

### **III ECONOMIC CRITERIA**

#### **1 Priorities of Economic Policy**

In recent years Turkish economy recorded considerable improvements in terms of both macroeconomic stability and economic growth. With the help of stability-focused policies supported by extensive structural reform process, Turkish economy has realized a serious transformation process.

The general framework of stability-focused macroeconomic policies being implemented in Turkish economy will be preserved in the forthcoming period as well. In the context of the vision “Turkey, a country of information society, growing in stability, sharing more equitably, globally competitive and fully completed her coherence with the European Union” set in the Ninth Development Plan (2007-2013), which was started to be implemented in 2007, the main priorities of macroeconomic policies were determined. These priorities are set as ensuring price stability, preserving fiscal discipline, pursuing an incomes policy contributing to the macroeconomic stability. With the help of these policies, basically ensuring an environment for sustainable economic growth, raising the welfare of the society and reducing the development disparities between Turkey and EU are targeted.

Harmonization with the Copenhagen Criteria and convergence towards Maastricht Criteria constitute the main perspective in designing economic policies in the EU accession process. Turkey has achieved a significant success by keeping the general government gross debt stock and deficit figures below the levels stated in Maastricht Criteria since 2004 and 2005, respectively. Sustaining this achievement and full harmonization with Maastricht Criteria is targeted for the medium term.

In the scope of Copenhagen Criteria, strengthening market economy and increasing the competitive power of the economy are priority targets. In this context, implementation of privatization program will continue and continuation of necessary regulatory reforms will be attached to importance. On the other hand, works on the labour market and social security area will especially be handled with priority in order to increase the capacity to cope with the competitive pressures in the EU. Besides, works on education, health, energy and transportation areas will be carried on within a supportive framework for the competitive power of the country.

#### **Strengthening Economic Policy Coordination Across Different Institutions**

There is a clear distinction of duties and responsibilities among the institutions that take part in formulation and implementation of economic policy and there is an efficient coordination mechanism operating in the context of providing harmonization for the activities of different institutions in economic policy management. Economic policies are formulated via long term, medium term and short term policy documents prepared under coordination of State Planning Organization (SPO), based on the principle of participation. In this context, the development plan is the basic policy document that puts forward the economic, social and cultural transformation with an integrated approach. Medium term programme which is a yearly rolling document with 3 years perspective and prepared by SPO and covers the main economic magnitudes used both as an indicator and a target, starts the budget process. Annual programme, public investment programme and budget process are executed simultaneously in harmony. The projections of main economic variables in annual program are also the inputs for the budgetary process. SPO, Ministry of finance and Undersecretary of Treasury carry out the works for expenditures and revenues in the annual programme and central government budget. Debt management and implementation of fiscal policy are executed by Undersecretariat of Treasury and Ministry of Finance in the framework of legal distribution of tasks. The only institution that is responsible for implementation of monetary policy is Central Bank.

In the context of increasing effectiveness in public financial management, Public Financial Management and Control Law No 5018 was enacted in 2003, which aims to ensure effective, economic and efficient use of resources and strengthening the links among the plan, the programme and the budget. The said law has clearly put forward the duties of institutions in both preparation and implementation stages of budget process. In this context there is no ambiguity in authority and responsibility of institutions taking part in formulation and implementation of economic policies. From now on again, importance is given to ensuring efficient coordination among the relevant institutions and organizations in the processes of both determination and implementation of macroeconomic policies, ensuring the consistency among the different documents and strengthening the dialogue with the EU. In this context, Economic Coordination Council (ECC), having five Ministers responsible for economic issues as members <sup>(1)</sup>, plays effective role in this process. Moreover, Economic and Social Council (ESC), having special importance regarding the contribution of civil society in the formation of economic policies, pursues a critical function of coordination between private and public sectors. In order to generalize the culture of social dialogue and to strengthen the mechanism of social dialogue, ESC will be made more functional and effective.

Responding to the request of the Economic and Financial Affairs Council (ECOFIN Council) dated 26/27 November 2000, Turkey has prepared the Pre-Accession Economic Programme with the contributions of relevant ministries and institutions under the coordination of SPO and submitted it to the European Commission since 2001. In this framework, works for preparing Fiscal Notification and Pre-Accession Economic Programme will be continued regularly on a yearly basis with the participation of all institutions in the context of Fiscal Surveillance Procedure.

