REPUBLIC OF TURKEY

PRE-ACCESSION ECONOMIC PROGRAMME 2011 - 2013

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The Pre-Accession Economic Programme (2011-2013) has been adopted by the decision of the High Planning Council, No. 2011/1.

CONTENTS

TABLES

FIGURES

BOXES

ABBREVIATIONS

ADSL	Asymmetric Digital Subscribers Line
BASEL-II	International Recommendations on Banking Laws and Regulations Issued by Basel Committee on Banking Supervision
BEL-DES	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
DIS	Direct Income Support
EMRA	Energy Market Regulatory Authority
ESA	European System of Accounts
EU	European Union
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
EÜAŞ	Turkish Electricity Production Company Inc.
GAP	Southeastern Anatolian Project
GDBI	Government Domestic Borrowing Instrument
GDP	Gross Domestic Product
GSM	Global System for Mobile Communications
HPC	High Planning Council
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
ITCA	Information Technologies and Communications Authority
İŞKUR	Turkish Employment Organization
KASDEP	Social Support Project in Rural Areas
KKYDP	Rural Development Investments Support Programme
KOSGEB	Small and Medium Industry Development Organization
KÖY-DES	Project for Supporting Infrastructure of Villages
MEB	Ministry of National Education
MTP	Medium Term Programme
NAIRU	Non Accelerating Inflation Rate of Unemployment
OECD	Organization for Economic Co-operation and Development
PEP	Pre-Accession Economic Programme
PPI	Producer Price Index
R&D	Research and Development
SCT	Special Consumption Tax
SDIF	Savings Deposit Insurance Fund
SDR	Special Drawing Right
SEEs	State Economic Enterprises
SMEs	Small and Medium Sized Enterprises
SODES	Social Support Program
SPO	State Planning Organization
SSI	Social Security Institution

TGNA	Turkish Grand National Assembly
TCDD	Turkish State Railways
TDZ	Technology Development Zones
TEDAŞ	Turkish Electricity Distribution Company
TEİAŞ	Turkish Electricity Transmission Company
TETAŞ	Turkish Electricity Trading and Contracting Company Inc.
TEN-T	Trans-Europe Transportation Network
TFP	Total Factor Productivity
TINA	Transport Infrastructure Needs Assessment
TKB	Development Bank of Turkey
TL	Turkish Lira
TSKB	Industrial Development Bank of Turkey
TŞFAŞ	The Turkish Sugar Factories Incorporation
TTA	Tobacco, Tobacco Products, Salt and Alcohol Enterprises Incorporation
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, as an acceding country for European Union (EU) membership, 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 PEP (2011-2013) has been prepared under the coordination of the Undersecretariat of State Planning Organization with the contributions of relevant ministries and institutions, and adopted by the decision of the High Planning Council[1] No. 2011/1.

Pre-Accession Economic Programme is prepared within the scope of the Ninth Development Plan (2007-2013), on the basis of the Medium Term Programme (2011-2013) and the 2011 Annual Programme. The newly released data during the period between Medium Term Programme (MTP) publication and PEP preparation implicate that some macroeconomic variables in MTP may realize below or above the 2010 realization estimates. However, these developments are not considered as developments that will change the medium term trends. Because of that, the framework of MTP for medium-term outlook and projections has been kept in PEP.

The global economic crisis which began in 2008 and reached its climax at the beginning of 2009 affected all countries profoundly. The basic difference distinguishing this crisis from previous crises is that this crisis was experienced broadly and intensely throughout the world. As a result of the crisis, important income and employment losses were experienced all over the world, world trade volume and capital flows contracted substantially. In this period, Turkey was one of the few countries which announced and implemented an exit strategy out of the crisis. Thanks to the measures taken and policies implemented, Turkish economy was among the fastest growing economies in 2010.

In the recovery period, Turkish economy has decoupled significantly from the EU economies in terms of public deficit and debt sustainability, besides the high growth performance and employment growth. The economy, contracted by 4.7 percent in 2009 as a result of the crisis, has grown by 8.9 percent in the first nine months of 2010. On the other hand, it is expected that the EU economy, which contracted by 4.1 percent in 2009, will grow by a moderate rate of 1.7 percent in 2010. After the crisis, while the employment losses that occurred in EU countries has not been recovered yet, a rapid recovery was observed in employment in Turkish economy and employment increased by 5.6 percent in 2010. As a result of the effect of the stimulus measures which were implemented to mitigate the effects of the crisis, the general government deficit to GDP ratio was realized as 5.5 percent in 2009, however the debt stock increased moderately. The general government gross debt stock to GDP ratio, which started to decline as of 2010, is estimated to retreat to 42.3 percent in 2010 from 45.5 percent in 2009. This ratio is expected to decrease to 36.8 percent as of 2013. On the other hand, the general government gross debt stock to GDP ratio in EU countries which reached 79 percent in 2010 is estimated to increase until 2015.

The 2010 Progress Report announced by the European Commission in November 2010 mentioned that Turkey displayed a successful performance compared to many countries in the recovery process. It was stated that per capita income in Turkey reached 46 percent of the EU average and it was emphasized that Turkish economy, by recovering rapidly from the crisis, demonstrated high resilience against crisis. In this report, it was also expressed that Turkey, overcoming the crisis by growing by 11 percent in the first half of 2010 and exhibiting a higher performance relative to the same period of the previous year, did not experience any problems in access to foreign finance needed due to the high growth rate. It was emphasized that resilience of Turkish economy improved due to the reforms implemented in areas such as banking, restructuring, privatization, energy and education in recent years and returned rapidly to a strong growth environment. On the other hand, it was also stated that the macroeconomic stability was still fragile although the economic policies implemented in Turkey produced good outcomes in the recent period and a stronger fiscal anchor would be beneficial.

[1] High Planning Council is composed of the Undersecretary of State Planning Organization and eight Ministers under the Presidency of Prime Minister.

The Pre-Accession Economic Programme (2011-2013) has been prepared in an environment in which, global economy has been recovering but with a pace lower than expected in the advanced economies and the future of the global economy is threatened by high public deficits, high debt stocks and high unemployment rates and therefore vulnerability and uncertainties for the forthcoming period are still prevalent.

