

JANUARY – SEPTEMBER 2008 LOCAL ADMINISTRATION CONSOLIDATED BUDGET PERFORMANCE REALIZATIONS: DETORINATION OF LOCAL ADMINISTRATIONS' FISCAL PERFORMANCE CONTINUES

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I. DEVELOPMENTS IN LOCAL ADMINISTRATION BUDGETS, BUT FIRST A THANKS TO CODE 5018

We are now able to observe the fiscal size of local administrations in quarterly periods thanks to the new code 5018 “Public Fiscal Management and Control Law”. **According to Code 5018, Article 53, Ministry of Finance, General Directory of General Accounting started to regularly publish local administrations’ budget results and their fiscal reports in more detail from 2006 data after.**¹

We can see the fiscal performance of local administrations in quarterly periods that are presented in accordance with international standards as a result of studies by Ministry of Finance, General Directory of General Accounting. Before 2006 data, the fiscal size of local administrations was published by State Planning Organization annually and the final numbers were announced two years after the program period. With the new accounting and fiscal reporting system by Ministry of Finance that publishes this information regularly, we now have a more accurate, more comprehensive and more comparable analysis of local administrations’ fiscal outlook.²

As of the end of September 2008, the consolidated local administration deficit increased by 138% compared to its level a year ago. The new deficit is 3,2 billion YTL. Especially with the increase in the expenditures in 2008, local administrations exceeded their deficit targets for 2009 in the first nine months of 2008. The initial forecast for budget deficit was 256

¹ Code 5018 which amended in 2008 imposes new sanctions against managements and people who don’t comply with their responsibility to inform Ministry of Finance or those who fulfill their responsibility involuntarily. Perhaps the involuntary fulfillment of these responsibilities by local administrations is another important issue to be discussed in terms of our fiscal management system.

²This new application by Ministry of Finance, Department of General Accounting must be considered quite important in terms of financial transparency and accounting liability. It allows both the public and relevant sectors to have access to more detailed and more standardized information. Here, a problem arises on the demand side. This new and comprehensive information must be well understood by relevant sectors and an economic analysis must be performed on it. At this point, we can say that demand is lagging behind supply (of information). This makes us point out the importance of communication strategies during reforms once again.

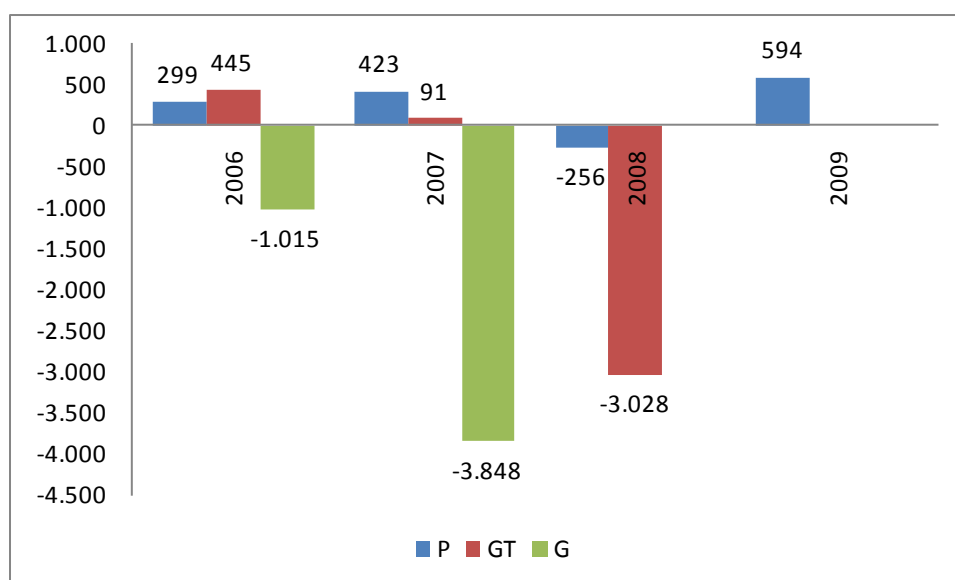
million YTL in the 2008 programme, and this was updated to 3 billion YTL at the revision in October 2009 (State Planning Organization Programme, 2009).

Despite the expected increase in revenues in the last quarter of 2008 (as a result of July arrangement that increases the share of revenues), the fact that expenditures will pile up in this last quarter shows that the budget deficit of local administrations will exceed even this revised amount. Indeed, looking at the performance for the last two years' practices, the following graph suggests that this anticipation is not at all false.

As the End-of-October Fiscal Monitoring Report that evaluates 2009 Central Budget says:

"... in light of the past year's forecasts and realizations, especially considering the fact that there will be municipal elections in 2009, SPO's forecast of 3 billion YTL of deficit turning into a 594 YTL surplus doesn't seem realistic."