## **Fiscal Policy**

The main objectives of fiscal policy are to contribute to the creation of a sustainable growth environment through strengthening fiscal discipline, to strengthen public financing structure by decreasing the public deficit permanently, to give support to the fight against inflation and to realize a public primary surplus that helps continue the process of decreasing the ratio of debt stock to national income.

In this framework; with the aim of strengthening budgetary discipline, widening the scope of the budget and ensuring transparency of public expenditures; special revenue-special appropriation practices were abolished. To re-define budgetary system according to international standards; to ensure budgetary and accounting unity in all public administrations within the scope of general government; to adopt multi-annual budgeting and performance-based budgeting system; to strengthen the principles of productivity, effectiveness and accountability in public financial management; to increase transparency in public sector; to adopt a managerial accountability-based approach in public financial management and internal control system and; to establish a new internal control system in public sector, which complies with international standards and EU practices, Public Financial Management and Control Law No 5018 has entered into force after its publication in the Official Gazette No 25326 and dated December 24, 2003. As from the beginning of 2006, multi-annual budgeting was adopted with the full coming into force of the Law No 5018. Analytic Budget Code System was adapted, which is compatible with international COFOG classification, as of 2004. Turkish Tax Administration was functionally restructured in 2005. The Corporate Tax Law was revised and put into effect by taking into account the priorities such as simplifying the tax legislation, expanding the tax base and fight against the informal economy. With this Law, the corporate tax rate was decreased to 20 per cent from 30 per cent. VAT rates, primarily on education, health and tourism were reduced.

Forthcoming years, public revenue, expenditure and borrowing policies will be pursued effectively in line with above-mentioned primary objectives and fiscal discipline will be maintained. Broadening the tax base will increase tax revenues. Besides, saving and efficiency in public spending will be provided in the context of public reform. In this framework;

- Measures will be taken to effectively implement financial management, internal control and internal audit activities in public administrations.

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<sup>(1)</sup> Economic Coordination Council is chaired by the State Minister to whom Undersecretariat of State Planning Organisation is linked to, and consists of the Minister of Finance, the Minister of Industry and Trade, the State Minister to whom Undersecretariat of Treasury is linked to and the State Minister to whom Undersecretariat for Foreign Trade is linked to.

- Strategic planning and performance-based budgeting process will be strengthened.
- In order to improve the efficiency in public expenditures, expenditure programs will be revised and those of no longer in priorities will be cancelled.
- Works towards the rationalization of public investments will be continued.
- Works on simplifying tax legislation will be continued by reassessing exception, exemption and tax allowance provisions in the tax laws within the framework of economic and social policies.
- Stability will be the basis in tax policy practices in order to assist market players to make long-term economic decisions and increase predictability in taxation.
- In the framework of amelioration to be ensured in public financing; through increasing the share of education, health, R&D and social expenditures in GDP, the policies towards improving the life quality of the society, developing the qualifications of human capital, enhancing income distribution as well as ensuring amelioration in struggle with poverty and reducing the regional development disparities will continue to be implemented.
- Works on strengthening the control mechanism prescribed by Law No. 5018 will be continued and implementation stage of related secondary and tertiary legislation will be strengthened. In this framework, internal auditors and financial services experts will be trained in line with certain programs, functions of internal auditing and inspection will be defined clearly, and administrative capacity of central harmonization units will be strengthened by taking the principles of functional independency and neutrality as a basis.
- The budget will be structured as indicating performance of public institutions by taking into account the cost of policies to be implemented, areas that these policies affect and their opportunity cost.

## **Monetary and Exchange Rate Policy**

The Central Bank of the Republic of Turkey (CBRT) has been implementing a monetary policy aiming to achieve and maintain price stability under floating exchange rate regime since 2001. This policy was named as “implicit inflation targeting” between 2002 and 2005. In this period, a good progress was made in reducing inflation; annual CPI inflation declined to 7,7 percent at the end of 2005 from 68,5 percent at the end of 2001. The full-fledged inflation targeting was launched at the beginning of 2006, based on the fact that preconditions such as maintaining fiscal discipline, economic and financial stability, and required technical infrastructure have been met.

In this framework, inflation targets are defined as annual percentage change of end year CPI. The targets are set as point target jointly by the government and CBRT for 3 years. Symmetric uncertainty band around the inflation path consistent with end-year target are announced on an annual basis. The uncertainty band around the target for year 2008 has been set as  $\pm 2$  percentage points. Inflation targets for 2007 and 2008 have been set as 4 per cent. The targets for 2009 and 2010 were announced as 4 per cent through the monetary policy announcements in 2007 and 2008.