After the global crisis, Turkish economy began to recover as of the second quarter of 2009 with the measures taken for mitigating the negative effects of the crisis and increasing domestic demand and production. The recovery trend in the economy was supported by timely and sound economic policies and the economy started to recover sooner and stronger than anticipated as a result of decisive implementation of the measures. Uncertainties decreased as a result of the measures taken against the crisis and their decisive implementation and confidence in the economy was re-established. Thereby, GDP contracted lower than expected in 2009.

It is anticipated that in 2010, the economy will grow higher than expected as a result of the recovery in domestic demand and the base effect. It is estimated that during the period of 2011-2013, the economy will grow by 5 percent on average and will reach its potential level towards the end of the period.

The main objective of macroeconomic policies in the period of 2011-2013 is to ensure stability in growth, to increase employment, to improve fiscal balances, to establish price stability and to keep current account deficit under control in line with the ultimate objective of increasing welfare level of the country.

The policies will focus on increasing the quality of labour force, labour market flexibility and labour participation rate besides the policies which will ensure stable growth environment supporting job creation.

The main objective of fiscal policy in the period of 2011-2013 is to enhance confidence, stability and predictability in the economy on one hand and to contribute to increasing the resources available for private sector on the other, by reducing public sector deficits, and therefore to support a private sector-led growth. In this framework, general government gross debt stock to GDP ratio, which increased in 2009 and started to decline in 2010, is targeted to continue this declining trend throughout the program period.

Inflation targeting regime will be continued in the 2011-2013 period in compliance with the main objective of achieving price stability. The ultimate target is to decrease inflation rate to levels complying with the Maastricht criteria. The Central Bank will continue to supervise macroeconomic risks and financial stability in 2011 as usual, in line with its main objective of ensuring and sustaining price stability. For this purpose, it will continue effective implementation of monetary policy and liquidity management.

The floating exchange rate regime will continue in the forthcoming period within its ongoing framework. As in recent years, the Central Bank will have no target for exchange rate. Unless there is significant fluctuation in the foreign exchange liquidity conditions, the Central Bank will continue to accumulate foreign reserve by means of flexible foreign exchange purchase auctions in line with the program announced. However, in case of unexpected developments, the Central Bank will continue to take necessary measures as in the past in order to support foreign exchange liquidity and ensure effective operation of foreign exchange market in the forthcoming period.

As also stated in 2010 Progress Report, as a result of the structural reforms implemented in the recent period, resilience of the Turkish economy has increased. However, recent global developments indicate the importance of the need for further reforms in many countries including Turkey. Decisive continuance of the structural reforms needed by our country is of great importance. In this regard, structural reforms will be continued in the 2011-2013 period.

The Pre-Accession Economic Programme (2011-2013) 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 macroeconomic forecasts for the 2011-2013 period are presented. In the third chapter, fiscal policies for the PEP (2011-2013) 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 included. In the fourth chapter, assessments on developments in structural reforms, budgetary impacts and reform agenda are included.

2. MACROECONOMIC OUTLOOK

The financial crisis, which initiated in developed countries in 2008 and affected developing countries through the trade and capital flows channels, reached its peak at the beginning of 2009. This situation aggravated uncertainties regarding the world economy and the global economy went into the deepest economic crisis experienced since the World War II. As a result of the crisis, significant income and employment losses were experienced throughout the world. Increasing uncertainties led to contraction in world trade volume and thereby in the global output, especially in countries with high foreign financing requirement.

Recovery in the world economy began sooner than expected due to the extensive monetary and fiscal measures taken against the crisis in 2009, and contraction in the global economy was limited to 0.6 percent. However, high budget deficits, high debt stocks and high unemployment rates in developed countries prevented increase in economic confidence and rapid recovery in these countries. Developing countries, as a group, were not affected by the economic crisis as deeply as their developed counterparts and recorded 2.5 percent growth in 2009 while developed economies contracted by 3.2 percent. On the other hand, the global crisis affected EU countries significantly and the EU economy contracted by 4.1 percent in 2009.

In the forthcoming period, developing countries, especially China and the Far East countries, are expected to continue growing at high rates while developed countries are expected to grow at lower rates. Despite slow recovery in developed countries, it is anticipated that the world economy will grow by 4.8 percent in 2010 and 4.2 percent in 2011 as a result of the strong growth performance observed in developing economies. It is expected that developed economies will grow by 2.7 percent and 2.2 percent, and the developing economies will continue to grow at high rates, by 7.1 percent and 6.4 percent in these years respectively. EU countries are forecasted to grow at relatively low rates, by 1.7 percent in 2010 and 1.5 percent in 2011[2].

The expectations regarding to world economy and general framework in OECD Economic Outlook Report[3] which is announced after MTP, published in October 2010, support the assumptions of MTP regarding to global outlook.

The most important driver of the recovery of the world economy in 2010 was the recovery in world trade. It is expected that the world trade volume, which contracted by 11 percent in 2009, will increase by 11.4 percent in 2010 and 7 percent in 2011 in line with the expectations regarding growth. OECD forecasts that the world trade volume will increase by 12.3 percent in 2010, 8.3 percent in 2011 and 8.3 percent in 2012.

The fiscal measures taken to pave the way out of the crisis led to an alarming increase of public deficits and public debt stocks in the developed countries. Especially, the deterioration of fiscal outlook and debt structure in some EU countries increased fiscal sustainability concerns. The fiscal deficits also reached quite high levels in the US economy, but rapid recovery in the US economy alleviated the concerns about public deficits. It is expected that the developed countries will implement more contractionary fiscal policies in 2011. Thus, it is expected that the ratio of public sector borrowing requirement to GDP in developed economies, which increased to 10.1 percent in 2009 from 4.7 percent in 2008, will decrease moderately to 9.3 percent in 2010 and 8 percent in 2011. It is anticipated that this ratio will be realized as 11.1 percent and 9.7 percent in the US economy and 6.5 percent and 5.1 percent in the Euro Area in 2010 and 2011, respectively. As for the developing countries, deterioration in fiscal balances were limited and did not cause negative economic consequences due to their strong fiscal positions prior to the crisis[4].

