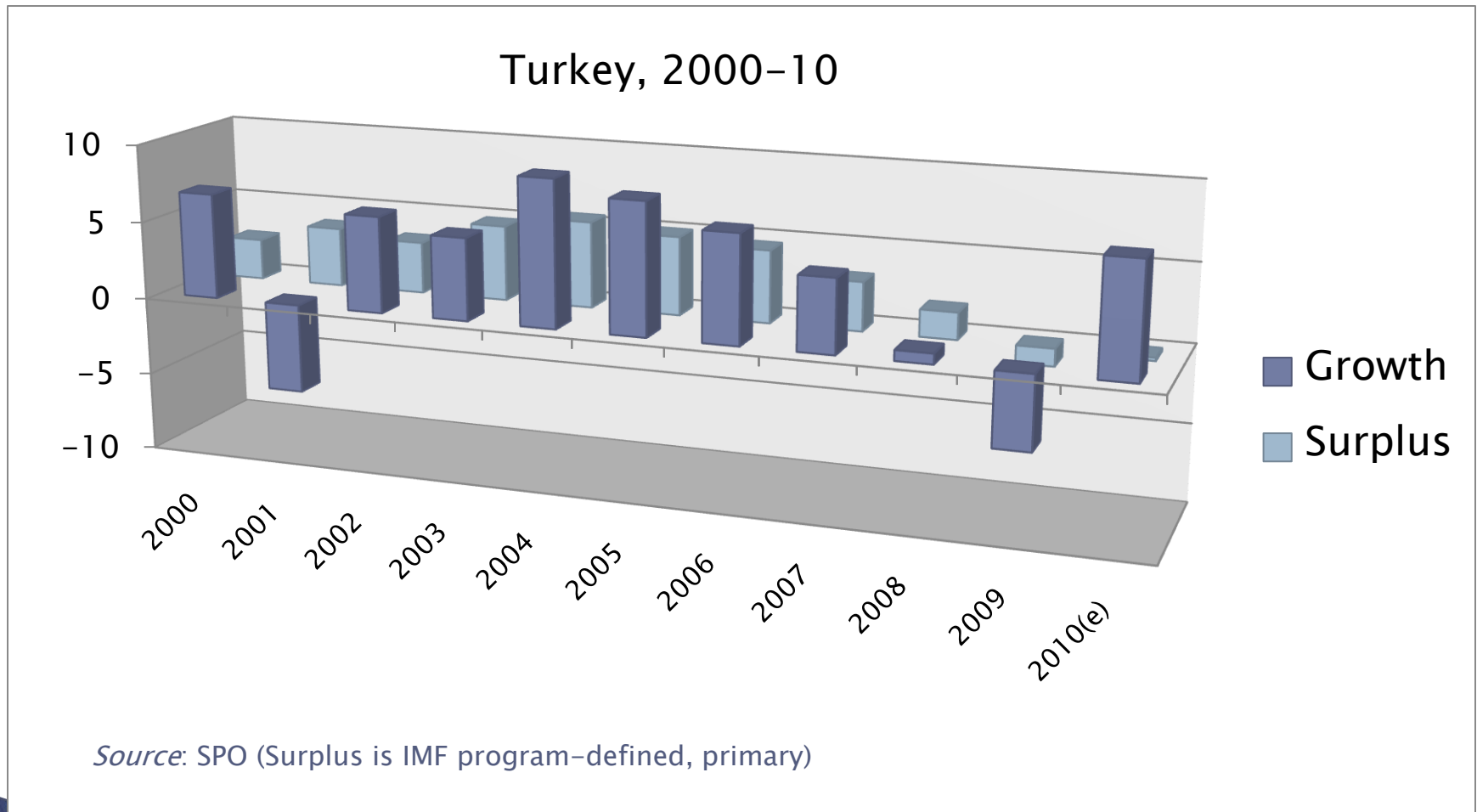
Turkey scores less well on the effectiveness of tax collection, payroll controls, internal controls, and internal audit.