In 2006 and 2007, the inflation rates exceeded the determined targets due to the external factors beyond the control of monetary policies such as increases in food and energy prices and the uncertainties in global financial markets.

These effects persisted in the beginning of 2008, but in the middle of the year, perceptions and forecasts of agencies regarding that the increases in food and energy prices are not temporary and reflects structural change resulting from the global market developments and could continue in the medium term, has strengthened. Due to continuing supply shock longer than expectations, persisting uncertainties in global financial markets and observing secondary effects of these developments; the CBRT revised inflation targets upward by a significant margin. In the Inflation Report of April 2008, it is reported that converging to the 4-percent-medium-term target could take more than 2 years under the assumption that tight policy will continue. On the other hand, studies in the CBRT indicates that past inflation experience has been given more weight in determining inflation expectation and the anchoring role of current inflation targets has in a certain manner.

These developments were interpreted as the conditions to change the target<sup>(2)</sup>, which were explained in the December 2005 announcement of “General Framework of Inflation Targeting Regime and Monetary and Exchange Rate Policy for 2006”, has realized. In this framework, the CBRT and the Government jointly agreed to change the inflation targets for the period of 2009-2011 and new targets, determined in the open letter dated 3 June 2008, were announced to public. Accordingly, the year-end targets for 2009 and 2010 are revised as 7.5 percent and 6.5 percent respectively; and the target for the year 2011 is set as 5.5 percent<sup>(3)</sup>. Thereby, a more gradual path to the 4-percent-medium-term target is foreseen. Despite the upward revision in the inflation targets, CBRT has announced that the tight monetary policy stance will be preserved in the upcoming periods.

Achieving and maintaining price stability is the main condition for macroeconomic stability and predictability. Therefore, CBRT will continue to implement inflation targeting regime. Eventually, the inflation rate is aimed to be reduced further, to the level that complies with the Maastricht criterion on inflation.

The short-term interest rates are the main policy instruments of CBRT. The interest rate decisions are taken considering the medium-term inflation outlook and risks. Instruments such as reserve requirements or efficient liquidity management might also be used by CBRT, when deemed necessary. This framework will continue to be implemented in the forthcoming periods.

Transparency and accountability principles along with the efficient communication policy are indispensable elements of a successful inflation-targeting regime. In this context, when the inflation falls outside the uncertainty band, CBRT informs the Government and the public about the reasons of deviation, the measures to be taken to ensure that the inflation will converge to the target, and the risks. In addition, CBRT shares its inflation forecasts along with the risks and possible policy actions, and measures to be taken if the inflation deviates from the target as well as macroeconomic developments and inflation performance, in its quarterly Inflation Report, which is the main communication tool. Thus, Inflation Reports also play an important role with respect to accountability principle. The forecasts presented in the Inflation Reports published throughout 2006 covered a period of one and a half years. From 2007 onwards, the forecasts refer to a two-year period. This change aims to help economic agents to predict the future better<sup>(4)</sup>. Publication of the interest rate decisions and the minutes of the Monetary Policy Committee (MPC) meetings have been also significant instruments of the communication policy. All these implementations will continue in the forthcoming periods as well.

Under the floating exchange rate regime, exchange rates are determined by the demand and supply conditions in the foreign exchange market. However, CBRT may intervene in the market to smooth out excessive volatility in both directions. In addition, the CBRT holds scheduled foreign exchange purchase auctions for reserve build-up purposes in the periods that foreign exchange supply exceeds the demand. This framework will be preserved in the forthcoming period.

## **2 Existence of a Functioning Market Economy**

In 2005 Progress Report, European Commission confirmed that Turkish economy could be accepted as a functioning market economy. In the forthcoming period, within the context of Copenhagen Criteria, implementation of privatization programme will be continued and emphasis will be given to the continuation of necessary regulatory reforms with the aim of strengthening market economy.

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<sup>(2)</sup> On 5 December 2005 dated announcement of “General Framework of Inflation Targeting Regime and Monetary and Exchange Rate Policy for 2006” is pointed that a pre-announced inflation target shall only change in the event that very sharp and long-term deviations from the target are expected or medium-term targets no longer make sense due to factors beyond the control of monetary policy. At this point, a new target will be set with the Government with respect to the Law.

