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THE BUDGET POLICY IMPLEMENTED IN TURKEY IN SCOPE OF MEDIUM POLICY DOCUMENTS AFTER 2008 CRISIS

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Abstract

It is a fact that economic history of capitalism is full of crises which are quite different from each other. While some of them are only financial crises, the others are twin crises consisting of both financial and banking crises. The last and most destructive crisis of neoliberalism erupted in 2008 which had a devastating impact on both central and surrounding countries. Globalization was an important factor that made this crisis spread fastly around the world. Turkey was one of those economies that was influenced by the global crisis but the impacts of crisis had not been much destructive for Turkey. Especially tight fiscal policy and banking sector regulations were two of the important factors in this situation. This article will focus on the budget policy, which is one of the main pillars of financial policy for Turkey after the 2008 crisis through medium term policy documents.

Keywords: 2008 Crisis, Globalization, Fiscal Policy, Medium-Term Fiscal Plan and Medium-Term Program, Budget Law

JEL Classifications: H5, H6

1. Introduction

The history shows that crises are very similar to pandemic. Begins with the onset of a disease and spreads outwards (Roubini and Mihm, 2017). The first financial crisis produced by neoliberalism occurred in the Netherlands in 1630. The crisis was called as asset bubble especially tulip bubble and afterwards neoliberalism crises have followed each other periodically. For example, the panic of 1825 emerged in England and then spread to other European countries. In the literature, the elements of these crises are listed as easy money and asset bubble. While 19th century witnessed a lot of crises either big or small scale, the first major crises occured in 1907 that crisis emerged in US stock markets and real estate sector similar to 2008 crises. Stock markets collapsed and panic spread rapidly and Federal Reserve – FED was established in 1913 as a result of this crisis (Roubini and Mihm, 2017). FED was established due to the lack of a strong authority which could be regarded as a supervisory credit authority.

A systemic crisis occurred at the end of the 1920s, when an earlier liberal form of capitalism went into crisis following the stock market collapse of 1929 (Kotz, 2009). There have been at least 124 systemic financial crises since 1970 (Naude, 2009). It can be concluded that crisis is inevitability of capitalist way of production (Hadziahmetovi *et al.* 2018).

There was no doubt that the Great Depression in 1929 had been the most destructive disaster in the world financial history until 2008. The world economy drifted into a great depression during the period of 1929 - 1933. The unemployment rate jumped from 3.2 percent to 25 percent, thousands of banks closed, economic growth declined accross the world. In 1933, about 13 million people lost their jobs and this was a quarter (Galbraith, 2013). Keynesian Policies were put into effect during this period as a remedy for the crises. But it was not easy to survive during the crises. Following the great depression, Hitler came to power and the Second World War broke out, thereafter, in 1944, Bretton Woods system was founded, International Monetary Fund (IMF) and The World Bank emerged as an important actor in the economic history of the world. Especially, the period between 1950 and 1973 is called as the golden age in the economy literature because of high economic growth and low unemployment rate.

The ecomomic crises have renewed itself every 10 years after early 1980s. After the Asian Crises that emerged in 1990s, the crises of 2008 emerged as the most destructive crises that deeply affected the world economy since the 1929 Great Depression. On the other hand, The Great Recession starting in the US mortgage market spread out to the both developed and developing countries. The 2008 Crisis is the result of financial institutions investing short-term borrowings on liquid basis and long-termilluquid assets (Roubini and Mihm, 2017).

In the post 2008 period, the recent financial crisis of neoliberalism has turned into a public financial crisis in many countires (Karahanogullari and Gurkan, 2014). This study aims to budgetary policy of Turkey in scope of medium policy documents after 2008 crisis. In first section, an overview of the 2008 crisis will be presented, and then the impacts of the crisis of 2008 on Turkish economy. It will be tried to explain what priorities are included in the medium- term program and medium- term fiscal plan, which are important top policy documents in the aftermath of the 2008 crisis.

There are not several strands of literature related to 2008 Crisis effects on economy in Turkey. Although many articles, masters and doctoral theses have been studied on the subject, the number of documents that have come to publication is limited.

2. General overview of the 2008 crises

The globalization of the world had been extremely accelerated after 1980s. Spreading global trade in 2000s was one of the factors causing the Great Recession which initiated as a financial crisis and then affected real sector and other economic indicators.

A financial crisis developed with remarkable speed starting in the late summer of 2008, as mortgage-related securities that had spread through the US and global financial system suddenly collapsed in value (Kotz, 2009). History shows that those crises are very similar to epidemics. They begin with the onset of a disease and then spread outwards. This crisis was not different (Kotz, 2009).

Clearly, the United States and the world economy are undergoing a major financial crisis. Here we examine several pieces of evidence on the nature of the financial crisis and the mechanisms by which the financial crisis is thought to accept the nonfinancial sector of the economy.

Economic crisis in economic sciences is a period of significant negative economic development of a country. In addition to this definition, economic crisis also leads existence of negative trends of macroeconomic indicators (employment rate, prices, GDP growth rate, export, capital flows, etc.) (Hadziahmetovi *et al.* 2018).

It was a fact that global financial crisis, as well as weakening economic growth and increasing unemployment rate, impacted income equality extremely not only in US but also in surrounding countries. The economic and social results of this crisis were the same as the results observed in 1929 Great Depression. The only difference of the 2008 crisis from the Great Depression was the globalization level of the world.

The period following “dotcom” bubble during the end of 1990s, US economy began to pursue an expansionary fiscal policy and credit expansion was reflected into almost all the segments of the economy. It was obvious that subprime mortgages, credits for low income and high risk (Durmus, 2009) were the starting point of 2008 crisis. “Financialization” had been the main element of the world economy during 2000’s.

Following the burst of the ‘dotcom’ bubble in 2000 and the 2001 terror attacks on the United States, the US and most other advanced economies embarked on a period of sustained expansionary economic policies to ward off recession (Naude, 2009). There is only one conclusion that can be achieved when we face sustained and spread-prone problems for those which haunt US financial system: Problems are systematic (Stiglitz, 2012)

Low interest rates, facilitated by huge trade surpluses which China and other countries used to purchase US Treasury Bonds, stimulated rapid growth in credits. Accompanying rises in house prices further fuelled credit growth, especially through mortgage lending. US mortgage lenders, most infamously the institutions known as Fanny Mae and Freddie Mac, securitized these subprime loans, which were then sold throughout the financial system (Naude, 2009) Government funded organizations suc as MAC and MAE were responsible for the excesses that paved the way for the crisis in the mortgage market, just as the uncertainty in government policy explained the slow recorvery (Eichengreen, 2016).

