

**Turkey: Report on Observance of Standards and Codes—
Fiscal Transparency Module—Update**

This Update to the Report on the Observance of Standards and Codes on Fiscal Transparency for Turkey was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on April 4, 2002. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Turkey or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

TURKEY

Update to the Report on the Observance of Standards and Codes, 2002

Prepared by the Fiscal Affairs Department on the Basis of Information
Provided by the Turkish Authorities

April 4, 2002

This note updates developments in fiscal transparency and reviews the status of recommendations in the June 2000 report "Turkey—Report on the Observance of Standards and Codes—Fiscal Transparency Module." For a description of institutions and practices and a list of recommendations refer to the original report.¹ The authorities have recently completed a ROSC data module exercise, and the report was issued in March 2002, which is available on the IMF external web site.

1. **Since December 2000, 61 budgetary and 8 extrabudgetary funds have been closed, and 2,960 revolving funds have been consolidated into less than 1,500.** One budgetary fund and five extrabudgetary funds remain. In 2002, the State Planning Organization's annual Public Finance Report partially bridged the information gap created by fiscal fragmentation by providing detailed information to parliament on the proposed annual program for each category of public sector entity.
2. **In March 2002, parliament approved a new law on Public Finance and Debt Management.** The law states that Treasury is the single borrowing authority for the central government, and establishes a comprehensive and more transparent framework for dealing with contingent liabilities. Since 2000 the Treasury has been disclosing information about called and outstanding guarantees on its web site, and an annex to the 2002 budget provided to parliamentarians aggregated projections of guarantees expected to be called.
3. **A new procurement law, based on UNICTRAL standards, has also been passed by parliament, and will come into force in January 2003.** It covers all goods, works, and services—with the exception of military contracts—and encompasses both budgetary and non-budgetary procurement. It applies to central and local government agencies, as well as SEEs. It stipulates technical and financial criteria for contractors, and establishes thresholds above which foreign bidders cannot be excluded, although these thresholds are too high by international standards. The law establishes an independent agency, not yet fully established, to oversee public procurement and enforce the new standards.

¹ The original report was issued in June 2000 and can be found on the IMF external web site.

4. **A new GFS-consistent chart of accounts and budget classification have been developed and are being piloted in 6 central government budget agencies.** The 2002 budget law also provided the MoF with the temporary authority (pending a new law on financial management and control) to set unified budget coding and accounting standards for all general government entities. This would facilitate extension of the pilot to general government in 2003.

5. **Reporting by consolidated budget agencies has been enhanced by the say2000i internet-based automated accounting system, installed and commissioned in January 2002.** The system, however, is not expected to be fully operational until end-2002, and even then will not be able to properly record overcommitments. To deal with the latter, beginning in 2001, the MoF began to bi-annually survey ministries and line agencies.

6. **Steps have been taken to improve the budget preparation process.** The Prime Minister's Budget Call for 2002 was accompanied by a High Planning Council Decision which provided a macro-fiscal framework for budget preparation. This included overall levels for the recurrent and investment budget, and indicative ceilings for ministries and line agencies (based on an indexation formula applied to actual 2001 budget allocations).

Staff commentary

7. **Further progress has been made in addressing the shortcomings in fiscal transparency identified in the 2000 ROSC fiscal transparency module.** The coverage of the budget has been broadened, the frameworks for dealing with both contingent liabilities and procurement have been strengthened, budget classification and accounting systems have been redesigned, and budget preparation has been improved.

8. **The authorities need to cement gains by fully implementing planned reforms.** Drafting and enacting an appropriate Public Financial Management and Control Law by end-year 2002 will be particularly important for strengthening key aspects of fiscal management and underpinning further accounting and audit reforms. Indeed, once this framework is in place, accounting reforms will need to be extended to general government, and the external audit resources released from budget execution will need to be redeployed to audit general government entities not currently subject to external audit.

9. **However, additional efforts are needed in many areas.** Remaining extrabudgetary funds need to be either eliminated, or transformed into "virtual" funds (that is, consolidated with the central government in budget preparation, execution, and reporting). In addition, the quality of budget documentation should be improved, and more attention should be devoted to eliminating quasi-fiscal activities in public enterprises and transparently dealing with their stock of tax arrears and duty losses.