REPUBLIC OF TURKEY

PRE-ACCESSION ECONOMIC PROGRAMME 2009

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BOXES

ABBREVIATIONS

ADSL	Asymmetric Digital Subscribers Line
AIS	Automatic Identification System
APL	Applicable Program Loan
ARIP	Agricultural Reform Implementation Project
BAĞ-KUR	Social Security Organization of the Self-Employed
BASEL-II	International Recommendations on Banking Laws and Regulations Issued by Basel Committee on Banking Supervision
BELDES	Project for Supporting Infrastructure of Municipalities
BO	Build-Operate
BOT	Build-Operate-Transfer
BOTAŞ	Petroleum Pipeline Corporation
BRSA	Banking Regulation and Supervision Agency
CBRT	Central Bank of the Republic of Turkey
CMB	Capital Markets Board
CPI	Consumer Price Index
CRD	Capital Requirements Directive of EU
DHMİ	State Airports Authority of Turkey
DIS	Direct Income Support
DOKAP	Eastern Blacksea Development Programme
ECB	European Central Bank
EMRA	Energy Market Regulatory Authority
ESA 95	European System of Accounts 1995
EU-15	The EU Member Countries Before Enlargement on 1 May 2004.
EU-25	The EU Member Countries After Enlargement on 1 May 2004.
EU-27	The EU Member Countries After Enlargement on 1 January 2007.
EUROSTAT	European Union Statistics Office
FED	The Federal Reserve, The Central Bank of USA
GAP	Southeastern Anatolian Project
GDBI	Government Domestic Borrowing Instrument
GDP	Gross Domestic Product
GNP	Gross National Product
GSM	Global System for Mobile Communications
HIA	Household Labor Survey
HPC	High Planning Council
IACS	Integrated Administration and Control System
IDKK	Internal Audit Coordination Board
ILO	International Labor Organization
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
IPARD	IPA Rural Development Funds
ISE	İstanbul Stock Exchange
IT	Information Technology
İŞKUR	Turkish Employment Organization
KOSGEB	Small and Medium Industry Development Organization
KÖY-DES	Project for Supporting Infrastructure of Villages
LPG	Liquefied Petroleum Gas
MEB	Ministry of National Education
MEDA	Euro-Mediterranean Partnership
MLSS	Ministry of Labor and Social Security
NAIRU	Non Accelerating Inflation Rate of Unemployment
OECD	Organization for Economic Co-operation and Development
PA	Privatization Administration

PEP	Pre-Accession Economic Programme
PETKİM	Petrochemical Corporation
PHARE	Poland and Hungary: Action for the Restructuring of the Economy
PPI	Producer Price Index
PSSP	Privatization Social Support Project
QIS	Quantitative Impact Study
R&D	Research and Development
RIA	Regulatory Impact Analysis
SARUT	Standard Interconnection Reference Fee Tariffs
SCT	Special Consumption Tax
SDIF	Savings Deposit Insurance Fund
SDR	Special Drawing Right
SEEs	State Economic Enterprises
SMEs	Small and Medium Sized Enterprises
SPO	State Planning Organization
SSI	Social Security Institutions
SSK	Social Insurance Institution
TMO	Soil Products Office
TGNA	Turkish Grand National Assembly
TCDD	Turkish State Railways
TEDAŞ	Turkish Electricity Distribution Company
TEİAŞ	Turkish Electricity Transmission Company
TEKEL	General Directorate of Tobacco, Tobacco Products, Salt and Alcohol Enterprises
TETAŞ	Turkish Electricity Trading and Contracting Company Inc.
TFP	Total Factor Productivity
TINA	Transport Infrastructure Needs Assessment
TKB	Development Bank of Turkey
TL	Turkish Lira
TR52	Karaman and Konya Provinces
TR72	Kayseri, Sivas and Yozgat Provinces
TR90	Artvin, Giresun, Gümüşhane, Ordu, Rize and Trabzon Provinces
TRA1	Bayburt, Erzincan and Erzurum Provinces
TRA2	Ağrı, Ardahan, Iğdır and Kars Provinces
TRB1	Bingöl, Elazığ, Malatya and Tunceli Provinces
TSKB	Industrial Development Bank of Turkey
TURKSTAT	Turkish Statistical Institute
TÜBİTAK	Scientific and Technological Research Council of Turkey
UCTE	Union for the Coordination of Transmission of Electricity
UKKS	National Rural Development Strategy
VAT	Value Added Tax
VEDOP	Tax Office Full Automation Project
YOİKK	Coordination Council for the Improvement for the Investment Environment
YÖK	Higher Education Council

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

Turkey has prepared the Pre-Accession Economic Programme (PEP) and has submitted to the European Commission since 2001, responding to the request of the Economic and Financial Affairs Council (ECOFIN Council) dated 26/27 November 2000. The 2009 PEP covering the 2010-2012 period is the ninth program that has been prepared under the coordination of the Undersecretariat of State Planning Organization[1] with the contributions of relevant ministries and institutions.

PEP is prepared on the basis of the Medium Term Programme (2010-2012). Recent Economic Developments and Public Finance sections do not include some data which were announced during PEP preparation period. On the other hand, it is considered that these data support the framework for medium-term outlook.

In the 2009 Progress Report covering October 2008-September 2009 period, the European Commission has assessed that consensus on economic policy essentials implemented in Turkey has been preserved even under the challenging economic circumstances.

The 2009 Pre-Accession Economic Program was prepared in an environment in which the negative effects of global economic crisis on economic activity and uncertainties for forthcoming period are still continuing. The global economic crisis still affects the world economy deeply. The year 2009 is expected to be the year in which the effects of the financial crisis are the severest. In this perspective, it is estimated that the biggest contraction in the global economy since World War II will be realized in 2009.

The global crisis has affected the Turkish economy through trade, financing and expectations channels. The fact that the impacts of the global crisis were more adverse on EU region, which constitutes around 50 percent of our exports, affected our export performance negatively. On the other hand, net capital outflows were experienced also in Turkey, similar to other developing countries, as a result of the crisis in global financial markets. As a result, the corporate sector had difficulties to access foreign financing, which was easily accessed in previous years. Global crisis has increased uncertainties also in Turkey as in the entire world. The increasing uncertainty caused investment and consumption decisions to be delayed and economic activity to decrease significantly through its negative effects on both confidence and expectations.

In order to limit the adverse effects of global crisis on the Turkish economy, a series of expenditure and revenue measures have been put into implementation since mid-2008. In addition, measures that have no direct or immediate impact on budget are also adapted. Along with the measures taken by the Central Bank, BRSA (Banking Regulation and Supervision Agency) and CMB (Capital Markets Board), measures to increase credit volume and guarantee limit were also included. With these measures, it is aimed to ease the economic activity which is under pressure because of the crisis, to accelerate the economic growth by limiting the effects of the crisis on production capacity, and to sustain the employment and production levels.

In the light of these developments, the Turkish economy, which grew by 6.8 percent annually on average in the period of 2002-2007, grew only 0.9 percent in 2008. The contraction initiated in the last quarter of 2008 has also continued in the first nine months of 2009 and GDP decreased by 8.4 percent in this period. It is envisaged that the Turkish economy will contract by 6 percent in 2009, will begin to grow again in 2010 and the pace of growth will begin to increase starting from 2011.

[1] The 2009 Pre-Accession Economic Programme was prepared on the basis of the Medium Term Programme (2010-2012) which was prepared under the coordination of the Undersecretariat of State Planning Organization (SPO) with the contributions of Ministry of Finance, Ministry of National Education, Ministry of Health, Ministry of Transport, Ministry of Agriculture and Rural Affairs, Ministry of Labor and Social Security, Ministry of Industry and Trade, Ministry of Energy and Natural Resources, Undersecretariat of Treasury, Undersecretariat of Foreign Trade, Central Bank of Republic of Turkey, Privatization Administration, Capital Markets Board of Turkey, Turkish Competition Authority, Banking Regulation and Supervision Agency, Savings Deposit Insurance Fund, Telecommunications Authority, Energy Market Regulatory Authority, Council of Higher Education, Revenue Administration, Social Security Institution and Turkish Employment Organization and approved by the Cabinet.

The main objective of the economic policies, which will be implemented in the Pre-Accession Economic Programme 2009 covering the 2010-2012 period, is to ensure the economy to return back to stable growth period by utilizing the economic and social strengths of Turkey in the course of exit from the global crisis, to minimize the negative effects of global crisis on growth with the implementation of public revenue and expenditure policies, to increase employment and thereby to increase the welfare of our country.

The main goals of the fiscal policy implemented since early 2000s are to reduce the risks on the sustainability of public debt stock by yielding high rate of primary surplus directly, and to support the sustainability of macroeconomic stability and contribute to disinflation efforts, indirectly. However, the measures, taken to limit the effects of the global crisis deepened in 2009, had adverse effects on public balances. The financial crisis, which has affected our country mainly through reel sector, has made it unavoidable to use some parts of fiscal space for solving this problem. In this perspective, during the crisis period it is aimed to support production and employment through a loose fiscal policy. After the crisis period, ensuring fiscal adjustment as soon as possible and reducing debt stock to GDP ratio are targeted by implementing a fiscal rule based fiscal policy. It is decided that the legal infrastructure related to the fiscal rule will be completed within 2010 and starting from 2011 budget year, public fiscal management will be carried out in accordance with the determined fiscal rule.

The basic objective of the monetary policy is to ensure price stability. The monetary policy will be implemented within the framework of inflation targeting, also in the 2009 PEP period. The Central Bank will continue to use short-term interest rates as the basic policy instrument and additionally, will also use other policy instruments effectively. The Monetary Policy Committee decisions will be set in line with the medium-term inflation outlook and the outlook regarding domestic and global risks. The floating exchange rate regime will also be maintained in the 2009 PEP period. Foreign exchange rates will be determined by supply and demand conditions in the market as in the previous years, and the Central Bank will not set any target for exchange rates. However, if non-competitive pricing is observed in the foreign exchange rates as a result of speculative acts resulting from the loss of market depth, direct intervention may be made in the market in the form of sales or purchases.

Current international conjuncture entails the acceleration of the process of structural reforms that Turkey needs. Structural reforms, which have been implemented with determination in the recent period, will also be continued in the 2010-2012 period. These structural reforms will serve to strengthen the market mechanism, increase competitiveness, reduce the share of the public sector in the economy through privatization, strengthen the functions of regulatory and supervisory agencies, develop the intermediary capacity of the financial sector to meet funding requirements needs of the enterprise sector, improve labor qualifications according to today's conditions, strengthen the link between the labor market and the education system, improve the effectiveness of public services, eliminate the deficiencies in health and social security systems, increase R&D activities and innovative capacity, improve transportation and energy infrastructure, ensure regional development and increase productivity in agriculture. Taking the ongoing negative developments in world economy into account, the need of sustaining structural reforms decisively that is necessary for increasing the competitiveness of Turkey is of vital importance and is on agenda in this period.

The 2009 Pre-Accession Economic Programme consists of four main chapters. In the second chapter following the Overall Policy Framework and Objectives, recent economic developments in the Turkish economy are evaluated by considering the developments in the world economy, and then the policy framework and macroeconomic forecasts for the 2010-2012 period are presented. In the third chapter, fiscal policies for the 2009 PEP period are put forward together with forecasts and analyses regarding budget and debt management. Additionally, in this chapter the quality and institutional features of public finances are covered. In the fourth chapter, assessments on developments in structural reforms, budgetary impacts and reform agenda are included.

2. MACROECONOMIC OUTLOOK

2009 Pre-Accession Economic Programme has been prepared in an environment, in which uncertainty in the global economic outlook, even though declined to a certain extent, was still persistent and in which medium and long term forecasting was difficult due to the decreased predictability.

Due to the reflection of the global financial crisis to the real economy, its unfavourable effects on the world economy has been deeper than expected. For this reason, all of the international institutions had to update their expectations and forecasts frequently, and make large-scale revisions.

The world economy, which has been growing uninterruptedly and continuously in high rates since 2004, entered in a recession period beginning from 2008. The biggest global economic contraction since the World War II is expected in 2009. The world output, which increased by 3 percent in 2008, is foreseen to fall by 1.1 percent in 2009. On the other hand, the latest figures show that the global economy is in a relative recovery process and the instability of the financial markets is diminishing. It is foreseen that in the last quarter of 2009 world economy will start recovering, and the world output will increase by 0.8 percent compared to the same period of the previous year. 2010 is expected to be a year in which the global economic activity will start to revive and a 3.1 percent increase is foreseen in world output[2.] In this framework, the above forecasts related to global economic growth may be revised slightly upward in future. However, considering the depth and prevalence of the current global crisis, especially the persistence of several uncertainties regarding the recovery in labour market, and the differences in the pace and prevalence of economic recovery among the regions become prominent factors that impede strong and positive expectations.

Beginning from the last quarter of 2008, many developed countries entered in a contraction period and the growth rate started to slow down in many developing countries. It has been observed that this process has continued also in 2009. According to the IMF forecasts, it is foreseen that in 2009 the developed countries will contract by 3.4 percent, and developing countries will grow by 1.7 percent due to the high growth rates of China and India. The EU countries that grew by 1 percent in 2008 are expected to contract by 4.2 percent in 2009.

According to one of the latest reports about the world economy, the OECD Economic Outlook[3] report, it is expected that the world output will contract by 1.7 percent where the US economy, Euro area, and Japan will contract by 2.5 percent, 4 percent and 5.3 percent, respectively in 2009.

In the current conjuncture, there is a consensus about the necessity of acting prudently all over the world. There is also a consensus that the monetary and fiscal policies against global crisis and supports for financial sector should not risk the price stability, financial stability and fiscal sustainability in medium and long term. In this framework, many countries are preparing their medium term programmes, setting their targets and planning their exit strategies for the post-crisis era. An effective coordination of these strategies at an international level will be the main determinant of the recovery process in the world economy.

The impacts of the unfavorable developments in the world economy are also observed in the world trade volume. The world trade volume, which has increased more than 7 percent annually on average since 2004, increased only 3 percent in 2008. According to the IMF forecasts, the world trade volume which is expected to contract by 11.9 percent in 2009, is foreseen to recover and increase by 2.5 percent in 2010. Along with that, the latest OECD report suggests that in 2009 the world trade volume will contract by 12.5 percent, and in 2010 it will increase by 6 percent.

The global economic crisis also caused serious deterioration in public balances of countries. One of the biggest risk factors threatening the developed countries during the economic recovery

[2] IMF, Global Economic Outlook Report, October, 2009.
[3] OECD, Economic Outlook Report, November, 2009.

period is the dramatically deteriorated fiscal structure due to the fiscal stimulus packages. In the US, the ratio of the total public deficits to GDP, which was 5.9 percent in 2008, is expected to rise to 12.5 percent in 2009. In developed countries, the public deficit ratio, which was 1.2 percent in 2007, is foreseen to be 8.9 percent in 2009 and 8.1 percent in 2010. Similar deterioration in public deficits is observed in developing countries. The public balance, which gave a 0.4 percent surplus in 2007, is expected to give a deficit of 4 percent in 2009, and 2.9 percent in 2010 in developing countries.[4]

It is foreseen that in developed countries, in line with the increases in public deficits, high increases are expected in general government debt stock in 2009 and 2010. In US, the ratio of the general government debt stock to GDP, which was 61.9 percent in 2007, increased to 70.4 percent in 2008. In 2009 and 2010, this ratio is expected to be 84.8 percent and 93.6 percent, respectively[5.]

Another adverse impact of the global financial crisis on real economy is on labour market. Due to the drastic contraction in the employment, the unemployment rate is expected to increase to 9.4 percent from 7.5 percent in Euro area, to 9.2 percent from 5.8 percent in US, and to 8.2 percent from 5.9 percent in OECD countries in 2009. It is foreseen that the unemployment rate will continue increasing in 2010, and will rise to 10.6 percent in Euro area, to 9.9 percent in US and to 9 percent in OECD countries[6].

Scrutinizing the price developments, it is observed that consumer price inflation is higher in 2008 compared to 2007 due to the high commodity prices, energy prices in particular, in the first half of 2008. The consumer price inflation which was 2.2 percent in 2007 rose to 3.4 percent in 2008 in developed countries. Likewise, the inflation rate in developing countries increased to 9.3 percent in 2008 from 6.4 percent in 2007.

The decrease in commodity prices in 2009 is expected to yield to a moderate increase in 2010. In developed countries, beginning from May 2009, the annual inflation rate dropped below zero particularly due to the declines in oil prices. As a consequence, the annual world inflation was recorded as 1 percent in July 2009. Recently, the sharp drop of the economic activity due to the global crisis and the expectation that the output gap may remain large for a certain period, strengthen the expectation that the inflation rates will remain low. In 2009, the consumer prices are expected to rise by 0.1 percent in developed countries, and by 5.5 percent in developing countries. However, in 2010, the consumer price inflation is predicted to be 1.1 percent in developed countries, and recede to 4.9 percent in developing countries.

The assumptions regarding external variables in PEP forecasts are given in Annex Table 6.

2.1. Recent Economic Developments

2.1.1. Real Sector

Turkish economy grew by 6.8 percent annually on average in the period of 2002-2007. Implementation of structural reforms as well as a consistent policy framework after 2001 played a major role in this growth performance.

This period was also favorable for the world economy. However, the positive course of the world economy was interrupted by the crisis which stemmed from the housing market in US in the second half of 2007 and spread to the financial systems of especially developed countries. As a result of repricing of assets in developed countries markets due to the financial crisis, the wealth of households declined leading to a contraction in domestic demand. Additionally, serious disruptions were experienced in the balance sheets of major investment banks and governments of such countries were obliged to declare big recovery plans. Global financial instability, which arose in financial markets of developed countries and spread to the developing countries rapidly, turned into a global economic crisis beginning from the second half of 2008. Due to this crisis, the world output is expected to contract for the first time in 2009 after a long period.

[4] IMF, Global Economic Outlook Report, October 2009.
[5] IMF, Global Economic Outlook Report, October 2009.
[6] OECD, Economic Outlook Report, November 2009.

The crisis, which intensified the uncertainties worldwide, affected all economies to a certain extent. However, to what extent and in what ways each country was affected by the crisis varied according to the country's position in the world economy, the performance of its trade partners, structure of its financial market and its fiscal position. Due to the interruption of trade and capital flows globally, the countries with external deficits and high financing needs, whose production structure is highly dependent on imports and pursuing an export-led growth were more severely affected from the crisis.

The global crisis, which caused the largest contraction in the world economy after the World War II, mainly affected the Turkish economy through three channels: foreign trade, financing and expectations.

The Turkish economy is supposed to be affected mostly through foreign trade channel from the crisis. The facts that the world trade volume contracted significantly and EU, the most important trade partner of our country, was affected severely from the crisis, led to an adverse effect on our exports. Therefore, exports began to decline as of November 2008, especially in leading sectors. The fact that the exports, which contributed significantly to the growth performance in recent years, declined due to the crisis, has affected production and employment adversely.

The second channel through which the crisis affected the Turkish economy is the financing channel. The capital flow bonanza in the world ended as a result of the crisis in the global financial markets and capital flows to Turkey decreased significantly similar to other developing countries. The capital inflows decreased significantly beginning from October 2008 and even net capital outflows were experienced in some periods. As a result of this, real sector suffered from the lack of foreign financing, which could be accessed easily due to the capital flow bonanza in the recent years. Thus, the debt rollover ratio of private sector, which was 192 percent in 2008, declined to 70 percent in the first ten months of 2009. Tighter foreign financing conditions made it harder to finance growth.

In addition to the difficulty in foreign financing, domestic financing conditions also remained tight for the private sector. Financial derivatives, which triggered the financial crisis, are not used extensively in the Turkish banking sector. Additionally, the restructuring of the banking sector after the 2001 crisis strengthened the structure of the sector significantly. For these reasons, unlike the banking sectors of other countries, the Turkish banking sector was not hit hardly by the financial crisis. However, in addition to the liquidity constraints in the international capital markets, high leverage ratios of the corporate sector and the expectations of decline in future profits due to continuing economic uncertainties, caused the banking sector to become reluctant in supplying credits to the real sector. This situation played a major role in the significant decline of private investments.

Lastly, the increased uncertainty in the global economy adversely affected both expectations and confidence in our country as in other countries. This situation caused delays in investment and consumption decisions and thus led to a serious slowdown in economic activity and domestic demand.

Within this conjuncture, a serious slowdown has begun in the economy with the effect of internal dynamics in addition to the effects of the global crisis, GDP decreased by 6.5 percent in the last quarter of 2008 for the first time after 27 quarters and the increase in GDP stood at 0.9 percent throughout 2008. The economic developments regarding 2008 were presented in detail in 2008 PEP.

In the first quarter of 2009, in which the effects of the economic crisis were experienced intensively, the Turkish economy contracted by 14.7 percent. Afterwards, economic contraction decelerated and the economy contracted by 7.9 percent in the second quarter and 3.3 percent in the third quarter.

Table 2. 1: Growth Rates and Demand Components

(Annual Percentage Change, at 1998 Prices)

	Annual		Quarterly							
			2008				2009			
	2007	2008	I	II	III	IV	I	II	III	First 9 Months
GDP	4.7	0.9	7.2	2.8	1.0	-6.5	-14.7	-7.9	-3.3	-8.4
Agriculture	-6.7	3.5	5.4	-0.3	5.4	2.4	0.3	6.4	2.8	3.3
Industry	5.8	1.1	9.0	5.0	0.7	-9.6	-20.6	-10.9	-4.0	-11.8
Manufacturing	5.6	0.8	9.1	4.8	0.3	-10.8	-21.8	-11.2	-3.9	-12.4
Services	6.3	1.3	6.2	3.6	0.4	-4.3	-9.6	-6.8	-2.5	-6.3
Construction	5.7	-8.2	-3.3	-5.2	-9.8	-14.0	-18.9	-21.4	-18.1	-19.5
Total Consumption	5.6	0.2	5.7	0.6	-0.8	-4.1	-8.3	-1.2	-0.2	-3.2
Public	6.5	1.9	5.5	-3.4	2.6	3.4	5.2	0.5	5.2	3.6
Private	5.5	-0.1	5.7	1.2	-1.3	-5.3	-10.0	-1.5	-0.9	-4.1
Gross Fixed Capital Form.	3.1	-5.0	8.7	-1.0	-7.5	-17.7	-27.5	-24.3	-18.0	-23.3
Public	6.3	13.1	18.3	14.9	5.3	15.9	24.5	5.4	-10.6	4.0
Private	2.6	-7.7	7.7	-3.3	-9.6	-23.9	-33.5	-29.4	-19.4	-27.7
Total Final Dom. Demand	5.0	-1.1	6.4	0.2	-2.4	-7.4	-12.9	-6.8	-4.2	-7.9
Total Domestic Demand	5.7	-0.8	7.7	2.4	-0.7	-11.1	-20.3	-10.9	-5.2	-11.9
Exports of Goods and Serv.	7.3	2.3	13.0	3.6	3.0	-8.5	-11.2	-10.1	-4.6	-8.5
Imports of Goods and Serv.	10.7	-3.8	14.0	1.8	-3.4	-23.7	-31.0	-20.4	-11.9	-21.1

Source: TURKSTAT
Note: Due to indirectly measured financial intermediation services and taxes-subsidies items, value-added by sectors does not add up to GDP.

Scrutinizing Gross Domestic Product by expenditure items, it is observed that private sector consumption and investment expenditures, exports and imports contracted significantly. Private sector consumption expenditures decreased by 10 percent in the first quarter of the year. However, with the effect of the reductions in consumption taxes, the contraction rate of private consumption expenditures decelerated in the second and third quarter and stood at 1.5 percent and 0.9 percent, respectively. Therefore, the contraction in the private consumption was recorded as 4.1 percent in the first nine months of 2009. Private sector investments contracted considerably in the first three quarters of 2009. Therefore, the contraction was recorded as 27.7 percent in the first nine months of the year. On the other hand, public sector consumption and investment expenditures increased by 3.6 percent and 4 percent respectively in the first nine months of 2009. The main reason for this outcome was the measures put into implementation as of the end of 2008 in order to minimize the effects of the global crisis on the Turkish economy.[7]

As a result, the final domestic demand decreased by 7.9 percent in the first nine months of 2009. Due to the negative contribution of stock changes to growth, domestic demand contracted by 11.9 percent.

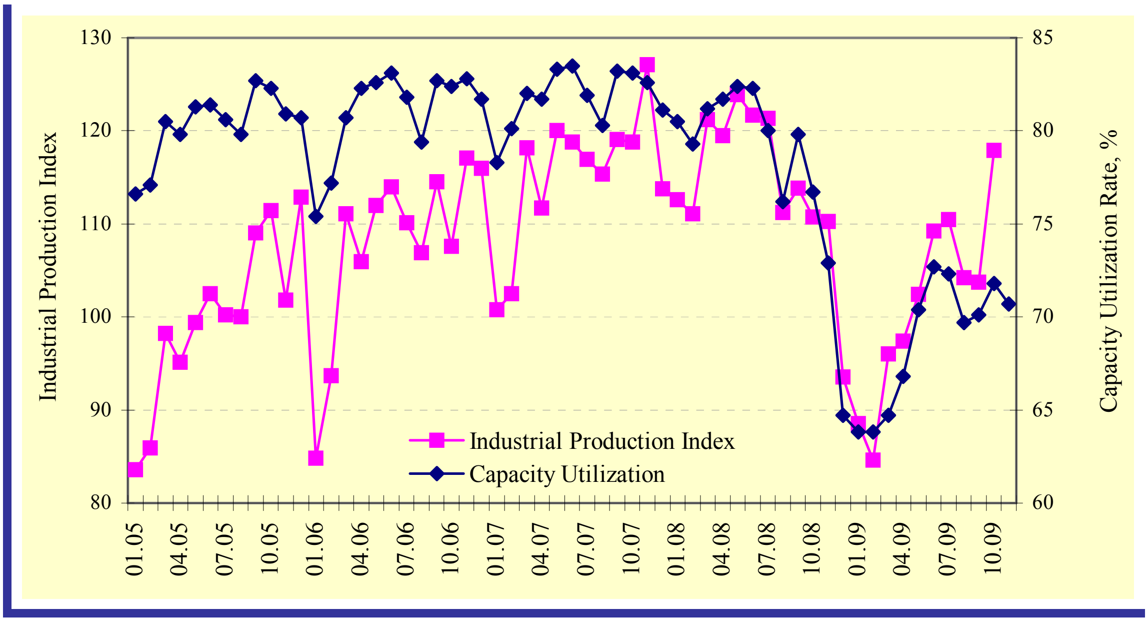
Real exports of goods and services, which began to contract as of the last quarter of 2008 due to deteriorating foreign demand conditions following the global crisis, decreased by 8.5 percent in the first nine months of 2009. This slow down in the exports and contraction of domestic demand caused the real imports of goods and services to decline by 21.1 percent in the first nine months of 2009. Additionally, due to the relative recovery in both domestic and foreign demand conditions in the third quarter of 2009, it is observed that the contraction in foreign trade has decelerated.

[7] It is estimated that the cost of this support packages containing various expenditure and income measures will be around 1 percent, 3.4 percent and 2.2 percent of GDP, respectively, for the years 2008, 2009 and 2010. Detailed information: Box: 3.1, Pre-Accession Economic Program 2009.

In light of these developments, in the first nine months of 2009, the contribution to GDP growth by private consumption was -2.8 percentage points, by private investment was -5.7 percentage points, by public consumption was 0.3 percentage points, by public investment was 0.1 percentage points and by change in stocks was -4.3 percentage points. As a result, the contribution of domestic demand to growth was recorded as -12.4 percentage points. Contribution of net exports to growth was realized at a high rate of 4 percentage points, due to higher contraction of imports compared to exports.

Considering sectoral developments, it is observed that the only growing sector in the first nine months of 2009 was agriculture. The value added in agriculture increased by 3.3 percent in the first nine months of 2009.

Figure 2. 1: Industrial Production and Capacity Utilization



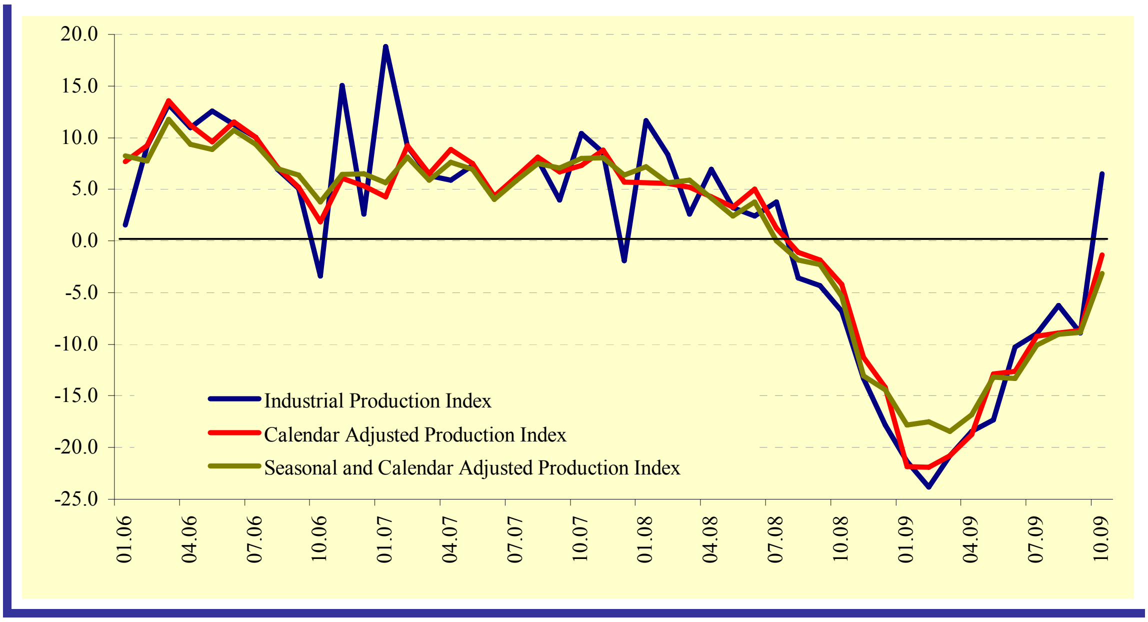
Source: TURKSTAT
Note: TURKSTAT changed Industrial Production Index 2005=100 in February 2009.

The value added in industry declined by 11.8 percent in the first nine months of 2009. Considering sub-sectors, the contraction was realized as 9.9 percent in the mining sector, 12.4 percent in the manufacturing industry, 5.6 percent in the electricity, gas, steam and hot water generation and distribution. Industrial production index decreased by 15.1 percent in the first nine months of 2009. Following the crisis, the index increased for the first time in October of 2009 compared to the same month of the previous year and approached the pre-crisis levels with an increase of 6.4 percent. This development signals a relative recovery of industrial production in the last quarter of 2009 (Figure 2.1). Although an upward trend has started in the capacity utilization in the manufacturing industry, yet it could not reach the pre-crisis levels.

Seasonal and calendar adjusted industrial production indicators, which have been newly published by TURKSTAT, provide more accurate information regarding industrial production (Figure 2.2). According to these indicators, industrial production reached its trough as of February-March 2009, and started to recover from April-May onwards.

The value added in the services sector contracted by 6.3 percent in the first nine months of 2009. Considering major sub-sectors, the contraction was recorded as 16.3 percent in wholesale and retail trade, 19.5 percent in construction and 12.2 percent in transportation. On the other hand, there are some sub-sectors that continued to grow despite the crisis. In the same period, value added in activities of financial intermediate organizations increased by 8.7 percent, while the value added in housing ownership and hotels and restaurants increased by 4.4 percent and 4.0 percent, respectively.

Figure 2. 2: Monthly Industrial Production Index (Annual Percentage Change)



Assessing the developments in the labor market, it is observed that total employment increased by 2.2 percent despite the slowdown in the economy in 2008. The increases in employment of all main sectors played an important role in this development. While the employment in agriculture increased by 149 thousand persons, the non-agricultural employment increased by about 307 thousand persons. 127 thousand of the increase in non-agricultural employment was in the industry sector and 180 thousand were in the services sector. Therefore, while the agricultural employment increased by 3.1 percent, non-agricultural employment increased by 1.9 percent and 456 thousand of new jobs were created in 2008. Only about 6 thousand of new employment was created by public sector and the remaining was created by private sector.

Since the rate of labor force participation rate increased by 0.7 percentage points in 2008 compared to 2007, the increase in labor supply was higher than the increase in the working age population. While employment increased by 456 thousand persons, the number of unemployed increased by 235 thousand persons since the labor supply increased by 691 thousand persons. Therefore, the unemployment rate reached to 11 percent with an increase of 0.7 percentage points compared to 2007. Similarly, non-agricultural unemployment rate was recorded as 13.6 percent by increasing by 1 percentage point. Unemployment rate among young people increased from 20 percent to 20.5 percent.

Although a considerable increase in employment was recorded throughout 2008, signs of disruption became evident in the labor market in the last quarter of the year parallel to the deterioration of the world economy as of September and the negative effects of the global crisis in the country. The industrial employment, which increased in the first three quarters of 2008, contracted by 1.4 percent in the last quarter of the year as the first sign of the disruption in the labor market. Together with the uncertainty created by the economic crisis and the accompanying feeling of economic insecurity, a jump of 1.6 percentage points was realized in the labor force participation rate in the fourth quarter of 2008. As a result of these developments, a significant increase in the unemployment rate was recorded as of the last quarter of the year and the unemployment rate reached 12.6 percent by increasing by 2.1 percentage points in the last quarter compared to the same period of the previous year.

The deterioration in labor market starting in the last quarter of 2008 has also continued in 2009. Non-agricultural employment contracted by 1.9 percent, 2.8 percent and 1.2 percent, respectively in the first three quarters of 2009. In this period, industry stood out as the sector which was hit hardest by the global crisis in terms of employment. Industrial employment contracted by 8 percent, 10.4 percent and 8.1 percent, respectively in the first three quarters. In the same period, the increase in agricultural employment partly compensated the employment losses in the non-agricultural sector and thus, the total employment, which contracted by 0.4 percent and 1.8 percent in the first two quarters, increased by 0.2 percent in the third quarter of 2009.

Table 2. 2: Developments in the Labor Market

(15+Age, Thousands)

	Annual		2008				2009		
	2007	2008	I	II	III	IV	I	II	III
Working Age Population	49,994	50,772	50,500	50,700	50,916	51,143	51,360	51,575	51,789
Labor Force Part. Rate, %	46.2	46.9	44.6	47.4	48.3	47.0	45.9	48.2	49.3
Labor Force	23,114	23,805	22,541	24,045	24,570	24,036	23,582	24,837	25,537
Employment	20,738	21,194	19,864	21,842	22,068	20,999	19,779	21,455	22,108
Unemployed	2,376	2,611	2,677	2,203	2,502	3,037	3,802	3,382	3,429
Employment Rate, %	41.5	41.7	39.3	43.1	43.3	41.1	38.5	41.6	42.7
Unemployment Rate, %	10.3	11.0	11.9	9.2	10.2	12.6	16.1	13.6	13.4
Non-Agriculture, %	12.6	13.6	14.2	11.5	12.9	15.5	19.3	17.0	17.0
Among Young People, %	20.0	20.5	21.5	16.6	19.7	24.0	28.6	24.9	23.5
Employment by Sectors									
Agriculture	4,867	5,016	4,185	5,353	5,622	4,929	4,391	5,422	5,854
Non-Agriculture	15,871	16,178	15,679	16,489	16,446	16,070	15,388	16,033	16,254
Industry	4,314	4,441	4,406	4,463	4,532	4,351	4,052	3,997	4,163
Services	11,557	11,737	11,273	12,026	11,914	11,719	11,336	12,036	12,091
Employment									
Public	2,071	2,077	2,079	2,077	2,079	2,073	2,088	2,086	2,092
Private	18,667	19,117	17,785	19,765	19,989	18,926	17,691	19,369	20,016

Source: TURKSTAT

In addition to these developments in employment, as a result of the increases in labor force participation rate, the unemployment rate reached a new plateau in 2009. The unemployment rate was recorded as 16.1 percent, 13.6 percent and 13.4 percent in the first three quarters of 2009, respectively. These unemployment rates correspond to increases of 4.2 percentage points, 4.4 percentage points and 3.2 percentage points, respectively, compared to the same period of the previous year.

In this period, another adverse development experienced in the labor market was the change in the sectoral composition of employment. Although the tendency to return back to agricultural employment that showed up with the crisis mitigated the consequences of the crisis in terms of unemployment, it caused deterioration in the sectoral composition of employment against non-agricultural sectors which provide more qualified job opportunities.

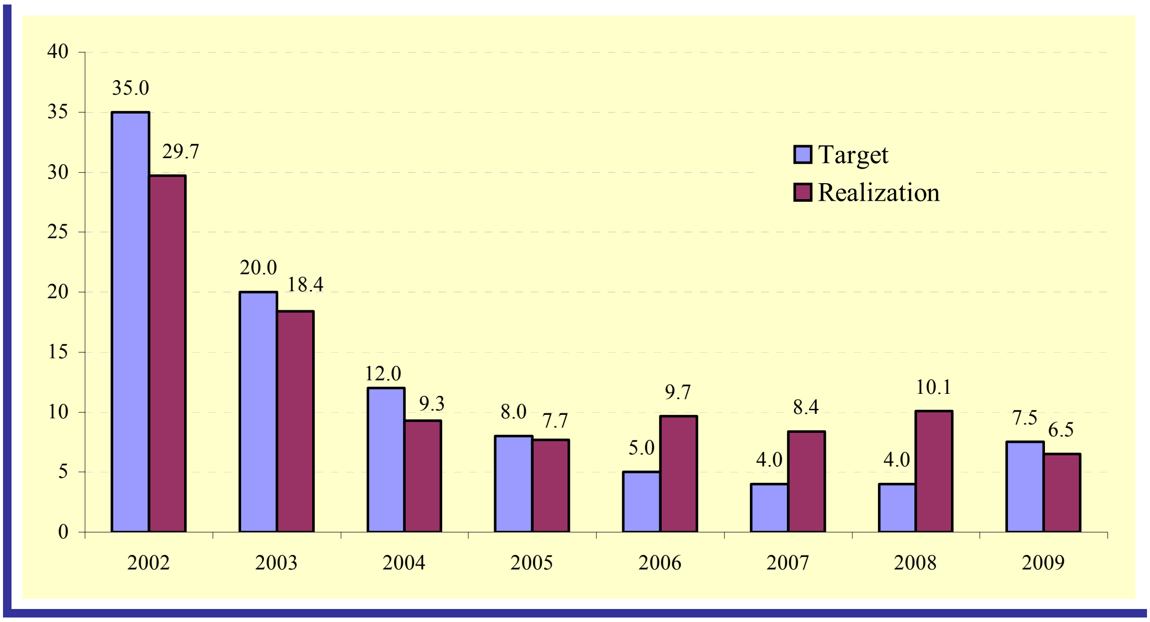
Assessing the wage developments in the Turkish economy, it is observed that the average nominal wages of public sector workers increased by 8.3 percent in 2008 and 5.7 percent in 2009. The average nominal wages in the private sector increased by 12.2 percent in 2008.

2.1.2. Inflation, Monetary and Exchange Rate Policies

2.1.2.1. Inflation

The annual rate of CPI was 10.1 percent and the annual rate of PPI was 8.1 percent at the end of 2008. During 2008, the developments in global economy became influential on the course of domestic inflation. The increases in prices of food and commodities, which showed its effect as from the second half of 2007 and caused the inflation of 2007 to remain above the target, became more evident in the first quarter of 2008. In this period, high rate of increases were observed especially in processed food and energy prices. Therefore, the annual inflation increased up to 12.1 percent in July of 2008. The annual inflation began to decrease by August since the mentioned shocks reversed and replaced by a dramatic decrease with the deepening of global financial crisis and significant slowdown observed in the world economy in the last quarter. However, inflation was continued to stay at relatively high levels due to accumulated effects and the inflation rate at the end of 2008 was realized quite above the target (Figure 2.3).

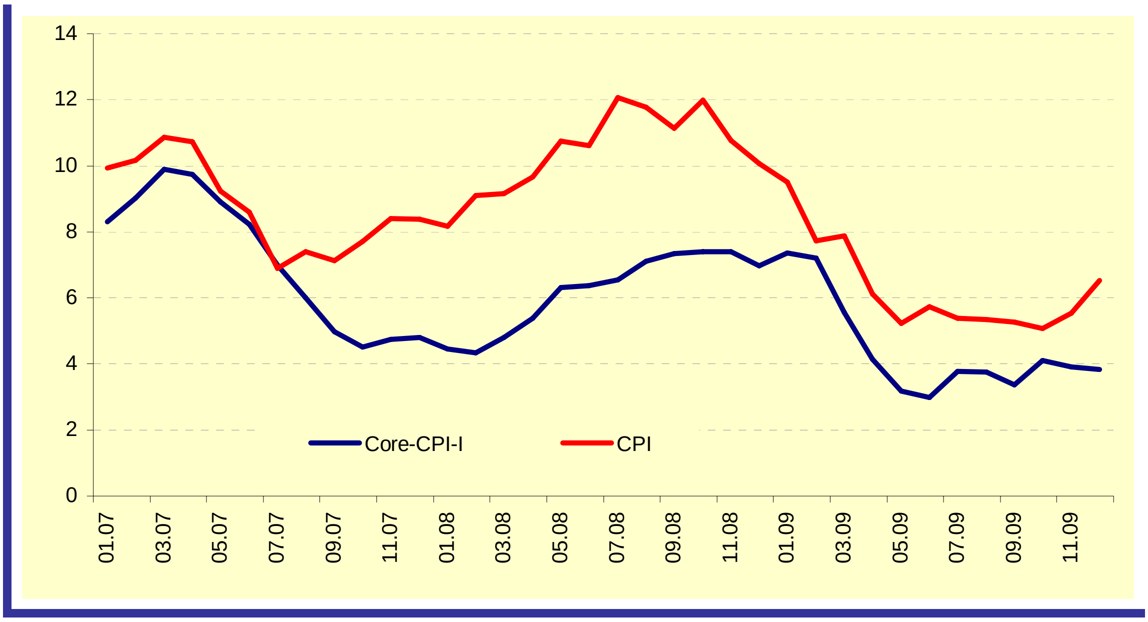
Figure 2. 3: CPI Targets and Realizations (%)



Source: CBRT, TURKSTAT

The uncertainty perception which increased by the deepening of global crisis, and the tendency of financial system to contract caused significant losses in the exchange rates of developing countries, in which Turkey was also included, in the last quarter of 2008. However, with the contribution of the slowdown in domestic demand and decrease in import prices in this period, the effect of exchange rate pass-through to inflation remained limited compared to previous periods. Within this framework, the downward trend in inflation beginning in the last quarter of 2008 strengthened and spread to all sub items in 2009 due to the positive course of cost based effects and more evident slowdown in economic activity. In particular, with the effect of the sharp decrease in export prices and positive developments in agricultural production, the annual inflation in processed food and energy groups exhibited dramatic decreases and their contribution to consumer inflation decreased significantly. However, the rise in unprocessed food prices limited this positive effect. Additionally, with the effect of the moderate cost conditions in the increase rate of service prices and sharp contraction in domestic demand, a significant slowdown in all subcategories was observed; the annual inflation in service group went down to the lowest levels in history. As for goods excluding energy and food group, within the framework of temporary tax adjustments made for boosting economic activity, the inflation followed a fluctuated course during the year. The group annual inflation, which exhibited decrease in the first quarter of year due to the effects of demand conditions and discounts in tax rates, recorded an increase with the effect of increasing the fixed tax in tobacco products in order to ensure public financial balance and revoking the tax discounts gradually in the following period. As a result, annual consumer inflation decreased by 3.6 percentage points as of December 2009 compared to the end of 2008 and realized at 6.53 percent (Figure 2.3).