Subprime Credits was an important factor of 2008 crisis which are designed for low income home owners whose repayment capabilities were a question mark. On the other hand, Securitazion caused the derivatization of these loans and thus the value of the securiticized loans had exceeded the value of real estate to which they bound. It can be defined as the process of deriving high-liquid new securities by collecting illiquid assets or receivables in a center or pool. In 2007, the increase in subprime mortgage in US was the first negative signal for the credit sector. Financial stock prices and house prices started to decline sharply and this decline reduced the value of household’s wealth in the US at a considerable level. In the start of 2008, crisis began to deepen in an extremely manner and Fanny Mae and Freddie Mac, the big insurance companies – international financial institutions- were nationalized by the US Government on September 2008. The main and severe result of this process was the bankruptcy of Lehman Brothers on 15 September 2008 which resulted with a financial panic and crisis spread dramatically. One of the most prominent reasons of global recession had been considered as Credit Rating Agencies since it had been thought that credit rating agencies act outside their duties after crisis. Those agencies provided false information flow, the confidence on these institutions was shaken and the reconstruction of those institutions had been considered as one of the solution methods. After the abolishment of the Glass-Steagall Act of 1933, investment banks acted as commercial banks so financial markets had been deregulated.

Because of the deregulation process in financialization and financial innovations, a shadow banking system and huge financial institutions greatly expanded especially around the US (Reinhart and Rogoff, 2010).

Within this context, the most obvious consequence of this crisis, no-doubt, was the slowdown in the economic growth not only in US but also in surrounding countries including Turkey. In the last period of 2008 and in early 2009, the US government announced rescue packages in billions of dollars. Also, to cure the damages in financial sector, banks were nationalized and the bill of crisis had been reflected to the citizens, in other words, to the taxpayers.

It was reported an average projection for real GDP growth of 0.8 percent in the fourth quarter of 2007, 1.4 percent in the first quarter of 2008, 2.0 percent in the second quarter of this year, and above 2 percent in the second half of the year (Elmendorf and Furman, 2018).

Table 1 demonstrates the growth rate in the US for the periods 2000-2010, the average growth rate was 3 percent. While negative rate of growth in 2008 worsened in 2009 with -2.5 percent level, the rate of volume in exports of goods and services severely fluctuated. Those ratios show contraction in trade volume. On the other hand, Table 2 demonstares the same for the periods 2011-2018.

Table 1. Growth rate and some indicators in the US for the periods 2000-2010 (Percent change)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross domestic product, constant prices	4.1	0.9	1.7	2.9	3.8	3.5	2.9	1.9	-0.1	-2.5	2.6
Volume of exports of goods and services	8.3	-5.8	-1.7	2.2	9.6	7.1	9.3	8.7	5.7	-8.4	12.1
Volume of exports of goods	9.9	-6.3	-3.3	2.9	8.8	7.7	9.9	6.9	5.8	-11.9	14.9

Source: IMF (2019)

Table 2 demonstrates that the US economy has entered into a fast recovery period after 2010. Those ratios indicate that recovery packages such as encouragement after 2008 were an important recipe for rebuilding the economy (IMF, 2009). Not only Bush but also Obama Government had the same view about economic prescription with the rescue packages tried to alleviate the devastating impacts of crisis. The tax reduction -152 billion dollars- had been approved for individuals and businesses in January 2008, on the other hand, expenditure on infastructure and energy projects exceeded 140 billion dollars. Tax cuts were an important pillar of incentive package (Roubini and Mihm, 2017). Economic indicators were also improved after 2010. Figure 1 demonstrates unemployment rates in US during the past 10 years. As seen in Figure 1, especially in 2009, the unemployment rate was at its peak point. The rate of unemployment was at an average level of 4 percent level before the crisis, but this rate reached to 10 percent after 2008.

Table 2. Growth rate and some indicators in the US for the periods 2011-2018

		2011	2012	2013	2014	2015	2016	2017	2018
Gross domestic product, constant prices	Percent change	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.9
Volume of exports of goods and services	Percent change	7.1	3.4	3.6	4.3	0.6	-0.1	3.0	3.9
Volume of exports of goods	Percent change	7.1	3.8	3.2	4.6	-0.3	0.3	3.3	4.7

Source: IMF (2019)

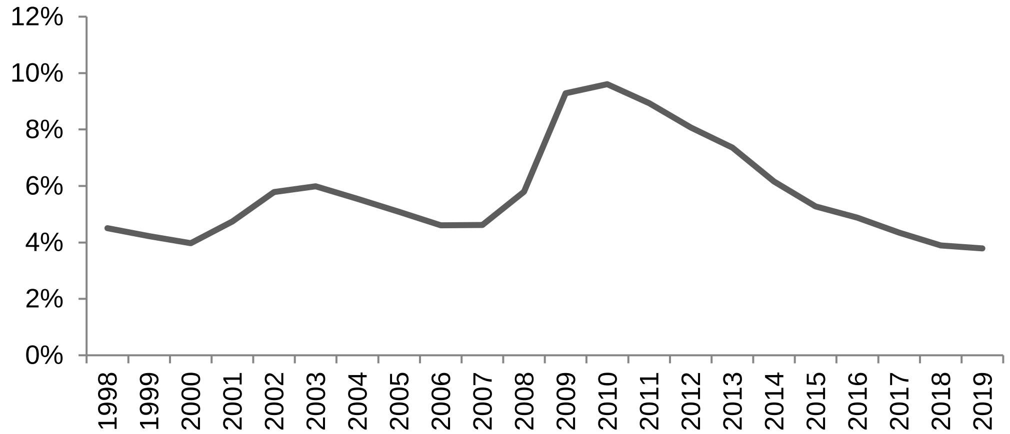

Figure 1. Unemployement rate in US
Source: IMF (2019)

One of the most important impacts of Global Crisis was the decline of total demand. In this context, the aim of rescue packages was to accelarete the total demand fastly but the decrease in the total demand had not been affected only the US economy, but also the neighbouring countries which trade with US at high volumes. Turkey was one of the countries in intense trade relations with US. Considering the contraction in the world trade volume, it is important to emphasize that Turkey got rid off this crisis with least damage. Next chapter will focus on the impacts of the crisis on Turkey's fiscal policies -especially budget policies- implemented after 2008.

3. The great recession and Turkey

Turkey adopted open economy model after 24 January 1980 decisions and the main target was export-based growth for the economy (Kazgan, 2005). The US was a good and important partner in foreign trade before the crisis.

Financial globalization that has been admitted as one of the main reasons of Global Recession had increased the economic relationships among the countries after 1990s and Turkey would not stay out of this process. At the beginning of the global financial crisis, it was believed that Turkey would not be affected by the crisis severely because of its strong fundametals in the field of public finance management and well-regulated banking system especially after the banking crisis in 2001.