Although advanced economies are expected move towards fiscal tightening in the forthcoming period, deficits will be removed gradually in order not to hamper economic recovery and therefore the ratio of public debt stocks to GDP will continue to increase. It is expected that the ratio of general government gross debt stock to GDP in the US, which began to increase in 2008,

[2] IMF, World Economic Outlook Report, October 2010.
[3] OECD, Economic Outlook Report, November 2010.
[4] IMF, World Economic Outlook Report, October 2010.

will reach a high rate as 92.7 percent in 2010, 99.3 percent in 2011 and 110.7 percent in 2015. It is foreseen that this ratio will reach 84.1 percent in 2010, 87 percent in 2011 and 89.3 percent in 2015 in the Euro Area. This situation will bring the problem of exceeding the Maastricht criteria to the agenda. No major deterioration is expected in the public debt stocks of developing countries and it is anticipated that the increase in the general government debt stock will remain limited in the forthcoming period[5].

The fact that unemployment rates reached high levels both in the US and European countries and are not expected to improve rapidly in the medium term, constitutes a social problem and restricts economic recovery and growth by limiting domestic demand. As a result of the crisis, the unemployment rates reaching high levels in 2009, increased further in 2010 in developed countries. It is expected that the unemployment rate recorded as 9.3 percent in the USA in 2009 will increase to 9.7 percent in 2010 and fall down to 8.7 percent in 2012 by decreasing slightly. As for the Euro Area, the unemployment rate, which was 9.3 percent in 2009, is expected to increase to 9.9 percent in 2010. The unemployment rate is not expected to display a major improvement in the medium term and it is anticipated to remain at 9.2 percent in 2012[6].

It is expected that the oil and commodity prices which recorded major decreases in 2009 will approach to the pre-crisis levels in 2010, and follow a horizontal path in 2011 as a result of the expected slow down in global demand. The contraction in demand in addition to the significant decrease in oil and commodity prices caused the consumer prices to fall below historical levels in 2009. While consumer prices increased by 5.2 percent in developing countries in 2009, they increased at a low rate at 0.1 percent in developed countries and some developed economies faced deflation risk. The consumer price inflation is expected to be 1.4 percent in developed countries and 6.2 percent in developing countries in 2010. It is foreseen that the inflation rate will be 1.3 percent in developed countries and 5.2 percent in developing countries with a one percentage point decline in 2011.

In 2008, capital inflows to developing economies fell down to 184 billion dollars with a decline of 74 percent compared to 2007. Capital inflows, which reached 235 billion dollars in 2009, is expected to increase to 340 billion dollars in 2010 and back to 300 billion dollars in 2011. On the other hand, it is expected that the announcement of a 600 billion-dollar-bond purchase program by the US on November 2010 and similar measures could possibly affect the estimations of capital inflows. In the recent period where external financing declined significantly, it was observed that developing countries with strong fiscal balances and strong balance of payments positions achieved to maintain their growth and reserve accumulation.

Since the financial markets in many developed countries are still not very resilient against shocks and the fiscal stimulus packages are coming to an end, it is expected that the growth in these countries will slow down in the following period. On the other hand, it is expected that the medium term growth performance of developing countries after the global contraction is effected positively by the measures adopted against the crisis and that these countries will record high growth rates. It is anticipated that these dynamics will continue to prevail in the forthcoming period and the wegiht of developing economies in the world economy will continue to increase. However, since the growth expectation in these countries is closely linked to the demand conditions in advanced economies, the growth has downward risk.

According to IMF World Economic Outlook Report, returning back to a sustainable and sound growth environment at a world scaleafter the termination of fiscal stimulus packages rests on two rebalancing acts. The first one is an internal rebalancing in advanced economies by strengthening private sector demand and allowing for fiscal consolidation. The second one is decreasing net exports in surplus economies and decreasing external deficits in deficit economies. In this framework, it is stated that a sound and permanent recovery will not be achieved without a global rebalancing act. It is emphasized that it is more important today than at the peak of the

[5] IMF, World Economic Outlook Report, October 2010.
[6] OECD, Economic Outlook Report, November 2010.

crisis, to carefully design policy combinations at the national level by considering the peculiar conditions of countries, and to obtain international coordination at the global level.

According to the OECD Economic Outlook Report, the most important challenge to be encountered in the following period will be to guide the transition from a policy-driven recovery to self-sustained growth environment. In this process, the importance of effective international cooperation is emphasized.

Turkey is an active member of the G-20 platform, whose importance for the world economy increased with the crisis. At the last meeting of this platform, it was emphasized that there are still risks on the global economy and the countries should implement their economic policies in congruity with each other.

By considering these developments, the Pre-Accession Economic Programme (2011-2013) has been prepared in an environment in which the uncertainties regarding the global economic outlook for the following period are still persistent. The assumptions regarding all exogenous variables used in PEP forecasts are presented in Annex Table 6.

2.1. Recent Economic Developments

2.1.1. Real Sector

2.1.1.1. Growth

The measures, taken in order to minimize the effects of the global crisis on Turkish economy, had a more positive impact on domestic demand and production than originally expected in 2009. As a result, the contraction in GDP in 2009 was recorded as 4.7 percent, which remained below the forecast of 6 percent in the 2009 PEP.

Table 2.1: Growth Rates and Demand Components

(Annual Percentage Change, at 1998 Prices)