Figure 2. 4: CPI and Core CPI (Annual Percentage Change)



Source: TURKSTAT

2.1.2.2. Monetary and Exchange Rate Policy

Monetary policy has been implemented within the framework of inflation targeting since the beginning of 2006. Accordingly, "point" inflation targets set on the year-end annual percentage change of consumer prices (CPI) are determined for a three-year period and announced together with a symmetric uncertainty band (±2 points) around the target, at the end of each year. The main instrument of the monetary policy is the short term interest rates in the Istanbul Stock Exchange Repo-Reverse Repo Market and Interbank Money Market. The decisions regarding policy interest rates are made in the pre-scheduled monthly meetings of the Monetary Policy Committee (MPC), and the policy decision and its rationale is publicized following the meeting, whereas more detailed meeting summary is publicized within eight business days. The main communication tool of monetary policy is the Inflation Report published quarterly.

During the global crisis, the Central Bank has also focused on policies directed to limit the adverse effects of crisis on economic activity and financial stability, provided that it does not conflict with the price stability objective. Within this framework, measured policy rate cuts were implemented as from September 2007 by considering the improvement in core inflation indicators and expectation of slowdown in the world economy. However, the Central Bank had to end policy rate cuts as of March because of the fact that the expectations and inflation indicators deteriorated due to accelerating increases in food and energy prices and the worsening conditions in global financial markets at the beginning of 2008. In the meantime, it is observed that the anchoring role of inflation targets for expectations weakened. Within this context, in June 2008, the Government and the Central Bank mutually agreed to revise the inflation targets upward for 2009 and onwards. The change in inflation targets was implemented along with tight monetary policy, which significantly contributed to keeping inflation expectations under control.

With the deepening of problems in global economy, a significant slowdown was observed in the world economy as from the last quarter of 2008 and commodity prices decreased significantly. In spite of the contraction in demand conditions, uncertainties regarding the global commodity and financial markets and the risks created by these uncertainties for inflation outlook required monetary policy to act cautiously. Accordingly, the policy interest rates were not changed in the period of August-October 2008. In this period, the aggravated lack of confidence in the global financial markets affected the global liquidity flow adversely and raised the demand especially for dollar liquidity considerably. This caused TL to depreciate significantly as it was the case for currencies of all developing countries. In spite of these developments in foreign exchange rates, it was envisaged that exchange rate pass-through to domestic prices would be offset by striking slowdown in total demand and the decline in commodity prices, and thus inflation would decline in a faster pace than expected. Based on these facts, the Central Bank of the Republic of Turkey started policy rate cuts as of November of 2008 (Table 2.3).

Table 2. 3: Monetary Policy Committee Decisions

MPC Meeting Dates	Policy Decision	Policy Rate*
18 September 2008	Unchanged	16.75
22 October 2008	Unchanged	16.75
19 November 2008	-0.50	16.25
18 December 2008	-1.25	15.00
15 January 2009	-2.00	13.00
19 February 2009	-1.50	11.50
19 March 2009	-1.00	10.50
16 April 2009	-0.75	9.75
14 May 2009	-0.50	9.25
16 June 2009	-0.50	8.75
16 July 2009	-0.50	8.25
18 August 2009	-0.50	7.75
17 September 2009	-0.50	7.25
15 October 2009	-0.50	6.75
19 November 2009	-0.25	6.50
17 December 2009	Unchanged	6.50

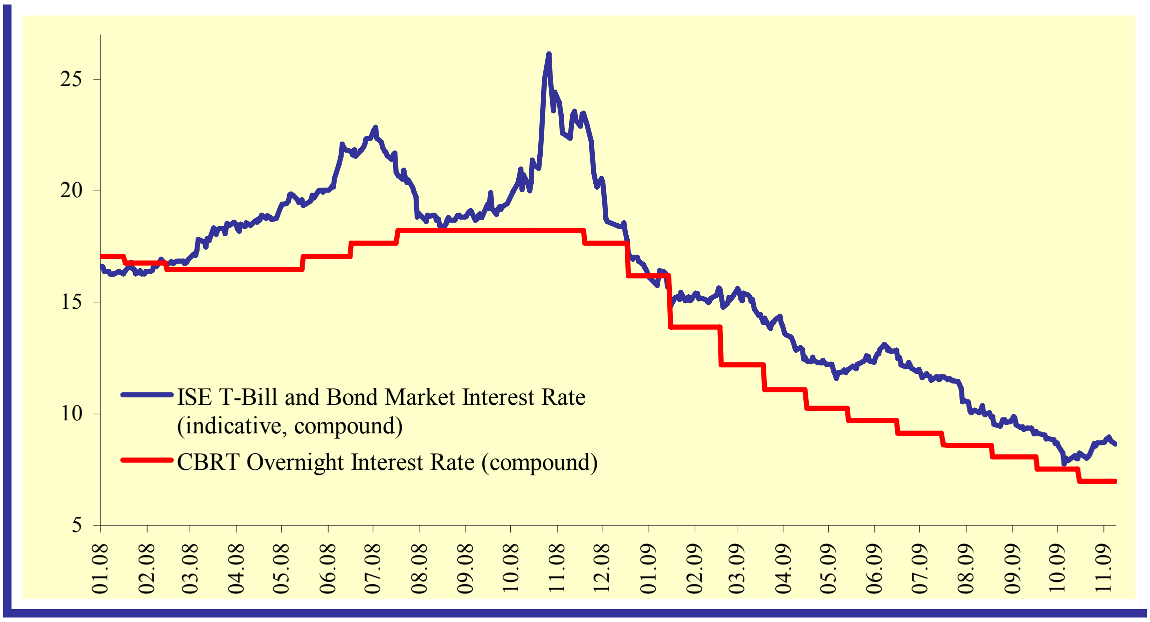
Source: CBRT
(*) Overnight borrowing rate valid in Interbank Money Market and Istanbul Stock Exchange Repo-Reverse Repo Market.

As new data signaled deepening of the effects of global crisis on the economic activity, the possibility of the inflation to remain below the target at the end of the year increased, and the process of policy rate cuts was accelerated starting from the beginning of 2009 so as to help offset the additional tightening in financial conditions. Within this framework, policy rates were cut by a total of 525 points in the first four months of 2009. Although there were partial recovery signals regarding the economic activity beginning from May 2009, policy rate cuts continued since the uncertainties concerning the strength and permanence of the boost in demand persisted, and it was anticipated that the recovery in economic activity and improvement in employment conditions would take time. Therefore, a total of 1,025 basis points decline in policy rates was realized in the period between November 2008 and November 2009. In other words, the policy rates declined from 16.75 percent in the last quarter of 2008, which was the beginning of the deepening of the effects of the global crisis, to 6.50 percent. In the last meeting of the Monetary Policy Committee in December 2009, the policy rates were kept the same as it was pointed out that the economic activity started to recover moderately. On the other hand, considering that the problems in the global economic conditions were not completely eliminated and the uncertainties regarding the strength of the economic recovery continued, it was emphasized that it would be necessary to keep the policy rates at low levels for an extended period of time.

The fact that the financial system in Turkey was relatively sound and the deterioration in risk premium remained limited during the period of global crisis enabled the Central Bank to cut the policy rates substantially in order to limit the contraction in economic activity and prevent the inflation from deviating significantly from the targets. Nevertheless, due to sharp contraction in demand conditions, decreases in commodity prices and tax discounts made within the scope of financial measures, inflation declined dramatically, and the inflation rates remained below the set target path in June and September 2009. In the last quarter of the year 2009, inflation increased slightly, mainly due to the base effect resulting from the energy prices and high increases in unprocessed food prices. As of December 2009, inflation was realized as 6.53 percent, remaining below the target, still being within the uncertainty band.

During the period of global crisis, the Central Bank implemented an effective communication policy and expectation management by providing a specific medium term perspective regarding the monetary policy. Both the stance of monetary policy shaped within this framework and the fact that the data regarding the inflation and economic activity confirmed the necessity of rapid policy rate cut process raised the influence of policy rate decisions on the market rates, and the market rates were also significantly declined in parallel with the policy rates (Figure 2.5). In addition, with the support of improvements in the global risk perceptions, the favorable effect of policy rate cuts on credit market was begun to be observed recently, and the consumer credit rates, whose reaction to monetary policy decisions remained limited for a long time, exhibited a declining tendency.

Figure 2. 5: Monetary Policy Committee Decisions and Market Interest Rate



Source: CBRT, ISE.

The Central Bank used other policy tools effectively as well as short term interest rates, which is the main policy tool, directed to limiting the adverse effects of global crisis on Turkish economy and financial stability. Within this context, the measures taken as from the mid 2008 in order to recover the contraction of Turkish lira and foreign currency liquidity to ensure that these markets operated healthy and to support the real sector are listed briefly as follows:

In order to support the liquidity of Turkish lira;

- The liquidity need of Turkish lira, which occurred in the markets as from May 2008, was met by one week term repo auctions made regularly,
- The conditions for providing Liquidity Support Credit for the banks were reviewed on 29 January 2009 and the regulation in which the principles and procedures regarding the credit to be provided was published on the Internet site of the Central Bank,
- In addition to the one week term repo transactions which were the fundamental funding tool, repo transactions with terms up to three months began to be used as from 19 June 2009,
- On 16 October 2009, the Turkish Lira required reserve ratio which was 6 percent was decreased to 5 percent, thus a permanent liquidity of about 3.3 billion TL was provided for the banking system.

In order to support foreign currency liquidity and ensuring competitive operation of foreign exchange markets;

- On 9 October 2008, the Central Bank intermediation role in its Foreign Exchange Deposit Market has been resumed and the transaction limits of the banks in this market have been raised significantly,
- On 16 October 2008, the foreign exchange purchase auctions, conducted in order to strength the foreign exchange reserves, were ceased,
- On 24 October 2008, foreign exchange selling auctions were commenced; the auctions were suspended on October 30 upon the positive developments in the global markets. Afterwards, foreign exchange selling auctions were rearranged on 10 March 2009-3 April 2009,
- On 20 November 2008, the term of the foreign exchange deposits, which the banks might borrow from the Central Bank in terms of dollar and euro within the framework of the debt limits introduced to them, was extended to 1 month from 1 week and the lending interest rate which was 10 percent was reduced to 7 percent for dollar and 9 percent for euro,
- Foreign currency required reserve ratios were reduced to 9 percent from 11 percent on 5 December 2008,
- On 20 February 2009, the term of foreign exchange deposits, which the banks might borrow from the Central Bank in terms of dollar and euro, was extended to three months from one month, and the lending interest rate was reduced to 5.5 percent for dollar and 6.5 percent for euro.

In order to support the real sector,

- As from 5 December 2008, by making new arrangements directed to export rediscount credit implementation, export rediscount credit limit was raised and ease of use was applied on these credits,
- On 20 March and 17 April 2009, in order to increase the usage of export rediscount credit, arrangements, which would provide for more firms to utilize from the export rediscount credit, were made and credit limits were raised.

Floating exchange rate policy has been implemented in Turkey since 2001. Accordingly, the exchange rates are determined by the supply and demand conditions in the market and the Central Bank has no exchange rate target. However, if non-competitive pricing is observed in the foreign exchange rates as a result of speculative acts resulting from the loss of market depth, direct intervention may be made in the market in the form of sales or purchases. The Central Bank did not intervene in the foreign exchange market directly after the direct selling intervention made during the global liquidity crisis in the period of May-June, 2006.

The other component of the floating foreign exchange rate regime is the reserve accumulation purposed foreign exchange purchase auctions. In order not to affect the supply and demand conditions in the foreign exchange market, the Central Bank conducts the foreign exchange purchase auctions in accordance with pre-announced programs and does not make any change in these programs unless there are extraordinary differentiations in the foreign exchange liquidity. The foreign exchange purchase auctions interrupted in May 2006 were commenced again on November 2006 and continued until October 2008 as programmed, although the amounts to be purchased were changed time by time according to the developments in the foreign exchange liquidity.

However, within the framework of the measures taken in order to enhance foreign exchange liquidity positions of the banks under the global crisis conditions, foreign exchange purchase auctions were interrupted on 16 October 2008, and upon observing non-competitive pricing in the foreign exchange market depending on the loss of depth, at first, foreign exchange sales auctions were arranged twice between 24-30 October 2008 and 100 million dollars were sold. Then, foreign exchange selling auctions, each having an amount of 50 million dollars, were commenced as from 10 March 2009. In the following period, as the developments in the global markets reduced the concerns regarding the depth in the foreign exchange market, foreign exchange selling auctions were ceased on 3 April 2009 and a total of 900 million dollars was sold in 18 auctions implemented during this period (Table 2.4).

Since the foreign exchange market stabilized relatively and the liquidity and risk appetite was strengthened again depending on the positive expectations regarding the global economy, foreign exchange purchase auctions were commenced again on 4 August 2009 and the maximum daily amount to be purchased in auctions was set as 60 million dollars, with 30 million dollars of auction amount and 30 million dollars of optional selling amount. The foreign exchange purchase auctions will continue with the same limits and terms in 2010 as well. Gross foreign exchange reserves of the Central Bank were 69.6 billion dollars as of 25 December 2009.

Table 2. 4: FX Market Interventions and Auctions of the Central Bank

(Million Dollars)

Years	FX Purchase Auctions	FX Sale Auctions	FX Purchase Interventions	FX Sale Interventions	Total Net FX Purchases
2002	795	-	16	12	799
2003	5,652	-	4,229	-	9,881
2004	4,104	-	1,283	9	5,378
2005	7,442	-	14,565	-	22,007
2006	4,296	1,000	5,441	2,105	6,632
2007	9,906	-	-	-	9,906
2008	7,584	100	-	-	7,484
2009	4,314	900	-	-	3,414
2010*	115	-	-	-	115

Source: CBRT
* As of 5 January 2010.

2.1.3. Financial Sector

The influence of global financial crisis on Turkish banking sector remained limited compared to the influence on banking sector of many countries. Comprehensive restructuring of the sector after 2001, adopting a more prudential regulatory and supervisory approach in recent years and strong capital structure of the sector, as well as the fact that financial institutions were not active yet in the asset backed securities and derivative markets, were effective in these development.

As of September of 2009, the number of banks operating in the Turkish banking sector was 49 without any change compared to the end of 2008. The growth of the banking sector continued in 2009 although it slowed down compared to the previous years. The total assets of the sector, which was 481 billion dollars at the end of 2008, were realized as 523.6 billion dollars, increasing by 4.7 percent in September of 2009. As for the period of September 2008-September 2009, the total assets increased by 3.4 percent in real terms. As a result of the contraction in credit demand and preference of the banks to stay liquid amidst the global crisis, the credit volume of banking sector increased moderately in the first nine months of 2009 and stood at 246.4 billion dollars. While credit volume of the sector contracted by 2.9 percent in real terms for the period September 2008-September 2009, the ratio of credits in total banking assets went down to 47 percent from 50 percent. On the other hand, investment of banks to securities increased in this period. The ratio of non-performing loans, which was 3.1 percent in September 2008, increased to 5.3 percent as of September 2009, with the effect of global financial crisis.

In the first nine months of 2009, the capital adequacy ratio of banking sector increased to 20 percent, from 18 percent as of the end of 2008 due to the increase in equities and the stagnation in credits. While the growth in current period profits was effective in the increase in equities, the increase in the net interest revenues played a role in maintaining the high profitability of the sector. The net profit of the banking sector, which was 8.8 billion dollars in 2008, was realized as 10.7

billion dollars in the first nine months of 2009 and sustained its positive course. As of September 2009, the sector gave a net FX position surplus of 0.5 billion dollars and the exchange rate risk was limited. The share of foreign capital in the sector was 39.7 percent as of September 2009.

Adverse effects of the global crisis, which became effective in domestic capital markets in 2008, were alleviated partially in 2009 and an upward trend prevailed in the stock exchange market. ISE National-100 Composite Index, which went down to the level of 26,864 from the level of 55,538 by exhibiting a decline of 52 percent throughout 2008, increased by approximately 97 percent compared to the end of 2008 and rose to the level of 52,825 as of the end of 2009. ISE National-100 Composite Dollar Index went down to 1,028 from 2,790 with a decrease of approximately 63 percent throughout 2008, but exhibited an upward trend parallel with TL based index in 2009 and increased by 101 percent in this period and reached the level of 2,068 as of the end of 2009. Despite the declines in 2008, there was no significant foreign investor outflow from the stock market and the foreign investors holding rate in the stock market went down to 67.5 percent at the end of 2008, from the level of 72 percent at the beginning of the year. Foreign investors holding rate realized as 67.3 percent as of the end of 2009, although it displayed further decline in the first months of 2009.

Table 2. 5: Overview of the Banking Sector

	2002	2003	2004	2005	2006	2007	2008	2009 Sept.
Main Aggregates								
Assets (In Billion Dollars)	130.1	178.9	228.3	295.9	356.0	502.0	481.0	523.6
Loans (In Billion Dollars)	30.0	47.4	74.0	113.7	111.0	246.0	241.0	246.4
Deposits (In Billion Dollars)	84.4	111.3	143.0	187.1	179.0	308.0	299.0	320.7
Number of Banks	54	50	48	47	50	50	49	49
Number of Employees (Thousands)	123.9	124.0	127.9	133.0	151.0	168.0	182.0	182.7
Performance Indicators								
Net Profit (In Billion Dollars)	1.8	4.0	4.5	3.7	2.6	0.0	8.8	10.7
Return on Assets (%)	1.4	2.2	2.1	2.7	2.4	2.8	2.1	2.4
Rate of Return for Equity Capital (%)	9.2	15.8	14.0	18.6	19.8	24.8	18.8	18.9
Loans/Deposits (%)	35.5	42.6	51.7	61.7	71.2	80.0	80.8	76.8
Risk Indicators								
Capital Adequacy Ratio (%)	26.1	30.9	28.8	24.2	21.9	18.9	18.0	20.0
FX Position in Balance Sheet (Billion Dollars)	-0.6	0.0	-1.4	-1.9	-5.5	-8.3	-3.3	-11.1
Net General Position (In Billion Dollars)	-0.4	0.3	-0.1	-0.1	0.1	0.2	-0.1	0.5
Non-Performing Loans/Gross Loans (%)	17.6	11.5	6.0	5.0	3.7	3.5	3.7	5.3
Securities Portfolio/Assets (%)	40.5	42.8	40.4	36.0	31.8	21.3	26.5	30.2

Source: BRSA

There were 56 companies operating in insurance and private pension sector, as of 31 August 2009. 32 of these companies were operating in the area of non-life insurance, 12 in life insurance and pension area, 10 in life insurance area, 1 in pension area and 1 in reassurance area. As of the same period, the total premiums in the insurance sector stood at 8.2 billion TL and total assets were 30 billion TL.

Since its initiation in 2003, the private pension sector has been displaying high growth rates. As of November 2009, the number of participants in the private pension system exceeded 1.9 million persons, the number of contracts exceeded 2.2 million and the fund accumulated in the system reached 8.7 billion TL. In the period of November 2008-November 2009, despite the 13.7 percent increase in the number of participants, it is observed that the total amount of funds in the system increased by 47.8 percent. It is observed that the loss of return that occurred as a result of the effects of global crisis has been compensated rapidly in 2009. It is noteworthy that the return performance of pension system in Turkey is the highest among the OECD countries as of January-June 2009.

Within the scope of better management of the earthquake risk in Turkey, works of Natural Disaster Insurances Institution (DASK) on providing insurance guarantee for the citizens have been continued. Thereby, the number of mandatory earthquake insurance policies, which was 2,853,000 at the end of 2008, increased to 3,394,000 as of the end of September of 2009 and the total amount of guarantees reached 194 billion TL.

2.1.4. Balance of Payments

2.1.4.1. Current Account

Scrutinizing 2002-2008 period, it is observed that the current account deficit, which was 0.6 billion dollars in 2002, increased continuously and reached 41.8 billion dollars as of 2008; in other words, it reached 5.7 percent of GDP. This upward trend ended as of the last quarter of 2008, in which the global financial crisis began to affect foreign trade of our country, and the trend reversed. As a matter of fact, due to the decrease in commodity prices and contraction in GDP, the current account deficit in the first ten months of 2009 decreased by 79.4 percent compared to the same period of the previous year, and declined to 7.9 billion dollars from 38.3 billion dollars.

Table 2. 6: Balance of Payments

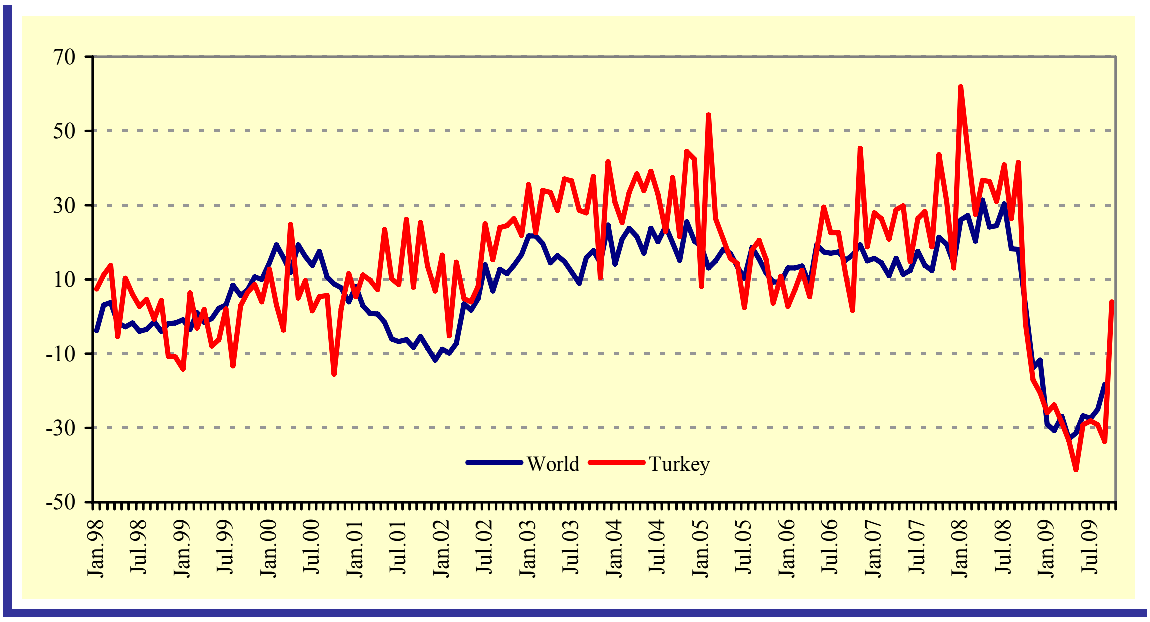
(In Billion Dollars)

	Annual		January-October	
	2007	2008	2008	2009
Current Account	-38.2	-41.8	-38.3	-7.9
Trade Balance	-46.7	-53.0	-49.1	-18.1
Total Exports	115.4	140.8	122.3	89.6
Exports (fob)	107.3	132.0	114.9	83.2
Total Imports	-162.0	-193.8	-171.4	-107.8
Imports (cif)	-170.1	-202.0	-178.5	-112.8
Balance on Services	13.3	17.2	15.9	15.3
Credit	28.6	34.8	30.9	28.2
Tourism	18.5	22.0	19.7	18.7
Debit	-15.3	-17.6	-15.0	-13.0
Balance on Income	-7.1	-8.2	-7.0	-6.6
Credit	6.4	6.9	5.9	4.6
Debit	-13.5	-15.0	-12.9	-11.2
Current transfers	2.2	2.1	1.8	1.5
Capital and Financial Account	36.6	36.4	36.3	2.2
Financial Account (Excluding Reserves)	36.6	36.4	36.3	2.2
Direct Investment	19.9	15.8	13.8	5.6
Direct Investment in Turkey	22.0	18.3	16.1	6.6
Direct Investment Abroad	-2.1	-2.5	-2.3	-1.0
Portfolio Investment	0.7	-5.0	-4.3	0.6
Other Investment	24.0	24.6	29.5	-4.7
Assets	-4.9	-10.9	-13.0	3.7
Liabilities	28.9	35.5	42.5	-8.3
Trade Credits	4.2	1.6	3.8	-1.6
Credits	27.6	30.1	33.9	-14.3
Monetary Authority	0.0	0.0	0.0	0.0
General Government	-3.9	3.4	3.0	0.6
Banks	5.6	3.0	7.2	-6.5
Other Sectors	25.9	23.7	23.7	-8.4
Currency and Deposits	-3.3	3.4	4.3	5.5
Monetary Authority	-1.5	-1.8	-1.6	-0.8
Banks	-1.9	5.2	5.9	6.4
Other Liabilities	0.4	0.4	0.4	2.0
Official Reserves	-8.0	1.1	-2.7	0.6
Net Errors and Omissions	1.6	5.4	2.0	5.7

Source: CBRT

Considering the export figures since the second quarter of 2008, it is observed that the exports of goods of Turkey followed a similar trend with world exports. Although the exports of goods of Turkey declined by 13.2 percent in the last quarter of 2008, when the impacts of the economic crisis became evident, it increased by 23.1 percent throughout 2008 and reached 132 billion dollars.

Figure 2. 6: Change in Exports (Annual, %)



Source: IMF-IFS, TURKSTAT

In the period of January-October 2009, the exports went down to 83.2 billion dollars with a decrease of 27.6 percent compared to the same period of previous year. The decline of 41.6 percent in exports of motor vehicles and trailers, 35.6 percent in exports of basic metal and 56.4 percent in exports of coke and petroleum products were effective in this decrease.

Table 2. 7: Foreign Trade by Classification of Broad Economic Categories (BEC)

(Billion Dollars)

	Annual					January-October				
	2007	Share %	2008	Share %	Rate of Change %	2008	Share %	2009	Share, %	Rate of Change %
Total Exports	107.3	100.0	132.0	100.0	23.1	114.9	100.0	83.2	100.0	-27.6
Capital Goods	13.8	12.8	16.7	12.7	21.6	14.6	12.7	8.9	10.7	-39.2
Intermediate Goods	49.4	46.1	67.7	51.3	37.1	59.5	51.8	40.9	49.1	-31.3
Consumption Goods	43.7	40.7	47.1	35.7	7.7	40.4	35.1	33.0	39.6	-18.3
Total Imports	170.1	100.0	202.0	100.0	18.8	178.5	100.0	112.8	100.0	-36.8
Capital Goods	27.1	15.9	28.0	13.9	3.6	23.9	13.4	17.0	15.1	-28.8
Intermediate Goods	123.6	72.7	151.7	75.1	22.7	135.5	75.9	80.3	71.1	-40.8
Consumption Goods	18.7	11.0	21.5	10.6	15.0	18.5	10.4	15.0	13.3	-18.9

Source: TURKSTAT

Similar to exports of goods, imports of goods also began to contract as of the third quarter of 2008, but stood at 202 billion dollars with an increase of 18.8 percent throughout 2008. In the period of January-October 2009, imports fell down to 112.8 billion dollars with a decline of 36.8 percent compared to the same period of previous year. The contraction of 40.8 percent in the imports of intermediary goods, which constitutes 71 percent of total imports, was influential in this decline.

As a result of these developments, the ratio of foreign trade volume to GDP, which was 42.8 in 2007, increased to 45.5 percent in 2008.

Considering the foreign trade with EU countries in 2008, it is observed that the share of EU countries in exports decreased by 8.3 percentage points compared to the previous year and fell down to 48 percent. While exports to EU countries increased moderately at a rate of 5 percent in this period, exports to other countries increased by 49.4 percent. Similarly, the share of imports from EU countries decreased by approximately 3.3 percentage points and fell down to 37 percent. In the January-October period of 2009, the share of exports to EU countries stood at 45.7 percent, while the share of imports from EU countries stood at 40.1 percent. Contraction of output in EU-27 by 5.2 percent, 5.7 percent and 4.2 percent respectively in the first three quarters of 2009, and accompanying decline of total imports by 25.4 percent in the period of January-October 2009 were determinant in the declining share of EU in Turkish exports. The fluctuation of energy prices imported by Turkey from non-EU countries was the main reason behind the fluctuation of the share of EU countries in Turkish imports in recent years.

Table 2. 8: Foreign Trade by Countries

(In Billion Dollars)

	Annual					January-October				
	2007	Share, %	2008	Share, %	Rate of Change, %	2008	Share, %	2009	Share, %	Rate of Change, %
Merchandise Exports	107.3	100.0	132.0	100.0	23.1	114.9	100.0	83.2	100.0	-27.6
European Countries (EU-27)	60.4	56.3	63.4	48.0	5.0	55.8	48.6	38.0	45.7	-31.8
Other Countries	43.9	41.0	65.6	49.7	49.4	56.4	49.1	43.6	52.4	-22.8
Turkish Free Zones	2.9	2.7	3.0	2.3	2.2	2.6	2.3	1.6	1.9	-40.5
Merchandise Imports	170.1	100.0	202.0	100.0	18.8	178.5	100.0	112.8	100.0	-36.8
European Countries (EU-27)	68.6	40.3	74.8	37.0	9.0	66.0	37.0	45.2	40.1	-31.4
Other Countries	100.2	58.9	125.8	62.3	25.5	111.3	62.4	66.8	59.2	-40.0
Turkish Free Zones	1.2	0.7	1.3	0.7	9.0	1.2	0.7	0.8	0.7	-34.9

Source: TURKSTAT

The services surplus, which was 13.3 billion dollars in 2007, increased to 17.2 billion dollars in 2008. The 3.5 billion dollar increase in tourism revenues compared to the previous year was effective in this development. Especially with the effect of tourism revenues, which decreased by 1 billion dollars, the services balance surplus decreased by 0.6 percent in the period of January-October 2009 compared to the same period of the previous year and stood at 15.3 billion dollars.

The deterioration in income balance, which gave a deficit of 7.1 billion dollars in 2007, continued in 2008 and the deficit was realized as 8.2 billion dollars. As for the period of January-October 2009, a minor improvement was observed in the income balance compared to the same period of the previous year and the deficit remained at 6.6 billion dollars.

While the current transfers recorded a surplus of 2.2 billion dollars in 2007, it was realized as 2.1 billion dollars in 2008. As for the period of January-October 2009, current transfers gave a surplus of 1.5 billion dollars despite a slight decrease compared to the same period of the previous year.

2.1.4.2. Capital and Financial Account

High capital inflows experienced in recent years continued in 2008 despite the global crisis. As a matter of fact, the capital and financial account, which gave a surplus of 36.6 billion dollars in 2007, gave a surplus of 36.4 billion dollars in 2008. While there was a capital inflow of 37.5 billion dollars in the first three quarter of 2008, a capital outflow of 1.1 billion dollars was recorded in the last quarter. The contraction in liquidity conditions and increasing uncertainties due to the global crisis as well as the fact that these developments adversely affected the portfolio and other investments, were the main determinants of the capital outflows in the last quarter of 2008. In the first ten months of 2009, in which the impacts of the global crisis were more severe, the capital inflows were realized as 2.2 billion dollars. In this period, there were inflows of 5.6 billion dollars and 0.6 billion dollars respectively in direct investments and portfolio investments, and an outflow of 4.7 billion dollars in other investments.

Net foreign direct investments were realized as 15.8 billion dollars in 2008. In 2008, while there was a foreign investment of 18.3 billion dollars in Turkey, a direct investment of 2.5 billion dollars was realized abroad. As for the first ten months of 2009, net foreign direct investments decreased by 59 percent compared to the same period of previous year and realized as 5.6 billion dollars. In this period, while the direct investment in Turkey was 6.6 billion dollars, the direct investment abroad was 1 billion dollars.

In the portfolio investment item, since the global crisis raised the risk perception and this situation adversely affected the developing countries such as Turkey, an outflow of 5 billion dollars occurred in 2008. In this item, the rapid outflow observed in the last months of 2008 was significantly caused by the fact that foreign investors sold their general government domestic debt securities by an amount of 5.1 billion dollars in their portfolios. There was an inflow of 0.6 billion dollars in the portfolio investments in the first ten months of 2009. The inflows of 2 billion dollars in equity securities and 1.8 billion dollars in foreign borrowing instruments were effective in this development, although there was an outflow of 1 billion dollars in debt securities under liabilities. Therefore, in a period in which significant outflows were experienced in portfolio investments globally, there was a slight inflow to Turkey in the first ten months of 2009.

Other investments increased by 0.6 billion dollars despite the credit crunch in global markets in 2008 and reached 24.6 billion dollars. Additionally, in the other investments, where there was an inflow of 29.5 billion dollars in January-October period of 2008, an outflow of 4.7 billion dollars was observed in the same period of 2009 since both banks and non-bank institutions became net payers.

Considering the sub-items of other investments, it is observed that the credits decreased by 14.3 billion dollars in the first ten months of 2009. This decline was caused by a 6.5 billion dollar fall in credits from abroad by banks and an 8.4 billion dollar fall in the credits from abroad by non-bank institutions. In these declines, short term credits were determinant for banks, whereas long term credits were determinant for non-bank institutions.

The foreign currency indebtedness of the non-banking sector[8], which was analyzed in detail in 2008 PEP, had an important role in terms of the financing channel through which the global crisis affected Turkey. The corporate sector firms obtained long-term credits amounting to 42.4 billion dollars and repaid credits amounting to 19.5 billion dollars in the first ten months of 2008. The long-term credit obtained by the firms in the same period of 2009 fell down to 19.3 billion dollars while the repayments reached 27.5 billion dollars. Therefore, the real sector which used foreign financing amounting to 22.9 billion dollars in January-October period of 2008 made a net payment amounting to 8.2 billion dollars in the same period of 2009. In this period, the decrease in domestic demand, uncertainties and difficulties in finding credit in international markets were the reasons that made the corporate firms net debt payers.

Long term credits of central government, which were 3 billion dollars in the first ten months of 2008, decreased by 79.3 percent in the same period of 2009 and fell down to 0.6 billion dollars. Besides, debt repayment amounting to 2 and 0.7 billion dollars respectively for January-October period of 2008 and 2009 was made to IMF. No credit was used from IMF in 2009, while a credit amounting to 3.6 billion dollars was used for the same period of 2008.

As a result of these developments, 2.2 billion dollars of the current account deficit, which was recorded as 7.9 billion dollars in the first ten months of 2009, was financed by capital inflows and 5.7 billion dollars of the deficit was financed by net errors and omissions which include unexplained foreign inflows.

[8] See: 2008 Pre-Accession Economic Program, Box: 2.2: The Non-Banking Sector's Foreign Currency Indebtedness

The reasons behind the high realization of net errors and omissions, which reached 9 billion dollars in the period of October 2008-October 2009, were considered to be the discrepancies in the accounting of the exchange rate movements and the sale of cash FX savings outside the domestic banking system to domestic banks in return for TL.

The decrease in official reserves which were forecasted as 17.4 billion dollars in 2008 PEP for 2009, was realized as 0.6 billion dollars in January-October period of 2009. The declining current account deficit due to the global economic crisis and the high realization of net errors and omissions are the main factors that limited the decline in official reserves.

2.2. Medium Term Macroeconomic Scenario

2009 PEP, covering 2010-2012 period, was prepared amidst a severe global economic crisis that led to the deepest recession since World War II. The main objective of this programme is to reestablish a stable growth process for the economy utilizing the strengths of the economic and social structure of Turkey in the face of the global crisis, and thereby increase the welfare of the society.

The current international conjuncture revealed the need to speed up the structural reform process. In this sense, the global crisis also introduces new opportunities. With the measures to be taken and the reforms to be conducted, the foundations of the economy will be strengthened. A comprehensive structural reform program will be implemented to increase the competitiveness of the economy and to make the improvement in growth and fiscal stability permanent. Thus a strong and predictable environment will be built for domestic and foreign investors, reinforcing the confidence of consumers and producers.

The public sector played an effective role in mitigating the effects of the global crisis on the economy with its revenue and expenditure policies. The basic objective of the fiscal policy during the period of the programme is to gradually reduce the public deficits to a reasonable level, which increased as a result of the economic crisis. In order to increase the predictability in the economy and the resources available to the private sector, the public sector borrowing requirement should be reduced gradually and the price stability should be maintained. Thus, the private sector will be able to lead the recovery process after the crisis and the growth process thereafter.

2.2.1. Real Sector

2.2.1.1. Demand Components of Growth

The Turkish economy, which grew by 6.8 percent in 2002-2007, started showing signs of slowing down starting from the second quarter of 2007. In 2008, the uncertainties in the global economy reinforced the slowdown and the economy contracted for the first time after many years, in the last quarter of the year. Thus, in 2008, economic growth was recorded as 0.9 percent. In the first nine months of 2009, when the effects of the global crisis became more evident, the Turkish economy contracted by 8.4 percent.

2009 was a tough year for all the world economies. Many countries, not only took monetary policy measures to mitigate the effects, but also announced significant fiscal stimulus packages and increased their public expenditures to implement these packages. Despite these measures, the economies of many countries contracted significantly in 2009. Due to these reasons, it is expected that 2009 will be recorded as the year with the severest economic contraction since the World War II. Some signs of a slow recovery have been observed starting from the last quarter of the year and it is anticipated that the world economy will recover starting from 2010.

Under this basic scenario regarding the world economy, Turkish economy is also expected to enter a recovery period like the other world economies starting from 2010.

In the 2008 PEP, it was projected that the Turkish economy would contract by 3.6 percent in 2009. However, the data announced during the year demonstrated that the crisis had a deeper impact than expected on Turkey. For this reason, it was required to revise the growth projections for 2009.

Recent figures for the Turkish economy show that the effects of the crisis started receding after the second half of 2009. Accordingly, it is anticipated that the economy will grow in the last quarter, though by a low rate. However, it will contract by 6 percent throughout 2009.

Analyzing GDP by expenditures, it is estimated that private consumption expenditures will decrease by 3.4 percent in 2009. Being influenced more by the global credit crunch and the resulting uncertainty, private fixed capital formation is expected to contract by 21 percent in 2009. The drop in the demand in export markets are considered to have an effect in this phenomenon.

On the other hand, due to the fiscal packages launched in 2009, the public consumption expenditures and fixed capital formation are expected to increase.

As a result of the economic recession in trade partners, exports of goods and services are expected to drop by 6.1 percent in 2009. Due to the severe contraction of domestic demand and drop in exports, imports of goods and service are expected to decline by 11.7 percent in 2009. The deeper contraction of imports compared to exports, leads to a positive contribution of the net export to growth. Thus, it is forecasted that the contribution of the domestic demand to growth will be -7.8 percentage points, while the contribution of net exports to growth will be 1.8 percentage points in 2009.

The increase in private consumption expenditures is expected to be lower than economic growth in 2010 and 2011 (Table 2.9). It is expected that the private fixed capital formation will increase by 7 percent in 2010, 10 percent in 2011 and 12 percent in 2012. Among the reasons for the expected increase in private fixed capital formation are the expected increase in demand, deferred investments and low interest rates.

Table 2. 9: Demand Components of Growth

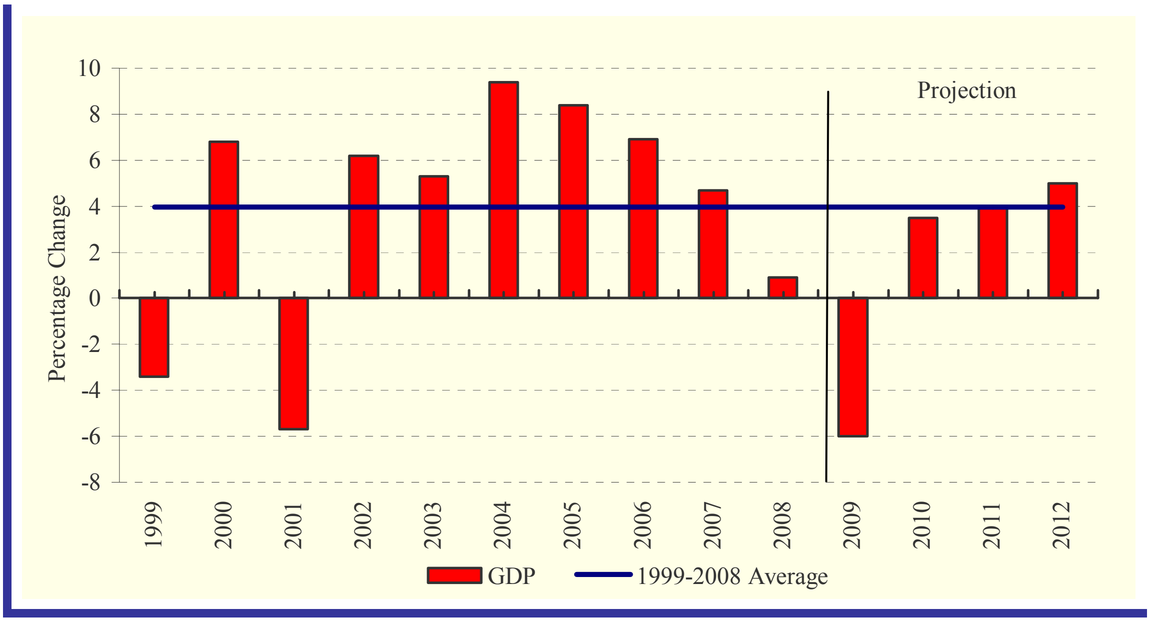
(Percentage Change, at 1998 Prices)

		Forecast			
	2008	**2009**	**2010**	**2011**	**2012**
Total Consumption Expenditure	0.2	-2.4	2.6	3.2	4.4
Private	-0.1	-3.4	2.6	3.3	4.8
Public	1.9	4.4	2.4	2.8	2.2
Total Investment Expenditure	-3.7	-24.6	9.1	9.2	10.9
Gross Fixed Capital Formation	-5.0	-17.7	7.6	7.1	10.4
Private Fixed Investment	-7.7	-21.0	7.0	10.0	12.0
Public Fixed Investment	13.1	0.4	10.3	-4.6	2.6
Change in Inventories (1)	0.3	-1.7	0.2	0.3	0.0
Exports of Goods and Services	2.3	-6.1	4.2	6.0	6.5
Imports of Goods and Services	-3.8	-11.7	5.4	7.5	9.3
Gross Domestic Product	0.9	-6.0	3.5	4.0	5.0
Domestic Demand	-0.8	-7.6	3.8	4.4	5.8
Domestic Final Demand	-1.1	-5.9	3.6	4.1	5.7

Source: Realization TURKSTAT, Forecast SPO.
(1) Contribution to GDP growth.