It can be pointed that the first impact of global ecomomic crisis on Turkey's economy had been observed in financial markets. The Borsa Istanbul ("BIST") compound price index decreased from 43.000 to 27.000 during the year 2008. On the other hand, it was known that the damages in public balance sheets and bank's balance sheets constitute the main source of the fragilities in the world economy. After 2008 crisis, the expansionary fiscal policy to compensate the demand contraction and the rescue programs for financial sector caused deterioration in public finance balance in countries affected by the crisis. The budget was the main document revealing the role and rules of government against global crisis since the budget deficit as a share of GDP was an important indicator to understand the economic situation. Therefore, this indicator has been monitored tightly during 2000's in Turkish economy by many actors in the government or in private sector. While the budget deficit as a share of GDP was about 2-3% levels in the pre-crisis period, this ratio reached to 9% level after global crisis. As a consequence, the increased budget deficit caused an increase in public debt ratios.

It was obvious that Turkey was one of the developing countries affected by the crises. But, it can be said that public finance balance of Turkey, despite the depth of crisis, had not suffered from any permanent damage compared to other developing countries. Especially, the strong structure of Turkey's banking and financial systems after the crisis in 2001 was a major factor in balance. In the aftermath of the crisis in 2001, structural measures had been taken by Turkish government, especially in banking sector.

The total assets of the Turkish banking sector reached a historical threshold by the end of 2010. Thus, the ratio of total assets to GDP, which has been steadily increasing since 2003, exceeded 90 percent (Ozturk, 2012).

In this period, fluctuating exchange rate regime started in 2001 and inflation targeting regime admitted in 2006. Thus, Turkey tried to establish a sound monetary policy. On the other hand, Turkey had high level of current account deficit and foreign debt in 2008 that made its economy vulnarable to the Great recession.

The first borrowing was made in 1933, after the establishment of the Republic of Turkey. Total public gross debt stock increased from 256.8 Billion Turkish Liras in 2002 to 407.3 Billion Turkish Liras in 2008. As of 1980s, borrowing took its place in the fiscal policy as a common policy tool. Table 3 demonstrates the General Government Debt as a share of GDP and Current Deficit balance as a share of GDP in Turkey for the period 2006-2019. It is seen that the Current Account Balance was -11.358 Billion Dolar, and the level of General Government Gross Debt as a share of GDP was 43.8% in 2009. It is known that one of the main reasons of current account deficit is energy dependency of Turkey. But, there was an enormous improvement in both indicators after 2009. Turkey's economy -due to the structural features- has turned out to be a high current account deficit economy in all periods of high growth. The level of current account deficit as a share of GDP had been 1-1.5 percent at the end of 1990s. However, this ratio increased fastly in 2000's as it can be seen from Table 3. This ratio continued to rise during the crisis periods, it was clear that this situation was a structural problem for Turkey except for global crisis periods.

Table 3. Debt and current account balance in Turkey

Year	General government net debt (Percent of GDP)	General government gross debt (Percent of GDP)	Current account balance (U.S. Dollars (Billions))	Current account balance (Percent of GDP)
2006	37.4	44.7	-31.2	-5.7
2007	31.9	38.2	-36.9	-5.5
2008	32.3	38.2	-39.4	-5.2
2009	37.4	43.9	-11.4	-1.8
2010	34.9	40	-44.6	-5.8
2011	31.1	36.5	-74.4	-8.9
2012	27.5	32.7	-47.9	-5.5
2013	25.9	31.4	-63.6	-6.7
2014	23.8	28.8	-43.6	-4.7
2015	22.9	27.6	-32.1	-3.7
2016	23.4	28.3	-33.1	-3.8
2017	22.3	28.3	-47.3	-5.6
2018	24.9	29	-27.8	-3.6
2019	25.8	29.9	4.9	0.7

Source: IMF (2019)

It is known that the low level of domestic savings increases the need for foreign resources during economic growth periods.Similarly, public debt as a share of GDP increased especially in the years following global crisis. Another important effect of crisis on Turkish economy was the decline and detoriation of export volume that was an important indicator of economic situation. The decline in foreign demand shrinked the industrial production, and as a result unemployment rates increased.

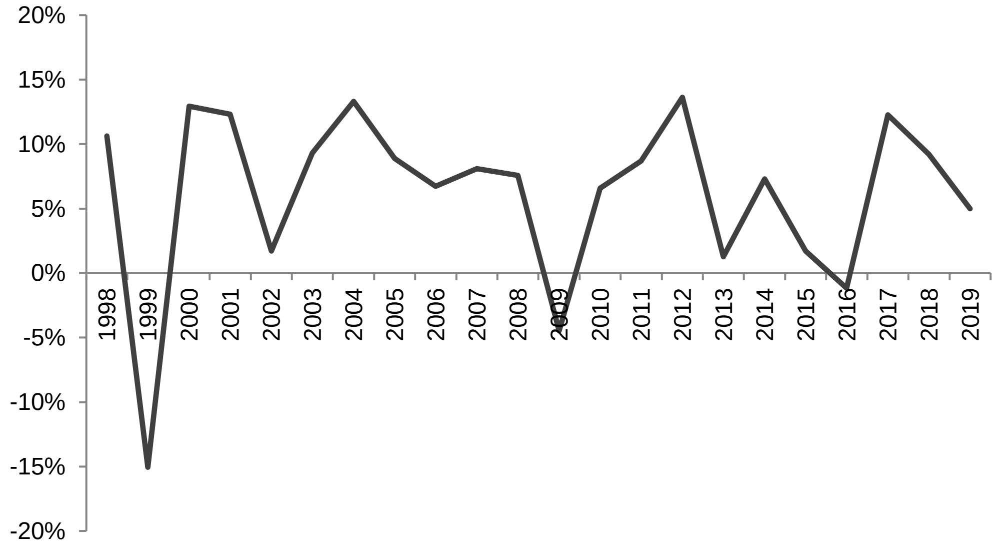

Figure 2. Volume of exports of goods and services
Source: IMF (2019)

As seen in Figure 2, the export rate after the crisis changed negatively. Export figures in 2004 compared to the previous years, increased 13.2 percent and the tendency of increase had continued until the global crisis. But this ratio declined significantly in 2009 compared to the previous years and the decrease of volume in exports of goods and services was 4.4 percent in that year. Employment rate that was directly affected from all the crises was another important indicator of economic situation. Figure 3 shows the unemployment rates before and after the global crisis in Turkey.