	Annual		Quarterly							
			2009				2010			
	2008	2009	I	II	III	IV	I	II	III	First 9 Months
GDP	0.7	-4.7	-14.6	-7.6	-2.7	6.0	11.8	10.2	5.5	8.9
Agriculture	4.3	3.5	-1.2	6.2	4.4	2.0	0.3	1.1	-0.7	-0.1
Industry	0.3	-6.7	-20.9	-11.2	-4.2	11.6	19.4	14.7	8.6	13.9
Manufacturing	-0.1	-7.0	-22.1	-11.5	-4.2	13.0	21.2	15.2	8.7	14.7
Services	1.2	-3.1	-9.2	-6.2	-1.9	5.0	9.0	9.3	6.0	8.2
Construction	-8.1	-16.1	-18.5	-20.9	-18.2	-6.4	8.3	21.9	24.6	18.4
Total Consumption	-0.1	-1.0	-8.4	-1.4	-1.1	7.0	7.6	5.8	6.5	6.6
Public	1.7	7.8	5.1	0.5	5.2	17.9	0.9	3.5	-1.1	1.1
Private	-0.3	-2.2	-10.1	-1.7	-1.9	5.0	8.6	6.2	7.6	7.4
Gross Fixed Capital Form.	-6.2	-19.1	-27.6	-24.4	-18.5	-4.6	15.2	28.7	31.3	25.4
Public	12.7	-2.3	11.8	0.2	-5.7	-8.6	-25.6	14.6	17.9	4.6
Private	-9.0	-22.3	-32.2	-28.6	-21.0	-3.5	23.1	32.2	34.4	30.0
Total Final Dom. Demand	-1.5	-5.1	-12.9	-7.0	-4.9	4.5	9.1	10.3	11.2	10.3
Total Domestic Demand	-1.2	-7.2	-20.1	-10.5	-4.3	6.9	17.8	12.1	10.1	13.0
Exports of Goods and Serv.	2.7	-5.3	-11.5	-11.1	-5.4	7.4	-0.4	11.6	-2.0	2.8
Imports of Goods and Serv.	-4.1	-14.3	-31.0	-20.6	-11.7	11.0	22.3	18.8	16.9	19.1

Source: TURKSTAT

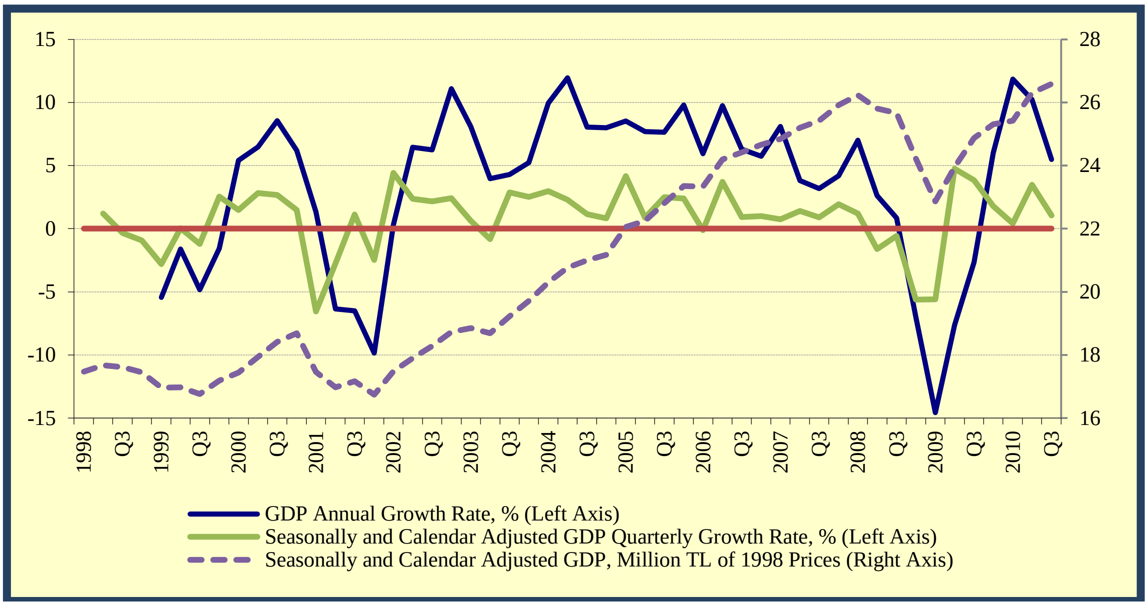
Note: Due to indirectly measured financial intermediation services and taxes-subsidies items, value-added by sectors do not add up to GDP.

The global economic crisis affected Turkish economy through foreign trade, financing and expectations channels as described in 2009 PEP. Transmission mechanisms of these channels were discussed in detail in the 2009 PEP. Analysing to what extent these channels affected economic activity, it is seen that exports of Turkey contracted by 5.3 percent in 2009, in which the world trade decreased significantly. On the other hand, since the capital flow bonanza experienced in the previous years was interrupted due to the crisis, domestic and foreign financing opportunities for investment of private sector diminished. Therefore, private fixed investment expenditures contracted by 22.3 percent in 2009. Another reason of this major decrease in private investments was the deterioration of expectations. Uncertainties about future also interrupted changes in stocks and private consumption in addition to private investments. Firms decreased their production and sold out of stocks due to uncertainties and contraction of domestic and foreign demand. Contribution of changes in stocks to growth was recorded as -2.1 points in 2009.

The contraction in private consumption remained limited to 2.2 percent thanks to positive contribution of fiscal and monetary measures taken in order to minimize the impacts of the crisis. Additionally, while public consumption expenditures increased by 7.8 percent, public investment expenditures contracted by 2.3 percent. Therefore, the contraction in domestic demand was realized as 7.2 percent. Real exports of goods and services contracted by 5.3 percent in 2009. Real imports of goods and services declined more than expected by 14.3 percent. As a result of these developments, contribution of net foreign trade to growth was positive and the contraction in GDP recorded as lower than expected.

The first signals of recovery became prevalent in the second quarter of 2009. The seasonally and calendar adjusted GDP which hit the bottom line in the first quarter of 2009, started increasing as of the second quarter of the year (Figure 2.1).

Figure 2.1: Developments in GDP



Source: TURKSTAT

The recovery in the economy became evident in 2010. As a matter of fact, the annualized GDP grew in the first quarter of 2010. In the first nine months of 2010, the increase in GDP realized as 8.9 percent and Turkey became the fastest growing country among the OECD countries.

Scrutinizing the gross domestic product by expenditure items, it is observed that the uncertainties decreased, consumer confidence increased, credit conditions improved.and consumption and investment decisions were affected in a positive way as a result of the fiscal and monetary measures taken against the crisis As a matter of fact, private consumption expenditures increased by 7.4 percent in the first nine months of 2010. Private fixed capital formation increased by 30 percent in the first nine months of the year. On the other hand, public sector consumption and investment expenditures increased by 1.1 percent and 4.6 percent respectively in the first nine months of 2010.

Therefore, the final domestic demand increased by 10.3 percent in the first nine months of 2010. As a result of positive contribution of the change in stocks to growth, the domestic demand increased by 13 percent in the first nine months of 2010.