<sup>(3)</sup> End-year target of 2008 was not changed in order to pursue the accountability. In this context, the CBRT, has stipulated to explain the reasons behind the deviations from the targets and measures that is needed via open letters in the rest of the year.

<sup>(4)</sup> Considering that the supply side shocks will keep inflation above 4 percent for a long period, the CBRT, to facilitate the expectation management process, decided to publish inflation projections in April 2008 Inflation Report for a three year horizon.

## **Privatization**

The main medium term objectives of privatization, which is one of the essential elements of the economic programme, are to encourage entrepreneurship by decreasing the share of the state in the economy, to enhance the efficiency and cost structure into the competitive level, and to assure free market conditions with backing of the structural reforms. The aim is to limit the economic activities of state to a rational monitoring and regulation by ensuring that the state concentrates on its main responsibilities while moving away from being the producer of goods and services.

2005 is the milestone for the success of privatization operations in which great progress has been held in recent years. As a matter of fact, while the total revenues from the privatization operations for which sale/transfer processes were completed, in 2004 were at 1.3 billion dollars, it was realized as 12.5 billion dollars in 2005. As of the second quarter of 2006, the state has withdrawn from certain sectors such as petroleum refining, distribution and transportation; iron and steel; textile and ready wear; cement industry; airport handling services, alcoholic beverages, metal mines (aluminum, silver, chromium, electrometallurgy, copper and zinc), animal feed, milk processing, fertilizer and forestry products. Moreover, the decisive role of the state has been transferred to the private sector in sectors such as telecommunication, tourism, paper, seaport operation.

In the framework of privatization vision, it is aimed that the state will completely withdraw from activities such as banking (in the short term: HALKBANK; medium term: VakıfBank and Ziraat Bank –the strategy to be prepared drawing on the experience of Halk Bank–); airlines and maritime transportation and locomotive and railway car production; meat and fish products market; sugar, tobacco and tea products processing; petrochemical industry, material procurement, distribution and wholesale trading of electricity, national lottery games, IMKB, gold exchange, various public services (motor vehicles inspection stations, highway/bridge operations, municipal-garbage/waste collection and revaluation), telecommunication and tourism. Furthermore, its shares in electricity generation, water network, sewage infrastructure, health, education, defence, radio broadcasting, television publishing, natural gas market, coal and other mining operations are targeted to be reduced. However, the state is envisaged to continue its activities in the areas of grain purchasing, seed production, railway transportation infrastructure, oil exploration, airport operation, postal services and coastal security provision.

With privatization of state economic enterprises such as TEDAS, TEKEL and EUAS, which are determining enterprises in their sectors, it is aimed to sustain a competitive market economy by ensuring the entrance of new domestic and foreign investors into these sectors.

## **Regulatory Reforms**

### ***Market Liberalization and Price Reforms in the Energy Sector***

In Electricity Sector Reform and Privatization Strategy Report, it is envisaged that the opportunities of consumers for more electricity usage from free markets is going to be increased in line with the objective of opening the whole market to competition by 2010. Balancing and Settlement market has become operational from August 1, 2006. From that time onwards, the market participants meet their unanticipated electricity needs from this market.

Apart from the market oriented improvements; an important price reform has been realized. Based on High Planning Council Decision (14/2/2008 No. 2008/T-5) Cost Based Price Adjustment Mechanism (CPM) has been put in implementation as of 1 July 2008. CPM covers four main state economic enterprises (SEEs; Turkish Coal Enterprises, Petroleum Pipeline Corporation, Electricity Generation Company, Turkish Electricity Trading Company) and 20 regional distribution companies operating in energy sector. According to CPM, tariffs of companies are going to be revised based on the backward and forward cost linkages. The revised tariffs are going to allow companies to realize annual financial targets, accordingly to finance their planned investments and other expenses.

CPM envisages a robust tariff adjustment sequence. This implies that BOTAS is going to adjust its tariffs on monthly basis whereas other companies are going to adjust their tariffs in January 1, April 1, July 1 and October 1. This calendar is going to settle cash flows among companies on a regular and solid basis. As a consequence of this, financial capacity of energy SEEs is going to increase and thereby the privatization of distribution companies and portfolio generation groups belonging to the EÜAŞ will be easier.