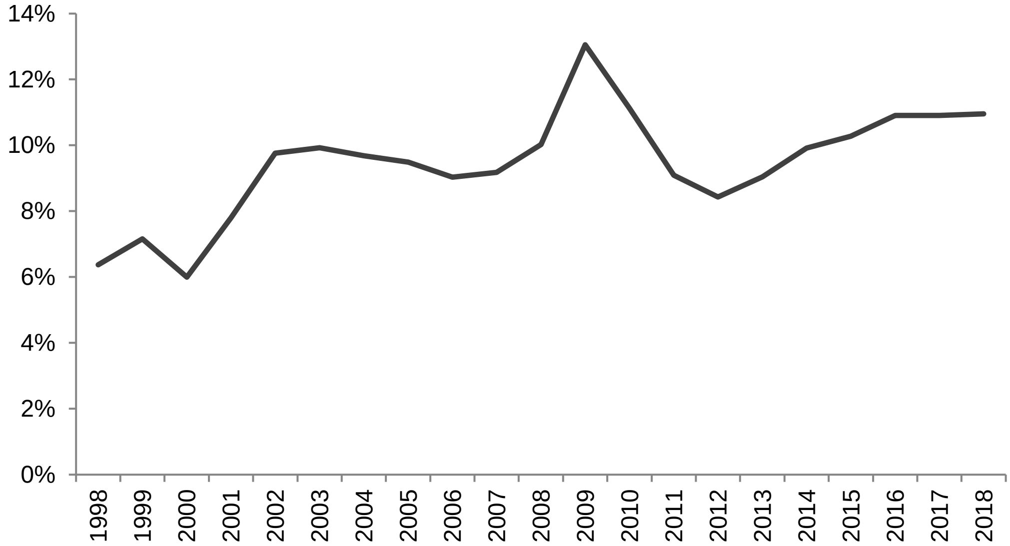

Figure 3. Unemployment rates before and after the global crisis in Turkey
Source: IMF (2019)

While the unemployment rate was almost 7 percent in the last period of 1990s, it increased sharply after the crisis. The unemployment ratio was 10 percent in 2008 and rose to 13 percent in 2009. Therefore, this high unemloyment rates make clear the impacts of the global crisis on real sector. Due to contradiction in demand, both export volumes and production declined. Economic indicators were deteriorated by the crisis as mentioned previously. One of those indicators is GDP growth. Table 4 and Figure 4 demonstrates the impacts of the crisis on GDP growth.

Figure 4. Gross domestic product (Percent change)
Source: IMF (2019)

As seen from Table 4, the GDP growth has fluctuated for a long period of time. However, the growth rate increased steadily during the period of 1998-2008 except in 2001. The GDP growth rate declined sharply in 2009 due to the global crisis. On the other hand, it is seen that the economy started to recover after 2010. While the growth in agriculture sector decreased to 1.1 percent, the growth in industrial sector increased to 4.9 percent in the first six months of 2008. When the sub-sectors are examined, it is seen that the growth in the production was 4.7 percent, in the building sector it was 2 percent, in the trade sector it was 5.6 percent, in the communication and transport, and it was 5.4 percent. Furthermore, the housing sector grew 1.6 percent in 2009.

Table 4. Gross domestic product (Billion $, percent change)

Year	Gross Domestic Product - Constant Prices (Billions $)	Gross Domestic Product - Constant Prices (Percent Change)
1998	710,091	3.1
1999	686,024	-3.4
2000	731,577	6.6
2001	687,958	-6.0
2002	732,195	6.4
2003	773,259	5.6
2004	847,834	9.6
2005	924,223	9.0
2006	989,933	7.1
2007	1,039.731	5.0
2008	1,048.519	0.8
2009	999,192	-4.7
2010	1,083.997	8.5
2011	1,204.467	11.1
2012	1,262.160	4.8
2013	1,369.334	8.5
2014	1,440.083	5.2
2015	1,527.725	6.1
2016	1,576.365	3.2
2017	1,693.666	7.4
2018	1,737.136	2.6
2019	1,693.060	-2.5

Source: IMF (2019)

In addition to the fiscal policy, monetary policy also played an important role to mitigate the negative impacts of the crisis. A relatively softer monetary policy approach was adopted after 2008. The importance is also partly about the growing power the central banks have gained particularly since the early 1980s, and post-the-Volcker period at the Fed. After the 2008 crisis, this power has increased further as it was believed to be needed more (Bagis, 2017).

The Central Bank of the Republic of Turkey cut policy interest rate to 6.5 percent in November 2009. Nominal interest rates reached record low levels and real interest rates was almost zero. On the other hand, the non-exposure of the Turkish banks to the toxic assets was a strong side of the Turkish banking system in its fight with the global crisis.

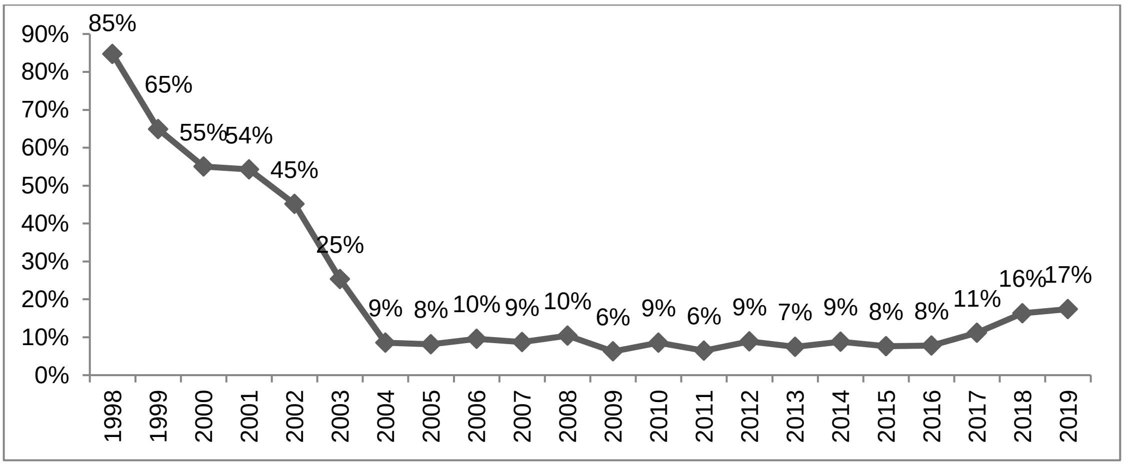

Figure 5. Inflation rate (percent change)
Source: IMF (2019)

Figure 5 shows that inflation rate in Turkey started to decrease after 2001. The measures taken to strenghten the banking sector played an important role in this decline. However, despite this prevailing decline, the inflation rate increased to 10.4 in 2008. The Central Bank revised its inflation targets as 7.5 percent, 6.5 percent and 5.5 percent for the years 2009, 2010 and 2011 respectively. So, it can be said that monetary policy had been used to combat the crisis besides fiscal policy. Even though, monetary policy was a very important tool for coping with the crisis, this study will focus on the public fiscal policy, in particular, the budget policy as mentioned below.