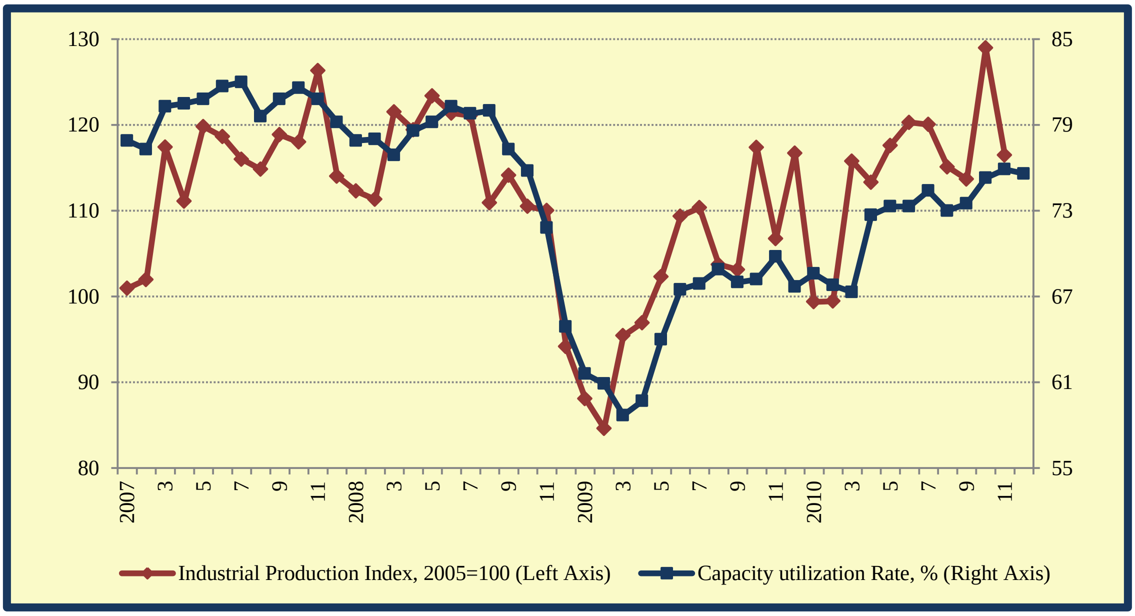
Due to the foreign demand conditions which deteriorated as a result of the global crisis, real exports of goods and services increased by 2.8 percent in the first nine months of 2010 spite of the contraction in the first and third quarters of the year. Despite the low performance of exports, the strong increase in domestic demand caused the real imports goods and services to increase by 19.1 percent in the first nine months of 2010. In parallel, it observed that a significant deterioration was experienced in foreign trade deficit in 2010. The fact that the recovery in Turkish economy is faster than the recovery in our export markets is the most important underlying factor behind these developments.

In the light of these developments, in the first nine months of 2010, the contributions to GDP growth by private consumption was 5.3 points, by private investment was 4.8 points, by public consumption was 0.1 point, by public investment was 0.2 points and by change in stocks was 2.6 points. Hence, the contribution of domestic demand to growth was recorded as 13 percentage points. As a result of the fact that the increase in exports remained well below the increase in imports, the contribution of net export to growth realized as -4.1 points. The fact that the contribution of net exports to growth is substantially negative becomes prominent as an unfavourable issue in the growth performance.

Considering the sectoral developments, the only growing sector in 2009 was agriculture with an increase of 3.5 percent. In 2009, value added in industry sector and services sector was contracted by 6.7 percent and 3.1 percent, respectively.

Considering 2010, value added in agriculture sector contracted by 0.1 percent in the first nine months of the year. On the other hand, value added in industry sector increased by 13.9 percent in the first nine months. Considering the sub-sectors, the increase in value added was realized as 6.1 percent in the mining sector, 14.7 percent in the manufacturing industry, 7.7 percent in the electricity, gas, steam and hot water generation and distribution.

Figure 2.2: Industrial Production and Capacity Utilization



Source: TURKSTAT and CBRT

Industrial production index increased by 12.7 percent in the January-November period of 2010 (Figure 2.2). The index has been increasing continuously compared to the same period of the previous year as of December 2009. Considering the sub-sectors, there are significant production increases in sectors such as manufacturing of motor vehicles (33.6 percent), manufacturing of electrical equipment (27.3 percent) and manufacturing computer, electrical and optical devices (25.1 percent).

Considering the capacity utilization rate in the manufacturing industry, which is another leading indicator for economic activity, it is seen that the recovery experienced in 2010 was reflected on the capacity utilization. As of the end of 2010, the capacity utilization rate increased by 7.9 points compared to the end of 2009 and maintained its tendency to turn back to the pre-crisis levels, and enhanced positive expectations in the manufacturing industry production regarding the last quarter of the year[7].

The value added in the services sector increased by 8.2 percent in the first nine months of 2010. Examining the sub-sectors, it was observed that the production in all sub-sectors increased in the first nine months of the year. Considering important sub-sectors, the increase in the wholesale and retail trade sector was 13.6 percent, in the construction sector was 18.4 percent, in the transportation sector was 9.4 percent, in the activities of financial intermediate organizations sector was 6 percent, in the housing ownership sector was 2.3 percent and in the real estate renting and business activities sector was 7.6 percent.

2.1.1.2. Labor Market

A rapid deterioration began in the labour market as from the last quarter of 2008, in which the impacts of the global crisis began to be felt in Turkey. Negative impacts of the crisis continued to be observed throughout 2009.

The main sector which suffered the impacts of the crisis in the form of employment losses was the tradable sector, namely industry. In 2009, employment in industry contracted by 8.9 percent, 11.8 percent, 9.6 percent and 2 percent respectively as of the quarters. Employment in industry contracted by 7 percent throughout 2009, while the value added in industry contracted by 6.7 percent. A total of 311,000 jobs were lost in this sector.

Employment in the services sector followed a course contrary to expectations. Employment increased by 1.3 percent, while the value added contracted by 5 percent, and 157,000 new jobs were created in the services sector. Examining this development in the services sector at a disaggregated sectoral level, it is seen that the increase in employment in the sector of “finance, insurance, real estate and business services” was effective in this development. Employment increased by 14.5 percent and 170,000 new job opportunities were created in this sector.

