Box 6.1

Fiscal Stance in the New Economic Program

The New Economy Program (NEP) covering the 2020-2022 period was announced on 30 September 2019. The main objective of the NEP is to maintain and enhance the gains achieved in price stability, financial stability and the current account balance. Moreover, the NEP aims to deliver economic change and transformation for sustainable growth and equal distribution with a focus on production and productivity. Over a period of three years, the program will make sure that fiscal discipline is maintained with determination, public sector indebtedness is kept at low levels and structural changes are implemented to ensure the efficient use of resources and to increase savings in designated areas. The aim of this box is to document the fiscal aggregates announced in the NEP and present the cyclically adjusted primary budget balance as implied by the NEP to have a better understanding of the future stance of fiscal policy.

The program envisages improvement in the budget balance and primary budget balance and a gradual decrease in the debt stock to GDP ratio. The declaration that fiscal adjustment will be maintained through decreasing primary expenditures rather than tax increases is important for fiscal and monetary policy coordination in bringing inflation down. The NEP forecasts the primary expenditures to GDP ratio to fall by 1.2 percentage points to 19.6% in 2020 and continue its downtrend thereafter, reaching 18.4% as of 2022 (Table 1, Chart 1). After the decline in 2019 due to weak economic activity and supportive tax reductions and incentives, tax revenues (as a ratio of GDP) are expected to increase in 2020 and hover around 16% in the program period (Table 1, Chart 1). In sum, the NEP aims to achieve a budget deficit to GDP ratio below 3% for the next three years and a gradual increase of 0.3% in the ratio of primary surplus to GDP by the end of 2022.

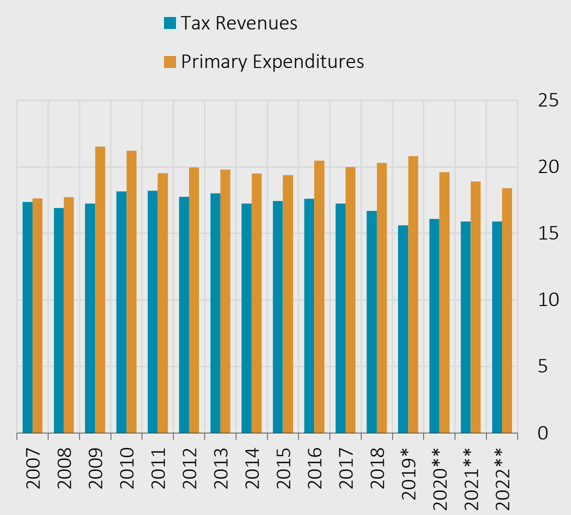
Table 1: Central Government Budget (% of GDP)

	2018	2019*	2020**	2021**	2022**
Expenditures	**22.3**	**23.2**	**22.5**	**21.8**	**21.3**
Primary Expenditures	20.3	20.8	19.6	18.9	18.4
Interest Payments	2.0	2.4	2.9	2.9	2.9
Revenues	**20.4**	**20.3**	**19.6**	**19.0**	**18.7**
Tax Revenues	16.7	15.6	16.1	15.9	15.9
Non-tax Revenues	3.7	4.7	3.5	3.0	2.8
Budget Balance	**-2.0**	**-2.9**	**-2.9**	**-2.9**	**-2.6**
Primary Budget Balance	**0.0**	**-0.5**	**0.0**	**0.0**	**0.3**
EU-Defined Debt Stock	**30.4**	**32.8**	**33.2**	**32.5**	**32.3**

Source: NEP (2020-2022).
* NEP (2020-2022) realization estimate.
** NEP (2020-2022) program.

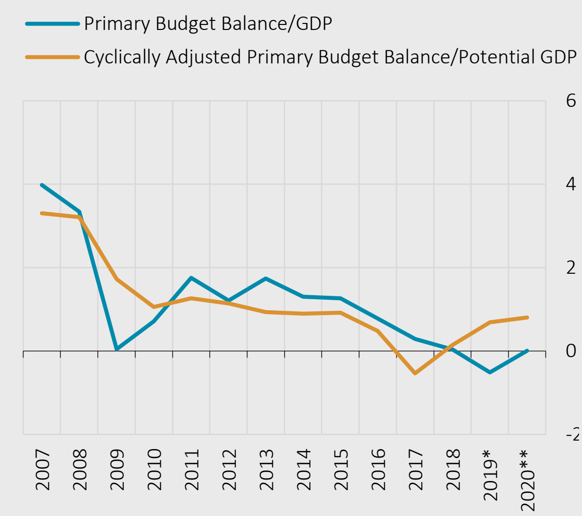
Some tax and expenditure items are highly sensitive to cyclical fluctuations. Thus, the information content of traditional measures such as the budget balance for the fiscal policy stance may be limited, especially in periods when the current production level differs significantly from the potential production level. Therefore, when assessing the fiscal policy stance, it is important to eliminate the cyclical effects that the fluctuations in economic activity have on the budget balance through automatic stabilizers. In this context, while the cyclically-adjusted primary budget balance displayed a relatively stable outlook during the post global financial crisis period (2010-2015), it started to decline in 2016 in line with the measures and incentives introduced and the expansionary fiscal policy implemented (Chart 2). The cyclically-adjusted primary budget balance began to recover as a result of the measures taken in the second half of 2018 and has retained this tendency in 2019 with the contribution of non-tax revenues. With non-tax revenues excluded, it is observed that fiscal policy pursuing a counter-cyclical stance in 2019, when economic activity has been weak, is slightly more expansionary compared to the previous year. On the other hand, fiscal discipline, which is considered as an important anchor for the Turkish economy, will be sustained in 2020. In this regard, the cyclically-adjusted primary budget balance is expected to improve with respect to 2019 (even if non-tax revenues are excluded), due to the decrease envisaged in the ratio of primary expenditures to GDP (Chart 2).

Chart 1: Primary Expenditures and Tax Revenues (% of GDP)



Source: Ministry of Treasury and Finance.
* NEP (2020-2022) realization estimate.
** NEP (2020-2022) program.

Chart 2: Primary Budget Balance and Cyclically-Adjusted Primary Budget Balance (%)



Source: Ministry of Treasury and Finance, CBRT calculations.
* NEP (2020-2022) realization estimate.
** NEP (2020-2022) program.

The coordinated conduct of monetary and fiscal policy prioritizing the decrease of inflation will contribute to leading the economy towards a healthy and sustainable growth path via an improvement in the risk premium. In this context, the cyclically-adjusted primary budget balance based on the framework presented in the NEP seems to support this coordination.