3.1. Budget policy of Turkey as a fiscal policy tool after global recession

The improvement observed in Turkish economy and public fiscal sector depends on the establishment of an effective and flexible public sector by taking required structural measures especially in late 1990s and the early 2000s. Within this context, important reform projects had been put into practice in early 2000s. Turkey started a new public financial management system based on accountability and transparency. The main legal structure of the new system was the Public Financial Management and Control Law, No 5018. Public Financial Management and Control Law includes quite number of issues related to financial management, budget, accounting and other regulations. Public expenditure and taxes are the major fiscal policy instruments of a goverment, and also budget document is the fundamental tool to reflect the governments' tax and expenditure policies. Budgets show the public spending ceilings and government revenues required for public services.

As stated in law no 5018, Performance Based Budgeting is adopted in Turkey. On the other hand, the Analitic Budget Classification (ABS) is used which is a code structure established in line with IMF's GFS. Another practice brought by law no 5018 is Medium-Term Framework that includes Medium-Term Program (MTP) and Medium-Term Fiscal Plan (MTFP) which were put into force as fundamental pillars of the budget process. Multi-year budgeting system has been implemented in Turkey since 2006 and has made important contributions in increasing foreseeability and strengthening transparency in public financial management. Medium-term framework, and performance-based budgeting based on strategic planning are two practices introduced to strengthen the decision-making process of public administrations and to increase fiscal transparency and accountability in Turkey's new public management system. Budget document and the MTFP demonstrate the impacts and consequences of the 2008 crisis. 2009-2011 Medium-Term Fiscal Plan was one of the important policy documents in which the measures taken to fight with global crisis of 2008 were reflected. Increasing the life quality of the society by supporting education, health, social expenditures and by reducing regional development differences was targeted during 2008-2010 (The Grand National Assembly of Turkey, 2003).

The emphasis especially was given to research and development expenditures, Tecno-venture capital was targeted to be supported during the Medium-Term Fiscal Plan periods.

Supporting the macroeconomic stability and sustainable development, continuing the fiscal dicipline, combating with inflation, mitigating the burden of interest expenditures on budget, strenghtening accountability and fiscal transparency, creating an effective agriculture policy, simplifying tax laws, targeting the stability of tax policy, encouraging foreign investment and export, reducing tax losses were some of the fiscal policy goals stated in the policy documents for the period 2009-2011. On the other hand, 2009-2011 Medium-Term Program and Medium-Term Fiscal Plan were very critical documents to determine the measures to combat with global crisis. In this context, the aims and priorities of 2009-2011 Medium-Term Program were stated as follows:

- The macroeconomic framework of shifting from sustainable growth to sustainability with growth shall be created, focus on real sector, growth and employment shall be prioritized,
- Medium Term Fiscal Framework and inflation targeting shall be among important parametric components of the program,
- The technical study on the fiscal rule shall be completed and its permanence shall be ensured,
- Appropriate monetary policy and inflation reduction mechanism shall be pursued,
- The policies which improve the shares of public sector balance and public sector debt stock in GDP along with the inflation and interest rates, shall be prioritized,
- The sctructure of the market economy and its instutionalization quality as well as the capacity of the economy against global competitivenes shall be strengthened,
- There shall be new reform areas such as public sector personnel reform, trade law, the framework of the state aids, fiscal reforms, cost-based automatic pricing in energy public, public and private sector partnership and the implementation process of the initiated reforms shall also be strengthened,
- Corporate governance, fiscal dicipline, transparency, and quality of statics of the municipalities and SEEs shall be improved (Council of Ministers, 2008).

Those fiscal policies and priorities determined in those documents were extremely important to combat unemployment, to improve economic balance and to decline budget deficit. Those policies were tried to be reflected to the budget documents. Expenditure ceilings had been determined in accordance with those policy priorities. Thus, the connection between the policies and the budget was established. The budget law had been prepared and implemented in accordance with those policy prioritites.

Table 5 indicates general goverment expenditure and revenues for the periods 1998 – 2017. As Table 5 shows, general government total expenditure as a share of GDP increased to 40% after 1998. It is obvious that 2008 crisis did not change this ratio dramatically. This ratio declined to 33.4 percent in the following years. On the other hand, general goverment revenue as a share of GDP was about 32 percent after 2008. While general government total expenditure as a share of GDP was about 34.7 percent in the period 2000-2007, this ratio declined to 32.7 percent in 2008-2010 when the impacts of the crisis was at its peak. And this ratio increased to 34 percent during the period 2011-2017. Avarage general government revenue as a share of GDP was 32.3 percent, 32.7 percent and 31.8 percent during those periods. Therefore, the increase in public expenditures was almost 1.3 percent higher than the increase in revenues in two years following the crisis. The tendency of Central Government Budget indicators were the same, as well.

Table 5. General government revenue and expenditure (1998-2017)

	General government revenue (National currency in Billions)	General government total expenditure (National currency in Billions)	General government total expenditure (Percent of GDP)	General government revenue (Percent of GDP)
1998	53,344	67,698	39.7	31.3
1999	80,038	108,890	44.4	32.6
2000	107,452	148,513	41.3	29.9
2001	145,694	181,446	38.8	31.1
2002	177,408	201,431	34.9	30.7
2003	213,357	218,452	32.4	31.7
2004	267,016	272,470	34.5	33.8
2005	281,326	298,427	33.9	31.9
2006	317,555	344,027	34.6	31.9
2007	324,282	383,047	38.3	32.5
2008	380,744	420,463	36.2	32.8
2009	456,258	465,835	33.4	32.7
2010	511,876	540,618	34.4	32.6
2011	592,953	619,543	34.2	32.8
2012	651,265	680,499	33.3	31.9
2013	752,188	781,775	33.4	32.2
2014	854,307	915,039	35,079	32,751
2015	977,799	1,050.53	33,817	31,476
2016	1,154.70	1,288.96	34,827	31,200
2017	1,243.36	1,369.77	34,019	30,880

Source: IMF (2019)

Table 6 demonstrates the Central Government Budget balance of Turkey for 13 years which covers the periods both before and after the crisis.