Counter-cyclical

- » Using fiscal policy to dampen volatility



Counter-Cyclical Fiscal Policy

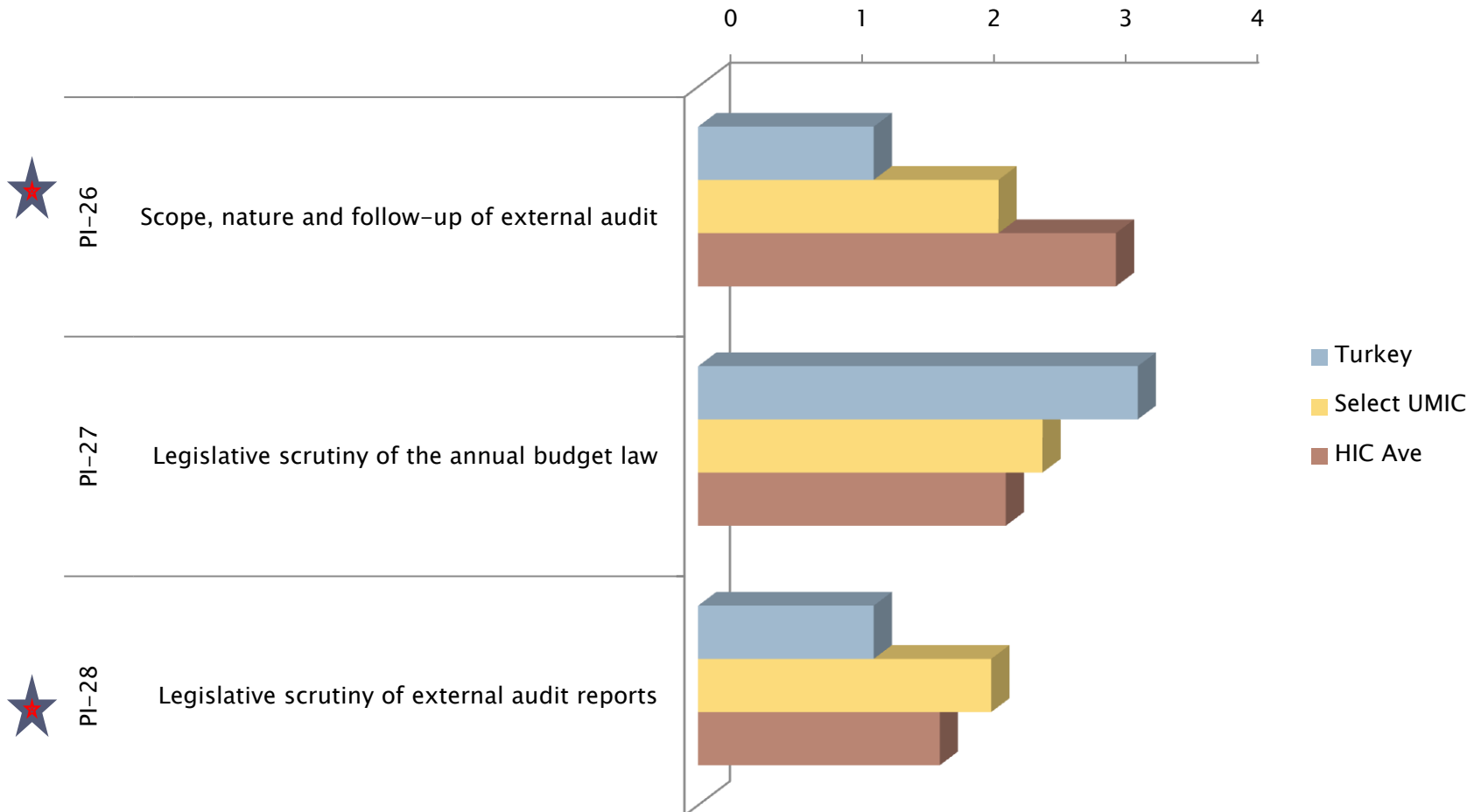


Scrutiny

- » External audit and legislative oversight



External Scrutiny and Audit



Source: PFMP

Turkey scores less well on external audit and the legislative scrutiny of external audit.





A Note on Fiscal Rules

- ▶ What is a fiscal rule?
 - NOT just the annual budget/Medium Term Program
 - Numerical floors/ceilings on one or more fiscal indicators
 - Cost for non-complying policymakers
 - A monitoring/enforcement procedure
- ▶ A fiscal rule may contribute to...
 - Sustainability
 - Quality
 - Predictability
 - Counter-cyclical
- ▶ Not the only way of achieving these...
 - ...BUT unconstrained policy may suffer from “time inconsistency”
 - A rule may provide commitment and signaling to anchor expectations