Thus, employment contracted by 1 percent in non-agricultural sector and 154,000 jobs were lost. In the same period, agricultural employment continued its upward trend beginning in 2008 and created 238,000 increase in agricultural employment, implying an increase of 4.7 percent in 2009. Thus, total employment increased by 83,000 reaching 21.3 million people in 2009.

However, as a result of the increase in labour force participation rate along with the above mentioned developments in employment, the unemployment rate reached a climax in 2009.

Labour force participation rate which began to increase from mid 2008 throughout 2009 recorded 1 percentage point increase compared to 2008, reaching 47.9 percent in 2009. In 2009, 943 thousands additional people entered the labour market, of which 429 thousands result from the increase in population and 514 thousands from the increase in labour force participation rate.

Therefore, the unemployment rate increased by 3 percentage points in 2009 compared to 2008 and stood at 14 percent and the number of unemployed reached 3,471 thousands. Similarly, non-agricultural unemployment rate was recorded as 17.4 percent with an increase of 3.8 percentage points. In 2009, unemployment rate among young people increased to 25.3 percent from 20.5 percent in the previous year.

In addition to the increase in unemployment rates, it should be noted that the sectoral composition of employment deteriorated against non-agricultural sectors, which provide more qualified job opportunities, as a result of the tendency to return back to agricultural employment during the crisis.

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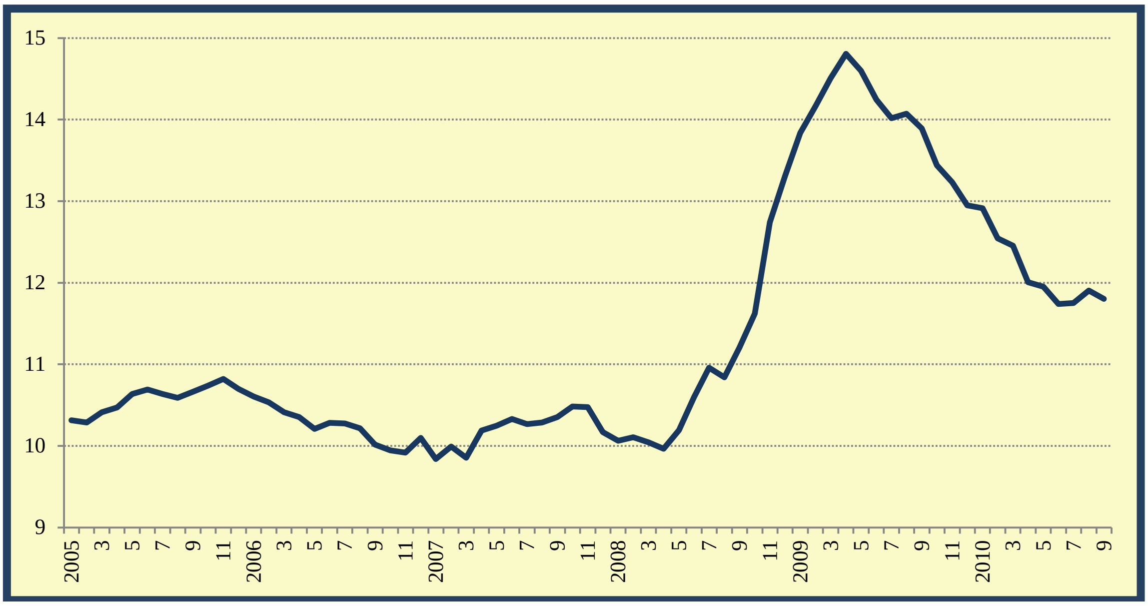
[7] The Central Bank began to announce the capacity utilization data in the manufacturing industry as from January 2010. This data differs from the capacity utilization data used in the past.

Figure 2.3: Seasonally Adjusted Unemployment Rate



Source: TURKSTAT

Along with the diminishing the impacts of the crisis, a recovery has been underway in the labour market as of mid-2009. The seasonally adjusted unemployment rates started to decline after reaching its peak in April 2009, but did not yet retreat to the pre-crisis levels (Figure 2.3).

Table 2.2: Developments in the Labor Market

(15+Age, Thousands)

	Annual		2009				2010		
	2008	2009	I	II	III	IV	I	II	III
Working Age Population	50,772	51,686	51,360	51,575	51,789	52,007	52,223	52,431	52,645
Labor Force Part. Rate, %	46.9	47.9	45.9	48.2	49.3	48.1	47.5	49.4	49.7
Labor Force	23,805	24,748	23,582	24,837	25,537	25,011	24,831	25,901	26,166
Employment	21,194	21,277	19,779	21,455	22,108	21,741	21,267	23,055	23,195
Unemployed	2,611	3,471	3,802	3,382	3,429	3,270	3,564	2,846	2,971
Employment Rate, %	41.7	41.2	38.5	41.6	42.7	41.8	40.7	44.0	44.1
Unemployment Rate, %	11.0	14.0	16.1	13.6	13.4	13.1	14.4	11.0	11.4
Non-Agriculture, %	13.6	17.4	19.3	17.0	17.0	16.2	17.5	13.8	14.5
Among Young People, %	20.5	25.3	28.6	24.9	23.5	24.4	25.5	19.8	21.1
Employment by Sectors									
Agriculture	5,016	5,254	4,378	5,408	5,839	5,328	5,040	5,831	6,178
Non-Agriculture	16,178	16,023	15,401	16,047	16,269	16,413	16,227	17,224	17,017
Industry	4,441	4,130	4,016	3,935	4,096	4,264	4,308	4,470	4,525
Services	11,737	11,893	11,385	12,112	12,173	12,149	11,919	12,754	12,492
Employment									
Public	---	---	2,948	2,974	2,977	2,959	2,938	2,959	2,998
Private	---	---	16,831	18,481	19,131	18,782	18,329	20,096	20,197