After the recession in 2009, the economy is expected to recover in 2010 achieving a growth of 3.5 percent. With the recovery in the world economy, it is expected that growth will pick up in 2011 and 2012 and GDP growth will be recorded as 4 percent and 5 percent, respectively. Thus, in the 2010-2012 period, the average annual GDP growth is forecasted to be around 4.2 percent.

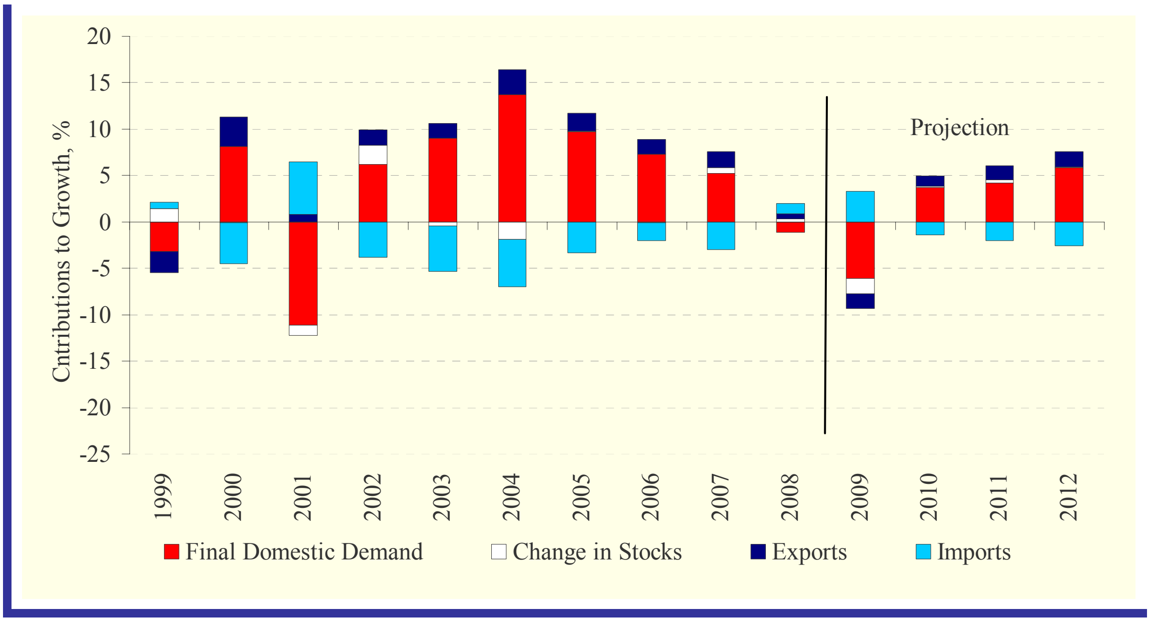
Figure 2. 7: GDP Growth



Source: Realization TURKSTAT, Forecast SPO.

In the public sector, consumption expenditures are expected to increase by 2.5 percent and investment expenditures are expected to grow by 2.6 percent, on average in the 2010-2012 period.

Figure 2. 8: Contributions to GDP Growth



On the other hand, in the PEP period where the global economic recovery becomes more apparent, exports of goods and services are expected to increase by 4.2 percent, 6 percent and 6.5 percent in 2010, 2011 and 2012, respectively, due to the increase in foreign demand. In addition to the increase in exports, the boost in domestic demand will help imports of goods and services to increase by 5.4 percent in 2010, 7.5 percent in 2011 and 9.3 percent in 2012.

Analyzing contributions to growth, it is expected that growth will be fueled by private sector in 2010-2012 period, while net export will contribute negatively to growth (Figure 2.8).

2.2.1.2. Investment-Saving Balance

In 2008, the ratio of total investments to GDP was realized as 21.8 percent. The composition of total investments reveals that the ratio of fixed capital investments to GDP is 19.9 percent, while share of change in stocks in GDP is 1.9 percent. Moreover, the shares of public and private capital investments in GDP were 3.9 percent and 16 percent, respectively.

Close scrutiny of investment figures in Turkey suggests that private fixed capital investments are affected the most from the fluctuations in economic activity. Accordingly, the adverse effects of the global crisis on private investments in 2009, are in line with historical behavior. In 2009, the ratio of private investments to GDP is expected to decline by 3.2 percentage points from that of 2008 and to drop to 12.8 percent. This drop indicates that the share of private investments in GDP will recede back almost to the levels of 2001 crisis. On the other hand, it is expected that the ratio of public fixed capital investments to GDP in 2009 will be realized as 3.8 percent, not differing greatly from 2008. Therefore, it is forecasted that the ratio of total investments to GDP will be realized as 15.4 percent in 2009.

The adverse effects of the global crisis on the Turkish economy are expected to decrease gradually in the 2010-2012 period. Accordingly, the ratio of private investments to GDP is expected to reach 15 percent by the end of the period. Nevertheless, this figure is still low compared to previous periods. On the other hand, it is projected that by the end of the PEP period, the ratio of public investments to GDP will be 3.6 percent. In this context, the ratio of private investments to GDP is expected to be 18.3 percent by the end of the period.

In 2008, the share of foreign savings in GDP was recorded at 5.7 percent. However, with the effects of the global crisis, and as a result of the impact of reductions in domestic and foreign demand on production, demand for intermediate and capital goods dropped, leading to a faster decline of imports compared to exports in 2009. As a result, it is expected that the share of foreign savings in GDP will drop to 1.8 percent in 2009. In the 2010-2012 period, as a result of the gradual recovery of the economy, foreign financing requirement is expected to increase slightly leading to an increase of foreign savings in GDP to 3.9 percent by the end of the period.

Table 2. 10: Investment-Savings Balance

(Percent of GDP)

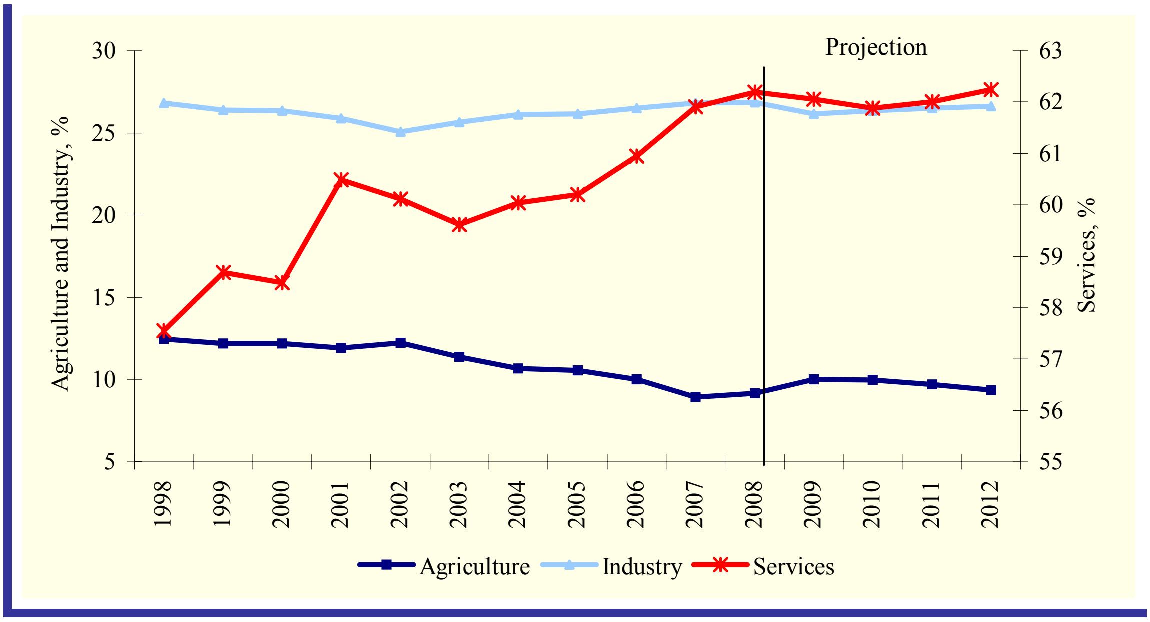
			Forecast		
	2008	**2009**	**2010**	**2011**	**2012**
Total Investment	21.8	15.4	16.6	16.7	18.3
Fixed Capital Formation	19.9	16.6	17.3	17.8	18.6
Public	3.9	3.8	4.0	3.7	3.6
Private	16.0	12.8	13.3	14.0	15.0
Change in Stocks	1.9	-1.2	-0.7	-1.0	-0.3
Total Savings	21.8	15.4	16.6	16.7	18.3
Domestic Savings	16.1	13.6	13.8	13.4	14.4
Foreign Savings	5.7	1.8	2.8	3.3	3.9

The share of domestic savings in GDP was realized as 16.1 percent in 2008. As for 2009, due to significant decline in incomes, domestic savings dropped dramatically. The share of domestic savings in GDP is expected to be at 13.6 percent. Although no recovery is expected in domestic savings in 2010 and 2011, it forecasted that the economic recovery will also boost domestic savings and its share in GDP will be around 14.4 percent in 2012.

2.2.1.3. Growth by Sectors

The value added of agriculture increased by 3.5 percent in 2008. The share of the sector in total output increased slightly in 2008 and reached 9.2 percent. According to 2009 projections, agriculture is expected to be the only growing sector with a 2.7 percent increase and therefore the share of agriculture in GDP is expected to reach 10 percent. In the 2010-2012 period, it is estimated that agricultural value added will increase by 1.9 percent annually on average and by the end of the period, the share of agriculture in GDP will drop to 9.4 percent.

Figure 2. 9: Production by Sectors



Value added in industry increased by 1.1 percent in 2008. It is estimated that industry was the sector hit hardest by the crisis and therefore will go through a contraction of 8.5 percent in terms of its value added in 2009. This phenomenon will especially be marked by the decline in the output of exporting sectors due to the decline in foreign demand. In the 2010-2012 period, industrial value added is expected to grow by 4.8 percent on average and the share of industry in total output is expected to be 26.6 percent by the end of the period.

Table 2. 11: Value-Added by Sectors

(At 1998 Prices, Percent)

	Realizations			Forecast			
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Growth Rates							
Agriculture	1.4	-6.7	3.5	2.7	3.0	1.3	1.3
Industry	8.3	5.8	1.1	-8.5	4.4	4.5	5.4
Services	8.2	6.3	1.3	-6.2	3.2	4.2	5.4
GDP	6.9	4.7	0.9	-6.0	3.5	4.0	5.0
Percent of GDP							
Agriculture	10.0	8.9	9.2	10.0	10.0	9.7	9.4
Industry	26.5	26.8	26.8	26.1	26.4	26.5	26.6
Services	61.0	61.9	62.2	62.1	61.9	62.0	62.2
GDP	100	100	100	100	100	100	100

Note: Due to indirectly measured financial intermediation services and taxes-subsidies items, value-added by sectors does not add up to GDP.

The value added in services increased by 1.3 percent in 2008. The value added of this sector, which has the biggest share in output, is expected to decline by 6.2 percent in 2009. The services sector is expected to recover from its low performance in 2008 and 2009 and grow by an annual average rate of 4.3 percent in the 2010-2012 period. In 2010, wholesale and retail trade sector, as well as transportation sector, is expected to contribute to growth positively. As a result, the share of the services sector in GDP is expected to reach 62.2 percent by the end of the PEP period.

2.2.1.4. Sources of Growth

The growth rate of Turkish economy dropped significantly in 2008 down to 0.9 percent due to the impact of the global economic crisis. Analyzing sources of growth, a slowdown in capital accumulation is observed, due to the high sensitivity of private investment to decreases in the growth rate. As a result, the rate of capital accumulation dropped from 6.7 percent in 2007 to 5.6 percent in 2008. Employment outperformed expectations, achieving an increase of 2.2 percent in 2008, despite the global crisis. On the other hand, TFP dropped by 2.7 percent in 2008 and negatively contributed to growth.

2009 was marked as the year with the deepest impact of the global crisis on the Turkish economy. In this context, economic activity is estimated to contract by 6 percent. TFP and employment are expected to decline by 7.2 percent and 0.6 percent, respectively. On the other hand, the rate of capital accumulation is expected to be positive, though slightly lower compared to previous years.

It is anticipated that 2010-2012 will be a period of gradual recovery for Turkey and economic growth will be 4.2 percent on average. It is also expected that capital accumulation will support the growth process and the capital stock will increase by 4.1 percent on average. The average employment increase is expected to be 1.8 percent in the same period. On the other hand, despite the gradual recovery expected for the 2010-2012 period, TFP increase is expected to be limited around 1.3 percent.

Table 2. 12: Increases in Production Factors

(Percent)

Period	GDP	Capital Stock	Employment	TFP
2006	6.9	7.1	1.8	2.6
2007	4.7	6.7	1.5	0.7
2008	0.9	5.6	2.2	-2.7
2009	-6.0	3.5	-0.6	-7.2
2010	3.5	3.8	1.2	1.1
2011	4.0	4.0	1.7	1.2
2012	5.0	4.5	2.5	1.5
2010-2012	4.2	4.1	1.8	1.3

TFP growth is expected to be negative in 2008 and 2009. However, the fact that TFP, estimated as Solow-residual in the production function, records negative growth rates in contractionary periods, emerges as a methodological outcome. Nevertheless, this should not mean that TFP, a significant factor for sustainable economic growth, has lost its importance for the economy. Indeed, TFP emerges as a corollary of such factors as education expenditures, R&D expenditures, foreign direct investments, openness, institutional and physical infrastructure investments etc. Therefore, temporary production declines or capacity losses in crises periods should not be interpreted directly as losses in TFP. Instead, developments in TFP should be evaluated with a long-term perspective.

2.2.1.5. Potential Output

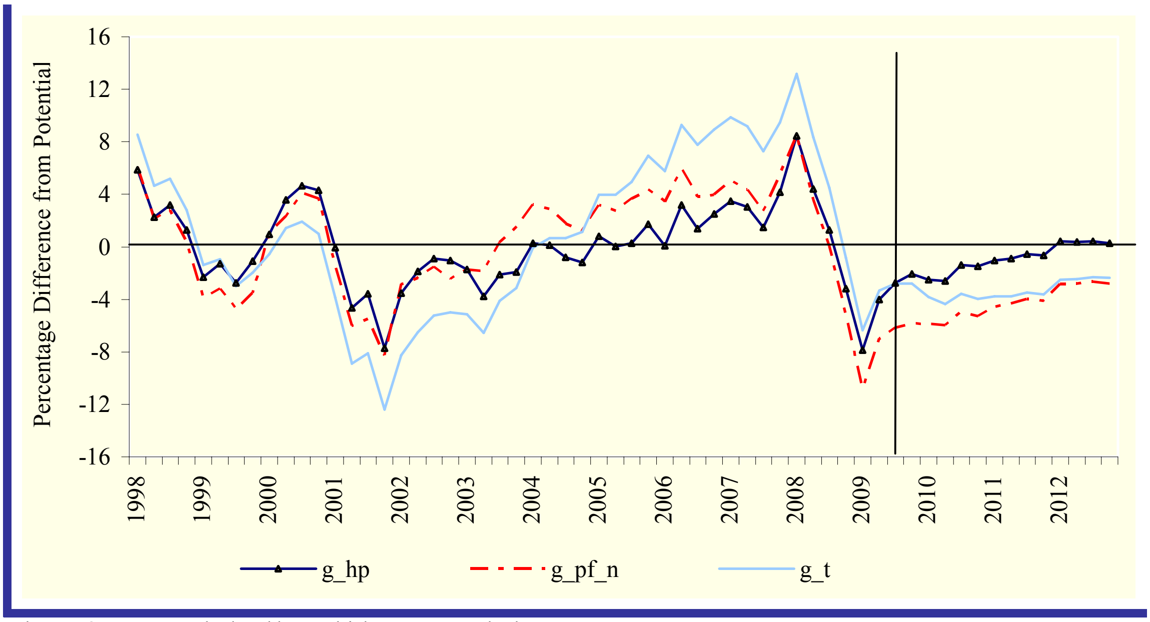
Output gap estimates by alternative methods indicate that the Turkish economy, which has showed a high performance since 2002, achieved an output level exceeding the potential, after 2005. The output gap reached its peak in the first quarter of 2008 and the contractionary phase of the business cycle started thereafter along with the economic slowdown. Due to the economic slowdown in 2008, output retreated below its potential in the final quarter of the year and hit the trough in the first quarter of 2009. Although an upward trend began thereafter, the latest figures for the third quarter of 2009 indicate that output is still below its potential.

Latest macroeconomic predictions suggest that the upward trend will continue also in 2010. Nevertheless, it is not expected that the Turkish economy will reach its potential level in the 2009 PEP period, based on the assumption that the world economy will recover only slowly. This prediction is up to change, if the world economy recovers faster than expected and expectations for the world economy are revised upwards.

All output gap projections based on different methods show similar patterns. Linear and production function methods indicate that output will be below its potential level in 2012, whereas Hodrick-Prescott method indicates that output will reach its potential level in 2012.

Figure 2.10, provides output gap estimates based on three different methods; linear method, Hodrick-Prescott method, and the production function method.

Figure 2. 10: Output Gap



g_hp : Output gap calculated by Hodrick-Prescott method.
g_pf_n : Output gap calculated by using production function.
g_t : Output gap calculated by linear method.

In light of the current output gap estimates, it is considered that no inflationary demand pressure will be prevalent in the 2009 PEP period. On the contrary, demand conditions are expected to contribute to the disinflation process.

2.2.1.6. Labor Market

In 2008, total employment rate has increased by 2.2 percent, despite the slowdown in economic activity and deterioration in the labor market starting from the last quarter of the year. The 2009 figures suggest that the impacts of the economic crisis on the labor market aggravated. In the first three quarters of 2009, non-agricultural employment declined by 1.9 percent. Despite the positive contribution of agricultural employment, the rise in labor force participation rate led to a rapid increase of unemployment rates. The fact that unemployment became more widespread in urban areas and among the young people is another important phenomenon that must be addressed.

Throughout 2009, it is expected that non-agricultural employment will decline by 2 percent and agricultural employment will rise by 3.4 percent. Thus, total employment will drop by 0.6 percent in 2009 and unemployment rate will rise to 14.5 percent.

Table 2. 13: Developments in the Labor Market

(15+ Age)

	Realization		Forecast			
	2007	2008	2009	2010	2011	2012
Working Age Population (Thousands of Persons)	49,994	50,772	51,690	52,520	53,348	54,189
Labor Force Participation Rate (Percent)	46.2	46.9	47.6	47.4	47.4	47.5
Labor Force (Thousands of Persons)	23,114	23,805	24,626	24,905	25,308	25,718
Employment	20,738	21,194	21,058	21,335	21,750	22,308
Unemployed	2,376	2,611	3,567	3,570	3,558	3,410
Employment Increase (Percent)	1.5	2.2	-0.6	1.3	1.9	2.6
Employment Rate (Percent)	41.5	41.7	40.7	40.6	40.8	41.2
Unemployment Rate (Percent)	10.3	11.0	14.5	14.3	14.1	13.3

With the recovery in the 2010-2012 period, it is expected that new job opportunities will arise, especially in non-agricultural sectors. Accordingly, while non-agricultural employment is expected to rise by 2.3 percent annually on average in the 2010-2012 period, agricultural employment is expected to increase only slightly. Thus, employment is expected to increase by 1,250 thousands people in 2012 compared to 2009.

It is expected that increasing participation in the labor market, which began after the last quarter of 2008 when the effects of the global crisis became apparent, can gain permanence, after the end of the crisis. As a matter of fact, analysis of the dynamics of increasing participation reveals that especially the participation of women and the young increased in particular. Given that these segments, who entered the labor market for the first time, overcame cultural, social and other barriers in front of their entry to the labor market, it might be anticipated that the majority of them can become permanent in the labor market. Therefore, it is expected that labor force participation rates, which have been receding for many years, could maintain the 2009 levels in the coming periods.

It is anticipated that this phenomenon that stems from the economic crisis will put pressure on unemployment rates also in the recovery period and unemployment rates will decline only gradually. Accordingly, unemployment rates for 2010, 2011 and 2012 are expected to be 14.3 percent, 14.1 percent and 13.3 percent, respectively.

2.2.2. Inflation, Monetary and Exchange Rate Policies

Inflation targeting regime will be continued in 2009 PEP period in compliance with the main objective of achieving price stability. The ultimate target is to decrease inflation rate to levels complying with Maastricht criteria. In this framework, end-year inflation targets for 2010, and 2011 were set as 6.5 percent and 5.5 percent, respectively. On the other hand, the 2012 end-year target has been announced to the public as 5 percent, with the policy document entitled Monetary and Exchange Rate Policy for 2010, published in 10 December 2009.

Within this context, considering the structural transformation in the economy, the process of convergence to developed countries and pricing behaviors inherited from high inflation period, a gradual target path towards price stability is envisaged. Short-term interest rates, the main policy instrument, will be determined by considering the medium-term inflation outlook as in the past. Furthermore, the Central Bank might use instruments such as required reserve ratios or effective liquidity management when required.

The latest Inflation Report published in late October 2009, which is the basic communication tool of the Central Bank, suggests that with a probability of 70 percent, inflation will be between 5.0 percent and 6.0 percent (midpoint 5.5 percent) by the end of 2009, and by the end of 2010, it will be between 3.9 percent and 6.9 percent (midpoint 5.4 percent), under the assumption that policy interest rates will decline slightly and stay constant until the end of 2010. It is forecasted that inflation will recede to 4.9 percent by the end of 2011 and 4.8 percent in the third quarter of 2012.

These forecasts are based on the following assumptions: the support of aggregate supply and demand conditions towards disinflation will persist until mid 2012, although it will be lower than that of the previous period; import prices will increase slightly in line with the slow and gradual recovery in the world economy; the food inflation will be around 5.8 percent, 6 percent and 6 percent in 2009, 2010 and 2011, respectively; and the foreign demand will continue to be weak for a long period of time. Furthermore, it is assumed that interest rates will maintain their low levels on a global scale and the consistent fiscal framework set in the Medium Term Program will be implemented with additional measures aiming at further strengthening the fiscal discipline. The updated assumptions and the new forecasts based on these assumptions will be announced by the Inflation Report that will be published on 26 January 2010.

Table 2. 14: Inflation Targets

(Percentage Change)

	2010	2011	2012
CPI	6.5	5.5	5.0

The fact that the current crisis and the counter-measures taken are unprecedented, poses a risk for both inflation and the monetary policy outlook. In addition, uncertainties regarding the global economic activity and the developments in the commodity prices; high levels of budget deficits in developed countries resulting from the measures against the global crisis; the ambiguity of the exit strategies from these policies, are significant risks that could alter the outlook for inflation and monetary policy.

The floating exchange rate regime will continue to be implemented in 2010, by sustaining its current framework. Unless there is significant deterioration in the foreign exchange liquidity conditions, foreign exchange purchase auctions to build up reserves will continue in line with the program announced by the Central Bank. However, in the event of unforeseen developments, not only that the daily auction/optional selling amounts may be changed in either direction with prior notice, but also may the auctions be suspended for a short or a long period. On the other hand, if unhealthy price formations are observed due to a decline in the depth of the foreign exchange market, the Central Bank may conduct foreign exchange selling auctions again.

2.2.3. Balance of Payments

2.2.3.1. Current Account

The current account deficit, which rose to 41.8 billion dollars in 2008, dropped to 7.9 billion dollars as a result of the contractionary effects of the global crisis in the first ten months of 2009.

The EU-27 economy, which grew by 3.1 percent in 2007 and 1 percent in 2008, is expected to contract in 2009. As a result, export is expected to decline by 25.4 percent in 2009 dropping back to 98.5 billion dollars. In the upcoming period, exports are expected to pick up and reach 107.5 billion dollars in 2010, 118 billion dollars in 2011 and 130 billion dollars in 2012.

Decline in energy prices due to the recession that started in the world economy in the last quarter of 2008 and contraction of domestic demand, caused a significant decrease in imports as well. Accordingly, imports are expected to be 134 billion dollars in 2009. Starting from 2010, along with the expected recovery in domestic demand, import demand is expected to rise up to 153 billion dollars in 2010, 168 billion dollars in 2011 and 187 billion dollars in 2012.

Tourism revenues, which reached 22 billion dollars in 2008, are expected to recede to 21 billion dollars in 2009 due to slowdown in the global economy. However, it is foreseen that it will return to an upward trend in 2010 and 2011.

In this context, the current account deficit is expected to recede to 11 billion dollars due to expected contraction in trade volume in 2009. In 2010, 2011 and 2012, with the onset of recovery in the economy, the current account deficit is expected to revert to its upward trend and reach 18 billion dollars, 22 billion dollars and 28 billion dollars, respectively. Thus, it is expected that the ratio of the current account deficit to GDP will go down from 5.7 percent in 2008 to 1.8 percent in 2009, and then rise gradually to 3.9 percent in 2012.

2.2.3.2. Capital and Financial Account

Global economic crisis caused a significant decline in international capital movements and a decrease in borrowing possibilities. There are important uncertainties regarding the trend of capital flows in the coming period. The analysis of capital and financial accounts have been made under assumptions that confidence in the economy will be restored through measures taken against the global crisis and that the expected recovery in international markets will start in 2010.

The capital and financial account excluding reserves, recorded as 35.3 billion dollars, in 2008, is expected to drop significantly in 2009 to 3.4 billion dollars, when the effects of the global crisis become more apparent in Turkey. With the global economic recovery, international capital flows are expected to rise again and capital flows to Turkey are expected to resume starting from 2010. It is expected that the capital and financial account excluding reserves will be recorded as 18.5 billion dollars, 22.5 billion dollars and 28.5 billion dollars in 2010, 2011 and 2012, respectively.

Table 2. 15: Balance of Payments Forecasts

(Billion Dollars)

	Realization			Forecast			
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Current Account	-32.1	-38.2	-41.8	-11.0	-18.0	-22.0	-28.0
Balance on Goods	-41.0	-46.7	-53.0	-21.4	-31.0	-34.8	-41.4
Total Exports	93.6	115.4	140.8	106.8	114.8	126.4	138.6
Exports (fob)	85.5	107.3	132.0	98.5	107.5	118.0	130.0
Total Imports	-134.6	-162.0	-193.8	-128.2	-145.8	-161.1	-180.0
Imports (cif)	-139.6	-170.1	-202.0	-134.0	-153.0	-168.0	-187.0
Balance on Services	13.7	13.3	17.2	17.3	19.2	19.9	20.7
Credit	25.4	28.6	34.8	32.8	35.8	37.3	38.9
Tourism	16.9	18.5	22.0	21.0	22.5	23.5	24.5
Debit	-11.7	-15.3	-17.6	-15.5	-16.6	-17.5	-18.2
Balance on Income	-6.7	-7.1	-8.2	-8.7	-8.4	-9.6	-10.1
Current Transfers	1.9	2.2	2.1	1.8	2.2	2.5	2.8
Workers' Remittances	1.1	1.2	1.4	0.9	1.0	1.1	1.2
Capital and Financial Account	32.1	36.6	36.4	4.1	18.0	22.0	28.0
Financial Account (Excluding Reserves)	38.2	44.7	35.3	3.4	18.5	22.5	28.5
Foreign Direct Investment	19.3	19.9	15.8	6.7	8.9	11.1	12.7
Direct Investment in Turkey	20.2	22.0	18.3	7.8	10.5	13.0	15.0
Direct Investment Abroad	-0.9	-2.1	-2.5	-1.1	-1.6	-1.9	-2.3
Portfolio Investments	7.4	0.7	-5.0	0.8	2.3	2.6	2.7
Assets	-4.0	-2.1	-1.3	-2.5	-2.4	-2.6	-2.8
Liabilities	11.4	2.8	-3.8	3.3	4.7	5.2	5.5
Other Investments	11.5	24.0	24.6	-4.1	7.3	8.8	13.1
Assets	-13.4	-4.9	-10.9	4.8	-2.2	-3.1	-4.8
Liabilities	25.0	28.9	35.5	-8.9	9.5	11.9	17.9
Official Reserves	-6.1	-8.0	1.1	0.7	-0.5	-0.5	-0.5
Net Errors and Omissions	0.0	1.6	5.4	6.9	0.0	0.0	0.0

Source: CBRT, SPO.

Net direct investments, realized as 15.8 billion dollars in 2008, are expected to decrease significantly due to global economic conditions and remain at 6.7 billion dollars in 2009. Direct investments are expected to increase along with the recovery of the global economy. In this context, net direct investments are expected to reach 8.9 billion dollars, 11.1 billion dollars and 12.7 billion dollars in 2010, 2011 and 2012, respectively.

Portfolio investments, which were forecasted as -1.4 billion dollars for 2009 in the 2008 PEP, were realized as 0.6 billion dollars in the first 10 months of 2009 and it is expected to be around 0.8 billion dollars throughout the year. It is anticipated that this item will continue to maintain its moderate increase in 2010, 2011 and 2012 and reach 2.3 billion dollars, 2.6 billion dollars and 2.7 billion dollars, respectively.

Other investments are the balance of payments item, which were hit hardest by the global economic crisis. This item which was realized at 24.6 billion dollars in 2008, is expected to be at -4.1 billion dollars in 2009. For other investments items, a net inflow of 7.3 billion dollars in 2010, 8.8 billion dollars in 2011, 13.1 billion dollars in 2012 are expected. It is assumed that non-bank private sector credits in particular will pick up with the recovery of the world economy starting from 2010.

2.2.4. Main Risks in Projections

The crisis which turned into a global phenomenon in the last quarter of 2008, caused a downward revision of growth prospects for the world economy. On the other hand, in their recent assessments, international institutions state that the recovery process has already started and thus revised their projections upwards, though slightly. However, debates regarding the outlook for the world economy are still ongoing. As a result, it is considered that developments in the world economy might have both positive and negative risks for the macroeconomic outlook.

Some important points for macroeconomic performance can be listed as follows:

- The effects of possible increases in interest rates, along with the economic recovery, on the banking sector,
- The efficiency of the finalization of measures taken to mitigate the effects of the global crisis,
- The size of the effect of deterioration in labor markets on domestic demand,
- The effects of policies to be taken in order to adjust the deterioration in fiscal balances in the medium term,
- The instability that can arise in the euro/dollar parity and its possible implications for commodity prices.

3. PUBLIC FINANCES

The fiscal policy implemented since early 2000s is based on yielding primary surplus to reduce the risks on the sustainability of the debt stock directly and fighting against inflation to ensure the continuance of macroeconomic stability indirectly.

The financial crisis that got deeper in 2009 and affected our country especially through the real sector has made it a necessity to use the fiscal space that has been created since 2000s, in order to solve this problem. Accordingly, a flexible fiscal policy has been implemented to support production and employment during the time of crisis. After the crisis, rule-based fiscal policy will be implemented to ensure rapid fiscal adjustment and to reduce the ratio of debt stock to GDP.

3.1. General Government Balance and Public Debt

General government total expenses, revenues and balance are calculated through the consolidation of the expenses and revenues of public organizations and institutions covered by the central government budget, local administrations, social security institutions, general health-care insurance, extra-budgetary funds, revolving funds and Unemployment Insurance Fund.

3.1.1. Fiscal Policy Strategy and Medium Term Objectives

During the crisis, the basic objectives are applying policies to promote and support policies for the production and employment and handling the potential crowding out effect for the private sector’s borrowing in the financial markets resulting from the increasing fiscal dominance, so that the risks can be minimized.

In the post-crisis fiscal adjustment process, a permanent fiscal rule application will be started. Moreover, studies to increase the fiscal transparency in the public finances will continue and any arrangements and practices that would violate the fiscal transparency will be avoided.

Accordingly, the basic fiscal policies to be implemented in 2010-2012 are as follows:

3.1.1.1. Revenues Policy

- Legal arrangements will be introduced to ensure simplicity and clearness of the tax legislation and applications.
- Depending on the course of the conjuncture-related fluctuations, subsidies for production and demand may be introduced in line with the general fiscal policy and its restrictions.
- Fixed tax and duties will be updated considering the general economic outlook.
- Works to establish the total size of the tax expenses will be concluded.
- The effectiveness of the tax audits will be increased and by using various methods, particularly the cross audits, the relations and coordination between the public authorities will be encouraged.
- Practices will be introduced to increase the own revenues of the local administration. After the own revenues of the local administrations are increased, it will be ensured that such administrations pay their overdue debts to the central government. 40 percent cut rate, the upper limit for the deductions, will be applied to tax shares of local administrations which have overdue debts to public authorities.
- Through the implementation of the cost-based pricing formula, energy SEEs will be able to attain their fiscal targets.
- It will be ensured that Energy SEEs will not default in their taxes and other liabilities, and it will also be ensured that their tax liabilities from past periods are paid.

3.1.1.2. Expenditures Policy

- The legal framework for the fiscal rule will be completed in 2010 and public financial management will be implemented in line with the fiscal rule starting from the year 2011 budget period.
- Restrictions will be imposed to public institutions’ new staff recruitments.

- Public expenditure policies will be reviewed and expenditure programs that have no longer priority will be cancelled.
- Social aid system will be carried out in line with a certain inventory order and system, therefore, the efficiency of the social aid system will be increased.
- Without compromising from the quality of the health-care services, it will be ensured that the beneficiaries contribute to the payment of the costs of the system as well and efforts will be made to keep the medication and treatment expenses under control
- The application of the general health-care insurance together with the health transformation system will continue.

3.1.1.3. Public Borrowing Policy

- In order to reduce the liquidity risks that may arise in cash and debt management, sufficient reserve assets will be kept.
- New instruments will be introduced and works will be done for the retail sale method in order to expand the investors base for the government domestic borrowing instruments.
- In order to increase the public borrowing options, and to reduce the costs, financing instruments will be built in line with the investor demands.
- Including the local administrations, the reporting of the overdue debts of the non-financial public sector on a three months basis will be continued. Also works to prevent the increase of the respective debts will be continued.
- Exceptions for the borrowing limits of the local administrations will be reviewed and provisions causing the weakening of the financial system will be cancelled.

3.1.1.4. Public Financial Management and Audit

- Infrastructure will be strengthened to ensure that the internal control and audit activities are applied in a more effective way and works for training and certification will be intensified.
- The legal and human resources infrastructure of Court of Accounts will be strengthened so that an efficient external audit can be carried out in line with the Law no 5018.
- The audit activities of Court of Accounts will be made widespread and its contribution to the internal control activities will be increased.

3.1.2. Current Situation and Medium Term Perspective

3.1.2.1. Current Situation

3.1.2.1.1. Developments in the Central Government Budget Revenues and Expenditures

Following the full implementation of the Law No.5018 Public Financial Management and Control in 2006, the budget scope expanded, the shares transferred to local administrations and funds were shown as in-budget transfer costs, and starting from 2008, the privatization revenues and a certain part of the interest revenues of the Unemployment Insurance Fund have been transferred to the budget to be used for GAP Action Plan and other regional development plans, resulting in the increase of the weight of the central government budget, the most important policy tool, in terms of the total revenue and expenditures.

The government, following the end of the 19th standby agreement signed with IMF, in May 2008, announced its Medium Term Fiscal Framework that it is planning to implement until 2012. To this end, for the period of 2008-2012, it is aimed that an average of 2.8 percent public sector primary surplus is achieved and EU-defined general government debt stock is reduced down to 30 percent.

The growth estimated at 5.5 percent in 2008, has been realized only as 0.9 percent due to the global economic crisis particularly in the last quarter. However due to the deflator being considerably higher than the programmed level, the nominal GDP was higher than the planned level.

In 2008, transfers from the privatization revenues and Unemployment Insurance Fund, positively contributed to the central government budget. In line with the practices introduced with the Laws No.5763 and 5793, 5.9 billion TL from the privatization revenues and 1.3 billion TL from the Unemployment Fund interest revenues, were recorded as budgeted revenue. The privatization revenues covered by the central government budget in 2008 have been recorded at 2.1 billion TL.

In 2008, the fact that energy SEEs failed to fulfill their tax obligations like in the previous years, adversely affected the tax performance.

With the Law No.5615, minimum living allowance has been started for the wage workers starting from 2008. Minimum living allowance is implemented by leaving a certain portion of the gross minimum wage out of the tax calculations for the worker himself/herself, non-working and non-earning spouse and each child for whom he/she is responsible.

In 2008, the profitability in the banking sector has created positive effects on the corporate tax collections. Accordingly, the income tax in ratio to GDP was 4 percent, and corporate tax was 1.8 percent.

Some of the arrangements introduced in the tax system in 2008 are as follows:

- With the Law No.5746, R&D discount was increased to 100 percent from 40 percent.
- With the Law No. 5784, with respect to the electricity production, exemptions were introduced for petrol and natural gas products in the SCT 1 list.
- With the Law No. 5736, settlement opportunities for the disputed public receivables have been introduced.
- With the Collection General Communiqué No. 4, 18-month installment opportunities with an annual delay penalty of 3 percent were introduced for receivables of which were due before 1 September 2008.
- With the Law No.5779, arrangements were made for the shares to be allocated to the special provincial administrations and local administrations, from the general budget tax revenues.

Change in usage trends of some commodities subject to SCT, and the decreased domestic demand in the last quarter of 2008, leaded to decline in consumption and therefore in the SCT collection. In a similar way, internally collected VAT has been adversely affected from the increasing tax refunds due to high export performances and the associated legal arrangements. In 2007, the shares of SCT and internally collected VAT in GDP were respectively 4.4 and 1.8 percent.

Pursuant to the Law No.5793, the Council of Ministers was authorized to make additional payment to public workers who do not receive additional institutional payment, provided that it does not exceed 200 percent of the wage of the highest paid public servant. This created an additional burden on the central government budget in 2008.

In 2008, expenditures for the education of the disabled people, expanding the coverage of the family health-care system, additional fuel and energy costs have created expenditure pressure on goods and services purchase expenditures; and the improvements in the conditions for benefiting from the Law No.5084 for the support of the investments under the Laws No.5350 and 5615, transfers made for draught support, payment of the 5 point of the insurance premium of the employer by the Treasury, and terrorism compensation payments created expenditure pressures on the current transfers. On the other hand, the revenues that had been collected with the restructuring of the social security premium receivables with Law No.5797, have resulted in the reduction of deficits transfers to social security institutions.

In 2008, GAP Action Plan and other economic development and social development expenditures, as well as Ministry of Health expropriation expenses, and the additional needs of the Highways Directorate, caused the capital expenditures to rise by 0.4 percentage points as a ratio to GDP compared to previous year and reached 1.9 percent.

In addition, 803 million TL was spent within the scope of the Support of the Village Infrastructure Project (KÖY-DES), and the capital transfers to SEEs, reached the level of 2.5 billion TL with the appropriation to Turkish Railways after the privatization of the Mersin Port.

As a result of these, the ratio of the central government budget expenditures to GDP in 2008 was 23.9 percent and the ratio of the revenues to GDP was 22.1 percent. Thus, the budget deficit was recorded at 1.8 percent whereas the primary surplus was 3.5 percent.

In 2009, the tax revenues dropped significantly because of the contraction in economic activities resulted from global economic crisis. Temporary cuts in VAT and SCT rate of certain products in an attempt to boost the domestic demand has deepen the decline in tax collection despite the increase in the consumption of respective products. It is anticipated that in line with the decrease in the national income, central government budget revenues performance will be adversely affected from the reduced level of import; employment and reduced interest rates by 35.8 billion TL, from the privatization operations being under the planned level by 9.8 billion TL, from the tax discounts by 4.7 billion TL and from the losses in other revenues by 0.6 billion TL. On the other hand, with the legal arrangements completed in June 2009, an additional 2.5 billion TL planned to be transferred from the Unemployment Insurance Fund, as well as the expected 3.6 billion TL increase in other revenues due to SCT collection on products like cigarette and fuel, therefore a partial improvement in the revenues is expected.

In 2009, in order to minimize the effects of deepening global crisis, temporary tax discounts were introduced. In this context, in motor vehicles, electronic goods and white goods, SCT reductions were implemented while VAT reductions were implemented for houses and workplaces, house and office furniture, computers, IT and office supplies, construction and industrial machines. The title deed duty which was 1.5 percent of the value has been reduced to 5 in one thousandth. Also, the Resource Usage Support Fund deduction for the consumer loans made by banks and financial institutions has been reduced to 10 percent from 15 percent and the SCT for cable, wireless and mobile internet service providing business has been reduced to 5 percent from 15 percent. The validity of the Law on the Introduction of Some Assets to the National Economy, which is widely known as the Cash Repatriation Law, has been extended until the end of 2009.

Additionally, regional and sectoral investment subsidy legislations that is in compliance with the EU investment subsidy system was prepared within the scope of the Corporate Taxes Law, and the corporate tax ratio in less developed regions was decreased to 2 percent. The profits resulted from the merger of SMEs were made exempt from the corporate tax applications. Also, after the merger, for three fiscal periods, the new company will be subject to reduced corporate tax.

In terms of the Income Tax Law, the 10 percent income tax withholding was reduced to zero which was applied to domestic investors on gains from equities, thus the differences in taxes applied to domestic and foreign investors has been eliminated. The validity of income tax withholding incentive which was applied in 49 cities with the amendment in the Incentive Law No.5084, the insurance premium employer share support and the energy support were extended until the end of 2009. Furthermore, with respect to the R&D and support staff, the practice that requires the cancellation of a major part of the income tax that is calculated after the application of the minimum living allowance on their salaries was put into effect.

In 2009, the ratio of the personnel expenditures and expenditure on government premiums to social security institutions in GDP is expected to be at 6.7 percent. Compared to previous year, the total of personnel expenditures and expenditure on government premiums to social security institutions are expected to rise by 14.9 percent. This increase is resulted from the salary improvements performed to minimize the imbalances between the salaries and benefits of the public employees.