While the Budget Expenditures as a share of GDP was 22 percent in 2006, this rate remained stable in the crisis year. But after the crisis, especially in 2009, public spending was increased. Budget expenditures as a share of GDP increased to 26.8 percent in 2009. Budget Expenditures as a share of Budget Revenues declined dramatically and budget balance was worse than expected. While the budget balance forecast was -1.04 percent, the real budget deficit was -5.28 percent in the year following the crisis. After 2009, budget balance turned back to normal levels observed before the crisis. It is seen that government supported the economy with public spending and by using the budget as it was pointed in policy documents. The aim was to foster total demand, to increase production and to support the employment. If the budget revenues were increased at an adequate level, the budget would not end up with such a high deficit. Budget deficit was inevitable to support the real sector. As seen from the allocation choises made through budgets, social expenditures rised sharply after the crisis and Table 7 explains the increase in budget expenditures from 2005 to 2018 by economic classification.

2009 was the critical year and the highest increase was in current transfer space in this year. While the avarege increase of current transfers was 11% in 2008, it rose to 30% in only one year. The most important elements of current transfers were the transfers to the social security system and agricultural supporting payments to the farmers. So, it can be said that government has paid attention to economic and social transfers in various sectors such as agriculture, education, social security, state-owned enterprises or households after the crisis with a perspective to mitigate harmful impacts of the crises in a short time. The rise of the transfer payments were important for economic stability and for supporting the total demand in the economy and so it was possible to rise employement rates, export and production volumes. Table 8 demonstrates the shares of budget expenditures by economic classfication for the period 2004-2018.

Table 6. Central government budget indicators

	Budget Expenditures (Initial Allowance)	Budget Revenues (Income Forecast)	Budget Balance Forecast	GDP (2009 Based)	Spending/ Initial Allowance (%)	Revenues Realization / Revenues Forecast (%)	Budget Expenditure / Budget Revenues (%)	Spending (% of GDP)	Revenues Realization (% of GDP)	Budget Balance (Forecast) (% of GDP)	Budget Balance (Realization) (% of GDP)
2006	174,321,617	160,325,526	-13,996,091	789,227,555	102	108	97	22.57	21.98	-1.77	-0.59
2007	204,988,546	188,158,954	-16,829,592	880,460,879	100	101	93	23.18	21.62	-1.91	-1.56
2008	222,553,217	204,556,459	-17,996,758	994,782,858	102	102	92	22.82	21,00	-1.81	-1.75
2009	259,155,933	248,758,275	-10,397,658	999,191,848	103	87	80	26.84	21.56	-1.04	-5.28
2010	286,981,304	236,794,348	-50,186,956	1,160,013,978	103	107	86	25.38	21.92	-4.33	-3.46
2011	312,572,607	279,026,426	-33,546,181	1,394,477,165	101	106	94	22.56	21.29	-2.41	-1.28
2012	350,948,318	329,844,817	-21,103,501	1,569,672,114	103	101	92	23,00	21.18	-1.34	-1.87
2013	404,045,669	370,094,536	-33,951,133	1,809,713,086	101	105	95	22.56	21.53	-1.88	-1.02
2014	436,432,901	403,174,813	-33,258,088	20,444,658,752	103	106	95	21.95	20.81	-1.63	-1.14
2015	472,942,746	451,979,400	-20,963,346	2,338,647,493	107	107	95	21.66	20.64	-0.9	-1.01
2016	570,506,708	540,818,580	-29,688,128	2,608,525,749	102	102	95	22.39	21.24	-1.14	-1.15
2017	645,124,278	598,273,690	-46,850,588	3,106,536,751	105	105	93	21.83	20.3	-1.51	-1.54
2018	762,753,272	696,829,321	-65,923,951	3,740,519,000	109	109	91	22.2	20.26	-1.76	-1.94

Source: Derived from General Directorate of Public Finance Management and Transformation (DGPFMT. 2018).

Table 7. Increase in budget expenditures (%)

	Personel Expendıture	State contribution to social securıty Instıtutıon	Purchase of goods and servıces	Current transfers	Capital expendıtures	Capital transfers	Lending	Interest expenses	Total
2005	10.0	12.6	13.9	27.2	21.8	253.4	12.7	-19.1	3.6
2006	18.7	12.0	31.5	41.5	23.4	70.6	89.1	0.6	21.9
2007	15.2	14.4	17.1	27.0	7.5	34.3	-32.4	6.1	14.6
2008	12.1	10.4	9.7	11.2	42.4	-10.4	20.7	3.9	11.3
2009	14.5	12.5	22.1	30.7	8.4	36.1	22.7	5.0	18.1
2010	11.4	53.5	-2.1	10.7	29.6	56.8	55.5	-9.2	9.7
2011	17.0	16.2	12.4	8.5	18.8	-0.5	-36.0	-12.6	6.9
2012	18.6	14.6	0.3	17.2	11.2	-10.9	68.2	14.6	15.0
2013	11.3	10.7	10.6	14.9	27.4	27.6	-4.2	3.2	12.8
2014	14.7	16.1	12.1	9.1	10.1	0.5	15.5	-0.1	9.9
2015	13.3	11.2	11.7	12.6	18.7	35.4	7.4	6.2	12.8
2016	19.0	17.4	18.7	23.1	4.3	-14.9	12.6	-5.2	15.4
2017	8.9	10.4	17.6	20.5	18.9	50.2	4.2	12.9	16.1
2018	23.9	26.0	12.8	19.3	24.0	25.5	63.1	30.4	22.4

Source: Derived from General Directorate of Public Finance Management and Transformation (2018)

As can be seen from Table 8, the share of current transfers rose while interest expenses declined after the global crisis. The share of current transfers in budget increased by 3 percent in only one year. On the other hand, personnel expenditures and state contributions to social security institutions were at normal levels – average 20 and 3 percent respectively-. A noteworthy issue is that the interest expenditure started to decline after the global crisis. As can be understood from the table, debt management and became important tools of the new public management reforms in the early of 2000s. In this context, *Regulation of Public Finance and Debt Management Law* was put into force in 2002 which includes quite a number of regulations about public debt management and its effects on annual budget documents.