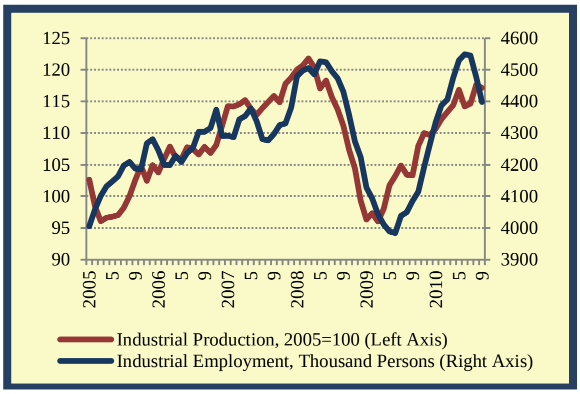
* To ensure comparability, annual data regarding employment by sectors is presented according to NACE Rev.1, while quarterly data is presented according to NACE Rev.2.
Source: TURKSTAT

Employment recorded considerable increases in tandem with economic recovery. Examining seasonally adjusted employment figures, it is observed that a rapid recovery began in industrial employment as of mid-2009 and employment in industry reached pre-crisis levels in recent months (Figure 2.4). Similarly, strong increases in employment were recorded in the services sector. In this respect, non-agricultural employment increased by 5.7 percent in the first nine months of 2010. In the same period, an increase of 9.5 percent was recorded in agricultural employment.

As a result of these developments in the employment, the unemployment rate was recorded as 14.4 percent, 11 percent and 11.4 percent in the first three quarters of 2010, respectively. These rates correspond to a decrease of 1.7 percentage points, 2.6 percentage points and 2 percentage points, respectively, compared to the same period of the previous year.

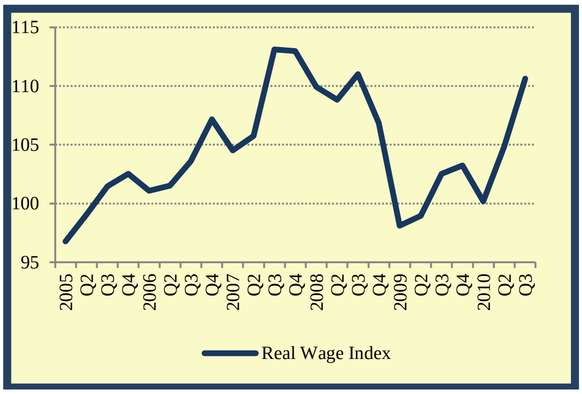
Considering developments in wages in 2009, it is observed that wages in industry adjusted sharply during the crisis. Real wages in industry decreased rapidly starting from the first quarter of 2009. Along with the start of recovery in economic activity, an upward trend started in the real wages[8], but it is seen that the real wages did not yet reach their pre-crisis levels (Figure 2.5).

Figure 2.4: Production and Employment in Industry



Source: TURKSTAT

Figure 2.5: Real Wages in Industry



Source: SPO

2.1.2. Inflation, Monetary and Exchange Rate Policies

2.1.2.1. Inflation

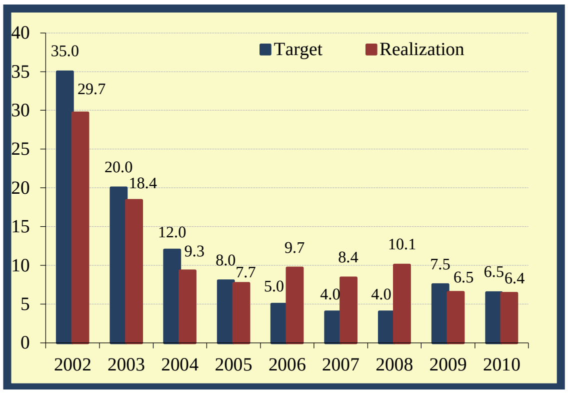
At the end of 2009, the annual rate of increase of Consumer Price Index (CPI) and Producer Price Index (PPI) stood at 6.5 percent and 5.9 percent, respectively. Consumer inflation reached 5.1 percent in October 2009, the lowest level in recent history, as the slowdown in economic activity became evident and commodity prices declined due to global crisis. On the other hand, consumer inflation increased in the last quarter due to the increases in oil and other commodity prices, high rates of increase in unprocessed food prices (in particular, fresh fruits-vegetables and meat) and expiration of temporary tax reductions. Thus, in 2009 the consumer inflation came down by about 3.5 points compared to 2008 year-end, and reached the lowest year-end level in recent history and remained below the target (Figure 2.6)

The upward trend observed in inflation in the last quarter of 2009 continued in the first quarter of 2010 due to the tax arrangements covering fuel oil, alcoholic beverages and tobacco products as well as high rates of increase of the unprocessed food prices. The course of food prices was determinant in the inflation developments throughout 2010 as it was the case in the last quarter of 2009. In addition to the fluctuations observed in fresh fruit and vegetable prices due to unfavourable weather conditions, the increase in unprocessed red meat prices owing to the shortage of domestic supply are the highlights of the course of food inflation throughout the year. Even though the contribution of the food group to consumer inflation reached 4.67 point within the year, it stood at 1.94 points at the end of 2010. The annual energy inflation increased in the first half of the year but declined gradually in the second half. Prices of alcoholic beverages and tobacco products increased at a high rate as a result of the tax increases introduced during the year. Annual rate of increase in the prices of goods other than food, energy and tobacco products fluctuated in the course of the year owing to the base effects coming from the tax regulations of previous year, and yet remained at a quite low level at the end of the year. In addition, slowdown

[8] Real wage index is calculated from nominal wage index, which is obtained from Quarterly Industry Employment Survey of TURKSTAT, deflating by CPI.

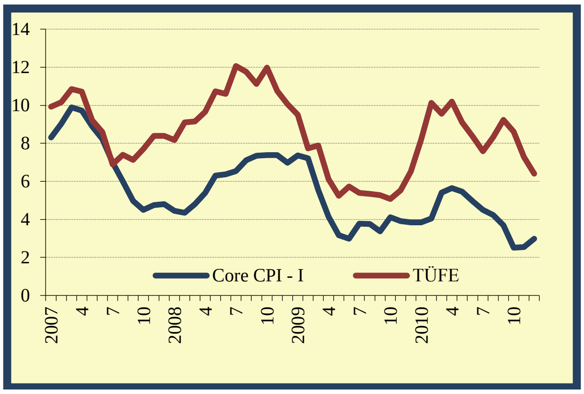
in services inflation starting from the beginning of 2009 continued in 2010, albeit at a lower pace. Although the impact of the rise in food and energy prices on the service prices via transportation and catering services became evident, annual services inflation reached its lowest level of the recent history during the year. Within this framework, core inflation indicators maintained their low course during the year (Figure 2.7). Consequently, annual consumer inflation declined by 0.13 percentage points compared to the year-end of 2009 and became 6.4 percent as of December 2010, remaining close to the year-end target (Figure 2.6).