In 2009, overall expenditures on goods and services are expected to realize as 2.9 percent as a ratio to GDP, and the defense expenditures are expected to increase by 5.1 percent, the health-care expenditures by 9.9 percent, expenditures on other goods and services by 19.6 percent. The high increase in expenditures on other goods and services were brought about by the additional needs for the projects on human and physical capital which have been carried out under the responsibility of organizations like General Directorate for Highways, Ministry of National Education, Ministry of Health, General Directorate of State Hydraulics Affairs.

Due to decreasing registered employment because of the crisis, the social security premiums collection and the revenues that were obtained from the restructuring of the social security premium receivables under Law No.5797 is expected to be lower. For this reason, in 2009, it is anticipated that the deficit transfers to the Social Security Institution from the central government budget will increase by 7.1 billion TL compared to previous year.

In 2009, duty loss payments for SEEs and capital transfers are estimated to increase by 62.6 percent compared to the previous year and realized as 0.6 percent of GDP due to the capital increase of Eximbank in context of stimulus package, closure of TMO's previous years' losses, and additional capital transfers to SEEs; particularly to TCDD, TMO, and Çaykur.

Due to the decline in the tax performance in 2009, the shares allocated for local administrations and funds from the general budget tax revenues are expected to realize at a level very close to nominal level of 2008 and 4.4 billion TL lower than the central government budget anticipation.

Table 3. 1: Central Government Budget Balance

(Share in GDP, Percent)

	2007	2008	2009	2010*
Expenditures	24.2	23.9	28.2	27.9
Non-interest Expenditures	18.4	18.6	22.3	22.4
Personnel Expenditures	5.2	5.1	5.9	5.9
Social Sec. Ins. Government Premium Expenditures	0.7	0.7	0.8	1.1
Goods and Services Purchase Expenditures	2.6	2.6	2.9	2.4
Current Transfers	7.5	7.4	9.8	9.9
Capital Expenditures	1.5	1.9	2.0	1.8
Capital Transfers	0.4	0.3	0.3	0.3
Lending	0.5	0.5	0.7	0.7
Reserve Appropriation	0.0	0.0	0.0	0.2
Interest Payments	5.8	5.3	5.9	5.5
Revenues	22.6	22.1	21.5	23.0
Tax Revenues	18.1	17.7	17.3	18.8
Non-Tax Revenues	3.5	3.1	3.4	2.7
Capital Revenues	0.7	0.9	0.3	1.0
Grants, Aids and Special Revenues	0.2	0.4	0.5	0.4
Primary Surplus	4.2	3.5	-0.8	0.6
IMF Defined Primary Surplus	2.5	1.8	-2.2	-0.8
Borrowing Requirement	1.6	1.8	6.6	4.9

Source: SPO, Ministry of Finance
* Realization forecast.

In 2009, regarding the capital expenses, the increase of the rate 1/4 to 3/4 in calculation of transfers from unemployment insurance fund's interest revenues to the central government budget in order to use at GAP Action Plan and investments for economic and social development projects by the Law No. 5921 dated 11 August 2009 generated an additional resource of 2.5 billion TL. Also an additional 1.3 billion TL will be spent to meet the additional needs of the line Ministries and organizations.

Box 3. 1: Measures taken for the Global Crises and their Estimated Fiscal Costs

	Estimated Fiscal Costs (Million TL)				
	2008	2009	2010	2008-10	
	30	**4,077**	**1,748**	**5,855**	**REVENUE MEASURES**
Tax on Individuals	0	-539	-750	-1,289	Revenues in the context of the Law No. 5811 on Introduction of Some Assets to the National Economy.
	30	80	87	197	The withholding tax rate on gains from equities was reduced to zero percent for domestic investors.
	-	-	-	-	The implementation of paying the taxes, which are overdue as of 31 October 2008, by installments of 18 months with 3 percent interest rate, will be continued.
Business Taxes	0	451	982	1,433	In the scope of the new incentive system, an arrangement was made towards reducing corporate tax rates and supporting companies in textile sector, through tax advantages, to move their plants to certain areas.
	0	50	55	105	Reduction in corporate tax is facilitated for mergers.
	0	160	168	328	The duration of the Incentive Law No. 5084, which has been already implemented in 49 provinces, ended in 31 December 2008. Its implementation period was extended for one year. (withholding support for income taxes)
Consumption Taxes on Specific Goods and Services	0	100	112	212	Special Communication Tax rate on internet was lowered to 5 % from 15 %.
	0	1,060	0	1,060	Temporary reduction in Special Consumption Tax for motor vehicles.
	0	165	0	165	Temporary reduction in Special Consumption Tax for white goods and electronic household goods from 6.7% to 0%.
	0	340	0	340	VAT reduction on new home sales above 150 m^2, from 18% to 8% for three months.
	0	135	0	135	VAT reduction on new office sales from 18% to 8% for three months.
	0	560	0	560	Temporary VAT reduction on furniture from 18% to 8%.
	0	85	0	85	VAT reduction on IT products from 18% to 8% for three months.
	0	150	0	150	VAT reduction on machinery, equipment from 18% to 8% for three months.
Other Revenue Measures	0	30	21	51	Removal of motor vehicles tax and fines for old vehicles to be scrapped.
	0	780	910	1,690	Resource Utilization Support Fund deduction taken from consumer loans was reduced from 15 % to 10 % on condition that loans will not be used for commercial purposes by banks and financial institutions.
	0	320	0	320	Fee taken from real estate sales has been reduced from 1,5 % to 0.5 % (for three months)
	0	150	163	313	Reduction in real estate transaction fee (permanently).
	7,880	**17,217**	**21,141**	**46,237**	**EXPENDITURE MEASURES**
Government Consumption and Investments	2,800	0	0	2,800	Road Investments has been increased.
	2,300	6,419	6,056	14,775	The government will invest an additional amount of 20.8 billion TL between 2008 and 2012 for the South-eastern Anatolian Project (GAP), and other projects for developing infrastructures and irrigation system.
	900	2,519	2,690	6,109	Civil servant salaries have been improved.
	0	0	2,625	2,625	Salaries of retired people have been improved.
Contributions for Public Pensions, Unemployment, Health Care	0	3,521	4,010	7,531	From October 2008, to decrease the labor costs on employers, 5 percentage points of employers' social security contributions (over a total of 21.5 %) was reduced and this amount will be paid by the Treasury.
	0	144	148	292	5 percentage points of employer contribution of social security premium will be paid by the Treasury for the funds in the scope of temporary article 20of the Law No: 506.
	16	66	137	219	In the context of the employment package, from May 2008, social security contributions for young and female workers are reduced and will be paid by the Unemployment Insurance Fund.
	17	44	84	145	In the context of the employment package, employer's share of insurance premium for disabled personnel will be subsidized by the Treasury (measure of employment package).
	0	162	106	268	With the legal arrangement, the amount of short-term working allowances was increased by 50 percent. Moreover, its duration was increased from 3 months to 6 months.
	0	450	473	923	The duration of the Incentive Law No. 5084, which has been already implemented in 49 provinces, ended in 31 December 2008. Its implementation period was extended for one year. (Insurance premium support for employers)
	0	78	151	229	New job opportunities are created through Working Programs for Public Interest.
	0	132	241	373	Activities on vocational training of İŞKUR were expanded.
	0	0	3	3	Entrepreneurship training and consultation service are supplied to those who intend to set up their own business.
	0	3	99	102	First entrance to labor market is supported through internship training.
	0	17	85	102	Employer’s premiums for the new employees will be paid by Unemployment Insurance Fund for 6 months on condition that these new recruitments are realized in addition to those already employed before April 2009.
Transfers to Households	40	119	87	246	Unemployment insurance payment will be calculated in terms of gross instead of net and thereby its amount will be increased by 11 percent.
Transfers to Business	0	150	0	150	Additional appropriation for Support and Price Stabilization Fund and Small and Medium Sized Industry Development Organization.
	0	353	371	724	One year extension of the Law No. 5084 on incentives (energy support).
	0	0	161	161	New Incentive System; support for interest expenditures of firms; cash support to the firms move their plants to the certain cities.
Transfers to Other Public	1,307	2,540	3,115	6,962	Increase in transfers to local administrations from central government.
Other Expenditures	0	0	500	500	Regulation was put into legislation regarding allocation of 1 billion TL resource to credit guarantee institutions that supply credit to firms
	500	500	0	1,000	Paid in capital of Eximbank have been increased from 1 billion TL to 2 billion TL.
Tot. Budget Impact	**7,910**	**21,294**	**22,889**	**52,092**	
GDP Share, %	**0.83**	**2.25**	**2.22**	**5.31**	
	1,455	**11,318**	**0**	**12,773**	**FISCAL MEASURES WITH NO DIRECT / IMMEDIATE IMPACT ON FISCAL BALANCES**
Guarantee and Insurance Schemes for Financial Institutions	0	1,700	0	1,700	Guarantee limit of the Treasury was increased from 3 billion dollars to 4 billion dollars. The increment of 1 billion dollars will be mostly used to support exports and SMEs. Besides the limit for each company to resort Eximbank resources was increased from 10 million dollars to 20 million dollars.
	0	5,100	0	5,100	The limit of export rediscount credit to be used by exporters has increased from 500 million dollars to 1 billion dollars that will be used in three times in one year. In addition, the usage of these credits has been rearranged and eased.
Loans to Enterprises	350	383	0	733	Small and Medium Sized Industry Development Organization gave zero interest loans to the SMEs
	1,105	1,700	0	2,805	Small and Medium Sized Industry Development Organization gave zero interest loans to exporter SMEs
	0	1,500	0	1,500	Under a protocol, signed between Turkish Union of Chambers and Commodity Exchanges (TOBB) and Halkbank, union member SMEs can use loans with low interest rates. According to the protocol, an amount of 800 million TL cash & non-cash loan and 400 million dollars export loan will be used.
	0	935	0	935	Under a protocol, signed between Turkish Textile Employers' Association and Ziraat Bank, association member SMEs can use loans with low interest rates.
Total	**9,365**	**32,612**	**22,889**	**64,865**	
GDP Share, %	**0.99**	**3.44**	**2.22**	**6.66**	

In 2009, the payments made within the context of the Law for the disabled, compensation payments for people aggravated by terrorism, and Treasury Incentives in accordance with the Law No. 5084, continued to create expenditure pressure.

In accordance with these developments mentioned above, the ratio of the central government budget expenditures in 2009 to the GDP is expected to be at 28.2 percent and the ratio of the revenues to GDP is expected to be at 21.5 percent. Furthermore, the budget deficit and primary surplus is anticipated to be 6.6 percent and 0.8 percent respectively.

3.1.2.1.2. Developments Regarding General Government Revenues and Expenditures

The strict fiscal policy implemented within the scope of the economic program, and high privatization revenues and one-time taxes, resulted in a surplus in the general government balance in 2006. In 2007, the lower one-time revenues compared to the previous year, the decrease in the privatization revenues by 0.2 percentage points as a ratio to GDP, and increase in primary expenditures by 0.7 percentage points, resulted in a general government deficit of 0.2 percent.

In 2008, the general government budget deficit is expected to increase by 1.5 points due to the decrease in the tax and privatization performance, and reach 1.6 percent as a ratio to GDP. In 2008, the general government primary surplus was 3.9 percent as a ratio to GDP, while the general government primary surplus excluding privatization revenues was 3.1 percent.

Table 3. 2: Revenues and Expenditures of General Government - 1

(Share in GDP, Percent)

	2005	2006	2007	2008
Taxes	18.6	18.8	18.6	18.2
Direct	5.6	5.2	5.6	5.9
Indirect	12.5	13.0	12.4	11.7
Wealth	0.6	0.5	0.6	0.6
Non-Tax Revenues	2.5	2.5	2.1	2.0
Factor Incomes	6.0	6.1	5.8	5.6
Social Funds	5.2	5.9	5.7	6.5
Total	32.3	33.2	32.2	32.2
Privatization Revenues	0.6	1.6	1.4	0.9
Total Revenues	32.9	34.8	33.6	33.1
Current Expenditures	13.4	14.6	15.0	15.8
Investment Expenditures	2.9	3.0	3.2	3.4
Fixed Investment	2.9	2.9	3.1	3.4
Change in Stocks	0.0	0.0	0.1	0.0
Transfer Expenditures	16.7	15.9	15.6	15.5
Current Transfers	16.3	14.9	15.0	14.8
Capital Transfers	0.4	1.0	0.6	0.7
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Non-Interest Expenditures	25.8	27.3	27.9	29.2
Total Expenditures	33.0	33.4	33.8	34.7
Primary Surplus	7.1	7.5	5.7	3.9
Borrowing Requirement	0.1	-1.4	0.2	1.6
IMF Defined Primary Surplus	4.4	4.4	2.7	1.5

Source: SPO

3.1.2.1.3. Medium Term Perspective

In the calculation of the general government accounts, various assumptions were made about revenues and expenditures for 2009-2012 period.

- Fixed tax and duties will be updated in line with the general economic circumstances and no arrangements that could lead to loss of revenue will be done.

- Studies on strengthening the supervision and implementation capacity of the tax administration will continue.
- Studies on reducing informal economical activities and preventing tax losses and evasion will be accelerated. To this end, a fair and simple Revenue Tax Law will be implemented based on stability and predictability.
- The SCT charged for tobacco and fuel products will be updated.
- In 2009 and 2010, the three fourth of the Unemployment Insurance Fund revenues and the cash surplus of the Privatization Fund will be recorded as budget revenue. After 2010, the one fourth of the Unemployment Insurance Fund and cash surplus of the Privatization Fund will be recorded as budget revenue.
- In order to ensure harmonization with the EU legislation, the studies to tax the highly alcoholic drinks in the list (III) of the SCT Law, in line with the Directives no 92/83/EEC and 92/84/EEC will continue.
- The legal works intended to increase the own revenues of the Municipalities will be finalized and a significant increase in the revenues of the local administrations in the medium term will be ensured when the Electricity and Natural Gas Consumption Taxes are collected by the Municipalities again.
- SEE prices will be determined in a rational manner in line with the program targets.
- The salaries of the public workers will be increased in line with the inflation rate and restrictions on the new recruitments in the public organizations will continue.
- The pensions of the public workers will be increased in line with the targeted inflation rate and the pensions of the transferred SSI and Bağ-Kur pensioners will be increased in line with the previous six-month cumulative inflation rate.
- Health expenditures will be kept under control and arrangements that make beneficiaries contribute to the costs of the system will be made.

The deepening global crisis in 2009 adversely affected the general government's financial performance. Due to the decline in growth and the reductions intended to support the real sector, the tax revenues decreased significantly and it became a challenge to achieve the targets in privatization revenues. On the other hand, some additions were made to certain expenditure items in order to mitigate the effects of the crisis. As a result of the contraction in the economic activities, the premium collection of the social security system was lower than the targets and the deficit in the social security system significantly increased.

In 2009, the general government borrowing requirement is expected to increase 5 percentage points and reach 6.6 percent as a ratio to GDP, compared to the previous year. The most important factor in this development is the increase in the central government borrowing requirement which is expected to increase by 4 percentage points in 2009 due to the decrease in the indirect tax and the privatization revenues and the increase in the primary expenditures.

In 2009, the borrowing requirement of Fund, Unemployment Insurance Fund and general health insurance, which are among the organizations not covered by the general government budget but included in the general state accounts, is expected to increase. This is mostly due to the decrease in the privatization revenues of the funds, the use of ¾ instead of ¼ ratio, for the calculation of the total amount to be transferred to the central government budget from the Unemployment Insurance Fund revenues to be used for GAP and other regional development projects, within the scope of the Law No.5921 dated 11 August 2009, only for 2009 and 2010 and also decline in the insurance premium collections caused by the reduction in registered employment, when considered together with the general health insurance and the social security institutions.

In 2009, in the general government balance, a primary deficit of 0.2 percent as a ratio to GDP is expected. Also the deficit excluding the interest expenditures and privatization revenues is expected to be 0.6 percent.

Box 3. 2: Fiscal Rule

Starting from 2011, fiscal policy will be carried out in accordance with the determined fiscal rule in the Medium Term Programme (2010-2012). In this framework, fiscal policy will be implemented regarding the public sector deficit ceiling calculated separately for each fiscal year.

Legal and technical works related to the fiscal rule as formulated below will be continued.

$$\Delta a = y\,(a_{-1} - a^{*}) + k\,(b - b^{*})$$

Δa	: Public sector deficit ceiling of related fiscal year / GDP
a^{*}	: Medium-long term public sector deficit ceiling / GDP
k	: Reflection coefficient of conjuncture effects
b	: Projection of real GDP growth rate for related fiscal year
b^{*}	: Long-term average of real GDP growth rate
y	: Convergence velocity coefficient
a_{-1}	: Previous year public sector deficit / GDP

Within the framework of the fiscal rule, public sector deficit ceiling in the medium-long term will be designed at a level compatible with a sustainable debt structure. Calculation of the deficit ceiling for each fiscal year will be cyclically adjusted and gradual convergence of the public sector balance to the targeted level for the medium-long term will be provided.

Cyclical adjustment related to the public sector deficit will be determined by the product of the deviation in the growth forecast of the related fiscal year from the long term growth average with the coefficient reflecting the cyclical effect. The reflection coefficient of conjuncture effects will be formed according to the influence of periodic fluctuations on public expenditures and revenues. Moreover, it could be periodically revised according to the structural changes recorded in the public finance.

The convergence pace of public sector balance to the targeted level will be determined by the convergence velocity coefficient. In order to define the deficit ceiling for each related fiscal year, the difference between medium-long term targeted deficit ceiling and the realized public sector balance of the previous fiscal year will be multiplied by the convergence velocity coefficient and added to the cyclically adjusted deficit ceiling of the related year. Unlike the reflection coefficient of conjuncture effects determined entirely by structural factors, convergence velocity coefficient represents a choice of convergence rate to the targeted deficit level. In this context, political authority would play an important role in terms of the choice and updates of this coefficient.

In 2010, the ratio of the general government tax revenues to GDP is expected to increase by 1.8 percentage points and reach 19.5 percent compared to previous year due to the economic recovery. Expected increase in taxes is based on the assumptions that there will be an increase, as a ratio to GDP, 0.9 percentage points in SCT, 0.4 percentage points in VAT for import and 0.2 percentage points in VAT for domestic trade.

Furthermore, the ratio of the government factor revenues to GDP is expected to recede by 0.4 percentage points compared to previous year and decrease to 5.4 percent. This estimation is based on the assumption that there will be a decrease, as ratio to GDP, 0.3 percentage points in treasury portfolio and participation revenues and 0.1 percentage points in the revenues from interest, lending and compensation.

The social funds revenues, which is the sum of the premiums collected for the financing of the social security system from private and public sectors, are expected to rise by 0.4 percentage points compared to 2010 and reach 7.7 percent as a ratio to GDP. This is resulted from the expected increase in registered employment ratio.

In addition, as a result of the 0.6 percentage points increase in privatization revenues compared to 2009, the share of the general government total revenues in GDP is expected to increase from 33.5 percent to 35.7 percent.

Furthermore, the general government primary expenditures are expected to increase by 0.6 percentage points in 2010 compared to the previous year and reach 34.4 percent. This is resulted from the expected rise in the general government transfer expenditures. Increase in the current transfers despite the 0.4 percentage points reduction in interest expenditures is mainly the result of the rise of the non-interest transfer expenditures of the central government budget and social security institutions.

Table 3. 3: Revenues and Expenditures of General Government - 2

(Share in GDP, Percent)

	2009	2010	2011	2012
Taxes	17.7	19.5	19.5	19.4
Direct	5.8	5.8	5.8	5.9
Indirect	11.3	13.0	12.9	12.8
Wealth	0.6	0.7	0.7	0.7
Non-Tax Revenues	2.3	2.1	1.9	2.0
Factor Incomes	5.8	5.4	5.3	5.2
Social Funds	7.3	7.7	7.8	7.8
Total	33.1	34.7	34.5	34.4
Privatization Revenues	0.5	1.0	0.8	0.7
Total Revenues	33.5	35.7	35.3	35.1
Current Expenditures	17.9	17.9	17.4	16.9
Investment Expenditures	3.2	3.3	3.0	3.1
Fixed Investment	3.2	3.3	3.0	3.0
Change in Stocks	0.0	0.0	0.0	0.0
Transfer Expenditures	19.1	19.1	18.4	17.9
Current Transfers	18.3	18.5	17.9	17.3
Capital Transfers	0.8	0.6	0.6	0.5
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Non-Interest Expenditures	33.7	34.4	33.7	33.0
Total Expenditures	40.1	40.3	38.8	37.8
Primary Surplus	-0.2	1.3	1.7	2.1
Borrowing Requirement	6.6	4.7	3.5	2.7
IMF Defined Primary Surplus	-2.3	-0.8	0.0	0.5

Source: SPO

In this context, the general government deficit which is expected to be 6.6 percent in 2009, will be realized as 4.7 percent in 2010. However, the general government balance excluding the interest expenditures and privatization revenues, which is expected to give a deficit of 0.6 percent to GDP in 2009, will give a surplus of 0.3 percent in 2010.

Together with a stable recovery, the general government borrowing requirement to GDP is expected to decrease by 1.1 percentage points as compared to previous year and to be realized as 3.5 percent in 2011 and 2.7 percent in 2012. The borrowing requirement excluding interest expenditure and privatization revenues, is expected to run a surplus of 0.8 percent and 1.4 percent in GDP in 2011 and 2012, respectively.

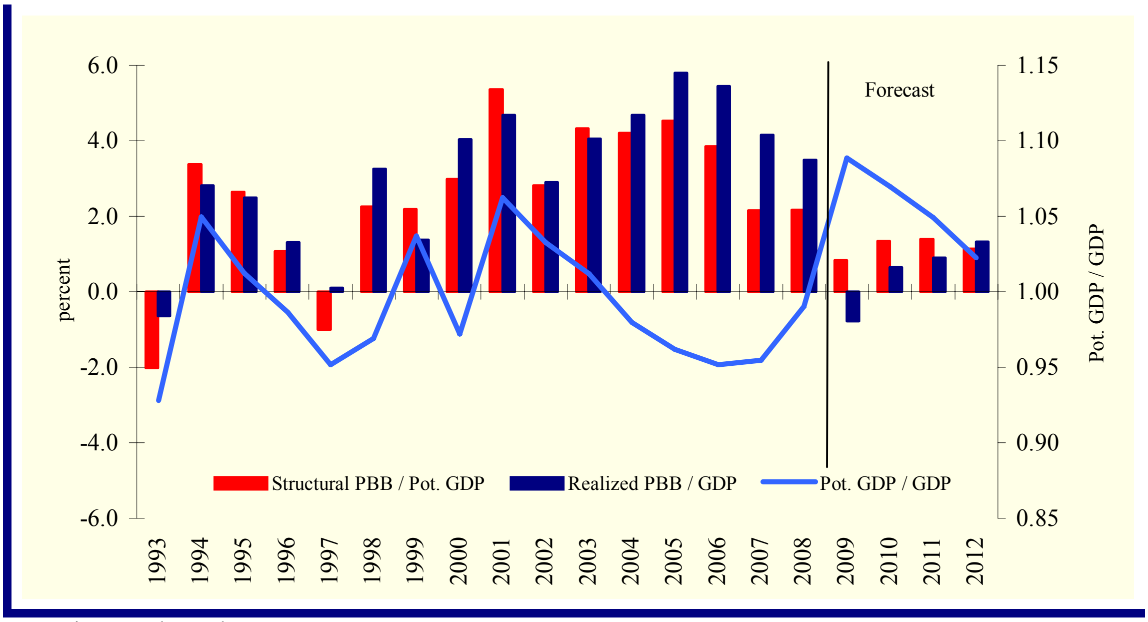
3.1.3. Structural and Cyclical Central Government Budget Balance

The method used in previous years to analyze the structural budget balance and cyclical effects on the budget has been revised and reorganized so as to better reflect the Turkish fiscal policy (See Box 3.3).

The structural primary balance and actual primary balance are presented in Figure 3.1. It can be observed that tight fiscal policy implementation since 2000s, is also reflected in the structural primary surplus figures. As a matter of fact, during the 2002-2006 period, the ratio of the structural primary balance to GDP was realized as 4 percent on average. In the same period, the ratio of the actual primary balance to GDP was 4.5 percent on average.

In 2006 and 2007, the ratio of the actual primary surplus to GDP declined gradually, and was realized as 5.4 percent in 2006 and 4.2 percent in 2007. On the other hand, during this period in which the output surplus reached its highest levels, the ratio of the structural primary surplus to potential GDP has significantly declined and realized as 3.9 percent and 2.1 percent, respectively, for the 2006-2007 period. In 2008, when GDP was very close to its potential level, the ratio of the actual primary surplus to GDP decreased by 0.7 percentage points, but the structural primary balance maintained its level compared to the previous year.

Figure 3. 1: Actual and Structural Primary Budget Balances



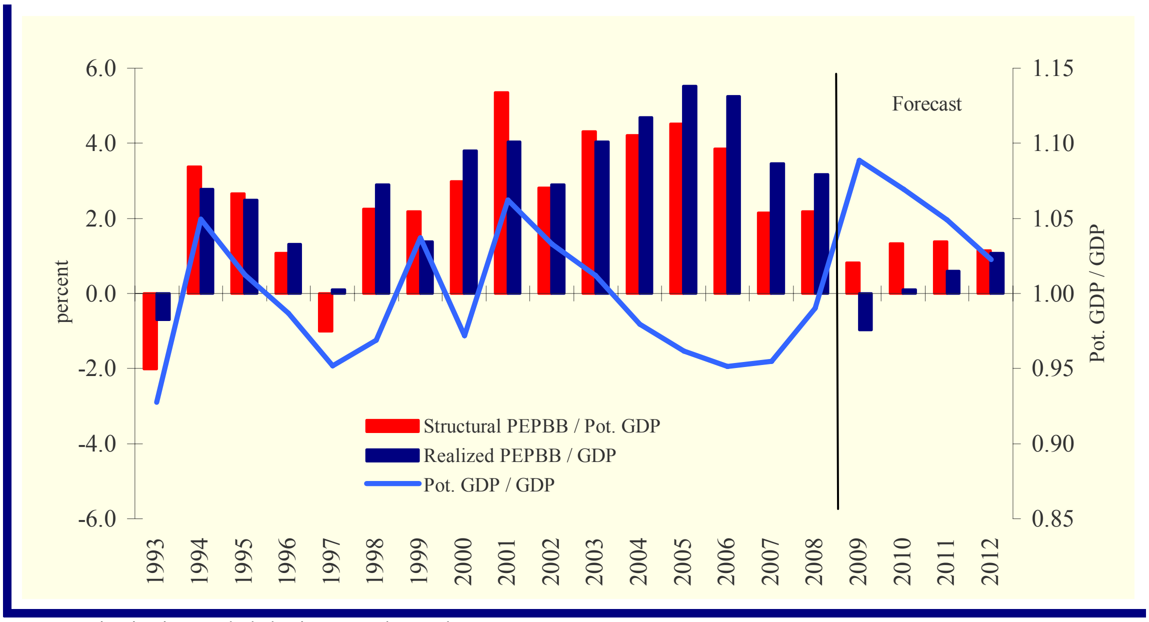
PBB: Primary Budget Balance

In 2009, Turkey used expansionary fiscal policy as a tool to minimize the adverse impacts of the global crisis, similar to many other countries. In this framework, the ratio of the structural primary balance is expected to be at a considerably low level at 0.8 percent of GDP. Analyzing the year 2009 in terms of the actual primary balance, it is observed that it is the first year with a deficit since 1993. The ratio of primary balance to GDP is projected to be -0.8 percent with a 4.3 percentage points decline in 2009.

In the period of 2010-2012, it is foreseen that the primary balance will ameliorate gradually following the anticipated economic recovery; however, the structural primary surplus will be around the same level. The ratio of the primary surplus to GDP is expected to increase slightly compared to 2009 and to be around 1 percent, during the 2010-2012 period. On the other hand, compared to 2009, the structural primary balance is forecasted to recover moderately in the same period, and to realize as 1.3 percent as a ratio to potential GDP.

Different from the 2008 PEP, the privatization revenues and one-off revenues have been excluded from structural budget balance calculations in 2009 PEP (Box 3.3). In this framework, for comparison purpose, the structural primary balance, where the privatization is already excluded, and privatization excluded actual primary balance are presented in Figure 3.2. In 2010-2012 period, the ratio of the non-interest and non-privatization structural budget balance to the potential GDP is estimated to be around 1.3 percent. In the same period, the ratio of the non-interest and non-privatization actual budget surplus to GDP is expected to be around 0.6 percent.

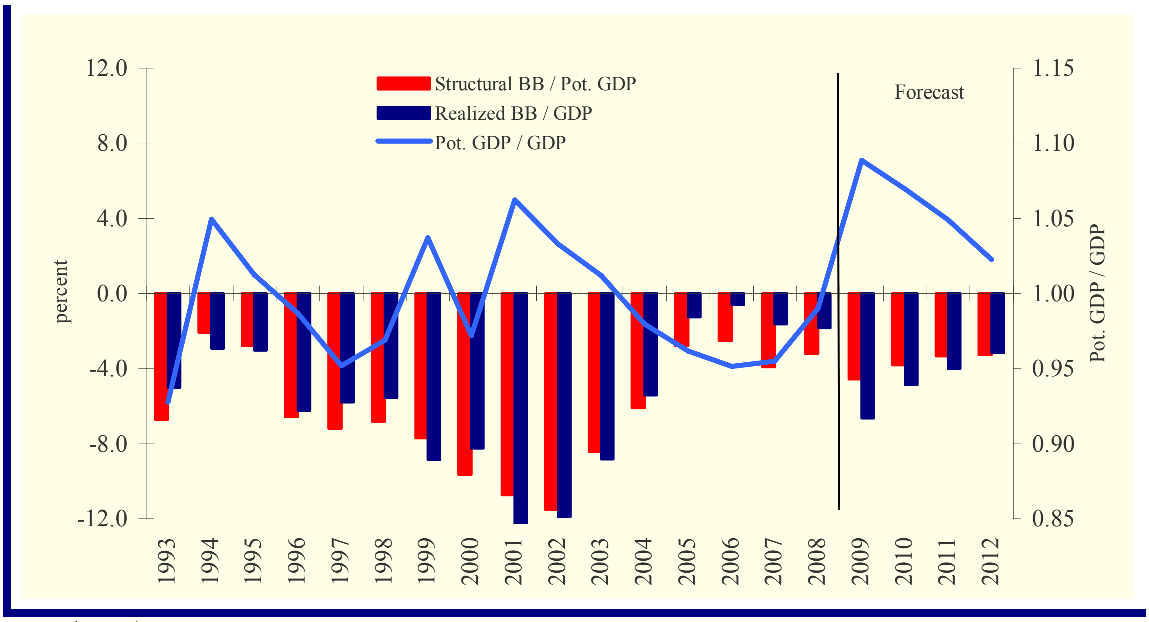
Figure 3.2: Actual and Structural Privatization Excluded Primary Budget Balances



PEPBB: Privatization Excluded Primary Budget Balances

With the 2001 crisis, debt stock increased considerably, and the reflection of this to the forthcoming period were significant increases in interest payments and high budget deficits. The interest burden of the debt stock on the budget receded significantly with the tight fiscal policy implemented since 2002. As a consequence, in 2005 and 2006 both the structural and the actual budget deficits were at considerably low levels. The financial fluctuations in 2006 had an adverse impact on the budget balance, and actual and structural budget deficits increased relatively in 2007 and 2008. The effects of the expansionary fiscal policy, which was implemented to reduce the effects of the global crisis, were observed in the structural budget balance of 2009, and the ratio of the structural budget deficit to potential GDP which was 3.2 percent in 2008, increased to 4.6 percent in 2009. During 2010-2012 period, it is forecasted that the fiscal policy will be relatively tightened with the expected gradual economic recovery, and as a consequence, the ratio of the structural budget deficit to potential GDP will be around 3.5 percent (Figure 3.3).

Figure 3.3: Actual and Structural Budget Balances



BB: Budget Balance

Box 3. 3: Structural and Cyclical Budget Balance Calculation Methodology

The structural budget methodology used since PEP 2003 has been improved to better reflect Turkish fiscal policy, this year. The improvement in methodology is mainly the harmonization of the composition of revenue and expenditure items. The methodology is presented in detail below.

Mainly, the structural budget balance, which expresses a fiscal policy without the effects of economic fluctuations by eliminating the effects of cyclical movements, is defined as follows:

$$b^* = \frac{\sum_i T_i^* - G_j^{\,*} + X}{Y^P}$$

b^*	: structural budget balance (as a ratio to GDP),
T_i^*	: structural value of revenues in category i,
G_j^*	: structural value of expenditures category j,
X	: other budgetary items that are assumed to be not affected from cyclical movements,
Y^P	: potential output.

The relationship between structural revenues and current expenditures and their actual values is shown as follows:

$$\frac{T_i^*}{T_i} = \left[\frac{Y^P}{Y}\right]^{\alpha i} ; \frac{G_j^*}{G_j} = \left[\frac{Y^P}{Y}\right]^{\beta i} ;$$

T_i	: revenues in category i,
G_j	: expenditures in category j,
Y	: actual national output,
α_i	: output elasticity of category i revenue,
β_i	: output elasticity of category j expenditure,

Potential output:

For the potential output, the figures calculated by Production Function Method are used.

Revenues:

Tax revenues displaying cyclical movements are categorized into three groups. Those categories are income taxes, corporate taxes and indirect taxes.

Sensitivity of income taxes to cyclical developments are influenced by the characteristics of the revenue components that are subject to taxation. Therefore, the items that are less sensitive to conjenctural movements in income taxes, such as wages, are excluded from the scope of structural income taxes.

Non-tax revenues, which are sensitive to conjectural movements, such as revenues from SEE’s, tax penalties, Treasury shares from GSM operators, are included in the calculation of structural revenues.

One-off revenues, such as privatization, that affect actual budget balances are not included in structural budget balance calculations.

In revenue elasticity calculations, the elasticity of indirect taxes is assumed to be unity. On the other hand, elasticities of other revenue items are estimated by least squares method.

Expenditures:

Expenditures are classified into two categories in terms of their sensitivity to cyclical movements as sensitive and insensitive. The expenditures sensitive to cyclical movements include items such as transfers to social security institutions, green card payments and duty losses. On the other hand, the insensitive expenditures include items such as investment, personnel and interest expenditures items.

Income elasticities of expenditures, which are sensitive to cyclical movements are calculated using least squares method.

Cyclical Budget Balance

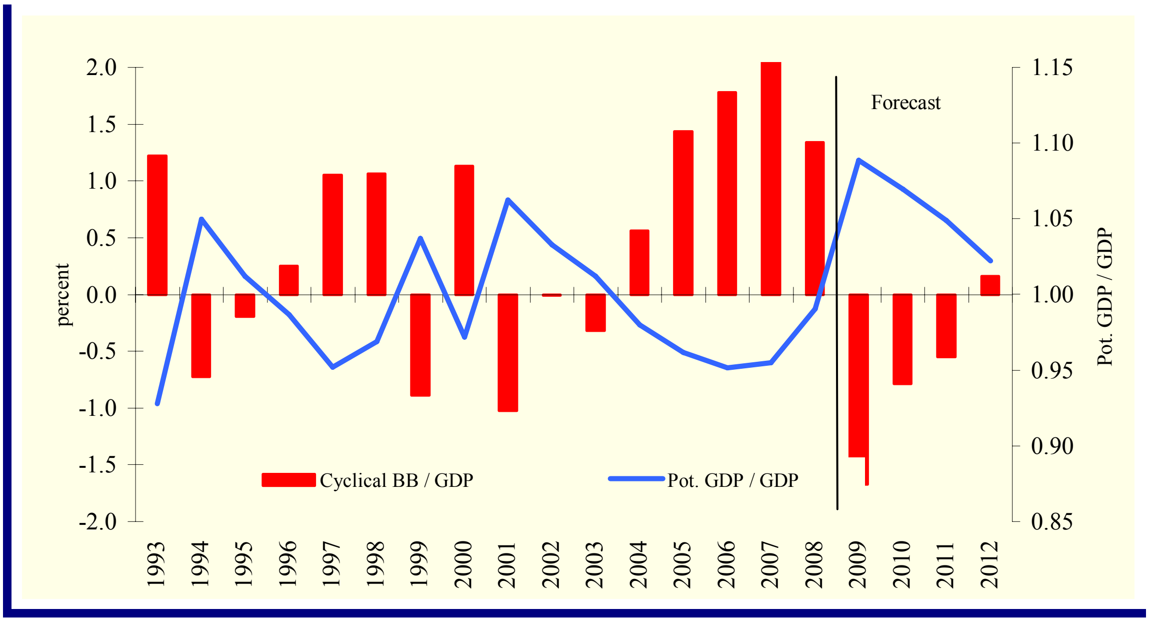
The difference between actual budget balance and structural budget balance is defined as cyclical budget balance:

$$b^{**} = b - b^*$$

b^{**}	: cyclical budget balance (as a ratio to GDP),
b	: actual budget balance (as a ratio to GDP),
b^*	: structural budget balance (as a ratio to GDP).

Cyclical budget balance is calculated by subtracting the structural budget balance from the actual budget balance. As a consequence of the divergence of GDP from its potential in 2009, the cyclical effect is estimated to be substantially high. However, in 2010-2012 period, the cyclical budget effect is forecasted to decline with the expected economic recovery (Figure 3.4).

Figure 3.4: Cyclical Budget Balances



BB: Budget Balance

3.1.4. Public Debt Management

3.1.4.1. Institutional Responsibilities for Debt Management and Borrowing Limits

The Undersecretariat of Treasury executes debt management in line with the borrowing limit determined pursuant to the Article 5 of the Law No.4749 on Regulating Public Finance and Debt Management, enacted in April 2002.

The mentioned Law establishes the main principles of public debt and risk management as follows:

- To follow a sustainable, transparent and accountable debt management policy in line with monetary and fiscal policies, considering macroeconomic balances,
- To meet financing need at the lowest possible cost in medium and long term, in accordance with the risk level determined considering cost factors, domestic and foreign market conditions.

Net borrowing limit is described as the amount of difference between the initial budget appropriations and estimated revenues specified in the budget law of the relevant fiscal year. In line with the same article of the Law, this limit may be increased up to 5 percent within the year by considering the needs and developments in debt management. For 2009, pursuant to the temporary article added to the Law No.4749 on 10 July 2009, respective net borrowing limit has been set as five times of the net borrowing limit set by the Minister and the Council of Ministers.

In 2008, some amendments were made in the Law No.4749 on Regulating Public Finance and Debt Management in order to enhance institutional efficiency in public debt management. As a result, strategic benchmark implementation has found a legal basis. Moreover, it was stated in the Law that the decisions concerning debt management including the determination of the strategic benchmarks should be under the responsibility of Debt and Risk Management Committee which meets under the presidency of the Minister of State for Economic Affairs and consists of Undersecretary, Deputy Undersecretaries and General Directors.

In 2007, the Undersecretariat of Treasury commenced a project concerning operational risk management in order to reach best international applications aimed at increasing work quality in the operational sense. SIGMA, a joint venture by EU, provided technical assistance for the project (Support for Improvement in Governance and Management).

In this project, firstly the improvement of internal control mechanisms required for minimizing operational risks in debt management was determined as a cooperation area with the SIGMA Board within the context of Peer Collaboration Mechanisms. In this context, the study that has commenced with a pilot project on Improving Internal Control Applications in Debt Transactions was expanded in 2008. In line with these activities, a workshop on Internal Control Mechanisms applied in Debt Management Offices, supported by TAIEX (Technical Assistance Information Exchange Instrument), an EU foundation, was organized in Ankara on 29-30 January 2009. In this workshop, the experiences of England, Spain, Portugal, and Italy on internal control and internal audit mechanisms were shared and information about the studies on operational risk management in Treasury was conveyed.

These activities, carried out within the context of operational risk management, are important for establishing the required mechanisms to identify the risks promptly and correctly in order to ensure efficient management of the assets and liabilities of Treasury.

Other activities are also underway to increase the institutional capacity in terms of debt management. For the purpose of improving the technical infrastructure of debt management, the tools used in modeling and simulation analyses have been enhanced. Furthermore, in 2009, several study tours were made to various debt management offices in different countries of Europe within the scope of the Leonardo da Vinci Mobility Project of Europe and in 2010 information sharing will continue in the area of public debt management.

3.1.4.2. Debt Management Strategy

Within the scope of accountable, transparent and sustainable borrowing policies which are compatible with the monetary and fiscal policies, ensuring the optimal cost target in the medium and long term at a reasonable risk level, strategic benchmarking policy has been continued since 2003. Depending on the cost and risk calculations, to manage the public debt efficiently against the main risks of liquidity, exchange rates and interest, the following measures were taken as the main pillars of the borrowing policy in 2009:

- To use mainly TL currency in domestic cash borrowing,
- To use fixed interest rate instruments for TL borrowings in order to reduce the share of debts of which interest rate will be renewed in the next 12 months,
- To increase the average maturity as much as much possible according to market conditions and to decrease the share of debts with maturity less than 12 months,
- To keep a high level of cash reserve in order to minimize the liquidity risk associated with cash and debt management.

Moreover, in line with the risk and cost targets, borrowing strategies complying with strategic benchmarks will be continued in the upcoming periods.

Policies for the improvement of efficiency in primary and secondary markets and enhancement of the investor base of the Government Domestic Borrowing Securities (GDBS) are planned to be continued. Within this context, works related to the Market Making System will be continued. Besides, the works for direct sales of GDBS to individuals within the scope of retail sales will continue. In addition, issuing of the benchmark securities will be maintained for the purpose of providing liquidity in GDBS purchase-sales works and to form a reliable yield curve in the secondary bond markets.

In line with the transparency principle in debt management, financing programs, quarterly auction calendars and other information on public debt will be made publicly available in the forthcoming period, as in the previous years. As for the domestic borrowing which constitutes the large part of the annual financing requirement, repurchase and exchange transactions will be continued as active debt management tools in accordance with strategic benchmarks for the purpose of smoothing out the redemption profile.

3.1.4.3. Public Debt Stock

3.1.4.3.1. Current Situation

As a result of the ongoing economic program, fiscal discipline and efficient borrowing strategies, the ratio of the EU defined general government nominal debt stock to GDP, which was 73.7 percent in 2002, decreased to 39.5 percent at the end of 2008.

Table 3. 4: General Government Debt Stock

(Percent of GDP)

	2002	2003	2004	2005	2006	2007	2008
EU General Government Nominal Debt Stock	73.7	67.4	59.2	52.3	46.1	39.4	39.5

Source: Undersecretariat of Treasury

Although the rate of the central government debt stock to GDP increased by 0.4 percentage points from its level in 2007 and reached 40 percent by the end of 2008, in the last six years, the ratio has decreased by 29.2 percentage points.