The CPM is going to be implemented between July 1, 2008 and December 31, 2010. In addition, Treasury is going to supervise CPM. Distribution companies are going to remove the cross subsidization in their tariffs on a gradual basis till end of 2010 as stated in Electricity Market Law, No. 4628. Moreover, the tender in 2005 about the transfer of 4 billion sm<sup>3</sup> of BOTAS's annual gas purchasing contracts to the private sector was finalized and the stage of signing an agreement with related firms was reached.

### ***Price Liberalization and Price Reforms in Agriculture Sector***

It is the fundamental aim in the agriculture sector to build an organized and a highly competitive structure while eliciting food safety and security and taking care of the sustainable usage of natural resources.

Price liberalization in the agriculture sector continues with the executions towards the SEEs. In fact, before 2002, Turkish Grain Board (TGB) used to regulate the grain market with the support purchase prices announced by the Decree of Council Of Ministers; after 2002 the market is regulated by the prices announced by the enterprise. Besides, in the grain sector, to be in harmony with EU and to ensure a more effective operating market, Grain and Rice Implementation Regulations were accepted in 2008. In Turkey, at least two payment institutions is planned to establish. The main approach is to reorganize some existing institutions as payment institutions. Determining the authorization and responsibility of these institutions and, in this context, legal works related to reorganization are expected to be finalized by the year of 2013.

By the Decree of Privatization High Council (PHC) issued in 2007, it was decided to place the public shares of Turkish Sugar Companies Corporation under the scope of privatization to the privatization programme. By the other Decree of PHC in 2008, the assets of cigarette production belonging to Tobacco Company and Cigarette Industry Enterprises and Trade Corporation were sold. In the short term, completion of price liberalization in the areas of tobacco and sugar is expected.

For the completion of opening criteria of 'Agriculture and Rural Development' Chapter, strategy documents for agricultural support, IACS (Integrated Administration and Control System) / LPIS (Land Parcel Identification System) infrastructure and agricultural statistics need to be prepared. Works carried out in this context are coordinated by the Ministry of Agriculture and Rural Affairs. Related departments aim that these strategies are linked to each other in a way to reflect the desired changes in Turkish agricultural sector.

### **Improvement of the Investment Environment**

With the Improvement of the Investment Environment Reform Program, which was put into implementation in 2001, reducing the administrative obstacles in the front of the investments is aimed. The Program is carried out via Co-ordination Council for the Improvement of the Investment Environment (YOİKK) and Investment Advisory Council.

YOİKK, through 12 Technical Committees gathers together the institutions and organizations, which have responsibility and duty for the investment environment. By this way, YOİKK carries out the works to ensure a more investment friendly environment for investors and to overcome administrative and bureaucratic obstacles faced by domestic and foreign investors for enhancing the competitiveness and productivity of the economy.

With the aim of bringing an international perspective to the activities carried out in the scope of the works for improving the investment climate, Investment Advisory Councils that were formed in 2004, regularly meet under the auspices of prime minister in every year.

Works within the framework of the YOİKK Technical Committee action plans will contribute to reducing informality, improving innovation and R&D, increasing flexibility of the labor force, improving competitiveness at the national level and increasing the role of the private sector in economy by focusing on policies to enhance productivity and employment in the forthcoming period.

### **Identification of Informal Economy**

Within the scope of the fight against informality, “Hello 170, Informal Employment and Social Security Information Line” has been put into service in order to inform citizens and get their complaints as well as notifications about informal employment. Besides, according to the provisions of Law No. 5510, which has been amended by Law No. 5754, public administrations and banks will notify the SSI about the insurance status of their clients by using the electronic infrastructure provided by SSI while they are performing their transactions, thereby helping the identification of informal employment. Moreover, the obligation to pay wages of employees via banks will also contribute to the promotion of registered work. Besides, the year 2008 has been declared to be “The Year to Fight Against Informal Employment” by the Ministry of Labour and Social Security.