Table 8. Shares of budget expenditures in the total budget (%)

	Personel expenditure	State contribution to social security institution	Purchase of goods and services	Current transfers	Capital expendıtures	Capital transfers	Lending	Interest expenses
2004	20.5	2.9	9.0	19.6	5.7	0.3	1.9	40.1
2005	21.8	3.1	9.9	24.1	6.7	1.1	2.1	31.3
2006	21.2	2.8	10.7	28.0	6.8	1.5	3.2	25.8
2007	21.4	2.8	10.9	31.0	6.4	1.7	1.9	23.9
2008	21.5	2.8	10.8	31.0	8.2	1.4	2.0	22.3
2009	20.9	2.7	11.1	34.3	7.5	1.6	2.1	19.8
2010	21.2	3.8	9.9	34.6	8.8	2.3	3.0	16.4
2011	23.2	4.1	10.4	35.1	9.8	2.1	1.8	13.4
2012	23.9	4.1	9.1	35.8	9.5	1.7	2.6	13.4
2013	23.6	4.0	8.9	36.4	10.7	1.9	2.2	12.2
2014	24.6	4.2	9.1	36.2	10.7	1.7	2.4	11.1
2015	24.7	4.2	9.0	36.1	11.3	2.1	2.2	10.5
2016	25.5	4.2	9.3	38.5	10.2	1.5	2.2	8.6
2017	23.9	4.0	9.4	39.9	10.5	2.0	2.0	8.4
2018	24.2	4.1	8.6	38.9	10.6	2.0	2.6	8.9

Source: Derived from General Directorate of Public Finance Management and Transformation (2018)

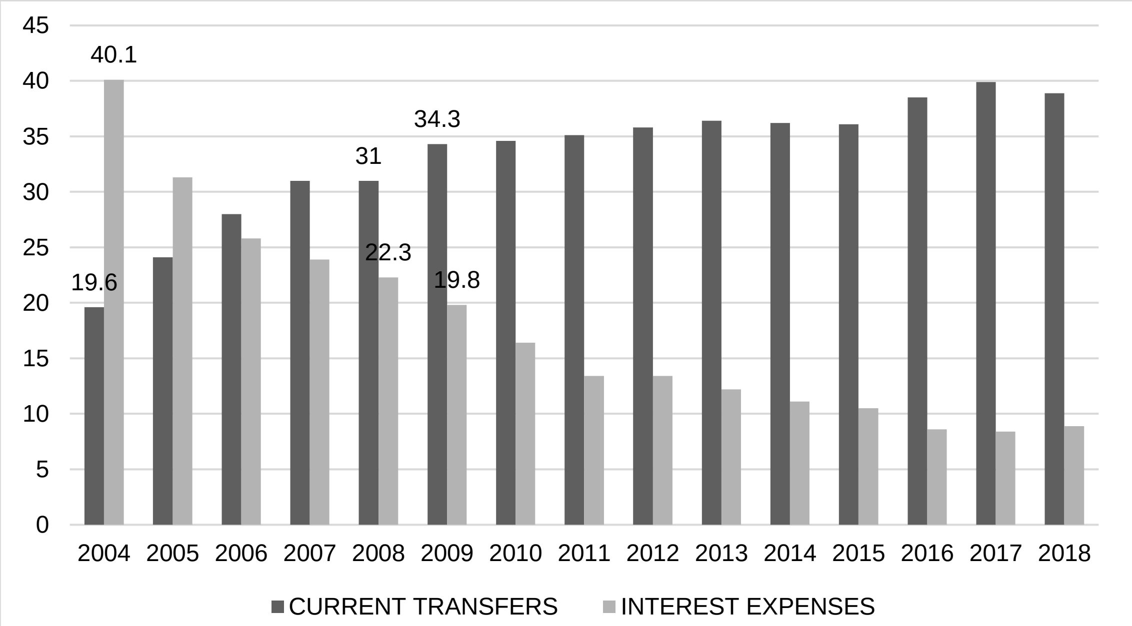

Figure 6. Shares of budget expenditures in the total budget (%)

Source: Derived from General Directorate of Public Finance Management and Transformation (2018)

Figure 6 shows the tendency of current transfers and interest expenses clearly. While the current expenditure as a share of total budget increased, the share of interest expenditure decreased in the same period.

Table 9. Shares of Budget Expenditures in GDP (%)

	Personel expenditure	State contribution to social security institution	Purchase of goods and services	Current transfers	Capital expenditures	Capital transfers	Lending	Interest expenses
2004	20.5	2.9	9.0	19.6	5.7	0.3	1.9	40.1
2005	21.8	3.1	9.9	24.1	6.7	1.1	2.1	31.3
2006	21.2	2.8	10.7	28.0	6.8	1.5	3.2	25.8
2007	21.4	2.8	10.9	31.0	6.4	1.7	1.9	23.9
2008	21.5	2.8	10.8	31.0	8.2	1.4	2.0	22.3
2009	20.9	2.7	11.1	34.3	7.5	1.6	2.1	19.8
2010	21.2	3.8	9.9	34.6	8.8	2.3	3.0	16.4
2011	23.2	4.1	10.4	35.1	9.8	2.1	1.8	13.4
2012	23.9	4.1	9.1	35.8	9.5	1.7	2.6	13.4
2013	23.6	4.0	8.9	36.4	10.7	1.9	2.2	12.2
2014	24.6	4.2	9.1	36.2	10.7	1.7	2.4	11.1
2015	24.7	4.2	9.0	36.1	11.3	2.1	2.2	10.5
2016	25.5	4.2	9.3	38.5	10.2	1.5	2.2	8.6
2017	23.9	4.0	9.4	39.9	10.5	2.0	2.0	8.4
2018	24.2	4.1	8.6	38.9	10.6	2.0	2.6	8.9

Source: Derived from General Directorate of Public Finance Management and Transformation (DGPFMT, 2018)

Table 9 demonstrates shares of budget expenditure in GDP in Turkey. As seen table 9 expenditures are classified under eight headings as Personel, State Contrubition to Social Security, Purchase of Goods and Service, Current Transfers, Capital expenditure, Capital Transfers, Lending and Interest expenses.

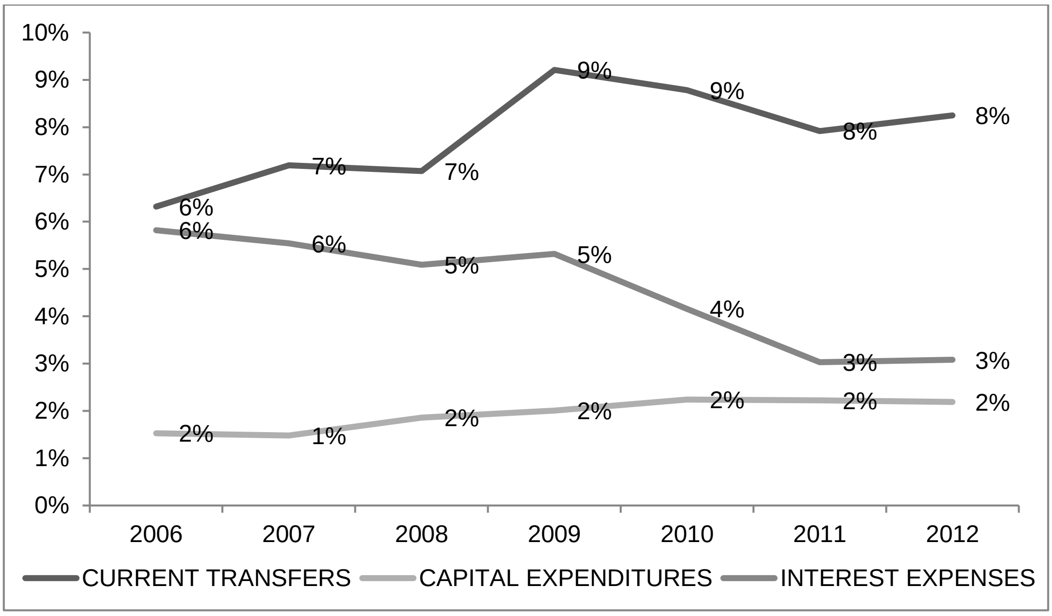

Figure 7. Shares of some budget expenditures in GDP (%)