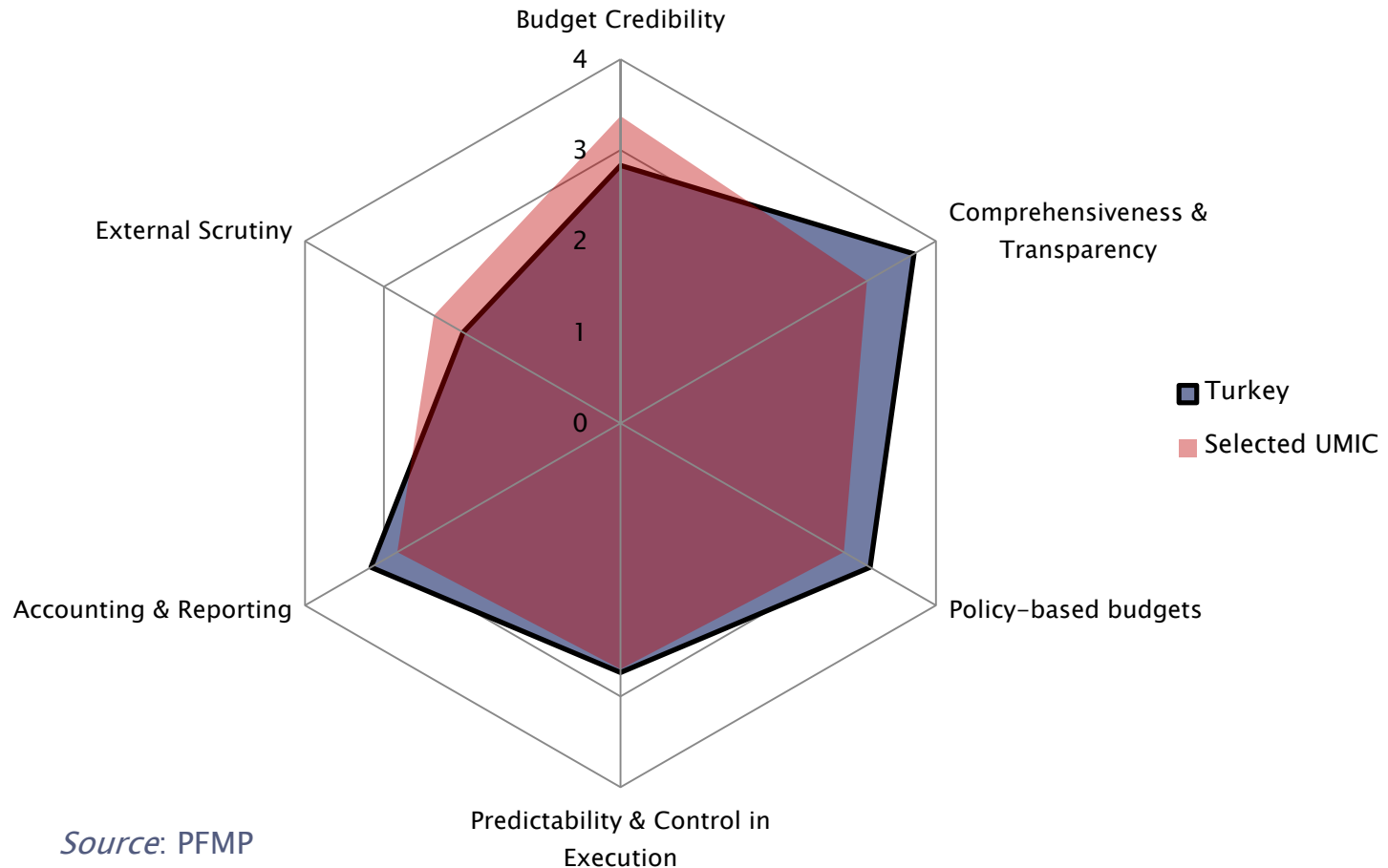


Conclusions

»» Directions for Turkey



The Big Picture: Turkey versus other upper middle-income countries



Source: PFMP

Turkey scores well versus selected UMICs; budget credibility (arrears) and external scrutiny are the weaker links.





Final Thoughts

- ▶ **Turkey is doing well**
By international standards Turkey is applying the principles of modern fiscal management
- ▶ **Turkey can strengthen certain areas**
The Public Finance Management Performance benchmark exercise points to arrears management, certain internal controls, and external audit
- ▶ **Parliament has a key role to play in all countries... and bringing Turkey to the next level**
Important complementary reforms can include a Fiscal Rule Law, the TCA Law, State Aid Law, strengthening investment analysis, and tax reform
- ▶ **Parliament can also build its own in-house capacity for policy and project analysis**



Teşekkürler

»» Thank You