Revenue Administration, which is responsible for the preparation of the strategy to fight with informal economy, has determined various medium-term and long-term targets for the aim of improving and monitoring all kinds of economic activities in order to fight with informal economy and provide voluntary compliance. Within this scope:

- The magnitude, sectoral distribution and reasons of informal economy shall be determined. Dimensions and characteristics of tax avoidance and evasion will be regularly ascertained via various methods by the Revenue Administration. The sectors, where tax avoidance as well as evasion are prevalent and the relevant reasons for this situation will be determined, and necessary measures will be taken so as to prevent unfair competition created by the informal economy.
- In order to avert tax avoidance and evasion, a model based on risk analysis will be developed to be used in the selection of the taxpayers to be audited. Besides, audit standards, which significantly affect the effectiveness and quality of the auditing process, will be improved and efficiency of the coordination among the audit departments will be maintained. Audit performance will be monitored regularly in order to measure the efficiency of tax audits performed. Tax penalty system will be rationalized. The Uniform Chart of Account and Turkish Accounting Standards will be harmonized.
- Scope of the database, which has been developed to monitor economic activities of real people through national identity numbers and of corporations through tax identity numbers and to make effective use of the compiled data by the audit departments has been enlarged. Besides further improvement of the existing data collection capacity in accordance with the requirements, capacity of the database will be expanded through the information to be received from institutions such as Notaries Union in addition to the current information compiled from real estate purchases and sales, exports, goods and money movements in order to comprehend economic activities. The data in the database are planned to be used in the prevention of tax avoidance, tax evasion and the continuation of the fight against informal economy.

### **3 The Capacity To Cope With Competitive Pressures Within The Union**

In the period of National Programme, required structural reforms, which are aimed to strengthen the capacity of cope with competitiveness pressures within the Union and to eliminate possible risks in the area causing macroeconomic instability in the future, are targeted to continue. In this context, labor market, social security and social assistance, education, health, energy and transportation are treated as the main reform areas.

In addition, efforts are ongoing for finding collective solutions to important issues together with all sides of society. Regular Ad-hoc Committee of Improvement of Industrial Competitiveness (DOİK) is the most important one of these efforts.

On the other hand, the draft law is submitted to Turkish Grand National Assembly for establishing an institution having responsibility of inspecting and monitoring the public aids in accordance with EU acquis in the area of competitiveness law and policies, and this draft is expected to become law in 2009.

## **Labour Market**

Basic features of the labour market in Turkey are low labour force participation rates and low employment rates, especially among women, the rapid increase in the working-age population, high young unemployment rate, limited capacity of the economy to create employment, high level of informal employment, and inadequate employment growth in spite of high real GDP growth rates due to dissolution in agricultural economy.

Within this framework, the main objectives of employment policy are to enhance employment opportunities, to strengthen the link between education and labour market, to increase the efficiency of the labour market, to provide equal opportunities for the employment of the disadvantaged groups, to promote active labour programmes on the basis of the requirements of the labour market, to reduce informal employment and to increase decent work.

The Law No. 5763, which is known as “the employment package” and covers priorities of reducing the labour market costs, increasing the employment of women, youth and disables, improving active labour market policies, reducing informality, facilitating the foundation of private employment agencies, regulating the relation of sub-employers’ status and reducing the bureaucracy for establishment of new enterprises was approved in the Turkish Grand National Assembly on 15/5/2008 and published on 26/5/2008. Work towards harmonization with the acquis communautaire will continue.

Adaptability of workers to the novel conditions will be increased through providing new ability and skills in parallel with changes and developments in the labour market. The abilities, skills and qualifications needed by the labour market will be defined by occupational standards that will be developed and updated by the Vocational Qualifications Authority (VQA). To this end, the capacity of the VQA and social partners will be enhanced.

The young unemployed and women will be given vocational training on business establishment, training on business development, and information, counselling and guidance services on these issues.

Labour market information system will be established in order to follow changes and developments in the labour market, to determine policies and strategies to increase employment and decrease unemployment both at local and national levels, and to define and implement active labour market programmes in line with the needs of the labour market. The active labour market policies will be implemented effectively, disseminated and the services provided by those programs will be diversified. In this context, programmes especially focusing on the improvement of employability, qualifications and skill levels of unqualified workers coming out of the agricultural sector, youth, women and disabled will be given priority.

## **Social Security and Social Assistance**

In order to overcome the eligibility and financing problems of the social security system, to establish a fair social security system covering the whole population and bringing the whole population under the coverage of health security, to unify five different social insurance regimes, and to establish an effectively functioning information infrastructure, the Social Security Agency Law No: 5502 was put into force on May 20, 2006. As part of the reform, Social Insurance and Universal Health Insurance Law No: 5510 has become fully effective as of October 1, 2008.

With the implementation of the Universal Health Insurance, all citizens will enjoy healthcare services with the same coverage and at the same quality level. The citizens who can not afford to pay health insurance premium will be determined according to objective criteria and the state will pay their health insurance premium on their behalf.

