

Box 6.1

Fiscal Measures Taken Against the Pandemic in Turkey

Recently Governments have recently taken comprehensive fiscal and monetary policy measures to contain the adverse economic and social impacts of the pandemic. During this period, public finances are expected to deteriorate since countercyclical expenses and transfers increase while revenues decrease due to the weakening economy. The fiscal implication of these policies will differ depending on the set of policy tools in place. Some measures (such as increasing health expenses and selective social transfers, or decreasing tax rates) affect the fiscal deficit directly, while some other off-budget measures (e.g creation of assets, such as loans or equity for firms) do not affect budget balances directly but increase the public debt (IMF, 2020). The choice of the fiscal policy mix for countries will depend on initial macroeconomic conditions and several structural factors such as production structure, demography or their place in global production chains. A recent study published by the Fed shows that increasing unemployment insurance benefits, unconditional transfers and liquidity assistance are more effective (in terms of increasing household consumption) compared to decreasing income tax rate or increasing public expenses (Faria-e-Castro, 2020). Cloyne et al. (2020) suggest that the fiscal multiplier and real effects of the fiscal policy change with monetary policy.

Supportive fiscal measures aim to offer a subsistence minimum to low income households through liquidity assistance and transfers and also to protect employment and production potential by assisting firms whose cash balances have deteriorated. It is globally accepted that this period requires an extraordinary monetary expansion backed by fiscal policy steps to accelerate economic recovery (Box 2.1).¹ This box summarizes the fiscal policy measures taken in Turkey to contain the adverse economic impacts of the pandemic.

The first policy package of TRY 100 billion was announced on 18 March, followed by the necessary legal arrangements enforced on 25 March 2020.² The announced measures, entitled the “Economic Stability Shield Package”, can be grouped into three: (1) Fiscal measures (2) Financial measures to facilitate financial access and (3) Social measures to maintain employment and protect the disadvantaged groups.

(1) Fiscal measures including postponement of some taxes and specific tax cuts:

- April, May and June payments of social security premiums, withholding and VAT withholding are postponed for six months for most severely-hit service subsectors (retail trade, shopping malls, logistics-transport, entertainment (cinema and theatre), accommodation, food and beverages, event organization activities) and for some manufacturing subsectors such as iron-steel, automotive, and textile-apparel.
- Accommodation tax is abandoned for 2020.

¹ Pandemics’ economic impacts may last long. Jorda et al. (2020) show that macroeconomic effects of pandemics on neutral real interest rate and real wages can last 40 years. It is asserted that economic repercussions of pandemics are more severe than those of wars (Jorda et al. 2020) and that they may have deeper real effects compared to other crises since not only firms with structural weaknesses but also healthy firms go bankrupt due to problems in the global supply chain (Acemoğlu, 2020).

² Official announcements on 27 April 2020 declared that total amount of fiscal policy package reached TRY 200 billion.

- Easement fee and revenue share payments of hotel rentals (for the April-June period) are postponed for six months.
- The VAT on domestic air transport is cut to 1% from 18% for a duration of three months.
- Minimum wage support continues.
- Submission deadlines for some tax returns are extended.

(2) Financial measures aiming to ease loan repayment ability and access to financial services:

- Loan principal and interest repayments of firms with deteriorated cash flows due to the coronavirus outbreak are postponed for three months and additional financial support will be provided if needed.
- Inventory financing support is provided to exporters and repayment of rediscount credits is extended for 90 days.
- Principal and interest repayments to Halkbank are postponed for three months and without interest for adversely affected tradesmen and artisans.
- The Credit Guarantee Fund limit is raised to TRY 50 billion from TRY 25 billion, thereby easing access to bank loans for firms unable to get credit due to collateral constraints.
- The “Stay in Business Loan Support” is introduced for firms on condition they retain employees.
- The loan-to-value ratio for houses with a value lower than TRY 500,000 is raised to 90% from 80%.
- Social credit package incentives are encouraged for citizens at favored conditions.
- Trade registers will note “default due to force majeure” for firms who default in the April-June period.

(3) Social measures aiming to protect low-income and disadvantaged groups and to sustain employment:

- Short time working allowances are provided to workers at workplaces that suspend production.
- Compensatory work time is extended to four months from two months to sustain employment.
- Flexible and remote working models are adopted.
- The lowest pension is increased to TRY 1,500.
- Eid festival bonus payments to the retired will be given in April (instead of end-May).
- An extra resource of TRY 2 billion will be allocated for in-cash assistance to families in need according to the criteria set by the Ministry of Labour, Social Services and Family.
- For elderly people at the age of 80 or above living alone, a periodic check program including social and home-based health care services will be implemented.

In the period following the announcement of the package, the measures were expanded according to how the process was evolving.

- Performance payments of medical staff will be paid at the ceiling rate for three months (23 March 2020).
- Municipality cuts are postponed for three months, thereby creating a resource of TRY 3 billion for them (23 March 2020).
- With the “Basic Needs Support” program, citizens with a monthly income lower than TRY 5,000 are provided the opportunity to borrow at low cost up to TRY 10,000 from public banks (30 March 2020).

- National Solidarity Campaign is launched (30 March 2020).
- The Ministry of Culture and Tourism announced a set of measures such as cancellation of fees payable to the Association of Turkish Travel Agencies for 2020 and offering private theatres access to state incentives and supports.
- The State Supported Trade Receivables Insurance, which is made available for corporates with an annual turnover of TRY 25 million and below only, is expanded to cover all SMEs with an annual turnover up to TRY 125 million (1 April 2020).
- Additional course fee payments to teachers and qualified instructors will continue (1 April 2020).
- For firms benefiting from the repayment support of the Establishment of Small and Medium Scaled Industry Development and Support Directorate (KOSGEB), bank loan repayments are postponed for three months, all costs thereof to be borne by KOSGEB (6 April 2020).

All these measures aim to meet the liquidity need and to sustain employment by easing access to finance and by postponing financial obligations for the entire real sector, particularly those first hit by the pandemic. These measures will help contain the adverse supply and demand side effects of the crisis and diminish the increased uncertainty.

It is important to protect the production capacity of the economy, to prevent a permanent impairment in households' consumption and investment behaviors and labor force participation decisions, to minimize corporate loses by supporting balance sheets, to sustain production and employment, and to support financial stability in view of strong linkages between financial and real sectors. At this point, it should be noted that fiscal measures will have direct and indirect adverse implications on the fiscal balance, and thus, it is essential that the fiscal risk is managed well.³

References

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³ See (IMF, 2020).