Figure 1: Forecasts and Realizations of Budget Balances of Local Administrations (2006-2009, million YTL)



P: Programme; GT: Forecast ; G: Realization

Source: 2008 September and October Fiscal Analysis Report (SPO data)

II. THE TOTAL OF PURCHASES OF GOODS AND SERVICES (EXCLUDING HEALTH) AND CAPITAL EXPENDITURES EXCEED THE EXPENSES OF THE SAME CONTEXT IN THE BUDGET OF LOCAL ADMINISTRATIONS

Purchases of goods and services (excluding health) by local administrations reached to 90% of all expenses of the same context in the budget as of the first nine months of 2008. In terms of capital expenditures, local administrations exceeded their budget as expected.

As stated above, these numbers mean that **with the fiscal power provided by the central budget, local administrations became an alternative budget in terms of public expenditures.** In other words, public resources used for justice, security, defense, education, health, and environment by central budget have now been shifted to local administrations.

The opportunity cost of these policies is the forgone public services from the budget. This obviously results in acceleration of capital accumulation, which was altered by public resources

On the other hand, the fact that local administrations use central government budget resources instead of their own for fiscal localization is a point that must be discussed thoroughly both in terms of distribution of roles and responsibilities between the central government and local administrations, and the prioritization of public services. **It can also be said that local administrations becoming more center dependent in terms of resources has a negative effect on localization process of local administrations in the medium term.**

Table 1: Comparative Realizations of Local Administrations' and Central Government's Budget, January - September (million YTL)

(Million YTL)	Central Government 2008 January-September	Local Administrations 2008 January-September	Local Admin./ Central Gov. (%)
Expenditures	160.645	30.628	19,07
Personnel	37.147	6.524	17,56
Govern. Premiums to Social Security Agencies	4.534	904	19,94
Good and Service Purchase	10.235	9.236	90,23
Interest	41.338	654	1,58
Current Transfers	52.507	1.451	2,76
Capital Expenditures	9.825	11.197	113,96
Capital Transfers	2.053	119	5,79
Lending	3.006	544	18,09
Revenues	160.662	27.528	17,13
Taxes	127.277	3.014	2,37
Property Income	6.363	6.607	103,83
Grants and Aids and Special Revenues	646	3.345	518,09
Interest, Shares and Fines	13.532	13.128	97,02
Capital Revenues	8.257	1.277	15,46
Receivable Collections	286	157	54,79
Special Budget Institutions Revenues	2.863		
Regularity & Supervisory Institutions Revenues	1.438		

*Health expenses excluded in goods and service purchases (mainly green card expenditures)

III. A SUMMARY OF LOCAL ADMINISTRATION BUDGET EXPENSES AND REVENUES, JANUARY–SEPTEMBER 2008

According to Ministry of Finance, Department of General Accounting data, at the end of 2008, **the ratio of local administration expenditures to GDP is expected to be 5%, and the ratio of their revenue to GDP is expected to be 4%. This suggests that local administrations' borrowing requirements will change by 0,5 – 1% of GDP. This means that the contribution of local administrations to primary surplus will decrease considerably in 2008 and 2009.**

Table 2: Consolidated Local Administration Expenditures, Revenues and Budget Balances

(Million YTL)	2006	2007		2008	Change	
	Year End	January-September	Year End	January-September	2007/2006 (Year End) (%)	2008/2007 (Jan.-Sep.) (%)
Expenditures	33.009	25.822	39.383	30.706	19,31	18,91
Personnel	7.096	5.310	7.516	6.524	5,91	22,85
Govern. Premiums to Social Security Agencies	996	811	1.147	904	15,22	11,51
Good and Service Purchase	9.915	7.640	11.785	9.313	18,85	21,91
Interest	607	401	634	654	4,45	63,32
Current Transfers	1.356	1.128	1.685	1.451	24,29	28,56
Capital Expenditures	12.256	9.961	15.771	11.197	28,68	12,40
Capital Transfers	426	220	313	119	-26,59	-46,11
Lending	357	350	533	544	49,26	55,28
Revenues	31.725	24.489	35.474	27.528	11,82	12,41
Taxes	3.378	2.598	3.691	3.014	9,28	16,00
Property Income	8.060	6.423	8.993	6.607	11,57	2,86
Grants and Aids and Special Revenues	4.305	2.903	4.589	3.345	6,60	15,25
Interest, Shares and Fines	13.622	11.187	16.013	13.128	17,56	17,35
Capital Revenues	2.003	1.250	1.949	1.277	-2,70	2,16
Receivable Collections	358	127	239	157	-33,08	23,21
Budget Balance	-1.284	-1.333	-3.909	-3.178	204,48	138,36