The total debt stock of the central government which was 316.5 billion TL by the end of 2004, realized as 438.2 billion TL by the end of October 2009. As of the end of October 2009, the 74.7 percent of the stock was made of domestic debts, while the share of the foreign debts decreased by 3.8 percentage points to 25.3 percent compared to the end of 2004. As a result of the borrowing strategies, the share of the debt stock in TL in the total stock has increased in years and reached 70.3 percent as of the end of October 2009. The share of foreign exchange denominated and foreign exchange indexed debts fell down to 29.7 percent at the end of 2009 October with a decline of 11.8 percentage points compared to the end of 2004. During the same period the share of debts with a fixed interest rate decreased by 0.9 percentage points to 52.9 percent. Furthermore, the repayment of the foreign exchange indexed debts within domestic debt stock will be completed by the end of 2009.

Table 3. 5: Central Government Gross Debt Stock

(Percent of GDP)

	2002	2003	2004	2005	2006	2007	2008
Domestic Debt Stock	42.8	42.7	40.2	37.7	33.2	30.3	28.9
External Debt Stock	26.5	19.4	16.5	13.4	12.3	9.3	11.1
Total	69.2	62.2	56.6	51.1	45.5	39.6	40.0

Source: Undersecretariat of Treasury

As of 2008, the central government domestic debt stock increased by 19.5 billion TL compared to its 2007 levels and reached 274.8 billion TL. As of October 2009, it reached 327.2 billion TL. When the ratio of the respective stock to GDP is considered, it is seen that it receded back to 28.9 percent in 2008, from its 30.3 percent level in 2007.

The share of the TL debt stock in the total domestic debt stock has increased from its 89.8 percent in 2007 to 91.6 percent by the end of 2008. As of October 2009, the ratio was realized as 94.2 percent.

Public share in the central government total debt stock that reached the level of 66 percent due to the bonds issued to the Saving Deposits Insurance Fund in line with the restructuring of the banking sector and the bonds issued for duty losses and capital injections to public banks in 2001, continued to decrease and fell down to 26.2 percent in 2007, 23.9 percent in 2008 and to 19.8 percent in October 2009.

Table 3. 6: Central Government Debt Stock Composition by Instruments

	2004		2005		2006		2007		2008		2009 October	
	Million TL	percent	Million TL	percent	Million TL	percent	Million TL	percent	Million TL	percent	Million TL	percent
OVERALL TOTAL	316,528	100	331,520	100	345,050	100	333,485	100	380,321	100	438,183	100
Fixed	170,450	53.8	166,265	50.2	186,335	54.0	186,017	55.8	216,735	57.0	231,726	52.7
Floating	146,079	46.2	165,255	49.8	158,715	46.0	147,468	44.2	163,586	43.0	206,457	47.3
TL Denominated	185,020	58.5	206,852	62.4	216,800	62.8	229,168	68.7	251,836	66.2	308,127	70.3
Fixed	94,930	30.0	101,444	30.6	111,457	32.3	116,993	35.1	126,271	33.2	140,028	32.0
Floating	90,090	28.5	105,408	31.8	105,343	30.5	112,175	33.6	125,566	33.0	168,099	38.4
FX Total	131,508	41.5	124,667	37.6	128,250	37.2	104,317	31.3	128,484	33.8	130,056	29.7
FX Denominated	122,067	38.6	119,098	35.9	126,569	36.7	103,106	30.9	127,721	33.6	129,668	29.6
Fixed	75,519	23.9	64,821	19.6	74,878	21.7	69,024	20.7	90,464	23.8	91,697	20.7
Floating	46,547	14.7	54,277	16.4	51,690	15.0	34,082	10.2	37,256	9.8	37,970	8.9
FX Indexed	9,441	3.0	5,570	1.7	1,681	0.5	1,211	0.4	764	0.2	388	0.1
Fixed	0	0	0	0	0	0	0	0	0	0	0	0
Floating	9,441	3.0	5,570	1.7	1,681	0.5	1,211	0.4	764	0.2	388	0.1
Total Dom. Debt Stock	224,483	100	244,782	100	251,470	100	255,310	100	274,827	100	327,189	100
Total Fixed	115,572	51.5	111,061	45.4	121,053	48.1	128,148	50.2	140,614	51.2	151,727	46.4
Total Floating	108,911	48.5	133,720	54.6	130,417	51.9	127,162	49.8	134,213	48.8	175,461	53.6
TL Denominated	185,020	82.4	206,852	84.5	216,800	86.2	229,168	89.8	251,836	91.6	308,127	94.2
Fixed	94,930	42.3	101,444	41.4	111,457	44.3	116,993	45.8	126,271	45.9	140,028	42.8
Floating	90,090	40.1	105,408	43.1	105,343	41.9	112,175	43.9	125,566	45.7	168,099	51.4
CPI Indexed	*18,427*	*8.2*	*18,427*	*7.5*	*17,778*	*7.1*	*22,481*	*8.8*	*21,686*	*7.9*	*36,154*	*11.1*
FX Denominated	30,021	13.4	32,360	13.2	32,989	13.1	24,931	9.8	22,227	8.1	18,674	5.7
Fixed	20,642	9.2	9,617	3.9	9,596	3.8	11,155	4.4	14,344	5.2	11,699	3.6
Floating	9,380	4.2	22,743	9.3	23,393	9.3	13,776	5.4	7,884	2.9	6,975	2.1
FX Indexed	9,441	4.2	5,570	2.3	1,681	0.7	1,211	0.5	764	0.3	388	0.1
Fixed	0	0	0	0	0	0	0	0	0	0	0	0
Floating	9,441	4.2	5,570	2.3	1,681	0.7	1,211	0.5	764	0.3	388	0.1
External Debt Stock	92,046	100	86,738	100	93,580	100	78,175	100	105,493	100	110,994	100
USD	38,973	42.3	42,245	48.7	49,236	52.6	43,310	55.4	57,303	54.3	58,875	53.1
JPY	3,854	4.2	3,095	3.6	3,062	3.3	2,701	3.5	4,774	4.5	4,773	4.2
EUR	23,708	25.8	21,089	24.3	25,451	27.2	23,253	29.7	29,593	28.1	32,279	29.1
SDR	24,765	26.9	19,662	22.7	15,130	16.2	8,327	10.7	12,965	12.3	14,258	12.9
Other	745	0.8	647	0.7	700	0.7	584	0.7	858	0.8	809	0.7
External Debt Stock	92,046	100	86,738	100	93,580	100	78,175	100	105,493	100	110,994	100
Fixed	54,878	59.6	55,204	63.6	65,282	69.8	57,869	74.0	76,121	72.2	79,998	71.3
Floating	37,168	40.4	31,534	36.4	28,298	30.2	20,306	26.0	29,373	27.8	30,996	28.7

Source: Undersecretariat of Treasury
(*) SDR repayments to IMF in August and September 2009 are included.

Table 3. 7: Domestic Debt Stock by Lenders

	2004	2005	2006	2007	2008	2009 Oct.	2004	2005	2006	2007	2008	2009 Oct.
	Million TL						Share in Domestic Debt Stock. Percent					
Total	224.5	244.8	251.5	255.3	274.8	327.2	100.0	100.0	100.0	100.0	100.0	100.0
Public	83.3	75.5	71.4	66.9	65.8	64.7	37.1	30.8	28.4	26.2	23.9	19.8
CBRT	18.4	18.4	17.8	16.0	13.0	8.8	8.2	7.5	7.1	6.3	4.7	2.7
State Banks	27.5	25.0	19.9	15.8	10.1	8.4	12.2	10.2	7.9	6.2	3.7	2.6
SDIF	8.3	4.5	4.5	3.8	3.1	2.7	3.7	1.8	1.8	1.5	1.1	0.8
CBRT (IMF Credits)	3.7	-	-	-	-	-	1.6	-	-	-	-	-
Other	25.4	27.5	29.3	31.3	39.6	44.7	11.3	11.2	11.6	12.3	14.4	13.7
Market*	141.1	169.3	180.1	188.4	209.1	262.5	62.9	69.2	71.6	73.8	76.1	80.2

*Market includes the instruments issued to SDIF for the deposits of İmar Bank.
Source: Undersecretariat of Treasury

The average time remaining to maturity of the central government domestic debt stock, which was 25.7 months at the end of 2007, fell down to 23.9 months at the end of 2008. As of October 2009, the figure was recorded as 25.4 months. For the same periods, average time remaining to maturity of the non-cash domestic debt stock fell from 25.7 months to 19.8 months and to 13.4 months in October 2009; and the average time remaining to maturity of cash domestic debt stock fell from 25.7 months to 24.4 months and then rose back to 26.2 months as of October 2009. The decrease is resulted from the lack of new non-cash exports, and the approaching dates of the redemption dates of the bonds issued before.

Table 3. 8: Maturity Structure of Central Government Domestic Debt Stock

	2004	2005	2006	2007	2008	2009 Oct.
	Average Maturity of Stock (Month)					
Cash	11.8	19.6	22.3	25.7	24.4	26.2
Non-Cash	45.5	38.7	32.0	25.7	19.8	13.4
Total	20.6	23.5	24.0	25.7	23.9	25.4

Source: Undersecretariat of Treasury

The central government external debt stock was 111 billion TL at the end of October 2009. The share of fixed interest rate debt in the foreign debt stock has been increasing since 2004 and was realized as 72.1 percent with a rise of 12.5 percentage points by the end of October 2009. Also the foreign exchange composition of the stock shows that in the last six years, the percentages of the dollar and euro denominated debt have increased. Accordingly, the share of the dollar and euro denominated debt in the total foreign debt stock which were 42.3 percent and 25.8 percent, respectively by the end of 2004 rose to 53 percent and 29.1 percent respectively as the end of October 2009, and the SDR denominated debt, including the SDR appropriations provided by IMF in August and September 2009, decreased by 14 percentage points and realized as 12.8 percent.

Average time remaining to maturity and time remaining to maturity of the foreign debt stock of the central government increased approximately 0.1 percentage points compared to the end of 2008 and reached 8 and 9.7 years respectively by the end of October 2009.

Table 3. 9: Time Remaining to Maturity of the Central Government's External Debt

	2008				2009 October *			
	Stock		Time Remaining to Maturity	Time Remaining to Average Maturity	Stock		Time Remaining to Maturity	Time Remaining to Average Maturity
	Million Euros	percent	Year	Year	Million Euros	percent	Million Euros	percent
Maturity	**49,275**	**100**	**9.6**	**7.9**	**49,476**	**100**	**9.7**	**8.0**
Short Term (Less than 1 year)	0	0	0.0	0.0	0	0	0.0	0.0
Medium Term (1-5 years)	468	1	1.9	0.6	76	0	5.0	2.9
Long Term (More than 5 years)	48,807	99	9.7	8.0	49,400	100	9.7	8.0
By Lender	**49,275**	**100**	**9.6**	**7.9**	**49,476**	**100**	**9.7**	**8.0**
Credit	21,791	44	8.8	5.0	21,651	44	9.6	5.8
International Organizations	13,359	27	7.4	4.4	13,666	28	8.7	5.5
IMF	6,049	12	3.3	1.6	5,450	11	3.5	1.9
Government Institutions	3,911	8	16.0	8.3	3,882	8	16.4	8.8
Other	4,520	9	6.5	3.7	4,103	8	6.2	3.7
Bond	27,484	56	10.3	10.3	27,825	56	9.7	9.7
By Currency	**49,275**	**100**	**9.6**	**7.9**	**49,476**	**100**	**9.7**	**8.0**
USD	26,767	54	11.0	10.1	26,790	54	10.5	9.7
JPY	2,230	5	16.1	8.3	2,172	4	16.5	8.7
EUR	13,823	28	8.7	6.6	14,688	30	9.4	7.0
SDR	6,056	12	3.3	1.6	5,458	11	3.5	1.9
Other	398	1	11.4	5.1	368	1	10.7	5.2

Source: Undersecretariat of Treasury
(*): IMF SDR collections are not included.

When the maturity structure of the general government external debt stock is analyzed, it is seen that the general government external debt stock is fully constituted by medium and long term foreign debts since 2004.

The share of bonds in the general government foreign debt stock has increased since 2004 and reached 55.2 percent as of the second quarter of 2009. This increase is due to preferring bonds for borrowing and the repayment of loans.

The share of the loans provided by the international organizations in general government foreign debt stock declined 11.6 percentage points from its level in 2004 to 26.7 percent. The share of the respective liabilities in the stock has been declining since 2004 as a result of large repayments.

The share of the dollar denominated debts in the general government foreign debt stock, had been increasing until 2007. At the end of 2007, as a result of this upward trend, the share of the dollar denominated debt in the stock had been 55.5 percent, but in the second quarter of 2009, this ratio decreased by 0.6 percentage points and realized as 54.9 percent. The share of SDR denominated debt which was 26.3 percent by the end of 2004, decreased to 10.8 percent in the second quarter of 2009, as a result of the loan repayments to IMF. The share of euro denominated debt which was around 25 percent during the same period, increased by 3.9 percentage points and reached 29.1 percent by the end of June 2009.

Analyzing the borrowing realizations in 2009, the cost of TL denominated discount borrowing which was 19.2 percent in 2008, decreased to 11.9 percent in October 2009.

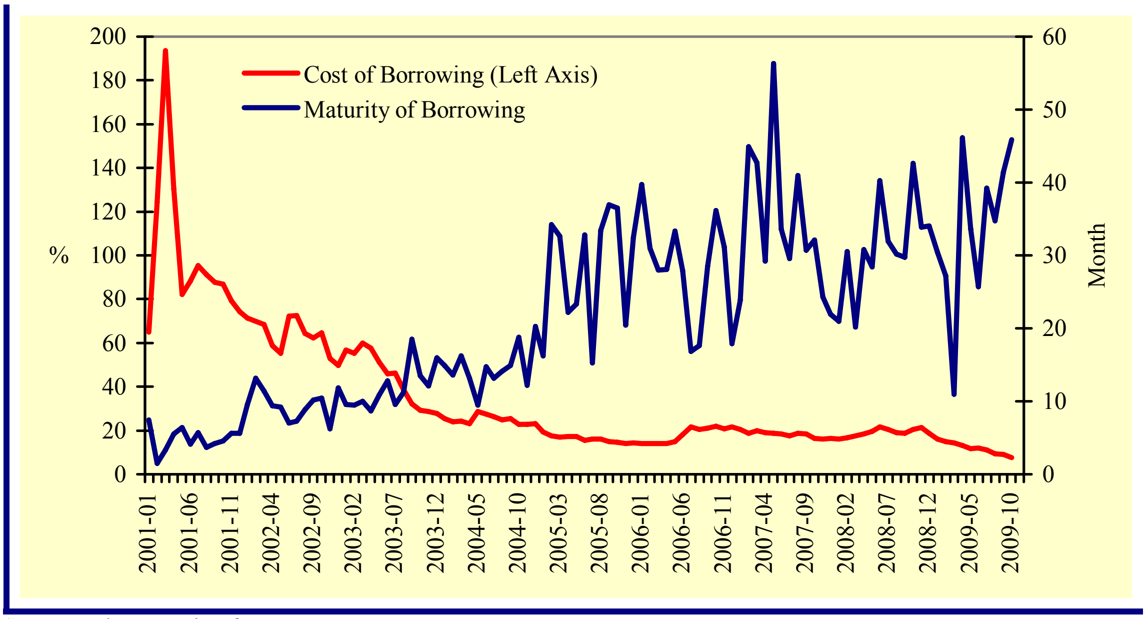
The average maturity of the cash domestic borrowing which was 31.7 months in 2008 was realized at 35.5 months in October 2009.

Table 3. 10: General Government External Debt Stock

	Million Euros						Percentage Distribution					
	2004	2005	2006	2007	2008	2009 Q2	2004	2005	2006	2007	2008	2009 Q2
By Type												
Total	51,513	55,719	51,514	46,865	51,108	51,948	100.0	100.0	100.0	100.0	100.0	100.0
Bond	21,842	26,676	27,594	26,387	27,484	28,695	42.4	47.9	53.6	56.3	53.8	55.2
Credit	29,671	29,043	23,920	20,478	23,624	23,253	57.6	52.1	46.4	43.7	46.2	44.8
By Maturity												
Total	51,513	55,719	51,514	46,865	51,108	51,948	100.0	100.0	100.0	100.0	100.0	100.0
Short Term	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Medium-Long Term	51,513	55,719	51,514	46,865	51,108	51,948	100.0	100.0	100.0	100.0	100.0	100.0
By Lender												
Total	51,513	55,719	51,514	46,865	51,108	51,948	100.0	100.0	100.0	100.0	100.0	100.0
Government Institutions	4,874	4,448	3,804	3,353	4,036	4,016	9.5	8.0	7.4	7.2	7.9	7.7
Monetary Institutions	26,872	32,117	32,592	31,327	33,033	34,063	52.2	57.6	63.3	66.8	64.6	65.6
Non-Monetary Institutions	50	27	8	5	2	0	0.1	0.0	0.0	0.0	0.0	0.0
International Organizations	19,717	19,128	15,110	12,180	14,037	13,870	38.3	34.3	29.3	26.0	27.5	26.7
By Currency												
Total	51,513	55,719	51,514	46,865	51,108	51,948	100.0	100.0	100.0	100.0	100.0	100.0
USD	21,855	27,132	27,091	26,015	27,708	28,542	42.4	48.7	52.6	55.5	54.2	54.9
JPY	2,110	1,949	1,654	1,579	2,230	2,147	4.1	3.5	3.2	3.4	4.4	4.1
EUR	12,987	13,404	13,914	13,840	14,547	15,099	25.2	24.1	27.0	29.5	28.5	29.1
SDR	13,557	12,386	8,172	4,869	6,056	5,613	26.3	22.2	15.9	10.4	11.8	10.8
Other	1,005	849	683	562	566	546	2.0	1.5	1.3	1.2	1.1	1.1

Source: Undersecretariat of Treasury

Figure 3. 5: Average Maturity and Cost of Treasury's Borrowing



Source: Undersecretariat of Treasury

3.1.4.3.2. Contingent Liabilities

The Undersecretariat of Treasury provides repayment guarantees for foreign financing opportunities of state economic enterprises, organizations subject to provisions of private law with more than 50 percent their capital belonging to the state, funds, state banks, investment and development banks, metropolitan municipalities, municipalities and affiliates of municipalities and other local government agencies in order to minimize the investment financing costs, ensure sustainable growth and meet funding requirements of the multi-year investment projects of the mentioned institutions. Within this context, the Undersecretariat of Treasury provides guarantees only for the foreign financing of the aforementioned institutions, and does not provide any guarantee for domestic financing. Furthermore, based on and limited with the provisions of the relevant law within the scope of Built-Operate-Transfer, Built-Operate, Transfer of Operating Rights and similar financing models; the Undersecretariat of Treasury provides investment guarantees to state economic enterprises, organizations subject to provisions of private law with more than 50 percent their capital belonging to the state, funds, state banks, investment and development banks, metropolitan municipalities, municipalities and affiliates of municipalities and other local government agencies.

The probable undertaking of the payments of the guaranteed debts of the financially stressed organizations and the obligations under the investment guarantees by the Treasury constitutes a significant part of the explicit contingent liabilities.

Credit Rating Model considering the debt-receivable relationship between the institutions and Treasury and the financial statements of these institutions, was put into practice from 1 January 2007, in order to improve the management of contingent liabilities confronting the Undersecretariat of Treasury. In this context, the limit for Treasury guarantees and on-lent foreign loans, guarantee and on-lent fees and partial guarantee ratios are calculated using this model based on the expected losses from organizations in order to alleviate risks arising from contingent liabilities.

In this context, the limit covering repayment guarantees, investment guarantees and on-lent foreign loans to be provided under the Law No. 4749 is defined by the budget law every year. The limit to be applied for the Treasury guarantees to be provided under the Law No. 4749 was 2 billion dollars in 2005, 3 billion dollars in 2006 and 2007 and 2 billion dollars in 2008. Beginning

[9] Expected loss represents the expectation on the cost that would occur in case that the institutions demand Treasury to undertake the debt or they can not assume other liabilities against Treasury because of their fiscal insufficiencies.

from 2009, the extent of the limit has been widened to include on-lent loans and 4 billion dollars was determined as Treasury guarantee and on-lent foreign loan limit for 2009.

When Treasury guarantee is provided under the Law No. 4749, a fee up to 1 percent of the guaranteed amount is charged to the regarded institution. Moreover, upon the last amendment made in the Law No. 4749, if on-lent foreign loan is provided, a fee up to 1 percent of the on-lent amount is charged to the related institution as well. In the partial guarantee practice, credits except export credits obtained from the international and regional organizations and foreign Official Export Insurance Agencies, are guaranteed up to 95 percent of the total liabilities.

3.1.4.3.3. Repayment Guarantees

The downward trend of Treasury repayment guarantee debt stock which is used in order to ensure the flow of funds and keep investment financing costs of the public institutions and organizations which are out of general budget scope at a minimum level between 2002 and 2006 was replaced by an upward trend starting from 2007. The stock amount which was 4,298 million dollars at the end of 2006, was increased to 4,870 million dollars as of the end of 2007, 5,703 million dollars at the end of 2008 and 5,702 million dollars in June 2009. This increase is resulted from the utilization of the Treasury-guaranteed loans provided in 2005 to banks (T. Halk Bank and T. Vakıflar Bank) and to the development and investment banks (TSKB, TKB) in 2007 and 2008. Since this loan is repaid regularly by the borrower banks, they don’t cause an additional burden on the Treasury.

Additionally, the Treasury-guaranteed debt stock declined 578 million dollars from its level in 2002 to 5.7 billion dollars in June 2009 and the undertaking ratio which was 52 percent as of the end of 2006, receded to 29 percent as of October 2009.

The payment projection of the Treasury-guaranteed foreign debt stock in the medium term is realized in parallel to the increase or decrease in the use of loans.

Table 3. 11: Treasury Guaranteed External Debt Service Projections*

(Million Euro)

	Principal	Interest	Total
2010	402	100	502
2011	368	86	455
2012	397	75	473
2013-2016+	2,293	335	2,628

(*) In terms of usage, temporary.

3.1.4.3.4. Investment Guarantees

Apart from the repayment guarantees, investment guarantees provided for electric power plants built with the Built-Operate-Transfer model (10 plants), the Built-Operate model (5 plants) and the Transfer of Operating Rights model (1 plant) constitute an important explicit contingent liability. There have been no undertakings for the investment guarantees up to now; however, the mentioned fiscal risks are taken into account while calculating the burdens that may arise from contingent liabilities.

In addition, an investment guarantee was provided to a municipality in 1995 within the scope of the BOT (Build-Operate-Transfer) project, for its water price payment liability. For this investment guarantee, 2 billion dollars was undertaken from 1999 until the end of October 2009.

3.1.4.3.5. Treasury Receivables

Considering the Treasury’s receivables stock at the end of October 2009, the local administrations have a share of 51 percent, the SEEs have a share of 31.2 percent and other receivables have a share of 17.8 percent.

When the distribution of collections is analyzed according to their sources, 77 percent of the collections in January-October 2009 came from the payments made in cash. The collections by the Ministry of Finance which are the deductions from the tax income shares of the Municipalities constitute the 18.8 percent of the collections in this period, and the similar collections by the İller Bank make up 3.7 percent of the collections. The collections within the scope of the Law No.6183, amount to 0.5 percent of the collections done during this period.

3.1.4.3.6. Risk Account

Risk Account has been set up at the Central Bank of Turkey in order to eliminate the disruptions in the cash and debt management caused by the amounts paid by the Treasury within the scope of the Treasury guarantees. The budgetary allocations of the Risk Account which is showing a downward trend since 2003 as a result of the decrease in undertakings and increase in the collections, decreased to a level of 148.9 million TL in 2008 from 240 million TL at the end of 2006. As at the end of October 2009 the residual amount of the account was adequate to cover undertakings and therefore appropriations were not used.

3.1.4.3.7. General Government Gross Debt Stock Projections for 2009-2011 Period

As a result of the fiscal policies implemented and the high growth rates, achieved in an environment of increased reliability and economic stability, in the last five years, the ratio of the general government gross debt stock to GDP has decreased at a significant amount and at the end of 2008 it was realized as 39.5 percent. However, due to the economic downturn and increase in the budget deficit caused by the global crisis, the general government nominal debt stock is expected to be at the level of 47.3 percent in 2009. It is projected that the debt stock will increase slightly in 2010 and then will start decreasing again after 2011.

Table 3. 12: Public Debt Stock Projections

(Percent of GDP)

	2008	2009	2010	2011	2012
	Realization	Forecast			
General Government Gross Debt Stock	39.5	47.3	49.0	48.8	47.8

Source: Undersecretariat of Treasury.

3.1.5. Budgetary Implications of Major Structural Reforms

Pursuant to the Law No. 5763, which will be effective when it is published, for the workers under an employment contract, provided that they have not worked formally within the 6 months prior to the effective date, if men between 18-29 and women over 18 without any upper limit on the age, are hired within the year, in addition to the existing workers of the business, 100 percent of the employer share for the disability, old age and death premiums of these people will be paid by the Unemployment Insurance Fund. This rate will be 80 percent in the second year, 60 percent in the third year, 40 percent in the fourth year and 20 percent in the fifth year. Thus, effective as of 1 October 2008, 5 percentage points of the employer share in the disability, old age and death premiums of the employees will be paid by the Treasury. After that, with the Law No.5838, the time frame for benefiting from the youth and women employment premium incentive has been extended until 26 May 2010. The effect of the five point premium reduction on the social security balance became visible only after December 2008, as because two-month declaration and payment periods delay. This practice is expected to create an additional burden of 0.35 percent, 0.38 percent and 0.39 percent (as a ratio to GDP) on the central government budget in 2009, 2010 and 2011, respectively.

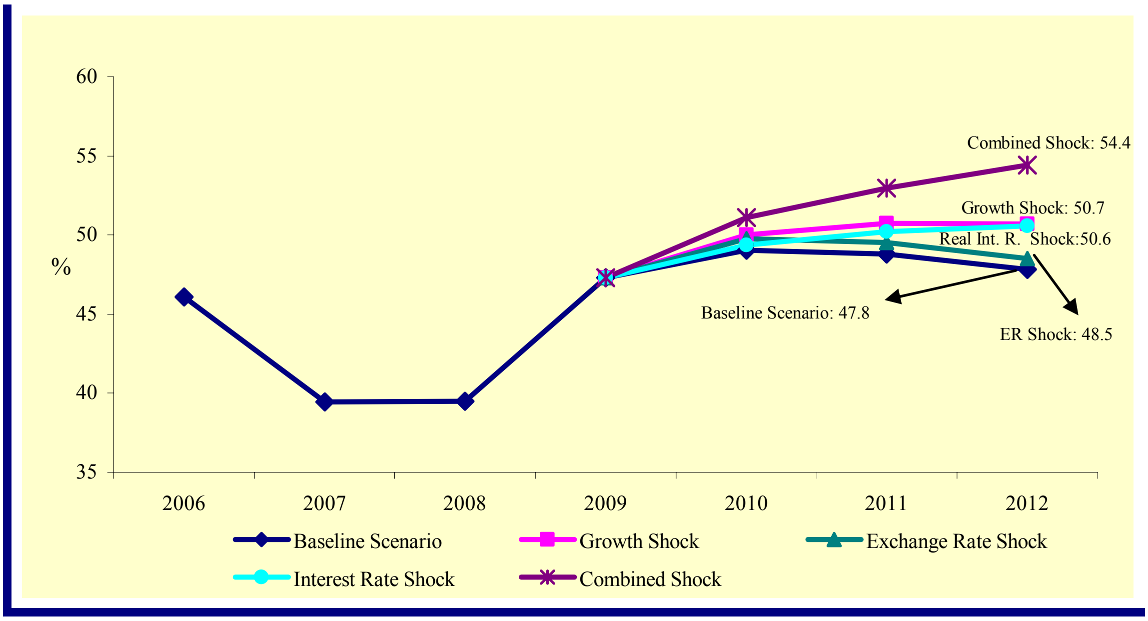
3.2. Sensitivity Analysis

Since 2002, a sustainable, transparent and accountable debt management policy that conforms to monetary and fiscal policies, considering macroeconomic balances has been implemented. Tight fiscal policies implemented in recent years and strategic benchmarking practices since 2003 helped mitigate the impacts of the exchange rate, interest rate and growth related shocks on the public debt stock in the medium and long term, and as a result, improved the resilience of the debt stock structure. On the other hand, the economic downturn in 2009 and the increase in the budget deficit caused the ratio of the public debt stock to GDP, which has been decreasing for the past seven years, to start increasing. Nevertheless, thanks to the strategic benchmarking used for the debt management, no negative development has been observed in the sensitivity of the debt stock to risks.

In this context, some sustainability analyses concerning the impact of various negative macroeconomic shocks on debt stock, has been carried out based on the year-end 2009 projections for the EU-Defined Public Gross Debt Stock/GDP ratio. According to the basis scenario, the debt burden, which is expected to increase in 2010, is projected to decrease gradually after 2011. In the scenario analyses, the separate and joint impacts of 5 percent increase in the exchange rates, 2 percentage points decrease in the real growth rate and 500 base points increase in the real interest rates in each year have been assessed.

In the foreign exchange shock scenario, the debt stock to GDP ratio, which was expected to be at 47.8 percent in 2012 according to the base scenario, increased only by 0.7 percentage points and rose to 48.5 percent of GDP. This is a result of the risk posed by the rapid reduction of the share of foreign exchange debts in the debt portfolio and the reduced foreign exchange rate. However, the growth shock and real interest rate shock scenarios show that the debt stock to GDP ratio will rise by 2.9 and 2.8 percentage points in 2012 respectively compared to the base scenario. The combined shock scenario shows that the debt stock may increase 6.6 percentage points in 2012 compared to the base scenario.

Figure 3. 6: Sustainability Scenarios



3.3. Public Finance Risks

In the 2009-2012 periods risks that might constitute obstacle to reach the basic objectives in the public finances are summarized below:

- Under the circumstances that growth rate is realized lower than expected, the central government revenue performance will be adversely affected and therefore there may be a risk of increase in the financing needs and the borrowing requirement consequently.
- The failure in the update of fixed rate taxes and duties will adversely affect the revenue performance.

- The prospect of realization of privatization revenues lower than the expected will result in the increase of borrowing requirement.
- The growth rate being lower than the expectations will adversely affect the employment increase parameter, causing the social security insurance premium collections being lower than the projections. This development, under the circumstance of health-care expenditures are not taken under control, will increase the transfers to the social security institutions from the central government budget.
- If the employment does not increase in the expected level, the number of people benefiting from the Unemployment Insurance Fund will increase, which will result in a slight deterioration of the balances of the Unemployment Insurance Fund.
- If the inflation rate resulted higher than the projected levels, compensation for inflation rate deviation will be paid to public servants.
- The ratio to be used for the calculation of the amount to be transferred from the revenues of the Unemployment Insurance Fund has been set as 3/4 instead of 1/4 for the years 2009 and 2010. If this ratio is applied as 3/4 in the whole 2010-2012 period, the balance of the Unemployment Insurance Fund will be deteriorated.
- The application of the temporary 23rd article of the Law No.4046, which stipulates that the Privatization Fund revenues shall be transferred to the budget to be used for energy and transportation investments, was suspended through the provisions added to the budget law. If this article is put into force again, it will be possible to use all the privatization revenues as budget resource, and a debt stock reduction in parallel to the new privatization revenues will not emerge.
- The current domestic debt stock will be adversely affected by the unexpected increases in the foreign exchange rates or interest rates, due to the foreign exchange, foreign exchange indexed and variable interest rate bonds.
- Although it is expected that the debt roll over ratios in 2009 will be around the levels of 2008, if the risk appetite in the global markets drops further, there might be a risk that the demand for borrowing auctions will decline. In this case, the domestic and foreign borrowing interest rates may increase.
- The sensitivity of the current public debt stock to the market risk has significantly declined compared to previous years but the excessive fluctuations in the markets can adversely affect the stock.

3.4. Quality of Public Finances

The use of the public expenditures as a policy tool to increase the potential growth rate has been more important especially during this time of the global crisis. Accordingly, the central government budget expenditures are used as an intervention tool for the total demand management, to the extent permitted by the medium term fiscal perspective determined for the support of production and employment.

In 2010-2012, the cash surplus of the Privatization Fund and the revenues of the Unemployment Insurance Fund will be used for GAP and other regional development projects, like before. Also, with the temporary 6th article of the Law No.4447, amended with the Law No.5921, the rate used for the calculation of the transfers from the Unemployment Insurance Fund to GAP Action Plan and other economic development and social development investments, was raised from 1/4 to 3/4. To this end, a total of 20.7 billion TL will be used for the GAP Action Plan and other economic development and social development investments in the 2008-2012 period.

It is planned that 450 million TL will be transferred to 26 development agencies in 2010, which were designed to help the local development potential and started their operations by the end of 2009. 1.4 billion TL is planned to be allocated to the development agencies for the period of 2010-2012.

As a result of the amendments in the Laws no 5350 and 5615, the scope of the subsidies for priority regions was extended and the eligibility conditions were improved. Furthermore, a new incentive model was developed on a regional, sectoral and project basis and accordingly, a legal arrangement was made allowing the application of reduced corporate tax for new investments, and the provision of the right of use for the properties of Treasury, when they are used as the locations of the investments. Also, the legal arrangement supporting the transfer of the production facilities of textile companies to the cities determined by the Council of Ministers through the use of tax advantage, has been completed and the period of the Law No. 5084 was extended for another year. Accordingly, within the scope of the Treasury incentive payments which are made in the form of current account transfer expenditures in the general government budget, an expenditure of 688 million TL for 2009 and 1.9 billion TL for 2010-2012 were projected.

For the R&D incentives managed by the Scientific and Technological Research Council of Turkey (TÜBİTAK), an expenditure of 750 million TL for 2009 and 1.9 billion TL for 2010-2012 were projected. In order to create a productive and competitive economic environment through the support of R&D activities, the Law No. 5746 was enacted to be effective until 2023. Under this Law, it is now possible to deduct 100 percent of the R&D expenditures from the tax liabilities while this has been applied as 40 percent under the Corporate Tax Law and Income Tax Laws since 2004. The law also enables withholding tax support for the income tax as well as the insurance premium for the R&D staff and offers techno-enterprise capital support for innovative ideas.

For the incentives offered by the Directorate for the Promotion and Development of the Small and Medium Scaled Enterprises (KOSGEB), an expenditure of 275 million TL for 2009 and 657 million TL for 2010-2012 were estimated.

The Project for the Support of the Infrastructure of the Villages (KÖY-DES), which has been implemented since 2005 and developed to meet the common needs of the local administrations such as drinking water, sewage and roads, will continue in 2010-2012. Accordingly, an expenditure of 500 million TL was estimated for this project in 2009. The expenditure for 2010-2012 has been estimated to be at 1.4 billion TL.

3.5. Institutional Features of Public Finances

Significant structural changes are being made to improve the institutional capacity in the public financial management. Some of the recent regulations designed for this purpose are presented below.

3.5.1. Public Financial Management and Control Law

The comprehensive training programs started by the Ministry of Finance in order to improve the professional qualifications of the financial service specialists appointed to the financial services departments of the public organizations after transfer examinations were completed at the end of 2008. In order to improve financial management and audit capabilities, an examination was held in 2008, and 231 assistant financial service specialists were recruited to the public institutions. A training program will be prepared and applied for these assistant financial services specialists.

In 2010, another examination is planned to be held for the vacant positions for assistant financial service specialists in the public institutions.

The Ministry of Finance prepared an Action Plan Guide for the Compliance with the Public Internal Control Standards and announced it to the public administrations on 4 February 2009 which will be used by the these administrations as a guide to their studies and action plans to ensure compliance with the Public Internal Control Standards. According to the Guide, the public organizations are supposed to prepare an action for their internal control systems and submit it to the Ministry of Finance. The public organizations submitted their action plans to the Ministry of Finance. Coordination and steering studies are being planned after the assessment and evaluation of these plans.

The twinning project called Strengthening the Public Financial Management and Control System in Turkey performed jointly by the UK Court of Accounts and the Ministry of Finance, has been approved by the European Commission and started its project activities as of 1 April 2009. Within the scope of the project, our existing public financial management and control system is compared with the EU legislation and the gaps were identified in a Gap Analysis Report and an Action Plan was prepared. In the further stages of the project, it is envisaged that basic and advanced level trainings will be given in the fields of financial management and control system, training documents will be prepared, trainer pools will be set and tertiary legislation studies will be carried out.

Within the scope of the studies which aims to improve the implementation capacities of the public institutions in the field of financial management and control, educative and instructional activities were done for primary actors of financial management and control system, and these kinds of activities will be continued further.

Secondary and tertiary arrangements with respect to the internal control will be reviewed and necessary amendments will be made.

Within the project of the Improvement of the Internal Audit Capacity in the Public Sector a grant agreement was signed between the Ministry of Finance and the World Bank on 16 March 2009. As of November 2009, 783 appointments were made to 1200 vacant internal auditor positions which were allocated for the institutions under the Decree Law No.190. A candidate selection examination for the internal auditor positions according to the 65th article of the Public Financial Management and Control Law No.5018 was held in July 2009. The internal auditor training of 128 people who passed the exam is still continuing and these training activities are planned to be completed in January 2010. In addition, the Guide on Quality Assurance and Improvement in Public Internal Audit and Guide on the Use of Information Technologies are expected to be published in 2010.

Table 3. 13: Secondary and Tertiary Legislation List of Law No. 5018

Name of the Arrangement	Legal Basis	Situation
Guidance of Action Plan for Harmonization with Public Internal Audit Standards	5018 Artc. 55	It was announced with the general letter of Ministry of Finance dated 04.02.2009 No. B.07.0.BMK.0.24-150/4005-1205.
By-Law on Amendment of By-Law on Determination of Internal Audit Candidates, Training and Certification	5018 Artc. 65	Published in the Official Gazette dated 20.12.2008 No. 27086
By-Law on Amendment of By-Law on Principles and Procedures about the Work of Internal Auditors	5018 Artc. 65	Published in the Official Gazette dated 20.12.2008 No. 27086.
Communiqué on Principles and Procedures about Determination of Internal Audit Candidates (No.3)	5018 Artc. 65	Published in the Official Gazette dated 05.04.2009 No. 27191.
2008 Public Internal Audit General Report	5018 Artc. 67	The decision of IDKK dated 30.06.2009 No. 38
General Communiqué on By-Law on Central Government Accounting (No. 2)	5018 Artc.34	Published in the Official Gazette dated 07.03.2009 No. 27162.
Communiqué on General Administration Financial Statistics (No. 2)	5018 Artc.52	Published in the Official Gazette dated 04.02.2009 No. 27131.
Communiqué on General Administration Financial Statistics (No. 3)	5018 Artc.52	Published in the Official Gazette dated 03.06.2009 No. 27257.
Communiqué on General Administration Financial Statistics (No. 4)	5018 Artc.52	Published in the Official Gazette dated 19.09.2009 No. 27354.

Source: Ministry of Finance
Note: Includes additional legislation presented in the previous PEPs..

3.5.2. Budget Accounting Code System and Fiscal Transparency

In order to create an implementation model that will ensure fiscal transparency through the reconstruction of the government budget, a new budget classification has been started within the scope of the Public Financial Management Project dated back to the 1995 which aimed to reconstruct the public sector, and as a result of the works carried out in collaboration with the IMF specialists, a new classification model based on the GFS and ESA 95 principles and standards, was designed.

The analytical budget classification was prepared in line with the international classification standards, and it has been practiced together with the program budget classifications in the years 2002 and 2003 in six pilot organizations which are Ministry of Energy and Natural Resources, Commandership of Coast Guards, Undersecretariat of Treasury, General Directorate of Highways, Hacettepe University and Ege University.

On the other hand, according to the (b) part of the 9th article of the Budget Law for the Fiscal Year 2003, it was stipulated that the fiscal plans and financial reports of all the public organizations included in the classification should be made compliant with the international standards and suitable for consolidation and transparency and accountability should be ensured. To this aim, the following organizations are required to prepare their budgets in line with the analytic budget classification.

- General budget departments and annexed budget organizations starting from 1 January 2004,
- Local administrations, social security organizations, regulatory and supervisory boards and which have a characteristic of public entities, Funds and institutions that receive aids and transfers from the budget, starting from 1 January 2005,
- Revolving funds and other public institutions starting from 1 January 2006 (except State Economic Enterprises).

The implementation has been started in line with the foreseen time schedule, as specified in this article.

With the enactment of the Law No.5018, the institutional coverage of the budget was extended and the Central Government Budget was prepared starting from 2006, and many institutions not covered by the budget before, were now incorporated in the budget.

Thus, in addition to the public institutions that are covered by the general budget and annexed budget that started to apply the analytical budget classification before 2006, the analytic budget classification were started in the new institutions that were included in the central management budget starting from 2006 as well. Finally, this new budget classification is being applied in the institutions under the framework of central government, local administrations and social security organizations, in other words all public institutions under the framework of general government.

One of the basic principles specified under the IMF's Code of Good Practices on Fiscal Transparency consists of some rules for budget preparation, application and reporting. Under the scope of that part compliance with international standards and accounting rules were handled in the reporting of the government accounts. In the context of the principle, the classification of the budget data is particularly considered. At the first stage, the necessity of the classifying the budget data according to the economic, functional and institutional classification specified in the GFS Handbook of IMF, and the obligation of presenting the budget data in a way to allow international comparisons, were referred to.

This reform has greatly contributed to the financial transparency through the improvement of the financial reporting capacity of the classification, after making the budget classification suitable for measurement, analysis and international comparison.

Also, 2010 budgets of the universities, and high technology institutes were collected on an organization basis instead of a budget classification based on administrative and academic units. The practice will be carried out on the basis of units, the costs of the Head Offices, Faculties and Universities will be recorded, monitored and reported. The purpose is differentiating the preparation and application levels of the budgets, and establishing a structure that enables the administrations to take more initiatives but this system monitors the realizations in detail.

In addition to the general government scope defined in the Law No.5018, the 52nd article of the Law No.5018 was amended with the Law No.5793 dated 24 July 2008, in order to allow compiling general government sector statistics in compliance with the ESA 95 standards, and the Ministry of Finance was authorized within this scope. With the amendment regulated in the 53rd article of the Law No.5018, arrangements were made to ensure that the administrations covered by the general government, send their figures on time.

With the effective date of the Communiqués on General Government Fiscal Statistics (No 2, 3 and 4), the legislation infrastructure was prepared for the compilation of the financial figures of the organizations that are covered by the EU Defined General Government Sector for the first time, and the software works for the compilation of the financial statistics of these organizations were completed.