In order to attain an effective and sustainable social assistance system, works on information sharing and database coherence among public institutions and the determination of beneficiaries of the social assistance system according to objective criteria, are going on.

Within the context of providing cost-effective and modern social services, child care services for children in need of protection and home care services for the disabled will be made widespread.

## **Education**

As part of the review of education programs, efforts towards attaining a vocational education system flexible enough to respond to the developments in the labour market have been initiated with the participation of social partners. In this context, transformation to a modular and flexible system in vocational and technical education will be realized. The vocational training at higher and secondary levels will be transformed into a single structure that will focus on the integrity of the programs, and applied training techniques, which play an important role in educating a qualified labour force in vocational education, will be emphasized.

In order to provide the education system and labour market with a more flexible structure, to increase employment and enhance labour productivity, work force will be trained in the areas demanded by the economy taking the life-long education strategy into consideration.

The efforts related to National Professional Qualifications System will be finalized, covering the following basic functions; development and certification of qualifications based on occupation standards, and accreditation of education and certifying institutions. Additionally, a vocational education structure that is sensitive to this system will be developed.

So as to support the development of human resources, education system will be evaluated with a holistic approach and with a coherent life-long learning perspective. Furthermore, efficiency and accessibility of the education system will be strengthened and equal opportunity will be ensured.

A lifelong education strategy will be developed towards enhancing the skills of individuals in line with the requirements of a changing and developing economy and labour market. In order to develop the skills and abilities of people, this strategy will cover mechanisms that will support increasing formal and non-formal education opportunities, strengthening the horizontal and vertical relationship between these types of education, structuring apprenticeship and public education accordingly as well as supporting the involvement of the private sector and NGOs in this area.

With the aim of ensuring the lifelong education approach to be adopted by the society, opportunities in non-formal education, including e-learning, will be developed, individuals beyond the education age will be encouraged to benefit from open education programs, and activities related to enhancing skills and vocational training will be increased.

In order to determine trends related to the supply and demand conditions of the labour market, necessary data including the education, employment and occupation situations of households will be produced, compiled and labour market requirement analysis will be carried out.

In order to increase the quality of education, curriculums focusing on innovativeness and research orientation will be spread throughout the country, and students will be encouraged towards scientific research and entrepreneurship.

In order to reduce the school dropouts, necessary measures primarily targeting the rural areas and girls will be taken and rates of transition to secondary education will be increased.

Within the framework of university-industry collaboration; human resources will be developed in accordance with knowledge based competitive economy needs and contributing to the development of research potential. Standards about qualifications of technical personnel will be developed and various certification programs will be organized to eliminate differences among technical staff.

Work force will be qualified and the efforts regarding the development of the vocational and technical qualities for currently employed will be supported. Through education programs, labour force that is prone to R&D activities and technology production will be trained

## **Health**

The basic objectives of health policy are to ensure that all citizens will be taken part in economic and social life as healthy individuals and to assist them to raise their quality of life.

To this end, primary health services will be strengthened and made widespread through special emphasis on mother, childcare and preventive health services. An effective primary health services will be introduced through the implementation of family practitioners system, needs of health infrastructure and personnel will be filled with a view to increase access to health services. Ongoing Health Transition Programme will be completed.

## **Energy**

The main objective of the energy policy is to meet the energy needs of economic growth and social development in a continuous, quality and secure manner at least-costs through competitive free market environment.

Both primary energy and electricity demand are increasing rapidly in parallel with growing economy and rising social wealth. However, due to the ongoing energy sector liberalization since 2001, in the transition period there has been a significant investment gap and supply-demand projections indicate an electricity supply shortage in the medium-term. Therefore, to preclude electricity supply shortage in the medium-term and to mitigate the negative effects of this shortage and to sustain the long-term energy supply security, necessary measures will be taken.

By completing the energy sector liberalization process establishment; of a well functioning, free and competitive market is targeted. Thus, continuing private sector investments in a sustainable manner and declining in energy costs are foreseen. To ensure the well-functioning of the market, the institutional capacity will be improved.

Privatization of public owned electricity generation and distribution assets and efficient administration of those assets through improvement of service quality, reduction of losses of distribution to rational levels and improvement of efficiency in generation are targeted.