	GDP Shares (%)			
Expenditures	4,35	4,08	4,61	4,20
Personnel	0,94	0,84	0,88	0,89
Govern. Premiums to Social Security Agencies	0,13	0,13	0,13	0,12
Good and Service Purchase	1,31	1,21	1,38	1,27
Interest	0,08	0,06	0,07	0,09
Current Transfers	0,18	0,18	0,20	0,20
Capital Expenditures	1,62	1,57	1,85	1,53
Capital Transfers	0,06	0,03	0,04	0,02
Lending	0,05	0,06	0,06	0,07
Revenues	4,18	3,87	4,16	3,76
Taxes	0,45	0,41	0,43	0,41
Property Income	1,06	1,02	1,05	0,90
Grants and Aids and Special Revenues	0,57	0,46	0,54	0,46
Interest, Shares and Fines	1,80	1,77	1,88	1,80
Capital Revenues	0,26	0,20	0,23	0,17
Receivable Collections	0,05	0,02	0,03	0,02
Budget Balance	-0,17	-0,21	-0,46	-0,43

Expenses increased considerably more than inflation rate and growth rate. The most significant increases in expenses have been in the items of personnel expenses, purchases of goods and services and current transfers. To summarize the items:

- **Personnel expenses increased by 23% compared to the same period of the previous year, and the purchases of goods and services increased by 22%.**
- Operational expenses excluding personnel expenses have become quite sizeable in this period. **When we exclude health expenditures (mainly green card), we can see that the expenditure on purchases of goods and services by local administrations almost reached the same level as the central government budget's relevant item.**
- Capital expenditures have been a sizeable item in the budget for the last 4 – 5 years. This trend continued in 2008 and they increased by almost 30% during the first nine

months. Therefore, **with a 11,2 billion YTL capital expense, local administrations exceeded central government investments (9,8 billion YTL) during the same period.** A striking fact here is that 50% of these local administration expenses were used in İstanbul and Ankara, and the remaining 50% is used for the remaining 79 cities.

- Another increasing item in expenses is the current transfers. **Due to social transfers to households, current transfers increased by 28% during the first nine months of 2008.**
- **Although the interest expenses were low in terms their contribution to total expenses, they increased by 63% due to domestic interest payments.** This means that local administrations domestically borrowed more than they used to in previous periods.

Revenues of local administrations in the consolidated budget increased by 12,4% during this period. Increases in revenues have been lower than the sum of inflation and growth rates for the same period. To summarize the developments in revenues:

- **Tax revenues increased by 16% while non-tax revenues increased by 12%.** Especially the low increase in non-tax revenues contributed to the decreased performance of revenues.
- When we subtract the shares taken by local administrations from persons and organizations, we see that the remaining non-tax revenues increased by 3%.
- **The share of tax revenues that local administrations receive from the central budget increased by 25 % in this period.** With this development, the share of tax revenues in total revenues becomes more than 40%. This rate appears to be more significant in municipalities and provincial administrations.
- When we leave tax revenues and revenues from central budget aside, this shows us that revenue performance deteriorated significantly for when we do not count these two items, the other revenues increased only by 6%. This implies that, **local administrations became increasingly dependent on central budget resources during this period.**

Indeed the following table shows us the expenditure capacity provided to local administrations by the central budget without creating extra resources. **Transfers from central budget to local administrations increased from 4,8 billion YTL in 2002 (1,3% of GDP) to 19,6 billion YTL in 2008 (2% of GDP). With the new arrangement of revenue shares in July 2008, it is planned that this amount will increase to 22,2 billion YTL in 2009.**

Table 3: Transfers to Local administrations from the Budget (1999-2008)

							2008	2009
(Million YTL)	2002	2003	2004	2005	2006	2007	(RF)	(B)
Total Transfers	4.747	5.361	8.151	12.373	14.695	17.584	19.625	22.199
Current Transfers	4.747	5.361	8.053	11.528	12.536	15.062	18.225	21.653
Revenue Share	4.747	5.361	7.941	10.140	10.906	13.286	16.396	19.919
Capital Transfers			98	846	2.159	2.523	1.400	546
KÖYDES					1.397	2.000	750	500
GDP Shares (%)								
Current Transfers	1,35	1,18	1,46	1,91	1,94	2,06	1,97	2,00
Revenue Share	1,35	1,18	1,44	1,78	1,65	1,76	1,83	1,95
Capital Transfers	0,00	0,00	0,02	0,03	0,02	0,03	0,03	0,03
KÖYDES	0,00	0,00	0,02	0,13	0,28	0,30	0,14	0,05

Source: Emil, Kerimoglu, Yilmaz (forthcoming)