The cash-based budget tables from the central government are being published regularly on a monthly basis. Among the accrual-based financial statements, balance sheet, trial balance, activity report, financial assets and liabilities table, domestic and foreign debt exchange tables are published on a yearly and monthly basis.

The cash based budget tables among the financial tables of the local administrations and among the accrual-based financial tables of the local administrations, the balance sheet, activity report, financial assets and liabilities tables are published on a yearly and quarterly basis. Studies are underway to ensure that the tables of the social security institutions are published on the web site on a yearly and quarterly basis.

3.5.3. Revenue Administration and Social Security System

Efforts to improve the implementation and auditing capacity of the Revenue Administration are carried on. To this end, Major Taxpayers Office was activated in the beginning of 2007. The third phase of the VEDOP project, which constitutes the basis of the technological infrastructure of the revenue administration, has been completed.

According to the VEDOP 3 work plan:

- The IT systems and infrastructure of 155 tax offices were renewed, 301 tax offices' capacities were increased through the purchase of additional IT systems and for 585 Directorates for Assets, IT systems were purchased and automation started.
- As of the end of April 2009, within the scope of the web-based central tax office project (e-VDO), 19,000 staff was trained and the system was spread to 301 tax offices and 585 Directorates for Assets.
- The IT systems and the infrastructure already in place in the IT center of the Revenues Administration Directorate were reconstructed and deployed in order to strengthen it and to ensure its continuance with a second Data Processing Center in another location in Ankara.
- Due to possibility of a disaster in Ankara which could render both systems out of service, the activities for deploying a Disaster Recovery Center in another city where the backup of the automation project of the Revenues Administration Directorate, will be kept, were completed in April 2009 and the system was started up. In the system, a limited number of users will be able to use the system.

Thus there are no more any units not covered by the automation project led by the Revenues Administration Directorate. The IT centers were strengthened and made ready to provide information and service to other public organizations within the scope of e-transformation projects.

On the other hand, the internet website of the Revenues Administration Directorate was renewed and as of 20 December 2008, the services from the New Internet Tax Office were started and the scope of the services was expanded. It is possible to log into the New Internet Tax Office with mobile signature and digital signature and to ensure more security.

The works on the preparation of the consolidated tax declaration form for the social security premiums and income tax will be continued in 2010.

With the Social Security Institution Law No.5502, SSI, Bağ-Kur and Pensioners Fund Directorates were all incorporated under the Social Security Institution. Under the new structure, Social Insurances Directorate, General Health Insurance Directorate, No-Premium Payments Directorate and Service Provision Directorate were built. Thus, the pensioner service, health-care financing and non-premium payments are planned to be collected under a single roof. The same Law also stipulated the establishment of locally organized, fully-automated social security centers in line with the single point of service principle, ensuring faster service for pensioners and the recipient of the health-care services. With the said Law, the institutional and administrative capacity was improved. Also this way the premium collection will be more effective and exploitations of the pensioner and health-care services will be prevented.

4. STRUCTURAL REFORMS

4.1. Enterprise Sector

4.1.1. Privatization

Within the scope of privatization implementations in 2009 the followings have been realized:

- Block sales of 100 percent shares of Başkent, Sakarya and Meram Electricity Distribution Companies,
- Sales of various immovables belonging to the Tobacco, Tobacco Products, Salt and Alcohol Enterprises Co. (TTA), Turkish Electricity Distribution Co. (TEDAŞ), Turkish Sugar Factories Co. (TŞFAŞ) and State Supply Office (DMO).

In 2008 after the sale/transfer processes had been completed, the total amount of the privatization implementations was at the level of 8.94 billion dollars, as of the end of 2009 this amount was realized as 2.27 billion dollars. The total amount of the privatization implementations, including TCDD Ports (İzmir, Derince, Bandırma and Samsun) and Electricity Distribution Companies (Aras, Osmangazi, Yeşilırmak and Çoruh) which are at the approval/contract stage is 3.26 billion dollars.

The privatization implementations of which sale/transfer were completed from November 2008 to the end of December 2009 were given at the table below.

Table 4. 1: Privatization Transactions Completed Between November 2008 and December 2009

Company	Privatization Transaction	Sales Price (Dollars)
Sakarya Electricity Distribution Company	Block sale	600,000,000
Başkent Electricity Distribution Company	Block sale	1,225,000,000
Meram Electricity Distribution Company	Block sale	440,000,000
Others	Sales and transfers of various real estates and facilities	8,824,755
TOTAL		**2,273,824,755**

The sale/transfer transactions regarding TCDD İzmir, Derince, Bandırma and Samsun Ports, Meram Electricity Distribution Company, and various immovables belonging to TTA, whose tender processes have been completed, are expected to be finished. Besides, the completion of the sale/transfer approval and contract stages of Aras, Osmangazi, Yeşilırmak and Çoruh Electricity Distribution Companies, whose tenders were performed in 2009, is expected. Furthermore, the offers were received for the tender related to the privatization of İzmir Çamaltı and Ayvalık saltworks belonging to TTA.

The tender related to the privatization of the national lottery games by means of issuing a licence was cancelled due to the fact that the bidders did not raise their offers during the auction. Efforts are carried on to call the tender again.

In order to privatize Kars, Erciş, Ağrı, Muş and Erzurum Sugar Factories belonging to TŞFAŞ as A portfolio group, as a whole, via asset sale and negotiation method, a tender announcement was made on September 24, 2008; however, due to fact that there was no offer for the portfolio group, the tender was cancelled on November 28, 2008. The privatization tender of Başkent Natural Gas Distribution Co. was cancelled due to the default of the tenderers to perform their obligations, and upon the Decision of Privatization High Council No. 2009/43, dated July 02, 2009, 80 percent of the shares of the Company belonging to the Greater Municipality of Ankara was included in the scope and programme.

In order to privatize Kastamonu, Kırşehir, Turhal, Yozgat, Çorum and Çarşamba Sugar Factories belonging to TŞFAŞ as C portfolio group, as a whole, via asset sale and negotiation method, a tender announcement was made on 11 September 2009; at the final negotiation meeting held on 08 December 2009, the maximum offer 606 million dollars was received; however, the implementation of the tender announcement and terms of reference was suspended upon the decision of the Council of State on 30 December 2009.

In order to privatize Malatya, Erzincan, Elazığ and Elbistan Sugar Factories belonging to TŞFAŞ as B portfolio group, as a whole, via asset sale, a tender announcement has been made. Besides, for 52 small river power stations belonging to EÜAŞ, the tender has been called. In addition, the tender announcements have been made for the block sales of 100 percent shares of Çamlıbel, Fırat, Uludağ and Vangölü Electricity Distribution Companies. Another tender announcement has been made for the privatization of 20 percent public shares in Kazakistan JTI Central Asia LLP Company.

4.1.2. Competition Law and Policies

Amendments made to the Act on the Protection of Competition No. 4054 in 2008 enabled the imposition of administrative fines calculated based on annual gross revenue instead of fixed administrative fines, levying of administrative fines against the executives and employees of the infringing undertakings or associations of undertakings to the extent that they are found to have had decisive influence on the infringement, and provision of reduction on or immunity from fines in case of active cooperation with the Competition Authority to uncover the infringements of competition. In accordance with these legal amendments, two bylaws were adopted in 2009 regarding the points to be taken into account in setting the administrative fines to be levied by the Competition Authority, and regarding the bases of cooperation and the terms of immunity from or reduction on fines in case of cooperation. These bylaws aim at increasing clarity, consistency and deterrence in setting and enforcing fines, and ensuring an effective legal structure for the prosecution of cartels that is in line with international standards. In addition, the Competition Authority adopted guidelines regarding the implementation of the relevant articles of the Act on the Protection of Competition No. 4054 to technology transfer agreements, and new and more comprehensive guidelines replacing the guidelines regarding vertical agreements that were adopted in 2003.

Although the antitrust legislation in Turkey is in line with the EU legislation to a great extent, certain changes are needed both in the institutional structure and in the competition legislation, given the implementations of Turkey to this date and the EU implementations and legislative amendments. A bill drawn up for the fulfillment of these needs has been forwarded to the TGNA.

Preparations are underway to draw up a guide on competitive impact assessment which is part of regulatory impact analysis and allows regulations to be designed in a way to be as less anticompetitive as possible. This Guide, which will be drawn up taking international practices into consideration and soliciting the views of the relevant national authorities, is expected to be an effective legal instrument for competition review during legislation preparation. The Guide is also expected to contribute to the institutionalization of the competition advocacy role of the Competition Authority.

Taking also account of international experience, a cooperation protocol has been signed between the Competition Authority and the Public Procurement Authority. The protocol aims at providing a suitable framework for fighting against competition problems in tenders that are opened by public administrations, and thus help more efficient utilization of public resources.

The bill that envisages the establishment of a unit to bring the state aid system in line with the EU acquis, to make the system more transparent and efficient, and to monitor and oversee it from a competition perspective, has been drawn up under the responsibility of the Undersecretariat of Treasury. The bill is expected to be enacted in 2010.

4.1.3. Improvement of the Investment Environment

The studies made for the improvement of the Investment Environment since 2001 aim at rationalizing the procedures with respect to the investments and increasing the foreign direct investment.

Within this framework, a significant progress has been recorded in recent years in improving the business climate and an escalation in investments has been accomplished with the realization of various regulations, primarily ensuring macroeconomic stability in Turkey.

In the beginning of 2009, Technical Committees, established under the Coordination Council for the Improvement of the Investment Environment (YOİKK), announced their action plans which were revised in cooperation with public and private sector in the beginning of 2009. At the YOİKK Steering Committee, the mutual issues are discussed, the developments in the action plans are evaluated and solutions sought for the problems raised.

The Decision related to the state aids for the investments with respect to the new investment incentive system is published in the Official Gazette on 16 July 2009 and put into effect.

Medium Term Strategic Targets for Turkey Investment Support and Promotion Agency was published in December, 2008 which was prepared by Turkey Investment Support and Promotion Agency taking into consideration the views and recommendations of the private sector.

The Council of Ministers' last Decree is published as of July 2009 with respect to the establishment of Development Agencies and the preparatory work related to this matter is carried on. In 2010, Investment Support Offices (ISOs) which aim to shorten and simplify the investment process by supporting investors during permit and license procedures, are planned to be widely established and operational.

Studies are carried out under the coordination of the Ministry of Industry and Trade regarding the development of an entrepreneurship information system which contributes to the investors and other users in the markets to make more reasonable decisions, by collecting, updating and presenting the industry and trade sectors' data in an integrated, systematic and coherent manner

The permissions given regarding emission, discharge, noise control and deep sea discharge within the framework of the legislation prepared by the Ministry of Environment and Forestry to be integrated into a single permission under the name of Environmental Permission and the regulation[10] arranging related permission procedures in electronic environment will be put into force as of 1 April 2010.

The obligation for a direct application to the Ministry of Environment and Forestry for the control of packaging wastes has been eliminated by transferring the said controlling authority to the provincial directorates with an amendment made in the secondary regulation[11].

4.1.4. Utilities and Network Industries

4.1.4.1. Energy

The studies for the liberalization of the energy market have also been carried on in 2009. A considerable progress has been achieved in the field of privatization of electricity generation and distribution which is an important component for the establishment of a fully competitive environment in the electricity market. In the natural gas market, there has been a significant progress in contract transfers which are assumed as one of the most important components of the liberalization. The contract transfers are expected to play a facilitating role for providing the private sector to enter upon the long term natural gas purchasing agreements.

The expected benefits of the privatization include the reducing costs by efficient management and reflecting them to consumers, decreasing high energy losses, empowerment of

[10] Regulation on Permission and Licences required by Environmental Law (R.G. 29.04.2008/27214)

[11] Regulation with respect to the Amendment in the Control of the Packing Wastes Regulation (R.G.06.11.2008/27046).

the financial structure of the sector by increasing accrual and collection rates, advancement the contribution of the private sector for supply security, and finally the realization of the renovation and expansion investments by the private sector.

In the electricity sector the privatization processes of 4 distribution companies have already been completed. In 2008, the share of these four distribution companies (Sakarya, Başkent, Meram, Aydem) in terms of electricity sales via distribution lines has been 22 percent. That is to say, approximately a quarter of the electricity distribution system is actually privatized. On the other hand, the privatization tenders of four distribution companies (Osmangazi, Yeşilırmak, Çoruh, Aras) have been completed and the approval procedures of these tenders are in progress. In 2008, the share of these four distribution companies in electricity sales has been 9.7 percent. It is envisaged that after the completion of approval processes the share of the privatized regions in electricity sales will exceed 30 percent. Besides, on 10 November 2009, a new privatization tender has been announced for four distribution companies (Uludag, Çamlıbel, Fırat, Vangölü). In 2008, the share of these four distribution companies in electricity sales has been 16.3 percent. Privatization works for the other distribution companies existing in privatization portfolio will be maintained also in 2010.

The first development that has to be mentioned in electricity sector within the context of generation privatization is the transfer of 7 hydroelectric power plants and the biggest geothermal power plant of Turkey operating in Denizli run by public institutions to a private sector institution by an agreement signed on 1 September 2008. The total installed power of these plants is 140 MW. Negotiations are carried on for increasing the capacity of the geothermal power plant to 3 times and receiving support for this from the GeoFund Project which has been initiated by the Global Environment Fund (GEF) and World Bank. Another important development is, upon the announcement published by the Privatization Administration on 2 December 2009, the commencement of privatization procedures for 52 small hydroelectric power plants belonging to EUAS. These power plants, which have produced 222 million kWh electricity in 2008, have a total 142 MW installed power. The successful privatization of these power plants of which all can be considered as renewable sources may play a pioneering role for the privatization of bigger capacities.

The Natural Gas Market Law No 4646 indicates that in order to establish free competition in the import market, the public institution BOTAŞ will transfer a certain amount of the existing importation contracts to the importation companies by tendering and with an annual rate above 10 percent until 2009. In 2005, a tender has been announced by BOTAŞ for an amount of 16 billion m3 (cubic meter) per year (approximately 64 percent of the market), however proposals have been made for only 4 billion m3 per year. Within this scope, in 2007 a new supplier (Shell) whose procedures were completed has been included in the competition market. On 3 January 2009 BoshrorusGas has also been included into the competitive free market, and the amount this company owns is 750 million contract-m3 per year. From the viewpoint of other corporate bodies, for Enerco Energy 2.5 billion contract-m3 per year and for Avrasya Gas 500 million contract-m3 per year, a total 3 billion contract-m3 per year natural gas contract transfers have been put into effect on 1 April 2009.

A new pricing mechanism has been developed in order to increase the competition in the market, strengthen the financial structures of the companies operating in this sector and facilitate the privatization process. In this regard, the Cost Based Pricing Mechanism (MBF) for the electricity and natural gas sale prices has been put into effect on 1 July 2008 upon the Decision of High Planning Council No 2008/T-5, dated 14 February 2008. This mechanism is based on automatic updating of the final consumer prices within the frame of the differences in input prices and differences in inflation and exchange rates. Hereunder, the electricity prices of the energy SEEs are revised every 3 months and natural gas prices are revised monthly according to the formulas determined within the frame of the MBF Mechanism. This implementation has been kept on in 2009, too.

In the Electricity Energy Market and Supply Security Strategy Document published as the Annex of the Decision of High Planning Council No 2009/11, dated 18 May 2009, certain important targets have been determined for the purpose of increasing competition in the electricity market and facilitating the transition to the free market. Within this scope it has been decided that:

- A secondary legislation will be created in line with the legal regulations prepared to enable the distribution companies with a retail sale licence which are obliged to meet the energy demand of the consumers to sign medium and long term energy purchasing contracts with the generation companies and wholesale companies, and the free consumers with their chosen suppliers;
- The existing balancing and settlement system managed by the Market Financial Settlement Centre will be primarily transformed into a day-ahead market and real time balancing power market;
- At the second stage which will start by 1 January 2011, instead of day ahead planning, transference to the Day Ahead Market which is a spot market in which the market participants are enabled to operate for the purpose of balancing their own portfolios and presenting a system balanced day ahead to the System Manager will be realized;
- For the purpose of realization of new generation investments, the market structure based on the energy trade will be supported, and the capacity building and capacity trade mechanisms will be developed;
- A Futures Contracts Market will be created in medium term to make the forecasts related to the future supply-demand balance and energy prices more realistic;
- The free consumer limit will be declined regularly in order to increase the market openness rate in the consumption area; until the end of 2011 every consumer will become a free consumer with the exception of dwellings, and until 2015 every consumer will become a free consumer;
- The distribution companies which carry out the distribution, generation and retail sale activities together will dissociate these activities until 1 January 2013; as of this date the aforesaid activities will be performed under different corporate bodies, and the amendments and regulations that are required to be made in the electricity market secondary legislation for the realization of this implementation will be completed by the Energy Market Regulatory Authority in 2012.

This document which can be considered as a guideline for the electric energy sector forms a framework for the development activities of the free market.

4.1.4.2. Telecommunications

Law No. 4502, which was put into force in 2000, paved the way to liberalization process in the telecommunications sector in Turkey and Telecommunications Authority[12] was established as the independent regulatory body. On the other hand, in accordance with the same Law, monopoly rights of the incumbent operator Turkish Telecommunications Co. (Türk Telekom) have expired at the beginning of 2004 and competition was introduced in the sector.

The main target of Information Technologies and Communications Authority (ITCA) is to achieve full liberalization in the sector. Effective conducting of regulatory and supervisory activities by the Authority is crucial to establish a sustainable competitive environment in the sector. On the other hand, ITCA and Competition Authority are consulting each other with regard to decisions on the telecommunications sector.

[12] Electronic Communications Law (Law No. 5809), which came into force on 10 November 2008, altered the name of the Telecommunications Authority as Information Technologies and Communications Authority.

ITCA has completed sectoral secondary legislation and authorized several operators since its establishment. In order to be able to deliver services, it is indispensable for these operators to interconnect with the incumbent operator under reasonable terms and access to some infrastructures it controls. To this end, relevant markets and operators with significant market power (SMP) in these markets have been identified. SMP operators send their reference access and interconnection offers to ITCA and these are published after the approval of the Authority. Standard reference interconnection charges of the incumbent and GSM operators are provided in the following table with their effective dates.

Table 4. 2: Standard Reference Interconnection Charge Tariffs

Enforcement Date	Call Initiation and Call Termination Charges on Turk Telekom Network (Kr/min.)			Call Termination Charges on GSM Networks (KR/min.)		
	Local	In-zone	Out-zone	Turkcell	Vodafone	Avea
01.01.2007	-	2.00	3.7	14.0	15.2	17.5
01.03.2007	-	1.89	3.0	13.6	14.5	16.7
01.04.2008	-	1.71	2.7	9.1	9.5	11.2
01.05.2009	1.39	1.71	2.7	6.55	6.75	7.75

Source: Information Technologies and Communications Authority

As indicated in the table, interconnection charges of SMP operators have been reduced considerably in the previous period. Furthermore, local interconnection charge tariff was also determined for fixed networks as of May 2009.

Turk Telekom has updated its reference offers related to local loop unbundling and bitstream access in September 2009, and reduced some wholesale tariffs. For the purpose of increasing share of alternative operators in broadband access market, regulations were made in favor of alternative operators to facilitate subscriber transfers. Following these regulations, it is observed that alternative operators are taking more active role in the broadband access market.

As of May 2009, the operators who had formerly been authorized within the scope of long distance telephone services were authorized as fixed telephone service operators to provide fixed telephony services, which also cover local calls. Geographic number portability was legally put into force in September 2009. Share of alternative operators in the fixed telephony market is expected to increase with widespread implementation of this practice in the period ahead.

Table 4. 3: Market Shares

	Market Share of Turk Telekom (percent)			Market Share of Alternative Operators (percent)		
	2009 Q1	2009 Q2	2009 Q3	2009 Q1	2009 Q2	2009 Q3
Intercity call initiation traffic	88	89	87	12	11	13
Call initiation traffic towards mobile networks	85	85	84	15	15	16
International call initiation traffic	80	82	84	20	18	16
International call traffic terminated on the fixed network	51	52	57	49	48	43
International call traffic terminated on mobile networks	65	58	69	35	42	31
Total fixed telephony traffic	96.27	96.14	95.45	3.73	3.86	4.55
Broadband access (in terms of subscriber numbers)*	92.4	91.5	88.2	5.8	6.5	6.3

Source: Information Technologies and Communications Authority
* These figures do not cover broadband technologies other than xDSL.

Shares of alternative operators in the broadband access market and markets related to fixed telephony services, in which they compete with the incumbent, are indicated in the table above.

Fierce competition exists among 3 mobile services operators and mobile number portability, which was introduced in November 2008, drove competition further in this field. As a consequence of considerable reduction in call termination charges in mobile networks and introduction of mobile number portability, it is observed that mobile network operators are introducing mobile tariff structures to the benefit of users that render calls towards other networks attractive.

In 2008, besides regulation and authorization activities in the telecommunications sector, auditing activities also gained importance due to market requirements. All audits are conducted by ITCA based on annual auditing plans, in accordance with the By-Law on Methods and Principles of Auditing Activities of the ITCA, which was published in the Official Gazette No. 26478, dated 30 March 2007. In the first half of 2008, 34 operators have been audited in 12 different topics. These audits are important in terms of the implementation of the regulations.

Technical Aid Project on the Development of Access Framework in Turkish Telecommunications Market, which was carried out as part of EU Financial Aids and targeting to equip the regulatory authority with necessary experience and competency regarding cost models and imposition of accounting separation principles to ensure cost-based access pricing in the context of EU regulatory framework, was initiated in January 2008 and completed in November 2008. Cost-based prices to be determined by ITCA will support advancement of competition in the sector and provision of cheaper and quality services for consumers.

4. 2. Financial Sector

4.2.1. Banking Sector

Since the fundamental secondary regulations regarding banking sector were completed to a large extent, amendments were made in the existing regulations in light of new requirements by the regulations made in 2009.

The issues becoming prominent in the banking sector within the scope of Turkey’s Programme for Alignment with the Acquis and National Programme of Turkey for the Adoption of the EU Acquis for 2008 are harmonization to Basel II and Capital Requirements Directive enhancement of corporate risk management and consolidated supervision.

In the current situation, the capital adequacy in Turkish banking system is calculated based on the Regulation on Measuring and Assessing Capital Adequacy of Banks published on the Official Gazette dated 1 November 2006. One of the fundamental amendments set by Basel-II was met by the mentioned Regulation and operational risk item has been included in the capital adequacy calculations as of June 2008. Therefore, capital adequacy calculation partially in compliance with EU Directives regarding Basel-II has been commenced. Currently, the works regarding implementation of Basel II by the banks operating in Turkey have been continued by Banking Regulation and Supervision Agency (BRSA) within the framework of the National Programme and Alignment Programme to EU Acquis. BRSA became a member of Basel Banking Audit Committee in May 2009. It is planned to publicize the draft of amendment in capital adequacy regulations regarding ensuring full harmonization as of 2010.

Within the scope of the regulations regarding corporate governance, the obligation to establish an audit committee was imposed for the banks, it was provided for the member of audit committee to be formed by independent members who did not have any duty regarding execution and the duties and responsibilities of the audit committee were determined by considering the OECD corporate governance principles. The regulations regarding internal control, internal audit and risk management systems of the banks, audit committee and corporate governance principles to be considered by banks were made in parallel with corporate governance principles of Basel Committee. Duties and responsibilities of the board of directors, audit committee and top management regarding internal systems were determined in detail separately and extensively by considering implementations of similar countries. Moreover, as well as the risks of banks arising from their activities are being monitored continuously, preparations for regulations, on the determination of the principles regarding management of risks such as credit risk, liquidity risk, interest rate risk in banking accounts that are also covered in details in audit guidebook for the audits to be held by BRSA, are in progress.

Within the scope of the regulations regarding establishment and operations; the provisions and consolidated supervision to which financial holding companies shall be subject to, have been covered by the Banking Law in line with the alignment with the EU acquis. The detailed regulations on financial holding companies are planned to be done afterwards. Since the companies classified as financial holding companies are subject to supervision and audit of different institutions in Turkey, it is required to determine the principles and procedures regarding financial holding companies jointly by CMB, Undersecretariat of Treasury and BRSA, which are the responsible institutions for regulation and supervision of banking, insurance and investment companies. Efforts for providing coordination between these institutions about this subject have been commenced.

In order to provide financial leasing, factoring and financing companies to act within the framework of legal supervision that can satisfy today's requirements, The Draft Bill on Financial Leasing, Factoring and Financing Companies and in order to solve problems faced during the implementations, Draft Bill on Amending the Banking Law, were shared with the public and submitted to authorities.

In parallel with the mentioned developments, the Communiqué on Amending the Communiqué on Measurement and Evaluation of the Liquidity Adequacy of Banks was put into effect on 23 January 2009. On the same date, the Regulation Amending the Regulation on Operations of Banks Subject to Permission and Indirect Shareholding was published. With this regulation an amendment was made for Banking Regulation and Supervision Agency to be able to change the consolidated or unconcealed standard capital adequacy ratio of 12 percent, to a level that is compatible with the existing conditions rapidly, for the banks that establish or participate in branches in off-shore banking zones,.

On the other hand, depending on the developments in the global economy, the Regulation on Amending the Regulation on the Principles and Procedures for Determination on Qualifications of Loans and Other Receivables by Banks Provisions to be Set Aside was put into effect on 23 January 2009 in order to develop credit supply of banking sector considering the solvency of credit indebted firms and households.

Besides, with the Regulation Amending on the Regulation on the Principles for the Management of Information Systems of the Banks dated 24 January 2009, the measures to be implemented by banks in order to provide business continuity were reordered for constructing a proper backup infrastructure, business continuity and recovery plan.

Together with the establishment of Turkish Accounting Standards Board and the publishing of the national financial reporting standards, which is a translation of international financial reporting standards, the legal amendments were finalized for the banks to use these standards. The financial statements that are announced to public and the notes and footnotes regarding these statements, have been updated within the framework of developments in international financial reporting standards. For the alignment with the EU acquis, amendments were made on the communiqué on regulating the consolidated financial statements and with in this communiqué, the obligation to report the financial statements of all subsidiaries, whether or not subsidiary is a financial institution, under the consolidated financial statements of the main bank, has been imposed.

On the other hand, in order to enhance the international cooperation, while the routine relations were continued between BRSA and international institutions and relevant authorities in other countries, the number of memorandum of understanding increased to 20. In 2009, the cooperation among regulatory and supervision institutions have been enhanced within the framework of G-20 platform. Within this framework, while BRSA participated in the international working groups active, the experiences of Turkish banking system about crisis management and restructuring were shared with international public and the membership of our country to Financial Stability Board was realized.

In addition, efforts were made regarding enhancing the cooperation among domestic authorities in 2009. Within this scope, the Protocol on Systematic Risk Cooperation in Financial System was signed between the Undersecretariat of Treasury, BRSA, Saving Deposit Insurance Fund and Central Bank and put into effect. Besides, the Financial Sector Commission Portal was developed and became available for the use of members.

The efforts have been continuing for minimizing the burden imposed on the public within the process of dissolving the banks under SDIF. In this context, between the date of transfer to SDIF and September 2009, a total of 18.6 billion dollars was collected from claims under legal prosecution, claims restructured for an agreed payment plan, sales of participations, affiliates, property, security and bank sales by SDIF, and further collection of 3.6 billion dollars is expected in proceeds by the end of 2018. Besides, the works of legislative amendment for full harmonization with the EU Directive on Deposit Insurance, which was amended in 2009, are continuing by the SDIF.

4.2.2. Capital Market

At the end of 2008 and in 2009, the following steps were taken in order to protect investors in the capital markets and create a stable and efficient market considering the EU directives.

- Umbrella-fund has been enabled by the amendments made in investment funds communiqué, the implementation regarding assessing together the establishment and registration applications of the funds different from the hedge funds and exchange traded funds and finalizing them has been made, and the scope of the securities that may be included in the investment fund portfolio has been extended.
- With the amendment made in the Communiqué on the Procedures regarding Venture Capital Investment Trusts, regulations regarding the partnerships willing to issue their stocks only to qualified investors were made, and the areas on which only venture capital investment trusts may invest were extended.
- A guidebook explaining corporate governance implementations that may be based on by unlisted companies was prepared. Moreover, contribution is provided for the works regarding completion the infrastructure required for determining and implementing the corporate governance principles in state owned firms.
- Works have begun about the report which is to be prepared in order to determine problems and legislation amendments required to be made in the subjects of Director Liability and Shareholder Suits included in Doing Business Reports prepared by the World Bank and to define elements that may be used as listing requirement from good corporate governance practices.
- Within the scope of secondary regulations regarding housing finance system, the Communiqué on the Principles regarding Asset Backed Securities was published.
- Two communiqués were published in order to solve the problems faced in implementation of and harmonization with EU regulations on public disclosure and the collection of share certificates.
- With the amendment made in Futures and Option Exchanges Regulation, the foreign investors have been enabled to transfer the positions and guarantees they obtained in TURKDEX to the banks recognized internationally and having credit relation with them.
- In the context of the bilateral cooperation technical assistance provided by member states in the EU candidacy process, an effective supervision mechanism was formed within the scope of the project of Establishing Effective Supervision System for Financial Reporting by Listed Companies, risk analyses of listed companies was made and detailed analyses were commenced. Within the scope of the project of Establishing Effective

Supervision System for Financial Reporting by Listed Companies and Establishing More Effective Remote Supervision System for Intermediary Institutions Operating in Capital Markets financed by Dutch government, a pilot study was realized in order to establish a more effective supervision system for intermediary institutions and the works regarding implementing the remote supervision project on all intermediary institutions are in progress.

- Existing 7 communiqués were consolidated by publishing a new communiqué regarding registering the borrowing instruments in the board and the communiqués regarding partnership warrants and intermediary institution warrants were put into effect.
- The tests of the project targeting to realize the function of public disclosure, which was realized by CMB-ISE-TUBITAK and by publishing financial statements, special case disclosures and other notifications on the Internet by using electronic signature, with lower cost and more rapidly, safely and effectively were completed, and the public disclosure platform was begun to be used as from June 2009.

The list of actions to be carried out in the period of 2010-2012 in order to increase supply and demand in capital markets, ensure confidence and stability in the markets, create legislation in compliance with the EU and international standards, and establish infrastructure necessary to implement such legislation are as follows:

- The works to prepare a bill for harmonization with EU regulations are in progress. Following the enactment of law, works for secondary regulation, which supervise the compliance with EU regulations and market requirements, shall be made.
- Within the scope of 2008 programming EU Pre-Accession Financial Assistance, the project titled Enhancing Capacity of CMB was accepted by EU. With this project, it is targeted to prepare draft regulations for the harmonization of CMB to EU legislation, finalize the works for enhancing capacity regarding implementation of new regulations effectively and to enhance the capacity of information technologies. The project regarding raising the capacity of information process capacity consists of 3 main parts as Advanced Surveillance Project, Electronic Application and Data Gathering System Project and Strategic Information Systems Planning. The process for preparing auction documents regarding these projects planned regarding enhancing the capacity of information process.
- Amendments shall be made in capital market legislation regarding collective investment institutions by considering compliance with EU acquis in order to enhance collective investment instruments, the issues preventing development of the system shall be reviewed and regulations shall be made regarding new products such as real estate investment fund and venture capital investment fund.
- Regulations shall be made regarding classification of financial services within the framework of EU acquis and structuring of such services by providing flexibility to customers in order to satisfy the needs of customers.
- Steps shall be taken to enable companies go public in stock exchange and increase the public shareholding ratios; the capital market legislation shall be reviewed for this purpose. Besides, steps shall be taken in regarding facilitating delisting of companies from Board and ISE. Works for changing prospectus formats of capital market instruments used in public offerings by considering EU regulations shall be performed.
- Steps for updating the procedures regarding mergers of public companies shall be taken in order to remedy the problems stemming from EU regulations and implementations.
- Regulatory works regarding publicizing the information concerning future shall be performed.
- Works for assessing the obligation to distribute dividend shall be performed; relevant regulations shall be updated according to the results to be obtained.

- Works for amending the Communiqué on Principles for Board Registration and Sale of Foreign Capital market Instruments in compliance with EU regulations shall be performed. Besides, works for extending the scope of Investors Protection Fund in a way to cover other securities shall be performed.
- Works shall be performed for developing the infrastructure regarding local government debt instruments, commercial paper, derivative products, interest-free financing instruments and bringing private sector debt instruments into force in order to develop new financial products and enhancing transaction volume of existing financial products. Works for securitization and bringing housing finance market into force shall be performed.
- The Market Abuse Audit Project, which was financed by the Dutch government and realized together with The Netherlands Authority for the Financial Markets, having the purpose of developing the audit capacity of Capital Markets Board shall be completed. Steps shall be taken for introduction of financial instruments and markets and informing the investors on these issues. For this purpose, various activities shall be arranged and the internet site of CMB shall be reviewed.
- Within the framework of Strategy and Action Plan for Istanbul International Financial Center, works shall be performed together with other institutions in order to enhance the competition capacity of Istanbul against other financial centers; in particular, it shall be targeted to increase the effectiveness in protection of investors and to raise the grade of Turkey against other countries with which it is compared within the scope of the Doing Business Project which has been carried out by the World Bank since 2001. For this purpose, contribution shall be provided for the works carried out by other institutions.

4.2.3. Insurance Sector

Important developments were experienced in insurance and private pension markets 2009. As a result of these developments, insurance sector reached a more competitive structure and remarkable improvements were provided in terms of the quality of service supplied to the citizens.

As a result of the importance given for training activities in the insurance sector, a total of 41,500 agency and technical personnel shall be received training as of the end of 2009, within the framework of the trainings arranged by Insurance Training Center throughout the country for insurance agencies in order to provide for the citizens to receive a better service regarding insurance products.

Within the scope of the Insurance Law No. 5684, efforts for making Insurance Arbitration System actually functioning were completed. Within this scope, 38 insurance companies became members of the arbitration system and there are 108 insurance arbitrator registered in the Arbitration Commission. With the mentioned system, it is targeted to solve the conflicts stemming from insurance contracts through insurance arbitrators in a period of 4 months at the latest without any need to apply to legal jurisdiction authorities.

4.3. Labor Market

Within the framework of employment focused sustainable growth and towards a competitive economy and information society, the basic priorities are to develop employment opportunities, reduce unemployment, enable labor market to function effectively, establish an effective relation between education and employment, enable shifting of labor exiting from the agricultural sector to other sectors and promote active labor market policies.

The population of Turkey was 71.5 million people as of 31 December 2008. According to temporary estimations based on the results of Population Registry System Based on Address, the mid-year total population is expected to be 71.9 million in 2009 and reach 72.7 million in 2010.

Table 4. 4: Share of Age Groups in Total Population

(Percent)

	0-14 Age Group		15-64 Age Group	
	2000	2008	2000	2008
EU - 25	16.7	15.7	66.9	67.1
Turkey	30.0	26.3	64.7	66.9

Source: TURKSTAT. EUROSTAT

While the share of 0-14 age group in the total population is decreasing, the share of working age population and elderly population is increasing in our country. In 2008, working age population increased by 1.6 percent and employment increased by 2.2 percent compared to the previous year. With the impacts of the crisis that became evident as of the last quarter of 2008, in the households that faced an actual reduction or the risk of a reduction in their family income, persons who were out of the labor force previously started seeking jobs and thus, the labor participation rate increased remarkably. As a result of this development, significant increases were recorded in the number of unemployed starting from the last quarter of year. As a matter of fact, the number of unemployed increased by 9.9 percent in 2008 compared to the previous year. The number of discouraged workers, who do not participating in the labor force but are ready to work even though they are not seeking jobs, increased by 6.2 percent. The decrease in the number of discouraged workers in rural areas, in fact, limited this increase.

Together with the effects of global crisis, the trends in the sectoral distribution of employment also reversed. The share of agricultural employment in total employment, which generally displays a downward trend, increased by 0.2 percentage points in 2008 compared to the previous year and increased to 23.7 percent from 23.5 percent, and the employment in this sector by 149,000 people. Despite the global crisis, 305,000 new jobs were created in non-agricultural sectors. In this period, maximum employment increase was recorded in the financial sector with an increase of 10.8 percent.

Table 4. 5: Basic Employment and Labor Indicators

(Percent)

	Turkey				EU-25			
	2005	2006	2007	2008	2005	2006	2007	2008
Labor Force Participation Rate (15-64)	51.4	50.2	50.2	50.8	70.3	70.7	70.9	71.4
- Female	26.5	26.1	26.1	26.9	62.8	63.4	63.7	64.3
- Male	76.2	74.4	74.4	74.8	77.9	78.0	78.1	78.4
Employment Rate (15-64)	46.0	45.9	45.8	45.9	64.0	64.8	65.8	66.3
- Female	23.7	23.9	23.8	24.3	56.6	57.6	58.6	59.4
- Male	68.2	68.1	68.0	67.7	71.4	72.1	73.0	73.2
Unemployment Rate (15+)	10.6	10.2	10.3	11.0	9.0	8.2	7.2	7.0
- Rural	6.3	6.2	6.8	7.2	-	-	-	-
- Urban	12.8	12.2	12.0	12.8	-	-	-	-
Non-Agricultural Unemployment Rate	13.5	12.7	12.6	13.6	-	-	-	-
Youth Unemployment Rate (15-24)	19.9	19.1	20.0	20.5	18.5	17.1	15.3	15.5

Source: TURKSTAT. EUROSTAT

The labor force participation rate in Turkey is significantly lower than EU averages. In 2008, the participation rate (for the age group of 15-64) was 50.8 percent in Turkey, whereas it was 71.4 percent in the EU-25. The main reason behind these low figures is the very low level of female labor force participation.

Although more women have begun to look for jobs with the effects of the global crisis starting from the midyear of 2008 and more women have participated in the labor force, female labor force participation rate is still much lower than that of male, both in rural and urban areas. As a matter of fact, while male labor force participation rate was 69.5 percent in urban areas and 71.6 percent in rural areas in 2008, female labor force participation rate was 20.8 percent and 32.9 percent, respectively. After migrating from rural to urban areas, women, who were previously employed in agricultural activities in rural areas, cannot participate in the labor force because of the insufficiency of their qualifications for urban jobs. Besides, even when they are employed, they generally work with low wages and in the informal economy. This situation creates an impediment in front of the entry of women in the labor market.

Although there is some progress in recent years in terms of the fight against informal employment, informal employment continues to be one of the major problem areas of the labor market. According to the Household Labor Force Survey (HLFS) figures in 2008, 43.5 percent of total employment is informal, whereas this figure is 29.8 percent in the non-agricultural sectors. The high rates of informal employment create a dual structure in the labor market and lead to unfair competition among enterprises.

Various forms of flexible working, prevalent in EU countries, cannot be used effectively in our country. Dissemination of flexible working conditions is of particular importance to increase employment, to reduce unemployment and informal employment, and to increase employment of women and disadvantaged groups within the context of social inclusion. In order to disseminate flexible working conditions in the labor market, it is important to encourage flexible working conditions and enhance their relation with social security.

Increasing schooling rates is necessary regarding the fact that labor force participation rates increase along with education level. Analyzed by periods, it is observed that the schooling rates increased significantly. However, although the number of students increased in secondary education, it should be noted that the schooling rate decreased to 76.6 percent due to the increase in the age population since the duration of secondary education is extended to four years.

Table 4. 6: Trends in Gross Schooling Rates

(Percent)

Level of Education	1998-1999 (1)	2007-2008	2008-2009
Pre-School (2)	10.2	29.9	33.9
Primary Education (3)	94.3	104.5	103.8
Secondary Education (3,4)	57.1	87.5	76.6
- Standard High Schools	32.2	53.4	45.4
- Vocational-Technical High Schools	24.9	34.1	31.3
Higher Education Total (5)	16.3	47.8	54.2
- Formal	9.0	30.1	35.3

Source: Ministry of National Education. Higher Education Council (YÖK).
(1) Compulsory basic education was extended to 8 years.
(2) Calculated for 4-5 age group.
(3) Air-correspondence primary and high school students are included.
(4) Starting from 2008-2009, 14-17 age group is used for the calculation of schooling rates.
(5) These figures include students in universities and other education institutions but exclude graduate students; for 17-20 age group.

In Turkey in 2008, 63.2 percent of the labor force, 63.6 percent of the employed, and 60.1 percent of the unemployed have less than high school education including the illiterate. The mismatch between labor supply and demand due to the low quality and productivity of existing labor force is an important factor reducing the efficiency of labor market.

Analyzed by education levels, unemployment rates increase with education level for groups other than college and faculty graduates. The major reason of this situation is the increase in participation in the labor force and employment as education level increases.

Table 4. 7: Education Level of the Labor Force in 2008

(Percent)

	Labor Force	Employed	Unemployed	Labor Force Participation Rate	Employment Rate	Unemployment Rate
Total	100	100	100	46.9	41.7	11.0
Illiterate	4.3	4.5	2.4	18.1	17.0	6.3
Pre-High School	58.9	59.1	57.7	44.9	40.1	10.7
High Schools and Equivalents	22.1	21.6	26.0	56.1	48.8	12.9
-Vocational and Technical High Schools	10.5	10.4	11.2	65.0	57.4	11.7
Higher Education	14.7	14.8	13.9	77.6	69.6	10.3

Source: TURKSTAT HIA

Many activities have been realized in the areas of employment and education in order to develop human resources, to enhance accessibility and quality of education, to make the labor market effective and to increase employment opportunities.

By the Law No. 5763 which became effective in 2008, it is provided that all the unemployed registered to Turkish Employment Agency (İŞKUR) could benefit from consultancy, labor force adaptation, and job placement services; vocational training and temporary community employment programs, which were only available to unemployed benefiting from unemployment insurance previously. A resource amounting to 511 million TL was allocated to İŞKUR form Unemployment Insurance Fund in 2009 in order to finance the activities regarding active labor market programs pursuant to the Law No. 5763. In this way, the resources allocated to active labor market policies implemented by İŞKUR exhibited a significant increase. For 2009, as of 13 October 2009, 145 million TL of this resource was spent and 163,732 people benefited from the activities carried out within this scope. Among these people, 473 people benefited from internship activities, 36,421 people benefited from temporary community employment programs, 101,707 people benefited from labor force training programs and the remaining benefited from GAP, Growth Centers and Projects of Grant Programs.