To eliminate adverse environmental impacts of energy production/consumption and decrease the economic and social costs of rising energy prices, effective measures towards increasing the energy efficiency will be developed.

Reducing import dependency in energy will be given priority. In this context, to decrease the very high share of natural gas in electricity production, domestic and renewable energy resources will be expedited.

Building of nuclear power plants, which serve the diversification of electricity supply, supply security and long-term cost reduction, will be started. To improve the nuclear safety, necessary legislation will be set.

Natural gas usage in a competitive manner will be expanded. National gas supply security will be ensured by taking the seasonal demand variations into account. To ensure the sufficiency of emergency petroleum stocks and provide efficient management thereof a stock agency will be established.

To make Turkey a transit route and a hub in the transportation of energy resources (oil, gas and electricity) in our region to international markets, works due will be continued. For the purpose of integration into the EU internal energy market, necessary infrastructure works will be given priority.

## **Transportation**

The main objective for rail transport is to ensure gradual liberalization of the railway sector in Turkey by opening Turkish rail transport market to competition and separation of functions regarding infrastructure management and provision of transport services.

It is aimed to enact draft Laws on Railway Framework and TCDD by the end of 2009 and to put into force implementing regulations on Railway Safety, Licensing, Interoperability and Access to Railway Infrastructure. . Draft Laws are to ensure that new railway construction and rehabilitation of existing lines will be realized by the infrastructure manager through public budget. Infrastructure manager will charge for the use of infrastructure to fund its maintenance and repairing business.

TCDD will be restructured as a new organization consisting of an infrastructure manager and a railway undertaking, both of which have separate legal entities.

Economic efficiency of TCDD will be increased with new infrastructure and rolling stock investments, improving railway operations and an integrated personnel policy, such as decreasing number of staff by providing incentives for early retirement and easing the way for employment of required new staff.

Constructing new high speed lines are given priority in order to increase passenger transportation by rail between major metropolitan cities. Moreover, logistic villages are to be established so as to improve intermodal transport and increase share of rail freight transport. Beside that, existing conventional lines and rolling stocks are to be renewed or rehabilitated in order to increase line and rolling-stock capacity especially by loans from International Finance Institutions, including World Bank.

Strategic plans have been prepared and works are continued in order to encourage private sector investment in railways within the scope of public-private partnership models. A company, EUROTEM, is established in cooperation with private sector, especially to produce high speed train sets. Apart from that, the works towards construction of new factories with private sector are continued for production of switches and sleepers in Turkey.

On the other side, transport companies engaging in national/international road transport perform their operations within free competition environment in line with the necessities of market economy.

Until 2003, there was no special law regulating the mentioned road transport activities and road transport sector was far behind the structure of which is in line with the contemporary, institutionalized and provide quality transport service. Turkish legislation has been mostly aligned with the EU requirements determining the conditions for access to the road transport market and profession in terms of content, through Road Transport Law and Road Transport Regulation, a secondary legislation, based on the mentioned Law. Therefore, road transport in Turkey has become one of the sectors that are ready for the EU negotiations.

In the forthcoming period, one of the main targets of road transport policies is to decrease the present idle capacity and eliminate it after a reasonable time. Besides, it is aimed to contribute to the establishment and improvement of enterprises having financial-professional competence, good reputation, and are strong and productive, and to encourage/ foster the institutionalized transport enterprises. In addition, increasing the road traffic safety and save in fuel and operation expenses by more effective technical inspection of vehicles and weight control and building a road transport sector that is in line with EU Acquis and efficient, systematic, reliable, economic and integrated with the other transport modes as well are among the main targets.

The new policies that will be implemented are expected to have significant reflections on the market and the sector. With the help of these policies, actors are expected to be more selective regarding the type of the road transport activity that they are going to perform and small and individual actors in the sectors are expected to institutionalize by converging their facilities. Thus, actors in the sector are expected to specialize in their own fields. Another positive reflection will be to create more healthy market structure by preventing unfair competition.

In order to put forward institutionalisation, quality and no-trouble-service in accordance with the EU criterion, the new type of license for domestic transport market for the first time has been introduced. Thanks to the recent developments in road transport regulations and with the help of cheap and qualified labour market in Turkey, Turkish haulers have become one of the largest international road transport fleet not only in Europe but also in the world. In this regard, it is obvious that Turkish carriers hold the strong competitive power in the European road transport market, which is functioning in line with free market principles, during the EU accession period.