Source: Derived from General Directorate of Public Finance Management and Transformation (2018)

Figure 7 shows that although current transfers was 9.21 percent in 2009, it started to decline in the following years. While the interest expenditures as a share of GDP declined severely after the crisis, the capital expenditures did not change dramatically. Despite the fact that the policy documents targeted to increase the investment expenditure, it was clear that this target has not achieved as intended. As can be observed from Figure 7, capital expenditures as a share of GDP increased from 1.5 to 2 percent during the period 2006-2012. But this level was not enough to support total demand which is necessary for economic development.

On the other hand, many regulations had been put into effect to increase the budget revenues, especially tax revenues, in order to stimulate the economy. Therefore, it is also necessary to look at revenue indicators.

Table 10. Central government budget revenues and tax revenues (Thousand TL)

Year	Budget Revenues	Tax Revenues
2006	173,483,430	137,480,292
2007	190,359,773	152,835,111
2008	209,598,472	168,108,960
2009	215,458,341	172,440,423
2010	254,277,435	210,560,388
2011	296,823,602	253,809,179
2012	332,474,895	278,780,848
2013	389,681,985	326,169,164
2014	425,382,787	352,514,457
2015	482,779,900	407,818,455
2016	554,139,502	459,001,741
2017	630,489,857	536,617,206
2018	757,843,311	621,310,598

Source: Derived from General Directorate of Public Finance Management and Transformation (DGPFMT, 2018)

After the crisis, the tax reliefs have been implemented to provide economic vitality. In this context, some exemptions were imposed with the the *Income Tax Law, No193* and *Corporate Tax Law, No 5520*. On the other hand, a new arrangement was made to encourage investments in 2009. Within the scope of new regulation, the country was divided into four regions and investment incentives were provided on the basis of those regions and as well as sectors. *Asset*

Peace was another regulation made to achieve post-crisis revenue-enhancing goals. With this regulation, it was aimed to bring the assets from abroad. The aim of all of those regulations was to increase budget revenues and public resources in order to ensure fiscal improvement in all sectors (Kaya and Kaygisiz, 2015).

When we look at the figures, it is noteworthy that budget revenues, especially tax revenues, increased after 2010. It is clear that the impacts of crisis weakened and the economy was in the process of recovery. The upward trend in aggregate demand was reflected in budget revenues and as a result in public fiscal balances.

4. Conclusion

There is no doubt that 1929 Great Depression was the most important crisis for the world economy. On the other hand, 2008 Global Crisis that had spread rapidly becasue of the high level globalization had devastating impacts similar to 1929 Crisis. Both of them had serious impacts on many countries' economies including both central and surrounding countries. The unemployment rates jumped from 3.2 percent to 25 percent, thousands of banks closed, economic growth declined in the worldwide during 1929 Great Depression. Keynesian Policies were put into effect in this period as a remedy for the crises until 1970 which is called as Golden Age because of high economic growth and low unemployment rate. Even if both fiscal and monetary policy had an important role in the world economy until 1970, Monetary Policy had been more popular than fiscal policy after 1980s. But this process started to change in favor of fiscal policy after neoliberalisim crises.

The rise of globalization has caused crises to impact countries more destructively at the same time. In this context, 2008 crisis was extremely important in the history of crises and it had spread through the world in a short time and its transmission to the real sector was also rapid and deep. The crisis of 2008 emerged from the subprime mortgage market in US and it caused a sharp decline in growth rates, employment rates, and led to stagnation. As well as weakening economic growth and increasing unemployment rate, it impacted income equality extremely not only in US but also in surrounding countries. The economic and social results of this crisis was similar with Great Depression in 1929. At this point, financial stimulating packages had seen as a remedy for demand shrinkage and loss of production after crisis. Recovery pacages, put into effect after 2008, were an important element to rebuild the US economy. The tax reliefs were approved for individuals and businesses in 2008, it would be right to say that rescue packages worked at this point.

One of the economies impacted by the crisis was the Turkish economy. It can be said that strict regulations in the banking sector after 2001 reduced the negative impacts of the Global Crisis of 2008 in Turkey (Batirel, 2008). Turkish economy had been managed in accordance to the priorities and targets which determined in the medium-term policy documents to combat crisis after 2008. Even if expansionary fiscal policies were implemented in 2009, it did not cause serious damage in fiscal dicipline, especially budget dicipline.

Some incentives in both expenditure and revenue policies had also been implemented in Turkey as a prescription to the Crisis. Within this context, the budget document had an important role to promote the Turkish economy. The increase in tax incentives and payments made as social transfers through the budget was important elements to combat the crisis. It was aimed to foster the economy by trying to increase the budget expenditures and revenues to combat the negative impacts of the Global Crisis. This aim had been achieved to some extent as revealed by the fiscal indicators in policy documents. 2009-2011 Medium-Term Fiscal Plan was one of the important policy documents in which the measures taken to fight with the global crisis after 2008. Some of the macroeconomic targets mentioned in 2009-2011 policy documents were summarized as supportive of the macroeconomic stability and sustainable development, continuing the fiscal dicipline, mitigating the burden of interest expenditures on budget, strenghtening accountability and fiscal transparency, creating an effective agricultural support policy, simplifying tax laws, encouraging foreign investment and export, reducing tax losses.

Medium-term framework, performance-based budgeting based on strategic planning were two of the practices introduced to strengthen the decision-making process of public administrations and to increase fiscal transparency and accountability in Turkey's public management system. Therefore, fiscal transparency has been an important element in the fight against crises. Those fiscal policies and priorities determined in the afromentioned documents were extremely important to combat unemployment, to improve economic balance and to decline budget deficit. Those policies were tried to be reflected to annual budget laws after 2008 crisis. Expenditure ceilings have been determined in accordance with those policy priorities and the budget law has been prepared and implemented in accordance with those policy prioritites.

It can be said that the expansionary fiscal policy, tight regulations in the banking sector, the allocation of resources in line with the priorities set out in the policy documents have been succesful in combating the 2008 Global Crisis.

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