Table 4. 8: Expenditures for Active Labor Force Programs and Number of Beneficiaries

	Expenditure (TL)	Number of Beneficiaries
2005	21,716,165	11,473
2006	15,174,182	17,106
2007	29,671,865	33,597
2008	35,601,907	32,206
2009*	144,736,221	163,732

Source: İŞKUR
* As of 13.10.2009

Within the scope of Providing Social Development component of GAP Action Plan 2008-2012, Project focused Social Support Program (SODES) was prepared in order to satisfy the existing and probable social requirements in addition to ordinary duties of public institutions, and a total resource of 600 million TL was proposed. By the projects prepared within the scope of SODES, it is aimed to increase employability, develop qualified labor force, reduce poverty, facilitate access of disadvantageous segments of the society to employment and raise their living standards, improve cultural, artistic and sportive activities and to support guiding especially children and young people to such activities. In addition, 139.3 million TL was allocated to İŞKUR in the period of 2008-2012 within the scope of GAP Action Plan. 27.4 million TL of this resource was spent as of November 2009. It is expected that this major resource assigned to GAP provinces would cause an important increase in employment in the region.

It is expected that the Active Employment Measures and Local Level Support to Turkish Employment Agency Project, which aimed to increase employability of women and young and strengthen the institutional capacity of İŞKUR, and which was initiated with the joint financing of Turkey and EU in 2007 within the context of the works for developing active labor market policies, will be completed on 26 April 2010.

Supporting Women Employment Operation which was initiated in 2008 shall be carried out in the 2009-2012 period and within the scope of the project, it is planned to provide entrepreneurship training for 2,600 women; children/old people care training for 780 women; employment-oriented programs for 7,800 women; career consultancy and guidance services for 11,700 women. The purpose of the project is to encourage women, including those previously working in agriculture, to participate in the labor force and increase women employment.

The Privatization Social Support Project (PSSP) implemented between 2006 and 2009 has been completed. Within the scope of PSSP II, a total of 9,649 persons were provided with consulting, formal training and on the job training services and temporary community employment programs, and of the total, 4,896 persons were employed. Furthermore, within the scope of PSSP, 11 Business Development Centers were established and 290 workplaces were opened and 1,618 persons were employed.

The budget of Increasing Labor Market Intermediary Activities in favor of Employability of Long Term Unemployed People, which was supported by the Dutch Government, is 600,000 euros and the purpose of the project is to develop and implement tools for intervening in the labor market in order to decrease long term unemployment. At the end of the project, the capacity of İŞKUR to make region based labor force analysis shall be enhanced, tools of intervention to labor market which will be implemented in two pilot activity areas shall be defined including the cooperation with relevant institutions, at least 100 unemployed people shall be intermediated for waged work (including those working for their own name and waged workers) in two pilot areas (Adana and Malatya).

A total of 8,435 unemployed persons received vocational training in 347 courses with employment guarantees organized by İŞKUR in 2008. Entrepreneurship training was provided for 4,399 people with 259 courses arranged for starting up own business. Besides, 4,177 disabled and 4,042 convict and ex-convict unemployed persons were provided vocational training by İŞKUR. In 320 courses, a total of 4,875 unemployed persons were provided vocational training in context of placement of unemployed persons on unemployment insurance in new jobs in 2008.

Some progress was made in terms of employment of women having problems about entering labor market in 2008. As a matter of fact, while 23,400 of unemployed women registered in İŞKUR was placed in jobs in 2007, this figure increased to 25,011 in 2008. There was also progress in 2008 compared to 2007 in terms of the employment of the disabled that constitute another group having problems entering the labor market. While 17,864 disabled people were placed in jobs in 2007, 21,967 disabled people were placed in jobs in 2008.

İŞKUR conducts a Labor Market Research on labor market needs assessment since 2007 in order to monitor the current situation, to follow changes in labor market and to reveal their effects on the need for labor force. Labor Market Research was conducted for workplaces employing 50 and more employees in 2007 and for workplaces employing 10 and more employees in 2008. The Labor Market Research will help to determine in which sectors and professions and how many personnel employers need currently and will need in the coming periods and in which professions they have difficulties to find personnel. In addition, the results of this survey are expected to contribute to application of active labor market programs according to the needs of the economy.

The Project of Gathering Information on Labor Market (Supply-Demand) Conditions, Making Predictions and Establishing an Effective Analysis and Monitoring System of the Labor

Market Towards Training of Human Resources of the 21st Century, which was initiated in 2008, is in progress and proposed to be completed in 2010.

National and international markets increasingly demand labor that is creative, able to access information, has high analytic thinking abilities and can quickly adapt to new skills. In this context, the new curriculum prepared so as to increase education quality, was started to be implemented in primary education and vocational and technical secondary education. The works for curriculum in general secondary education have been competed to a great extent.

In Turkey, the number of students for one computer is 26 while this number is six in OECD countries. In Turkey, there is a need to support formal and mass education with technologies, increase informatics literacy qualities of teachers and students and develop information and communication technology infrastructure in schools in order to equip students with technological competences. Efforts are continuing to provide effective use of Information Technology (IT) classes in education and disseminate broadband internet access services to all schools and educational institutions.

It is of utmost importance to effectively direct vocational and technical education to meet qualified intermediate labor required by the labor market. While the share of vocational and technical education was 42.3 percent in secondary education in 1995, this rate receded to 32.3 percent due to the effect of different coefficient applications among school types in the academic year of 2002- 2003. Common education for general and vocational education of 9th grades as of 2005-2006 academic year and restructuring of vocational and technical secondary education according to modular base caused this rate to start to pick up and reach 40.8 percent in the academic year of 2008-2009. At the same time, the fact that the system of passing from elementary school to secondary school considers the interests, skills and capabilities of students and en effective guiding system has been established in the elementary school is expected to increase the share of vocational education in secondary education. Additionally, it is expected that the demand for vocational and technical education will continue increasing as a result of the removal of the coefficient application in passing to higher education and the rate of 50 percent, which is the average of OECD and EU, will be reached. Works for enhancing the level of compliance of vocational and technical secondary education with labor force market shall gain more importance in the following period.

Efforts continue to develop the capacities of Professional Qualifications Agency established in 2006 to manage the national professional qualifications system. Efforts for constituting professional standards and national qualifications continue within this scope.

Within the perspective of lifelong learning in the Eastern and Southeastern Anatolian Regions, The Human Resources Support via Vocational Education Project (İKMEP), that aims to encourage development of human resources by modernizing and enhancing the quality of vocational education and continuous education, was initiated by the Ministry of National Education and Directorate of the Higher Education Council in 2007 and its implementation is continuing.

Table 4. 9: Matrix of Policy Commitments: Labor Market

(In 1000 Euros)

	2008	2009	2010	2011	2012
1. Privatization Social Support Project II					
A. Implementation Profile	---	---	---	---	---
B. Net Budgetary Effect	-4,150	-5,479	---	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-4,150	-5,479	---	---	---
2. The Active Employment Measures and Local Level Support to Turkish Employment Agency Project					
A. Implementation Profile	---	---	---	---	---
B. Net Budgetary Effect	-3,200	-800	---	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-3,200	-800	---	---	---
3. The Women Employment Support Operation					
A. Implementation Profile	---	---	---	---	---
B. Net Budgetary Effect	---	---	-2,095	-2,037	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	---	---	-2,095	-2,037	---
Total Net Budgetary Effect					
A. Implementation Profile	---	----	----	---	---
B. Net Budgetary Effect	-7,350	-6,279	-2,095	-2,037	---
B.1. Direct Effect on Budgetary Revenues	----	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-7,350	-6,279	-2,095	-2,037	---

4.4. Agriculture Sector

The basic objectives of agricultural policies are; to ensure food security and safety and to form an agricultural structure that is harmonized with EU and sustainable as well.

In this context, while the policy instruments are implemented to direct the production according to demand, high priority will be given to the necessary transformation of the agricultural structure in order to cope with the competition in the Union after Turkey's accession. Within this scope, significant supports provided to contribute to the structural transformation in the agriculture sector are given in Table 4.10. In addition, projects for basic activities regarding the abovementioned priorities including technical support provided under the EU Financial Cooperation are given in Table 4.11

The Works on the Law related to the establishment and duties of the Ministry of Agriculture and Rural Affairs which aim to increase the institutional capacity of public sector in the process of structural transformation will be completed by taking into account functional organization required by the fact that especially plant health, veterinary and food safety services are provided together as envisaged in EU acquis, agricultural research-development and extension in an integrated way and establishing of policy development capacity in soil conservation and land usage.

The technical studies related to draft law prepared for regulation of public services in the field of food, feed, food hygiene, phytosanitary and veterinary services will be finalized after assessing the draft text regarding the subjects of complementary implementation of the abovementioned services, providing clear division of responsibilities between central and local authorities and within the competent authority.

Necessary amendments will be made in the related legislation in order to provide sustainable financial and administrative structures for the Agricultural Sale Cooperatives and Associations, which are an important entity for agricultural producers organizing and to strengthen their independence via rationalizing credit support provided to Associations.

In order to prevent fragmentation of agricultural lands by inheritance, necessary amendments in the related laws will be made. Besides, land consolidation activities for decreasing investment and public irrigation related-expropriation costs in irrigation projects as well as reducing the amount of fragmented and scattered agricultural lands will be accelerated.

Through the Direct Income Support (DIS) Programme introduced across the country in 2001, 15.8 million hectares of land was registered in 2008 and payments were made to approximately 2.4 million farmers. The share of area based payments including DIS payments in agricultural support budget realized 35 percent in 2008 while it was 80 percent in 2004. In 2009 when DIS payments were removed, the share of area based payments in agricultural support budget is expected to be approximately 27 percent. Within the scope of registration, monitoring and control system which has been developed along with DIS implementation, conditional area-based payments, that launched since 2004, such as for organic farming, soil analyses, Environmentally Based Agricultural Land Protection (ÇATAK), use of certificated seed and seedling and unconditional area-based payments such as gas oil and fertilizer payments have been realized in order to guide production.

Nonetheless, in order to provide structural transformation that is necessary for livestock sector's competitiveness within the Union after full membership, the share of animal husbandry supports, which was 7 percent in total support budget in 2004, increased to 22 percent in 2009 and this ratio is expected to remain unchanged also in 2010. In this context, fodder crops support payments per dekar, milk incentive premium, pure bred cows payments per head and additional payment implementations in case of being registered and free from diseases cases were foreseen. In addition to implementation of the cattle identification system, Tagging and Vaccination of Sheep and Goats Project having EU grant has started in 2009 for identification of sheep and goats. Besides, Border Inspection Posts Project, which has started in 2007 within the scope of EU Financial Cooperation in order to improve related administrative capacity, has been completed, however the efforts for the elimination of the deficiencies related to the organizational capacity still continue.

The share of Supports Programme for Rural Development Investments, which is implemented in order to establish institutional capacity for implementation of EU Rural Development Policies, had 2.71 percent in total support budget in 2007 and it is foreseen to be 5.40 percent in 2010 including national co-finance contribution for rural development program in EU Pre-Accession Financial Instrument. While there is a need to differentiate this practice taking into account regional characteristics, it is also essential to consider the complementarity of this program with similar one expected to be realized in the coming period within the scope of EU Financial Cooperation.

Pursuant to the Agriculture Insurance Law No. 5363, within the scope of supporting producer's insurance premium, the number of issued insurance policies, related to the risks under assurance especially on the subjects such as hail, frost, and animal life, has reached to 300,778, and 56 million TL support has been provided as of October 2009. Premium supports that are deemed necessary for the health of insurance system is expected to be decreased incrementally for the sustainability of system.

In the framework of above mentioned issues, taking into consideration of the requirements of EU accession process as well, a support strategy will be prepared together with a timing schedule that would enhance predictability with respect to the development of an infrastructure whereby the ultimate goal will be agricultural holdings-based subsidies with the capability of area-based administration and control, and ensuring efficiency and quality improvement through registration that will enable structural transformation in animal husbandry and transforming animal stock to pure culture race.

The activities in order to eliminate problems related to the quality and quantity of agricultural statistical data and to improve information infrastructure and administrative structure are programmed in a way of obtaining technical support in the scope of EU Financial Cooperation. In this context, the studies of improvement of Farmer Registration System are continued in order to establish an Integrated Administration and Control System having a ultimate goal of forming Farm Registration System. In accordance with that, in the framework of Pre-Accession Financial Cooperation, for the aim of monitoring the development of enterprises and contributing to policy making process, projects related to establishing Farm Accounting Data Network and Land Parcel Identification System and improvement of MARA's statistical capacity have been implemented.

In the fisheries sector, priority will be given to improving the institutional structure, increasing the effectiveness of resource management in capture fisheries and ensuring environmentally friendly production in aquaculture. In this context, Law on Amendment of Fisheries Law, prepared by taking into consideration the compliance with EU Common Fisheries Policy, is on the agenda of Turkish Grand National Assembly. Construction of offices at the landing points and infrastructure works on improvement of fisheries information system have been continuing. In addition to that, works have been carried out in order to monitor fishing vessels longer than 15 meters by using remote sensing for ensuring the effectiveness of control services. In order to form a basis for the establishment of stock assessment system, a project named Introduction of Stock Assessment to Fisheries Management System of Turkey will be implemented to determine the legislative and institutional needs and to improve the human capacity.

The works on preparing a strategy document for harmonization of the food safety, veterinary services and phytosanitary legislations with EU acquis and international standards have been continuing. In the scope of this strategy, technical works related to the development of the administrative capacities for implementation of these legislation and elimination of deficiencies with respect to laboratory capacities are carried on.

Another study performed to meet the requirements of the EU pre-accession period is the clarification of compliance situation of food establishments to the EU food legislations. The classification study made for this purpose has been completed by the Ministry of Agriculture and Rural Affairs and submitted to EU. Following this study, the deficiencies of the food establishments will be eliminated in the context of a programme and the works will be carried out in order to make sure that these establishments perform their production in accordance with the EU legislations.

The privatization process of the public sugar factories is in progress. It is envisaged that legislative work, to complete the institutional arrangement in the sector and to make quota management and control effective, is going to be concluded.

4.4.1. Rural Development

In the Ninth Development Plan period (2007-2013) the main objective of the rural development policies is the development of the working and living conditions of the rural communities at their territories. Within the scope of this objective, the framework of the rural development policy is determined as follows:

- The agriculture and food sectors will be developed in a competitive structure,
- The human resources, organization level and local development capacity will be improved,
- The physical infrastructure services will be improved,
- The rural environment will be protected and developed.

As a contribution to the objectives of the above mentioned policy, the program and projects prepared for the development of the rural areas are as follows:

- During the realizations of the rural development projects sectoral and regional policies will be implemented in harmony;
- The rural and agricultural developments will considered as a whole;
- The implementations will be made in accordance with EU agricultural and rural development policies;
- The specific characteristics, requirements and potential of the rural areas will be taken into consideration;

- During the implementation of the projects related to the rural development, the coordination and cooperation between the related central and local organizations will be strengthened;
- The local administrations, non-governmental organizations and the beneficiaries will be encouraged to participate in the decision making and implementation processes.

In order to make a better adjustment to the EU Common Agricultural Policy (CAP) and to receive support for the agricultural sector and the sustainable development of the rural areas, activities for the development of an administrative capacity within the structure of the Ministry of Agriculture and Rural Affairs, as the managing authority of the IPA rural development component, are carried on with several technical cooperation projects.

The implementation and payment activities of the IPA Rural Development Programme (or IPARD Programme) will be fulfilled by the Agriculture and Rural Development Support Institution, works for the accreditation of the central and local organization of this institution are carried on.

The first draft of Rural Development Plan which is being prepared in harmony with the National Rural Development Strategy (NRDS) was completed by the end of 2009. The plan is prepared in the manner to cover all rural development programmes, projects and activities financed by national and international resources. It is designed as a dynamic action plan that determines the general principles of the rural development implementations, monitoring and evaluation infrastructures.

The implementations of the integrated development projects namely, Sivas-Erzincan Development Project (2004-2012), Anatolian Watershed Rehabilitation Project (2004-2012) and Diyarbakır-Batman-Siirt Development Project (2008-2012) run by external financing support are carried on. These projects, usually implemented in poorly developed regions, contribute to the modernization of the agricultural sector, extend the environment friend agricultural implementations and improve the capacities of the small scaled enterprises.

In 2008, for the purpose of supporting 253 million TL source is allocated for the Support to Rural Development Investments Programme (KKYDP) which is implemented in 81 provinces. This programme aims at increasing the income level of producers in the rural areas, development of the agricultural and industrial integration, fortification of marketing infrastructure, increasing the food safety, creation of alternative income resources, development of the infrastructure of the agricultural irrigation and in improvement of the usage of machinery in the agricultural sector.

The implementation mechanisms of the above mentioned grant programme and IPARD are very similar, however IPARD will be implemented only in 42 provinces, therefore this Programme will help the realization of IPARD’s objectives throughout the country and will contribute to the sustainable development of the rural areas.

As a result of the financial supports aimed at the development of the agricultural industry and non-agricultural economic activities, the non-agricultural employment rate which was 38.8 percent in 2007 in the rural areas, increased by 39.2 in 2008.

On the other hand, in 2009, 500 million TL source is allocated for the Village Infrastructure Support Project (KÖYDES) Project which started in 2005 in 79 provinces with the exception of Istanbul and Kocaeli. Municipality Infrastructure Support Project (BELDES) Project which has been developed for the municipalities with a population less than 10 thousand is completed in 2009. The financial structures of these municipalities have been fortified in accordance with the Law No 5779, dated 15 July 2008.

In addition to these, by means of the Social Support Project in Rural Areas (KASDEP) which is implemented in 81 provinces as of 2003 with the cooperation of the Ministry of Agriculture and Rural Affairs and General Directorate of Social Aid and Solidarity, support is given to the poor households in scope of the Law No 3294 to make them producers by means of agricultural activities. 109.4 million TL source has been allocated for KASDEP in 2008.

Table 4. 10: Matrix of Policy Commitments: Agriculture - I (Main Developments in Agriculture Support)

(In 1000 Euros)

	2008	2009	2010	2011	2012
1.Area Based Supports					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-1,068,510	-569,506	-971,606	---	---
B.1. Direct Effect on Budgetary Revenues	0	0	0	---	---
B.2. Direct Effect on Budgetary Expenditures	1,068,510	569,506	971,606	---	---
2. Pursuant to the Decree 2005/8503 on Supporting Livestock Sector					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-573,539	-465,537	-555,457	---	---
B.1. Direct Effect on Budgetary Revenues	0	0	0	---	---
B.2. Direct Effect on Budgetary Expenditures	573,539	465,537	555,457	---	---
3. Support for Rural Development Investments					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-57,092	-128,568	-68,767	---	---
B.1. Direct Effect on Budgetary Revenues	0	0	0	---	---
B.2. Direct Effect on Budgetary Expenditures	57,092	128,568	68,767	---	---
4. Agricultural Insurance					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-24,618	-25,992	-31,056	---	---
B.1. Direct Effect on Budgetary Revenues	0	0	0	---	---
B.2. Direct Effect on Budgetary Expenditures	24,618	25,992	31,056	---	---
Total Net Effect on Budget					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-1,723,759	-1,189,603	-1,626,886	---	---
B.1. Direct Effect on Budgetary Revenues	0	0	0	---	---
B.2. Direct Effect on Budgetary Expenditures	1,723,759	1,189,603	1,626,886	---	---

Table 4. 11: Matrix of Policy Commitments: Agriculture - II (Important Projects in Agriculture [(1)])

(In 1000 Euros)

	2008	2009	2010	2011	2012
1. Restructuring the Border Inspection Points Project					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	3,326	506	89	---	---
B.1. Direct Effect on Budgetary Revenues	4,950	576	133	---	---
B.2. Direct Effect on Budgetary Expenditures	1,624	70	44	---	---
2. Controlling of Rabies Project					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	1,598	209	0	---	---
B.1. Direct Effect on Budgetary Revenues	2,357	327	0	---	---
B.2. Direct Effect on Budgetary Expenditures	759	118	0	---	---
3. Tagging and Vaccination of sheep and goats					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	---	11,220	377	---	---
B.1. Direct Effect on Budgetary Revenues	---	18,182	2,812	---	---
B.2. Direct Effect on Budgetary Expenditures	---	6,962	2,435	---	---
4. Avian Influenza and Human Pandemic Preparedness and Response					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-4,846	-4,108	-7,265	---	---
B.1. Direct Effect on Budgetary Revenues	2,293	1,095	0	---	---

B.2. Direct Effect on Budgetary Expenditures	7,139	5,203	7,265	---	---
Total Net Effect on Budget					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	78	7,827	6,799	---	---
B.1. Direct Effect on Budgetary Revenues	9,600	20,180	2,945	---	---
B.2. Direct Effect on Budgetary Expenditures	9,522	12,353	9,744	---	---

(1) In EU-funded projects, impact on budgetary revenues results from EU contributions with grant and investment component in the related projects.

4.5. Administrative Reform

4.5.1. Strategic Planning and Performance Based Budgeting

The implementation related to strategic planning and performance based budgeting at public administrations within the framework of the Public Financial Management and Control Law No 5018, has become widespread within the scope of the transition programme which had been planned to continue until 2010. Within this framework, as of December 2009, in 135 out of 145 central public administrations that were obliged to prepare a strategic plan and a performance programme, strategic planning works have been completed and 2010 performance programme studies have been carried out.

The Bylaw on Amendments in the Bylaw about the Performance Programmes which was prepared by the Ministry of Finance in order to determine the methods and principles with respect to preparation of performance programmes was published in the Official Gazette on 15 July 2009. In accordance to this Bylaw, the Performance Programme Preparation Manual which guides the studies of the public administrations on performance based budgeting was also updated.

Preparation of strategic plans by the State Owned Economic Enterprises (SEEs) is decreed by the General Investment and Financial Programmes of 2008 and 2009 upon the Decision of the Council of Ministers. Within this context, strategic planning activities have been carried out at 19 SEEs.

The implementation of strategic planning and performance based budgeting is also being carried on at the local administrations. In accordance with the related laws, in special provincial administrations, metropolitan municipalities and municipalities with a population over 50 thousand, strategic plans and performance programmes have been prepared in line with the obligation of the renewal of strategic plans within 6 months of the local governments general elections which was held in March 2009.

The Bylaw on the Procedures and Principles of Strategic Planning in Public Administrations which was enacted in 2006 and the Strategic Planning Guide for Public Administrations will be reviewed in the light of the previous studies and experiences, and necessary amendments will be made in 2010 in order to overcome the problems encountered and enable the system to function more effectively.

In order to effectively apply strategic management and to build up theoretical and practical knowledge, a capacity building programme including training, research and publication activities is being carried out by the State Planning Organization. In this context, the research project initiated by the State Planning Organization which aims at developing a capacity building model will be completed. In line with this model, training programmes for the public administrators are planned to be implemented.

The electronic systems related to the financial processes will be reorganized and enhanced for the purpose of supporting the decision making processes. Within this framework, a single central information system which will serve all central administrations and which aims at supporting the strategic plans, performance programs and legislative work by gathering the functions of KBS-No.2000i, e-BUDGET and SGB.net systems within a central structure, enforcing every stage of the financial process (budgeting, allocation, accrual, expenditure, accounting, reporting, monitoring and preparation of final accounts) beginning from the budget preparation stage until the stage of approval by the Court of Accounts will be developed until the end of 2010.

4.6. Other Reform Areas

4.6.1. Regional Development

One of the five development axes defined in the Ninth Development Plan of Turkey covering the period of 2007-2013 is Ensuring Regional Development. As it is stated in the Plan; within the frame of development approach based on local dynamics and internal potential, the main objectives of regional development policies are as follows:

- making central-level policies more compatible and effective,
- increasing institutional capacity at local level,
- disseminating economical development and social welfare across the country in a balanced way,
- keeping inter-regional migration propensity within the region,
- ensuring balanced distribution of the population in space,
- establishing a healthy structure of urbanization,
- reducing socio-economic development disparities between urban and rural areas by enhancing welfare in rural areas.

Within the scope of the priorities of the Ninth Development Plan, particularly in the less developed regions Growth Centers that have high potential to grow and serve to their periphery are determined and studies to set up legal and institutional monitoring and supervising of state aids in the light of making state aids system transparent and effective have been initiated. In this context, works for the better accessibility of growth centers and fortification of their physical and social infrastructures have continued. The special support programme works that started in 2008 have been continued in 2009. Project implementations are ongoing. The implementation going on in Diyarbakır will also be initiated for the other centers.

Incentive system has been restructured by taking into account of the regional disparities with the 2009/15199 numbered Decision on the State Aid on Investments that came into force 16 July 2009. With the Decision in question, Turkey has been divided into four regions regarding the socio-economic development levels of NUTS II Regions. In the first and second regions, investors provided the conditions which are determined in accordance with the regional disparities and sectoral priorities utilize the customs duty exemption, VAT exemption, tax reduction, social security premium employer share incentive and assignation of investment area incentives, while in the third and fourth regions they utilize the interest support in addition to these incentives.

For the activities and projects within the scope of the GAP Action Plan prepared in May 2008, 26.7 billion TL source will be used in 2008-2012 period. 1 billion TL of the additional financing of 14.5 billion TL required for 2008-2012 period has been used in 2008. And approximately 3 billion TL has been allocated for the Action Plan from general budget.

Regional development programmes, implemented within the scope of Turkey-EU financial cooperation in 2004-2006 period, has been completed. With the exception of GAP Programme which is coordinated by GAP Administration, the total budget of the projects implemented within the scope of regional development programmes realized under the coordination of SPO is approximately 266 million euros, 188 million euros of this amount consists of the grants within the context of Turkey-EU common financing, and 78 million euros consist of the co-financing of the beneficiaries. By means of the regional development programmes with the exception of GAP Programme and Turkey Bulgaria Cross Border Cooperation Programme, 1,428 projects have been supported in 33 provinces. Approximately 95 percent of these projects are successfully completed. When the budgets of the accomplished projects are taken into account, the financial success rate of the programmes is calculated as 88 percent.

The establishment of the development agencies, which play an important role in the regional development policies, in all NUTS II regions was completed with the establishment of 16 agencies in accordance with the Decision of the Council of Ministers published in July 2009. The process modeling and Development Agencies Management System (KAYS) activities towards the agencies are going on along with the secondary legislation studies Regulation on the Support to Projects and Activities by the Development Agencies prepared by the State Planning Organization entered into force recently.

Table 4. 12: Matrix of Policy Commitments: Regional Development

(In 1000 Euros)

	2008	2009	2010	2011	2012
1. Turkey-Bulgaria Cross Border Cooperation Programme					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-949	-1,413	---	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-949	-1,413	---	---	---
2. Regional Development in TRA2, TR72, TR52 and TRB1 NUTS II Regions					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	- 4,194	---	---	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	- 4,194	---	---	---	---
3. Regional Development in TR90 NUTS II Region					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-4,800	-1,200	---	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-4,800	-1,200	---	---	---
4. EU Regional Programmes (1)					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-1,613	---	---	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-1,613	---	---	---	---
5. Regional Development Project (2)					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-108	-103	---	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-108	-103	---	---	---
6. GAP Action Plan					
A. Implementation Profile		---	---	---	---
B. Net Effect on Budget	-2,457,400	-4,510,177	-5,106,900	-4,976,171	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-2,457,400	-4,510,177	-5,106,900	-4,976,171	---
7. Development Agencies					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-65,000	-100,000	-310,000	-570,000	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-65,000	-100,000	-310,000	-570,000	---
Total Net Effect on Budget					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-2,534,064	-4,612,893	-5,416,900	-5,546,171	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-2,534,064	-4,612,893	-5,416,900	-5,546,171	---

Note: Spending related to the programs being implemented take place in the following year due to the approval procedure under Decentralized Implementation System.

(1) For the regional development projects under this project. in case of necessary circumstances. transfers will be made to the budgets of local administrations or their enterprises directly or via Ministry of Internal Affairs' budget.

(2) Yeşilırmak Project prepared by strategic planning approach.

4.6.2. Health and Social Security Reform

4.6.2.1. Health Transformation Program

The Health Transformation Program, which has been implemented since 2004, aims at restructuring the Ministry of Health to strengthen regulation, planning and supervising roles, establishing the universal health insurance system which combines everyone under one single organization, dispersing the health services, increasing quality of health services, ensuring easy access to health services, ensuring rational use of medicine and medical devices and make the health information system effective. The first stage of Health Transformation Project, which has been carried out in order to provide support for implementation of Health Transformation Program, was completed in 2009. The Republic of Turkey and International Bank for Reconstruction and Development made an agreement on 30 June 2009 for the financing of the Project of Health Transformation and Social Security Reform which is the second stage of the project that will be carried out by the Ministry of Health and Social Security Institution.

Within the framework of the Health Transformation Program, institutions responsible for health services provision will be restructured. In this context, firstly, the organization law of the Ministry of Health will be renewed in order to strengthen its planning and supervisory role, and Refik Saydam Hygiene Center will be transformed into an internationally accredited National Public Health Institution. In order to enhance service quality and efficiency, public hospitals will be gradually given administrative and financial autonomy. Turkey Medicine and Medical Devices Agency will be established to regulate production, import, export, provision and use of drugs, substances used in drug production and medical devices. The agency will also ensure that they will be delivered to the society safely, effectively, in good quality and in compliance with standards.

In the context of the Health Transformation Program, the pilot implementation of Family Medicine was initiated in 2005 with a view to strengthening primary health services and ensuring efficient use of the referral chain. The number of pilot provinces where the family medicine has been implemented as of October 2009 reached 40 and it is targeted to disseminate the practice to the whole country at the end of the year 2010.

Considering the fact that old age population of our country will increase gradually, it is important to diversify the protective health services regarding the non-contagious diseases. New programs have been prepared such as Program for Preventing and Controlling Chronic Airway Diseases (Asthma-KOAH), which is regarding minimizing the risks causing chronic diseases, and Turkey Fight against Obesity and Control Program. Moreover, in order to reduce consumption of tobacco products which are risk factors for chronic diseases, smoking has been forbidden in indoor areas on 19 July 2009 with the law accepted as of 3 January 2008.

In order to reduce the shortage of health personnel, in particular physicians, an increase of 56 percent in the capacity of medical schools, and an increase of 16 percent in Capacity of nurse school were recorded in the period of 2007-2009. Besides, new faculties of medicine are being established in order to reduce the shortage of health personnel. On the other hand, even though the problem of unbalanced distribution of health personnel among regions, which is also related with the deficiency of health personnel, is decreased, it has still kept importance. Through implementations of Ministry of Health such as compulsory duties, studies on distribution of personnel and giving incentives to health personnel to work at the places having needs, the difference in the allocation of doctors and nurses according to provinces has been decreased in the period of 2002-2008.

For the purpose of activating health information system; pilot implementation of Central Hospital Appointment System Project shall be commenced in state hospitals in Erzurum and Kayseri provinces in 2009 after the call centers formed ready by the joint work of Türk Telekom and Ministry of Health. Besides, pilot implementation of Tele-medicine Project, which was developed in order to support the hospitals having expert personnel deficiency, preventing unnecessary referrals and to provide cost efficiency in service supply, continue in radiology and pathology areas.

Works of medicine follow-up system continues, and it became mandatory to write datamatrix code on the products as from 1 October 2009 in order to prevent false medicine and packages and to gather clinic data concerning security of medicines, and all medicines shall be sold with datamatrix on it as from 1 January 2010.

While the rate of public health expenditures to GDP was 3.7 percent in 2002, this rate realized as 4.5 percent in 2008 and is expected to be 5 percent in 2009. The increase in medicine expenditures with the effect of the capacity increase in health service supply, improvement in facilities of access to services and increase in foreign exchange rate caused an increase in public health expenditures by years. As a result of the measures taken regarding medicine and treatment expenditures, and of expanding the scope of global budget implementation in a way to cover university hospitals in addition to state hospitals in 2010, the rate of health expenditures to GDP is expected to maintain its level in 2009.

4.6.2.2. Social Security Reform

Legislation works regarding social security reform has been completed to a large extent with the Social Security Institution Law No. 5502 which entered into force on 20 May 2006 and the Social Insurances and Universal Health Insurance Law No. 5510 which entered into force gradually between 1 January 2008 and 1 October 2008. The works for establishing a structure supplying qualified service and having financial sustainability and effective control mechanism for the social security system are in progress within the body of Social Security Institution (SSI). Within this scope, it is targeted to adopt a fully computerized IT infrastructure of social security system gradually and projects regarding this issue are underway.

With the Law dated 18 February 2009 and numbered 5838 on Amending Various Laws; the notifications which have been made separately to the Ministry of Labor and Social Security, SSI and İŞKUR regarding the issues such as establishing and transferring working place, employing workers and dismissing have been gathered and the bureaucratic burden exposed by the employers in terms of taking the notifications separately have been reduced.

With the universal health insurance which is another component of the reform, the mandatory Universal Health Insurance (UHI) which covers all society was effectuated. The persons who are included within the scope of Green Card, which provide for people not having the ability to pay to utilize from health services, and public workers shall be taken in the scope of UHI on 1 July 2011 at the latest.

Table 4. 13: Matrix of Policy Commitments: Health Care-Social Security

(In 1000 Euros)

	2008	2009	2010	2011	2012
1. Health Transformation Project, II. Phase [(1)]					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	---	47,839	88,305	86,000	86,000
B.1. Direct Effect on Budgetary Revenues	---	50,000	100,000	100,000	100,000
B.2. Direct Effect on Budgetary Expenditures	---	-2,161	-11,695	-14,000	-14,000
2. Avian Influenza Project [(2)]					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-435	-433	-4,210	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-435	-433	-4,020	---	---
Total Net Budgetary Effect					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-435	47,406	84,285	86,000	86,000
B.1. Direct Effect on Budgetary Revenues	---	50,000	100,000	100,000	100,000
B.2. Direct Effect on Budgetary Expenditures	-435	-2,594	-15,715	-14,000	-14,000

(1) Establishment of database infrastructure of social security is included.
(2) The component of the Project funded by the World Bank.

4.6.3. R&D and Innovation

The basic objective of science and technology policy is to increase the innovation capacity of the private sector, to develop competency in science and technology, and to transform this competency to a social benefit. In Turkey, the share of the R&D expenditures in GDP was 0.76 percent in 2006, however, the EU average was 1.84 percent. The aim is to increase this ratio by 2 percent in 2013. For this purpose, the public investment reserved for R&D which was 319 million TL in 2003, is increased to 1,290 million TL in 2009 with an increase of 304 percent.

The private sector plays an important role in making the R&D activities productive and increasing its contribution to the competitiveness. In Turkey, the ratio of the R&D activities realized by the private sector, which was 33.8 percent in 2005, rose to 41.3 percent in 2007. However, this ratio is below the EU-27 average of 55.4 percent in 2006. Within this framework, the supports and incentives of the private sector for R&D projects were increased on the one hand; and, the number of the Technology Development Zones (TDZ) and research centers, which were established to bring together the groups that produce information and transform it to added value by usage, and to enable the companies within their structure to benefit from various incentives, were increased on the other hand. As of August 2009, 36 TDZ's have been established, and 20 of them are operational. Investments are carried on for the establishment and operation of the non-active TDZ's. The number of the companies operating in the Technology Development Zones rose to 1,189 as of the end of August 2009.

Besides, the Law No. 5746 on Supporting Research and Development Activities, which was codified to regulate tax incentives provided for R&D subjects, entered into effect after being published in the Official Gazette dated 12 March 2008 and No. 26,814. By the effective date of this Law, 52 companies applied to the Ministry of Industry and Commerce as of June 2009; these companies have undertaken to employ 8,538 R&D employees, and make a total investment of 3,160 million TL in R&D areas.

Within this scope, the primary objectives are the development of the innovation culture and increasing the demand for the R&D studies by increasing the support given to the R&D projects carried out by the private sector in 2010. The support given to SMEs for strengthening their R&D capacity and innovation capacity, and protection of intellectual property rights will be activated and extended. In order to support the R&D financing of the SMEs, the initial capital and risk capital implementations will be activated. In addition to these, the commercialization of the research results and technology transfer implementations will also be activated.

Another matter as important as enhancement of the sources is the compensation of the researcher shortage. As of 2007, while 0.52 percent of the total labour force and employment consisted of R&D employees in Turkey, this ratio is 1.44 percent for EU-27 countries. In Turkey, while 30.4 percent of the total R&D employees were employed by the private sector in terms of full-time equivalents (FTE) in 2005, this ratio rose to 38.2 percent in 2007. At the same time, this ratio is 48.8 percent for EU-27 countries as of 2007. The ratio of women to the total researchers in terms of FTE, which is an important criterion for gender equality in working life, has been calculated as 34 percent for Turkey in 2007. This ratio is above the EU-27 average of 28 percent. Within this scope, the number of faculty members will be increased and balanced distribution of faculty members will be ensured across the country. Besides, in order to cover the academic staff shortage of developing universities, especially the newly established universities, academician raising programs will be expanded by putting the recently established 41 universities in the first place.

In line with enhancing scientific and technologic cooperation with the EU countries and being a part of European Research Field, Turkey continues its full participation to EU's Seventh Framework Programme.

4.6.4. Information and Communication Technologies

One of the basic objectives of the Ninth Development Plan (2007-2013) is to realize the transformation of Turkey into an information society.

Works are continuing under the Information Society Strategy and its annexed Action Plan which lay down basic objectives and policies to realize this transformation and methods and tools that should be followed.

Within the context of the development of human resources required for the information society, about 36,000 schools/institutions of the Ministry of National Education (MoNE) have been connected to internet (ADSL) by June 2009 as the outcome of protocols signed by the MoNE and Türk Telekom Inc. On the other hand, it was planned that 5,227 schools/institutions where ADSL connection is impossible would be connected to internet through very small aperture terminal (VSAT) based on the protocols signed by TURKSAT Inc. and MoNE and 4,917 schools/institutions are provided with satellite connection by June 2009. As a result, 94 percent of primary school students and all of secondary school students have been provided with broadband internet access.

According to the survey on the Use of Information and Communication Technology (ICT) in Households announced by the Turkish Statistical Institute (TURKSTAT) in August 2009, the percentage of individuals using the internet is 38.1 percent, of which 22.2 percent use the internet for communication with the public institutions and organizations for personal purpose. 34.3 percent of individuals using internet for the communication with public administrations have used internet to fill the forms and to send the filled forms. Additionally, according to the survey on ICT Usage in Enterprises published by TURKSTAT in November 2009, percentage of the enterprises that have Internet access is 88.8 percent while percentage of enterprises using the internet communication with the public institutions and organizations is 68.4 percent.

e-Government Portal, which is under the duty and responsibility of TURKSAT Inc., through which the citizens and the business can reach integrated public services online on one-stop basis, became operational on 18 December 2008 and necessary information on public services is provided in addition to the available 151 online services of 20 public agencies.

Besides commonly used primary e-government applications, address record system was integrated with citizenship identification system. In addition to these, the works on health and social security applications, the third phase of Automation of Tax Administrations Project (VEDOP), land registry and cadastre information system (TAKBIS), unique number system for legal persons and the Pilot Project on Citizenship Card are continuing.

Pilot implementation of the project regarding citizenship card, which citizens will use for ID verification in accessing services such as tax, citizenship affairs, health, social security, etc., will be completed and nationwide implementation will be commenced in accordance with the results of the pilot phase.

The number of the electronic signature users has been increasing gradually. The number of qualified electronic certificates has been around 173,000 by November 2009. 101,000 of these are being used for mobile signature, which was introduced 2007. Many public and private institutions and organizations are using e-signature in their institutional procedures.

Legislative alignment with the EU acquis related to cybercrime is continuing. In this regard, the Draft Law on Protection of Personal Data is at the Justice Commission of the Assembly as of November 2009. In the field of cybercrime, works regarding signing the Convention on Cybercrime No. 185 of the European Council and ratification of Conventions No. 108 and 181 will be initiated.

Following the enactment of the Electronic Communications Law, works on harmonization of secondary legislation with this Law have been initiated and in this context. 7 by-laws have been put into force as of November 2009.

As of September 2009, fixed telephone, mobile telephone and broadband subscriber penetration rates have been 23.5 percent, 89 percent and 9 percent in Turkey, respectively.

Authorization process of 3rd generation (3G) mobile communication services was completed in April 2009 and these services were launched in August 2009. Number of 3G subscribers has reached 5.4 million by the end of September 2009. On the other hand, authorization of mobile virtual network operators was started after the Authorization By-Law, which was prepared in line with the Electronic Communications Law, came into force in May 2009 and 11 operators are authorized as of November 2009. Authorizations regarding wireless broadband access services are envisaged to be completed in 2010. Breakdown of authorized operators, as of November 2009, with respect to service type is provided below:

1. Satellite and Cable TV Services: 1
2. GSM Mobile Communication Services: 3
3. IMT 2000/UMTS (3G) Mobile Communication Services: 3
4. Various Telecommunication Services: 1
5. Satellite Communication Services: 19
6. Satellite Platform Services: 2
7. Internet Service Providers: 101
8. Fixed Telephone Services: 66
9. Infrastructure Operation Services: 40
10. Cable Broadcasting Services: 8
11. Mobile Virtual Network Services: 11
12. GMPCS Mobile Communication Services: 3

Mobile number portability was introduced on 9 November 2008 and 7.5 million subscribers have ported their numbers as of September 2009. Geographical and non-geographical number portability came into force by September 2009.

Memorandum of Understanding (MoU) regarding participation of Turkey in Information and Communication Technologies Policy Support Program, a component of EU's Competitiveness and Innovation Program, was signed on 26 May 2009. MoU was approved with the Council of Ministers Decision No. 2009/15425, dated 24 August 2009, submitted to the Commission and came into force in 29 September 2009. In this context, Turkey became a party to the Program as of 1 January 2009.

In line with the policy of transition to terrestrial digital broadcasting, amendments in Broadcasting Law No. 3984 are necessary and a draft Law has been prepared by RTÜK and opened up for consultation. The draft covers regulations which harmonize the Turkish legislation with the EU Acquis and sets the legal infrastructure of new technologies in broadcasting sector as well.

Draft law aiming at gradual and controlled liberalization of the postal services sector and establishing an effective competition environment, separation of policy setting, regulation and operation functions in the sector and restructuring of the sector in line with relevant EU directives was also opened up for consultation. Draft law is expected to be enacted in 2010.

4.6.5. Transportation

Trans-European Networks Chapter was opened to negotiations in December 2007. The TINA-Turkey Project which was finalized in May 2007 and approved with the decision of High Planning Council, dated July 10, 2008, No 2008/35, forms a basis to the TEN-T negotiations. With regards to the above mentioned context, two technical closure criteria have been submitted by EU. The first criterion is related to a mutual agreement between the parties on future TEN-T Network upon the acknowledgement of the TEN-T guidelines by Turkey. For the purpose of meeting this criterion, a TOR is prepared within the context of the SEI Funds about the development of the transportation data system which aims at acceleration of the establishment of the Transportation Coordination Unit, and accordingly the effective usage of the TINA Information System and expansion of the human resources capacity in related institutions. For the preparation of the data demanded by the Commission in a desirable format, meetings were arranged with the Commission authorities and related institutions and the preparations are still in progress. Another technical closure criterion is the agreement of the parties on a project based on European Interest within the TEN-T Network. As a part of these criteria, within the frame of Instrument for Pre-accession Assistance (IPA), one of the projects of top priority of the Transportation Operational Programme

(TOP), Construction of Halkalı-Kapıkule Railway Line project has been designated as a project appropriate to European Interest.

Providing to establish legal and structural framework of Turkish Railway Sector for alignment with the EU legislations and to regulate the railway sector, the draft bills of General Railway Framework Law and TCDD Law and the complementary draft regulations on Railway Safety, Railway Operating License, Railway Interoperability and Railway Infrastructure Access were prepared. The drafts, which were rearranged including general rationale and article rationales and taking the opinions of relevant governmental institutions and organizations and nongovernmental organizations, was submitted to the Ministry of Transportation as of 15 July 2008. In Turkey's Programme for Alignment with the Acquis covering the 2007-2013 period, the said draft bills are scheduled to be legislated in the 2008-2009 legislative term. However, they could not be legislated. In 2010 Annual Programme, the draft bill is scheduled to be legislated until the end of 2010.

Preliminary to the regulations that will be required after the laws are put into effect, the Turkish Railways Reform Project was prepared and it has been accepted by the European Commission. The Project aims at determination of a strategy and preparation of an action plan regarding the railway reform, increasing the capacity of infrastructure manager which will be formed after restructuring of TCDD and rail operators on safety and interoperability, and increasing the capacity of infrastructure manager on the allocation of railway infrastructure and charging for the use of infrastructure. The work description of the Project was prepared and the tender process was initiated by Central Finance and Contracts Unit.

Within the context of maritime transportation, in consequence of the studies made related to sea safety, and realization of the countries' obligations with respect to flag, port and coastal state controls, Turkish Flag Register moved to the White List following the Paris Memorandum of Understanding 42^{nd} Committee Meeting, dated 22 May 2009.

In the light of the experiences acquired by Turkish Straits Vessel Traffic Services, at Gulfs of Izmit, Izmir, Iskenderun and Mersin, and Aliaga/Nemrut Region with the purpose of improving sea safety, studies for foundation of a new Vessel Traffic Services (VTS) are carried on, and the tender process continues as of December 2009.

With the intention of improving the sea safety studies, an Automatic Identification System is put into service in July 2007, and 27 coastal base stations made it possible to monitor the sea traffic at all the Turkish coasts at the operation center founded within the structure of the Undersecretariat for Maritime Affairs instantly. In addition, for the purpose of monitoring the Turkish Flagged vessels in the whole world and foreign flagged vessels within 1,000 miles of our coastal area, the primary and secondary tests for the association of the LRIT (Long Range Identification and Tracking) System, which is required to start operating in accordance with SOLAS Section V, Rule 19/1, to National LRIT Data Center founded within the structure of the General Directorate of Coastal Safety by TURKSAT are made and the integration test process is still in progress.

Turkey's adjustment process to EU acquis and the process of becoming a party to certain important maritime contracts is carried on within the framework of the prearranged programme.

Within the scope of the membership process to EU, as a part of the adjustment procedures, for the realization of SHD-T-35 License Procedures adjusted to the type and license regulations described in Part 66 and Part 147 of the European Aviation Safety Agency (EASA), Regulation for Circular and Entrance Card to all Airports and Aircraft Maintenance Staff Legislation (SHY 66-01) Examination Regulation prepared in line with the requirements of EASA Part 66 are published. Besides, for the purpose of meeting the EASA requirements, SHY-66 Conversion Regulation that regulates the conversion of SHD-That-35 Licenses to SHY/JAR-66 Licenses and SHY-66-01 Implementation Circular are published, and aircraft maintenance staff license examinations have started.

Within the context of EU adjustment procedures, in 2009 Slot Implementation Principles Legislation, Commercial Air Transportation Management Maintenance System Legislation (SHY-

M Rev.1), Passenger Rights Regulation, Legislation Concerning the Rights of Disabled Persons and Persons With Reduced Mobility Traveling by Air, Safety Evaluation of the Domestic and Foreign Aircrafts Legislation, and in 2010 Computerized Reservation Systems Regulation are planned to be published.

For the purpose of benefiting from the SEI funds, Enhancement of the Capacity of the General Directorate of Civil Aviation in the Fields of EU Aviation Politics and External Relations Project (a project with a budget of 120,000 euros and a duration of 2 months) and Technical Support to the General Directorate of Civil Aviation on Sector Strategy Document Preparation Project (a project with a budget of 200,000 euros and a duration of 6 months) have been prepared, delivered to EUSG and approved. The tender preparations for the projects are finished, and the tender process will be started by CFCU.

The negotiation process with respect to the Horizontal Agreement is carried on. During the formal negotiations starting with the formal workshop realized in January 2009, a progress has been made with the help of the mutual exchange of opinions.

At the General Assembly Meeting of the European Civil Aviation Conference (ECAC) realized on 7 and 8 July 2009 in Strasbourg, France, for the purpose of founding a legal basis for the relations with EASA, with the agreement signed in the end of Turkey’s various attempts, our country gained the right of being informed beforehand of every adjustment which is planned to be realized in the field of civil aviation in Europe, the right of participating to all working groups gathered in scope of EASA’s ruling activities with equal rights, and the right of being represented at AGNA (Advisory Group of National Authorities), the second important organ of EASA after the Steering Committee.

The General Directorate of Civil Aviation has started a project under the name of Green Airport for the purpose of systematically diminishing and elimination of the environmental damage caused by the organizations operating at the airport.

The criteria required to be carried out by the airport users in order to secure that the airports become environmentally conscious have been described by the General Directorate of Civil Aviation. In case these criteria are carried out by every user at the airport, that airport will be announced as a Green Airport by the General Directorate of Civil Aviation, and the organizations and institutions which fulfill these requirements within this framework will be supported by the General Directorate of Civil Aviation by means of discounts and incentives.

The Accessible Airport project realized by the General Directorate of Civil Aviation provides convenience to the disabled passengers or passengers with reduced mobility at the airports. By means of the above mentioned project, it is aimed at the provision of the required infrastructure that will meet these persons’ requirements and enable them to travel alone without any difficulties.

Within the frame of the project, if the organizations operating at an airport fulfill these requirements, that airport will be announced as a Accessible Airport by the General Directorate of Civil Aviation, and the organizations and institutions will be supported by the General Directorate of Civil Aviation by means of discounts and incentives.

The preparations of the Passenger Rights Regulation which takes place among the obligations of 2008 National Programme has been carried on and the draft Regulation has been prepared.

In accordance with the obligations of 2008 National Programme, Computer Reservation Systems Regulation is planned to be published in 2010.

The pilot implementation with regards to adjustment to the Commission Regulation, No 546/2006 related to the limitation of the liquids that will transported by airways has been started at Antalya Airport International Terminal and Istanbul Atatürk Airport.

This system is planned to be implemented at all international airports in 2010.

In 2009, following the current situation analysis at the airports, determination of the new investment requirements and commencement of an Airport Master Plan that will direct medium and long term investments are planned.

In the field of road transportation, by means of the Road Transportation Law which was put in effect in 2003 and a series of legislations made with regard to this Law, it is aimed to develop a powerful and competitive sector.

On 15 August 2007, by means of a Contract signed between the Privatization Management and a trilateral Consortium, the establishment and management of vehicle control stations has been transferred to this Consortium for 20 years. The objective is to increase the road traffic safety by way of more effective and healthier technical controls by EU standards. Within this scope, 189 fixed and 76 new mobile stations have been set up in all 81 provinces by the private sector as of February 2009.

21 vehicle weight and size control stations which were in current use under the authority of the Ministry of Transport and Communication, General Directorate of Road Transport, are renewed and recovered by means of high technology. In addition, 3 more weight and size control stations have been constructed and put into service. On the other hand, within the scope of a Project carried out in cooperation with EU, 22 more weight and size control stations are planned to be constructed throughout the country. Thus, it will be possible to make weight and size controls of the commercial vehicles in accordance with EU standards. Additionally, through regional delivery of 200 mobile weighing instruments bought in 2007, a more effective control system was targeted.

In addition, after being complemented with domestic legal procedures as of October 2009, Turkey has become a party to the European Agreement (ADR) related to the International Carriage of Dangerous Goods by Road. The legislation, which contains provisions with regards to the implementation of this Agreement and which will be put into effect on 1 January 2011, is related to the transportation of dangerous goods by road and its implementation are expected to increase the road safety. The studies on the measures concerning the implementation of this legislation are carried on.

In accordance with the communiqué aimed at the withdrawal of the vehicles older than 1979, published for the purpose of expansion of road safety and environmental protection, 160,000 old commercial vehicles are planned to be withdrawn from the domestic market until the end of 2013.

Assistance to the Turkish Road Transport Sector Project, which is financed by EU with a budget of 5.5 million euros, and which consists of three main components namely twinning, service procurement (training) and equipment procurement has been implemented and finished in 2008. In scope of the twinning component of the project which started on 11 May 2006, it is aimed at the adjustment of the existing road legislation with EU legislation, and the adjustments by means of realizing of the necessary regulations in the areas that have yet to be harmonized. The Legislation related to the International Carriage of Dangerous Goods by Road, which is prepared with the contribution of the activities realized within the scope of the project, is published in the Official Gazette No 26479, dated 31 March 2007. In scope of the second component of the Assistance to the Turkish Road Transport Sector Project, the service procurement, which started 30 November, 2006, technical training has been given on various subjects, mainly in English. Within the frame of the third component, material/ equipment procurement component, 6 mobile control stations are given to the service of the Ministry of Transport and Communication for the vehicle controls on the roads, and these control stations have been put into service.

On the other hand, the projects developed by the General Directorate of Road Transport, Enhancement of Weight and Size Controls and Enhancement of Intermodal Transportation in Turkey Projects are approved by EU Commission. These EU Projects will become viable in 2010.

Table 4. 14: Matrix of Policy Commitments: Transportation

(In 1000 Euros)

	2008	2009	2010	2011	2012
1. Highways Sector Support Project					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-1,500	---	---	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-1,500	---	---	---	---
2. Modernization of Maritime Communication Infrastructure					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	---	---	-435(1)	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	---	---	-435(1)	---	---
3. Transport Operational Programme					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	---	---	-512 (2),(3)	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	---	---	-512 (2),(3)	---	---
Total Net Budget Effect					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-1,500		-947	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	-1,500	----	-947	---	---

(1) Included in 2007 programming. Figures are indicative.
(2) Indicative figure for Know-How Support component of Transport Operational Programme.
(3) This amount is indicative and since the project is included in İstanbul-Ankara Speed Train Project, Project Application Form for Project of Making Current Köseköy-Gebze Railroad Suitable for High Speed, which will be realized within Transportation Operational Programme, is presented to European Commission without national contribution.

4.6.6. Energy

The primary objective of the energy sector is to provide energy, which is required as a consequence of the economic development and social progress, in a continuous, high quality and reliable manner with the minimum cost in a competitive free market. For this purpose, Turkey attaches utmost importance and gives priority to realizing energy market reforms and adapting the national energy legislation fully with the EU energy acquis. In this context, fundamental sectoral laws were completed at a large extent and efforts for establishing a fully competitive energy market are continuing.

The Electricity Market and Supply Security Strategy Document prepared for the explanation of the privatization program and the path that will be followed in the forthcoming period for the purpose of developing the targeted market structure in the electricity sector, the announcement of the procedures required for the supply security, and objectives for the sources that will be used in medium and long term for electricity supply is published by the decision of the High Planning Council No 2009/11, dated 18 May 2009. During the preparation of this document, the requirements of the transition period and the past developments and regulations have been taken into consideration for the organization of a competitive free market in the field of electric energy.

With the Strategy Document, it is planned that the share of the renewable energy (including big hydraulics) in electric energy generation will reach to 30 percent in 2023, wind power capacity will be increased to 20 GW, and a geothermal potential of 600 MW will be brought into use.

TEDAŞ, the public electricity distribution company, was restructured as 20 regional electricity distribution companies, and TEDAŞ signed contracts with these companies for the transfer of operating rights in their respective regions. Within the scope of free market, the licensing and tariff approval processes of Kayseri and Region Electricity Distribution Co., which has been the only private sector electric distribution company till 2009, has been completed as of 15 July 2009.

In the context of the privatization of public generation and distribution assets, a basic component of reforming efforts, the transfer process of the electricity distribution company Başkent EDAS to private sector was completed in January 2009, Sakarya EDAS in February 2009 and Meram EDAS in October 2009; thus, their privatization process have been completed. Upon the case opened against the tender process of Aras EDAS which was completed in 2008, Council of State adopted a motion for stay of execution. The tender processes of Coruh EDAS, Yesilirmak EDAS and Osmangazi EDAS have been completed as of November 2009, and the processes with respect to the transfer of the companies are still in progress. Thus, there are 13 distribution companies left in the privatization portfolio. A tender has been announced for four of these regions (Uludağ, Çamlıbel, Vangölü ve Fırat EDAŞ) on 10 November 2009, and tendering will continue until 29 January 2010. In 2010, it is expected that electric distribution companies' privatization process will be completed on a large scale. Until the end of 2012, a tariff equalization mechanism will be implemented for the purpose of compensation of possible sudden and gross price differences, which will be come into being after privatization, among the regions in the electricity market.

On the generation side, with the decision of Privatization High Council No 2009/59 in 2009, it has been decided that 56 electricity generation power plants will be included in the privatization program, privatization of the aforesaid power plants by the transfer of the operational rights will be realized, and the privatization procedures will be completed by 31 December 2010. On the other hand, the eligible consumer limit was reduced to by 480,000 kWh for the year 2009, and corresponding market openness is about 50 percent.

With the aim of expanding the use of natural gas across the country, the EMRA held natural gas city distribution tenders for 57 distribution regions so far and 53 winning companies were awarded gas distribution licenses. Of these, 52 distribution companies started investments in their regions, and 51 distribution companies started to supply gas in their regions. In this regard, the number of regions, in which investment was commenced by licensed companies, and the number of licensed companies increased by 3, and the number of regions using natural gas increased by 10 since the previous PEP. The natural gas distribution network has been extended to cover 80 percent of the whole country, and to provide gas supply in 65 cities.

Pursuant to the Law, as a result of tender held by the public natural gas company BOTAŞ to transfer natural gas imports to the private sector, the proposals from four companies were found appropriate regarding gas contract transfer for a total volume of 4 billion sm3. Following the completion of the transfer process and obtainment of import license from EMRA, import of 250 million scm (standard cubic meter) gas per year started on 19 December 2007, 750 million scm/year on 3 January 2009 and 3,000 million scm/year on 1 April 2009. On the other hand, import of spot LNG was initiated in May 2009 for the first time by private sector. In addition, the natural gas transmission network was started to be used by third parties for the first time as of July 2007. As of 2009, the national transmission network is being used by 10 companies including BOTAŞ.

For ensuring continuity in the petroleum market, keeping adequate amount of petroleum stock to prevent risks in case of crises or extraordinary circumstances and to perform our country obligations as required by international agreements, and aligning the stock system with the EU legislation and establishing a more robust stock management, a draft bill has been prepared by the Ministry of Energy and Natural Resources-General Directorate of Petroleum Affairs and is expected to be enacted in the near future.

Works are in progress pursuant to the Energy Efficiency Law No. 5627 which aims to provide such multiple benefits as utilizing energy and energy resources rationally, benefiting the national economy by realizing the energy saving potential, reducing environmental pollution caused by energy use, and creating new jobs. In accordance with this law, The Notice on the Methods and Principles for the Authorization, Certification, Reporting and Projects in scope of the

Energy Efficiency Law No. 5627 was published and put into effect on 6 February 2009. With this notice, implementations related to authorization of the universities, professional chambers and energy efficiency service companies, supporting the efficiency increasing projects and the enhancement of industrial energy efficiency by means of volunteered agreements have been initiated.

In accordance with the Law regarding Energy Sale and Establishment and Operation of Nuclear Power Plants No 5710, dated 2007, a competition has been held on September 2008 by TETAŞ concerning the establishment of a nuclear power plant with a power of 5000 (4000+/-25 percent) MW at Mersin-Akkuyu; and when the implementation of certain articles of related secondary legislation was decided to be suspended by the Council of State upon the lawsuit against the competition, the competition has been cancelled by TETAŞ on 20 November 2009. It is aimed to increase the share of the nuclear energy to at least 5 percent in electricity production by 2020, and in line with this target, work is in progress to hold another competition.

Even though the energy demand has been reduced and a potential supply deficit has been prevented dating from the last quarter of 2008 due to the drastic effects of the global crisis on Turkish economy, in medium and long term the elimination of the risks depends on the permanence of the investments. With the purpose of ensuring the security of supply in the long term, the Law No. 5784 on Amending Electricity Market Law and Various Laws entered into force in July 2008. Duties and responsibilities of relevant institutions and organizations are clarified by this Law in terms of monitoring, assessing and ensuring the security of energy supply.

By this Law, the creation of capacity mechanisms to ensure supply security is enabled and in this regard energy supply via a central contest is made possible. As a last resort, the public sector is allowed to make generation investment. The final decision maker for all these options is the Council of Ministers.

The cost based price mechanism which was put into practice on 1 July 2008 has been continued.

Table 4. 15: The Legal Regulations Realized in Energy Market in 2008 and 2009

Date	Number	Name	Explanation
		Electric	
02/12/2008	Official Gazette No 27093	Electricity Market Ancillary Services Legislation	The objective of the Legislation is the determination of the commercial methods and principles related to the provision of the services submitted in scope of ancillary services
14/04/2009	Official Gazette No 27200	Electricity Market Balancing and Settlement Legislation	The objective of the Legislation is the determination of the methods and principles related to the electricity supply and demand real time balancing and realization of the settlement.
10/07/2009	Official Gazette No 27284	Lighting Legislation	It consists of the methods and principles related to the context of the lighting legislation in electricity market, the rules concerning the measurement of the lighting consumptions and procedures and principles related to payments, interruptions, implementations and inspections.
		Energy Efficiency	
05/12/2008	Official Gazette No 27075	Energy Performance Legislation in Buildings	It aims at determination of energy performance criteria and implementation principles in buildings, determination of calculation rules related to energy performance, classification of the buildings in terms of primary energy consumption and CO2 emission, and evaluation of feasibility of the renewable energy sources.

Projects towards Turkey's physical integration with the EU electricity and gas markets are continuing. The Nabucco Intergovernmental Agreement related to the natural gas pipeline project between Turkey, Bulgaria, Romania, Hungary and Austria (Nabucco Project) which will become operational in 2014, has been signed at Nabucco Summit held in Ankara on 13 July 2009 with the participation of the Prime Ministers of the related five countries. Negotiations with respect to the conclusion of the Project Support Agreement (PSA) still continue. With the completion of these projects, Turkey will become a new and reliable route for the supply of gas to EU. On the other hand, works for the interconnection between Turkey's electricity grid and the ENTSO-E (European Network of Transmission System Operators for Electricity, previously known as UCTE) which would allow synchronous operation between two systems, are in the final phase and test studies are expected to be commenced in 2010.

Three separate projects are in progress with the EU within the context of reforms in the energy sector;

- Raising Public Awareness on Efficient Use of Energy in Buildings Project was completed on January 2009. The project was supported under the EU 2005 Financial Cooperation Programming and aimed to raise public awareness on efficient use of energy in buildings.
- The Project for Adapting the Operation Conditions for Cross-border Electricity Trade in Turkey to the Best Practices in EU which was proposed by TEİAŞ and supported under the 2006 Financial Cooperation Programming in order to make the technical infrastructure suitable for cross-border trade to integrate the Turkish electricity system with the European electricity system, and create the required legal infrastructure, was completed with the Final Sitting held on 17 November 2009. In line with the results of this project, Development of the Structure and Capacity of TEİAŞ Project has been suggested in 2009 Financial Cooperation Program. The Project was accepted by European Commission and the implementation is expected to start after the signature of 2009 Financing Agreement. The total budget of this Project is foreseen approximately as 2,005,500 euros, and 10 percent (200,550 euros) of this budget will be compensated with national co-financing.
- Technical Assistance Project for Rehabilitation of the Frequency Control Performance of Turkish Power System for Synchronous Operation with UCTE which has been proposed by TEİAŞ to ensure integration of Turkish electricity system with European electricity system and approved by European Commission is in the contract signing phase. 2.5 million euros of EU contribution is expected for the project. No national co-financing is planned for this project.

Table 4. 16: Matrix of Policy Commitments: Energy

(In 1000 Euros)

	2008	2009	2010	2011	2012
1. Project for Increasing Public Awareness on Energy Efficiency in Buildings					
A. Implementation Profile	---	---	---	---	---
B. Net Budget Effect	-18	---	---	---	---
B.1. Direct Effect on Budget Revenues	---	---	---	---	---
B.2. Direct Effect on Budget Expenditures	-18	---	---	---	---
2. Project for Improving the Structure and Capacity of TEİAŞ					
A. Implementation Profile	---	---	---	---	---
B. Net Budget Effect	---	---	---	-200.55	---
B.1. Direct Effect on Budget Revenues	---	---	---	---	---
B.2. Direct Effect on Budget Expenditures	---	---	---	-200.55	---
Total Net Budget Effect					
A. Implementation Profile	---	---	---	---	---
B. Net Budget Effect	-18	---	---	-200.55	---
B.1. Direct Effect on Budget Revenues	---	---	---	---	---
B.2. Direct Effect on Budget Expenditures	-18	---	---	-200.55	---

ANNEX TABLES

Table 1.a: Macroeconomic Prospects

	ESA Code	2008	2008	2009	2010	2011	2012
		Level (Mil. TL)	Rate of Change				
1. Real GDP, at 1998 prices	B 1 * g	102,164	0.9	-6.0	3.5	4.0	5.0
2. GDP, at current prices	B 1 * g	950,098	12.7	-0.4	8.7	8.7	9.7
Components of Real GDP (1998 Prices. Percentage Change)							
3. Private Consumption Expenditure	P3	70,378	-0.1	-3.4	2.6	3.3	4.8
4. Public Consumption Expenditure	P3	10,323	1.9	4.4	2.4	2.8	2.2
5. Gross Fixed Capital Formation	P51	24,211	-5.0	-17.7	7.6	7.1	10.4
6. Changes in Inventories and Net Acquisition of Valuables*	P52+P53	185	0.3	-1.7	0.1	0.3	0.0
7. Exports of Goods and Services	P6	25,852	2.3	-6.1	4.2	6.0	6.5
8. Imports of Goods and Services	P7	28,786	-3.8	-11.7	5.4	7.5	9.3
Contribution to Real GDP Growth							
9. Final Domestic Demand	---	---	-1.1	-6.1	3.7	4.2	5.9
10. Changes in Inventories and Net Acquisition of Valuables	P52+P53	---	0.3	-1.7	0.2	0.3	0.0
11. External Balance on Goods and Services	B11	---	1.7	1.8	-0.4	-0.5	-0.9

* Contribution to growth.

Table 1.b: Price Developments

Percentage Changes. Annual Averages	ESA Code	2008	2009	2010	2011	2012
1. GDP Deflator	---	11.7	6.0	5.0	4.5	4.5
2. CPI	---	10.4	6.3	6.4	5.9	5.3

Table 1.c: Labor Market Developments

	ESA Code	2008	2008	2009	2010	2011	2012
		Level	Rate of Change, Percent				
1. Employment, persons (Thousands)*	---	21,194	2.2	-0.6	1.3	1.9	2.6
2. Unemployment Rate (ILO Definition)	---	2,611	11.0	14.5	14.3	14.1	13.3
3. Labor Productivity, persons	---	---	-1.3	-5.4	2.2	2.0	2.4
4. Compensation of Employees	---	---	---	---	---	---	---

*+15 years-old

Table 1.d: Balance of Payments

Percentages of GDP	ESA Code	2008	2009	2010	2011	2012
1. Current Account	---	-5.7	-1.8	-2.8	-3.3	-3.9
- Balance of Goods	---	-7.2	-3.5	-4.8	-5.2	-5.7
- Balance of Services	---	2.3	2.8	3.0	3.0	2.9
- Balance of Incomes	---	-1.1	-1.4	-1.3	-1.4	-1.4
- Balance of Current Transfer	---	0.3	0.3	0.3	0.4	0.4
2. Capital and Financial Account (Including Reserves)	---	5.0	0.7	2.8	3.3	3.9
- Private Sector	---	---	---	---	---	---
- Public Sector	---	---	---	---	---	---
Statistical Discrepancy	---	0.7	1.1	0.0	0.0	0.0

Table 2: General Government Budgetary Prospects

Percentages of GDP	ESA	2008	2009	2010	2011	2012
Net Lending(B9) by sub-sectors*						
1. General Government	S13	1.6	6.6	4.7	3.5	2.7
2. Central Government	S1311	-0.6	3.4	2.1	1.4	0.6
3. Funds	S1311	-0.5	-0.1	-0.4	-0.5	-0.4
4. Local Administration	S1313	1.0	0.5	0.5	0.5	0.4
5. Social Security Fund	S1314	2.7	3.3	3.1	3.0	2.9
6. Revolving Funds	S1311	-0.2	-0.1	-0.2	-0.2	-0.2
7. Unemployment Fund	---	-0.8	-0.3	-0.4	-0.7	-0.7
General Government (S13)						
8. Total Receipts	TR	33.1	33.5	35.7	35.3	35.1
9. Total Expenditures	TE	34.7	40.1	40.3	38.8	37.8
10. Net Lending	EDP.B9	1.6	6.6	4.7	3.5	2.7
11. Interest Payments	EDP. D41+FISIM	5.6	6.4	6.0	5.2	4.8
12. Primary Balance	---	3.9	-0.2	1.3	1.7	2.1
Components of Revenues						
13. Taxes	---	18.2	17.7	19.5	19.5	19.4
14. Social Funds	D61	6.5	7.3	7.7	7.8	7.8
15. Factor Incomes	D4	5.6	5.8	5.4	5.3	5.2
16. Other	---	2.8	2.8	3.1	2.8	2.7
17. Total Receipts	TR	33.1	33.5	35.7	35.3	35.1
Components of Expenditures						
18. Total Consumption	P32	15.8	17.9	17.9	17.4	16.9
19. Total Social Transfers	D62+D63	4.0	5.9	6.0	5.8	5.9
20. Interest Payments	EDP. D41+FISIM	5.6	6.4	6.0	5.2	4.8
21. Subsidies(1)	D3	0.8	0.8	0.8	0.8	0.8
22. Gross Fixed Capital Formation	P51	3.4	3.2	3.3	3.0	3.1
23. Other	---	5.1	5.9	6.3	6.6	6.4
24. Total Expenditures	TE	34.7	40.1	40.3	38.8	37.8

*(+) refers to deficit. (-) refers to surplus.
(1) Includes agricultural support. duty losses of SEEs and Support and Price Stability Fund.

Table. 3: General Government Debt Developments

Percentage of GDP	ESA Code	2008	2009	2010	2011	2012
1. Gross Debt	---	39.5	47.3	49.0	48.8	47.8
2. Change in Gross Debt	---	---	7.8	1.7	-0.2	-1.0
Contributions to Change in Gross Debt						
3. Primary Balance	---	---	-0.5	0.9	-2.5	-0.6
4. Interest Expenditure	EDP D.41	---	0.1	0.1	1.6	-0.1
5. Current GDP Growth	---	---	0.0	4.7	-39.9	-8.9
6. Other	---	---	8.3	-3.9	40.6	8.5

Table 4: Cyclical Developments*

	2008	2009	2010	2011	2012
1. Real GDP Growth (1998 Prices)	0.9	-6.0	3.5	4.0	5.0
2. Net Lending of General Government	1.8	6.6	4.9	4.0	3.2
3. Net Interest Expenditure	4.8	5.5	5.3	4.7	4.3
4. Potential GDP Growth	3.7	2.7	1.6	2.7	3.5
Contributions:					
- Labor	25.8	51.8	9.3	21.9	24.6
- Capital Stock	76.2	66.5	103.3	67.8	57.3
- Total Factor Productivity	-2.0	-18.3	-12.6	10.3	18.1
5. Output Gap (percentage difference from the potential)	1.0	-8.9	-6.9	-4.9	-2.2
6. Cyclical Budget Component**	-1.3	1.7	0.8	0.5	-0.2
7. Cyclically Adjusted Balance**	3.2	4.6	3.8	3.3	3.3
8. Cyclically Adjusted Primary Balance**	-2.2	-0.8	-1.3	-1.4	-1.1

*Consolidated/Central Government budget
** (+) refers to deficit. (-) refers to surplus.

Table 5: Divergence from Previous Update

	2008	2009	2010	2011	2012
GDP Growth (Percent)					
Previous Update	1.1	-3.6	3.3	4.5	---
Latest Update	0.9	-6.0	3.5	4.0	5.0
Difference*	-0.2	-2.4	0.2	-0.5	---
General Government Net Lending (Percentage of GDP)					
Previous Update	1.5	4.6	3.2	2.8	---
Latest Update	1.6	6.6	4.7	3.5	2.7
Difference	0.1	2.0	1.5	0.7	---
General Government Gross Debt (Percentage of GDP)					
Previous Update	39.5	43.1	44.1	43.4	---
Latest Update (ESA Definition)	39.5	47.3	49.0	48.8	47.8
Difference	0.0	4.2	4.9	5.4	---

Table 6:Basic Assumptions on the External Economic Environment Underlying the PEP 2009 Framework*

	2008	2009	2010	2011	2012
Exchange Rates					
Parity (USD/ €)	1.48	1.39	1.40	1.40	1.40
Real Exchange Rate (Percentage Change)	6.1	-10.5	0.8	0.3	2.3
GDP Growth					
Euro Area (Real. Percentage Change)	0.7	-4.2	0.3	1.5	--
World Trade (In Real Terms)					
World Import Volume Increase (Percent)	3.0	-11.9	2.5	--	--
International Prices					
EU CPI (Percentage Change)	3.3	0.3	0.8	0.7	0.7
US CPI (Percentage Change)	3.8	-0.4	1.7	1.4	1.4
Oil Prices (USD per Barrel)	97.1	62.1	75.2	78.0	80.9

*IMF, World Economic Outlook, October 2009; EC, Economic Forecasts, Autumn 2009; OECD Economic Outlook, November 2009.

Table. 7: Structural Reform Agenda and Developments

Measures in Previous PEP	Realization Status (Y/N)	Date[13]	Comments
Privatization			
The privatization process for electricity distribution companies	Y	2009	Privatization tenders of Electricity Distribution Companies (Aras, Osmangazi, Yeşilırmak and Çoruh) were completed, and their procedures are at the approval/contract stage.
Initiation of the privatization process for lottery games	N	---	The tender related to the privatization of the national lottery games by means of issuing a licence was cancelled due to the fact that the bidders did not raise their offers during the auction. Efforts are carried on to call the tender again.
The completion of the sale/transfer transactions regarding TCDD İzmir, Derince, Bandırma and Samsun Ports	Y	2009	The tender processes for TCDD İzmir, Derince, Bandırma and Samsun Ports were completed and are at approval/contract stage.
The privatization process of Çamaltı and Ayvalık saltworks of TTA	Y	2009	The offers were received for the tender related to the privatization of İzmir Çamaltı and Ayvalık saltworks belonging to TTA, and their procedures are at the approval/contract stage.
The privatization of TŞFAŞ (Sugar Factories Co.)	N	2010	In order to privatize Kastamonu, Kırşehir, Turhal, Yozgat, Çorum and Çarşamba Sugar Factories belonging to TŞFAŞ as C portfolio group, as a whole, via asset sale and negotiation method, a tender announcement was made on September 11, 2009; at the final negotiation meeting held on December 08, 2009, the maximum offer 606 million dollars was received; however, the implementation of the tender announcement and terms of reference was suspended upon the decision of the Council of State on December 30, 2009. In order to privatize Malatya, Erzincan, Elazığ and Elbistan Sugar Factories belonging to TŞFAŞ as B portfolio group, as a whole, via asset sale, a tender announcement has been made.
Competition Law and Policies			
Amendment to the Act on the Protection of Competition No. 4054 both to increase enforcement efficiency and to bring it in line with the current EU legislation in the form of Regulation and Notices.	N	2010	The bill is on the agenda of the Turkish Parliament.
Preparations aimed at forming a state aid monitoring and oversight unit that is functionally independent.	N	2010	Preparations are ongoing under the responsibility of the Undersecretariat of Treasury, aimed at forming a legal and institutional infrastructure for the monitoring and oversight of state aid.
Improvement of the Investment Environment			
The Draft Bill on Amending the Law on Work Permits for Foreigners and some other laws	N	2010	Work permits process of foreigners; especially to work in the scope of vocational services and national and international projects, is aimed to be shortened.
Turkish Commercial Law	N	2010	The draft Law is on the agenda of the TGNA.
The Coastal Act	N	2010	Concerning The Draft Bill Amending the Coastal Act submitted to the Prime Ministry in May 2006 by Ministry of Public Works and Settlement, the Ministry's evaluation process of the opinions obtained by the Prime Ministry is going on and the work on the Draft Bill is expected to be completed by 2010.

[13] The date or foreseen date of realization.

Financial Sector			
Establishment of the market, where capital market instruments issued by SMEs will be traded, within the body of ISE and commencement of operations in the market	N	2010	The works carried out by the company Emerging Enterprises Market (EEM) authorized as the founder company within the framework of the legislation as from 2005 regarding establishment of the market, where the capital market instruments issued by SMEs will be traded, were transferred to ISE in 2008 since the required preparations were not completed by EEM, the duration allocated to EEM for making the application for activity permission was completed and a protocol was signed between ISE and EEM regarding continuing the project under the roof of ISE. At the last stage, ISE Emerging Companies Market Regulation entered into effect by being published on the Official Gazette in August 2009. The market may be opened for operations following the completion of the issues subject to the approval of CMB pursuant to legislation and completion of technical works by ISE.
Enhancing the structure on custody and clearing transactions	N	2011	Following the enactment of amendments planned to be done in the Capital Markets Law about the institutions of custody and clearing, it is planned to make the main legislation on these institutions about their organizations and activities, regulate the issues such as protecting custody guarantees and protecting the assets subjected to custody obligation as a result of listed operations, even if their custody operations have not been realized yet, and to make sure that the main principles of the current custody system is included in the legislation and to make necessary changes in these principles.
Capital markets compliance with the Community acquis dealing with the intermediary institutions' capital adequacy following the acceptance of Basel II criteria by EU	N	2009-2011	The drafts on Compliance with the EU acquis on capital adequacy are prepared during the Twinning Project. However, the EU regulation framework on this issue is closely related to the banking sector. Therefore, the works by CMB will be finalized in parallel to the agenda of the amendment to the banking legislation.
Dematerialization of Government Domestic Borrowing Instruments (GDBI) at the Central Registry Agency (CRA) and custody on customer basis	N	2010	Within the scope of the project, necessary amendments in legislation were made regarding monitoring GDBIs, which were the subject of final sale and purchase transactions, in the registry system and principles of transactions were determined. Besides, required works were commenced in terms of integration of repo-reverse repo transactions in which GDBIs are subject, into registered system and the mentioned works are in progress. On the other hand, the calendar for passing to the project shall be determined according to the completion of works regarding repo-reverse repo transactions, the effective date of amendment planned to be made in the Capital Markets Law regarding discretion, seizure and similar judicial and administrative claims in the registry system.
Agriculture			
Enactment of the law with respect to food, feed, food hygiene and veterinary services	N	2010	Technical studies related to draft law prepared for regulation of public services in the area of food, feed, food hygiene and veterinary services will be finalized after assessing the draft text regarding the subjects of complementary implementation of the abovementioned services, providing clear division of responsibilities between central and local authorities and within the competent authority.

Privatization of the sugar factories	N	2010	The works on the privatization of all sugar factories by the end of 2010 are going on.
Enactment of the law on the establishment and duties of the Ministry of Agriculture and Rural Affairs	N	2010	The studies of Law on the establishment and duties of the Ministry of Agriculture and Rural Affairs which aim to increase the institutional capacity of public sector in the process of structural transformation will be completed by taking into account functional organization required by the fact that especially plant health, veterinary and food safety services are provided together as envisaged in EU acqui, agricultural research-development and extension in an integrated way and establishing of policy development capacity in soil conservation and land usage.
Regional Development			
The Decision of the Council of Ministers on the establishment of the Development Agencies in certain NUTS II Regions	Y	2009	In 2009 in all NUTS II Regions the establishment of Development Agencies is completed.
Decision Amending the Decision of the Council of Ministers on the establishment of the Development Agencies in certain NUTS II Regions[14]	Y	2009	Upon the cancellation of some articles of the Working Regulation by the Council of State, the legal regulations compatible with the Decision of the Council of State is regulated by means of this Decision. Within the scope of this Decree, various amendments are made in the previous Decrees.
Development Agencies Surveillance Legislation	Y	2009	In accordance with the provisions, all accounts and procedures will be examined by independent surveillance organizations within the scope of methods and principles determined by the Ministry of Internal Affairs, Ministry of Finance and SPO Undersecretariat.
Health and Social Security Reform			
Implementation of family medicine will be dispersed	Y	2005-2010	Family Medicine shall be extended to whole country.
National Health Information System will be strengthened	Y	2010	Pilot implementation of Hospital Appointment and Referral Integration System will dispersed. Individuals' electronically data regarding primary health in the family medicine information system will be expanded by covering hospital services. Studies for medicine tracking system will be completed. Implementation of tele-medicine will be dispersed.
Information and Communication Technologies			
Law on Protection of Personal Data	N	2010	The Draft Law has been sent to the TGNA on 22 April 2008. It is at the Justice Commission of the Assembly at present.
Authorization By-Law on Electronic Communications Sector	Y	2009	The Authorization By-Law which was prepared in compliance with the provisions on authorization of Electronic Communications Law was put into force after it was published in the Official Gazette No. 27241 dated 28 May 2009.
By-Law on Numbering	Y	2009	By-Law on Numbering which was prepared in compliance with the Electronic Communications Law was put into force after it was published in the Official Gazette No. 27271 dated 27 June 2009.

[14] In March 2009, with the Decision of the Council of State, the Regulation on the Working Methods and Principles of the Development Agencies has been cancelled, with the exception of the articles 19-25 which are related to the Working Methods and Principles of the Investment Support Offices.

By-Law on Number Portability	Y	2009	By-Law on Number Portability which was prepared in compliance with the Electronic Communications Law was put into force after it was published in the Official Gazette No. 27276 dated 2 July 2009.
By-Law on Spectrum Administration	Y	2009	The By-Law which was prepared in compliance with the Electronic Communications Law was put into force after it was published in the Official Gazette No. 27276 dated 2 July 2009.
By-Law on Identification of Operators with Significant Market Power and Their Obligations in the Electronic Communications Sector	Y	2009	The By-Law which was prepared in compliance with the Electronic Communications Law was put into force after it was published in the Official Gazette No. 27336 dated 1 September 2009.
By-Law on Access and Interconnection	Y	2009	The By-Law which was prepared in compliance with the Electronic Communications Law was put into force after it was published in the Official Gazette No. 27343 dated 8 September 2009.
By-Law on Tariffs	Y	2009	The By-Law which was prepared in compliance with the Electronic Communications Law was put into force after it was published in the Official Gazette No. 27404 dated 12 November 2009.
By-Law on Processing of Personal Data and Protection of Privacy in the Telecommunications Sector	N	2010	Work is underway to conform to the Directive 2002/58/EC concerning processing of personal data and protection of privacy in the electronic communications sector and the Directive 2006/24/EC on retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications network.
Energy			
Continuation of the privatization process for the electricity distribution companies	Y	2009	The shares of Başkent EDAS, Sakarya EDAS and Meram EDAS have been transferred to the private sector totally in January 2009, February 2009 and October 2009. As of November 2009 the tender processes of Çoruh EDAS, Yeşilırmak EDAS and Osmangazi EDAS have been completed. On November 10, 2009 tenders have been announced for the privatization of four more regions (Uludağ, Çamlıbel, Vangölü and Fırat EDAS), and tendering will be continued until January 29, 2010.
Activities aimed at privatization in electricity sector	N	2004-2010	Studies for incorporation of portfolio production groups, privatization of some power plants individually and determination of generation privatization methods are carried on. The generation privatizations are expected to accelerate in 2010. Distribution privatizations will be completed to a great extent in 2010.
Regulatory Institution Information System Project	N	2004 - ...	There has been a dispute related to the Project between the parties, and EU organizations have started a conciliation process in order to bring a solution to the problem. However, the parties could not reach a compromise and EU has abolished the Project. Preparations for Organizational Information System and Automation System Project with TUBITAK have started.
Project for Increasing Energy Efficiency in Turkey	Y	2005-2009	The Project is completed on November 2007. Within the scope of bilateral cooperation with the Dutch Government, Increasing Turkish Industrial Energy Efficiency by Means of Volunteered Agreements project is carried on for the 2007-2009 period.

Development of Functioning Conditions of Cross-Border Electricity Trade of Turkey in line with the Best Practices in EU	Y	2006-2009	The Twinning Project which aims at the adjustment of the technical infrastructure for the cross border trade and organization of the appropriate legal basis for the integration of the Turkish electricity system with the European electricity system was completed in November 2009.
Improving the Structure and Capacity of TEIAS	N	2009-...	Within the scope of fortification of the institutional structure and expansion of the technical capacity of the Turkish Electricity Transmission Company (TEIAS), live maintenance for the electricity transmission system, development of training activities, revision of human resources policies, recovery of the IT structure and restructuring of the organization is planned. The Project is submitted in scope of 2009 Pre-Accession Financial Cooperation Programming and is accepted by the European Commission. It is expected to be implemented after the signature of 2009 Financing Agreement.
Activities to provide supply security in electricity and natural gas	N	2007-2010	Establishment of legal framework to sustain and improve the supply security in energy markets has become more important in a deregulated environment. In this context, to strengthen the Electricity Market Law No.4628 in terms of security of supply, new regulations have been put into life with the Law No.5784. In addition, activities related to natural gas supply security are carried on. Electricity Market and Supply Security Strategy Document No 2009/11, dated May 18, 2009 has been published as a HPC decision. A Law Draft with respect to Amendments in the Natural Gas Market in 2010 will be prepared.
Institutional division of coordination and supervision activities in nuclear energy field	N	2007-2010	The regulation and surveillance activities in the field of nuclear energy will be carried out by a newly established institution, the research, technology development and implementation activities will remain under the responsibility of TAEA.