Figure 2.6: CPI Targets and Realizations (%)



Source: CBRT, TURKSTAT

Figure 2.7: CPI and Core CPI (Annual Percentage Change)



Core CPI - I: Indicators for the CPI Having Specified Coverages - I (Energy, food and non-alcoholic beverages, alcoholic beverages, tobacco products and gold excluded CPI).
Source: TURKSTAT

2.1.2.2. Monetary and Exchange Rate Policy

Monetary policy has been implemented within the framework of inflation targeting in 2010. Accordingly, inflation target for 2010, calculated as the annual percentage change of consumer price index at the end of the year, was determined as 6.5 percent by the Government and Central Bank by accord. The uncertainty range that constitutes the basis of the accountability of the Central Bank was announced as ±2 percentage points.

After the effects of the global crisis became deeper, the Central Bank, anticipating that the inflation would decline in 2009, carried out policies focused on limiting the adverse effects that may be created on economic activity by the problems in the global economy and international credit markets. Within this respect, while the short term interest rates were reduced rapidly, it was targeted to remove the bottleneck in the credit market by following an accommodative liquidity policy. Central Bank decreased the policy interests by 1025 basis points in total within the period of November 2008-November 2009. Interest rate cuts were slowed down gradually by considering the positive developments observed in the credit market and moderate recovery in economic activity, and the policy interest rate was held stable for a long time after December of 2009.

Observing a significant increase in inflation due to the factors other than control of the monetary policy such as food, energy and administered prices as from the last quarter of 2009 affected the inflation expectations adversely. In this period, the Central Bank proposed that the observed increase in inflation would be temporary and focused on preventing deterioration of pricing behaviour and inflation expectations by enhancing its communication with the public on the issue that the underlying inflation trend was in compliance with the medium term targets. On the other hand, the separation in the course of domestic and foreign demand became evident in February 2010 and afterwards. Although a gradual and stable recovery trend was observed in the domestic demand as from that period, the uncertainties regarding the foreign demand continued.

The developments in the second quarter of 2010 justified the assessments of the Central Bank that the observed increase in inflation as of the last quarter of 2009 would be temporary. As a matter of fact, inflation began to decline again along with the reversal of the negative factors other than control of monetary policy. This situation affected inflation expectations positively and decreased the risks regarding the pricing behaviour.

While the domestic demand exhibited a relatively stable recovery in 2010, the uncertainties regarding foreign demand increased again as from May due to the financial problems becoming evident in the Euro Area. The developments experienced in the above mentioned period confirmed the anticipations of Central Bank and supported the monetary policy view that it might be required to maintain the policy interests at current levels for a while and at low levels for a long time. This situation enhanced the effectiveness of monetary policy on expectations. As a result, volatility of the market interest rates was low even when risk perceptions have deteriorated, and medium term and long term market rates continued to stand at the historically lowest levels. On the other hand, both the low course of market interest rates and the continuing easing tendency in credit conditions contributed to maintenance of lower levels of credit interest rates.

Both lower course of interest rates globally and the announcement of the Central Bank that it would maintain the policy interest rates at low levels allowed the market interest rates to fall down to historically lowest levels and to continue at these levels in 2010. This tendency was observed in every maturity and the decrease in long term interest rates became more evident with the contribution of the improvement in risk perceptions regarding Turkey. The rating increases by credit rating institutions in 2010 confirmed that the improvement in the perceptions regarding the risk of Turkey was permanent. As a matter of fact, Turkey has been among the countries whose risk premium indicators declined most compared to the period before the crisis.

Along with moderation of the impact of crisis on the financial markets, the Central Bank, on 14 April 2010, announced its exit strategy including recall of the liquidity measures taken during the crisis and normalizing operational framework of the monetary policy. Within this scope, the amount of funding made within the framework of the policy of providing liquidity above the actual need to the market via repo auctions was started to be reduced gradually in parallel with the normalization in money markets. It was decided to determine one-week maturity repo auction interest rates as the policy interest rate after the first step of technical interest rate adjustment was taken within the scope of the exit strategy in May along with the development of liquidity conditions in the market as anticipated. Additionally, the difference between the one-week maturity repo auction interest rate and the borrowing interest rate announced for overnight transactions was increased by 25 basis points after the second step of the technical interest rate adjustment was taken in September.

As from September 2008 when the global crisis reached its peak, the Central Bank, for the purpose of price stability and in line with its duty of financial stability, has used other monetary policy instruments for controlling macro financial risks in addition to one-week maturity repo auction interest rate which is the main policy tool. Within this framework, by the decisions taken in October, November and December of 2010, the borrowing interest rate implemented by the Central Bank in overnight market pulled down to 1.50 percent from 5.75 percent and lending interest rate was raised to 9 percent with an increase of 0.25 points. A similar arrangement was applied on the late liquidity window interest rates. Besides, the current account deficit increased rapidly since the gap between the growth rates of domestic and foreign demand was widened in the second half of the year along with the accelerating credit expansion. Additionally, it became clear that the quantitative easing policies adopted in the US and European economies would continue. As a result of these, the Central Bank began to adopt a new policy combination composed of a lower policy interest, a wider interest corridor and a higher required reserve ratio. Within this framework, one-week maturity repo auction interest rate which was the policy interest was pulled down to 6.50 percent from 7 percent in December.

As the normalization in global markets became evident, within the framework of the target to bring the facilities provided regarding foreign exchange liquidity to the levels before the crisis gradually and in a controlled manner, required reserve ratio for foreign exchange deposits was increased to the level of 11 percent by increasing it by 2 points in total by means of the arrangements made in April, July and September of 2010. Furthermore, considering the improvement observed in international liquidity conditions and the increase in foreign exchange liquidity of the banking system, the intermediary actions of the Central Bank in the Foreign Exchange Markets, Foreign Exchange Deposit Market were ended as from 15 October 2010. Additionally, the maturity for the transactions of foreign exchange deposit that may be taken by the banks from the Central Bank within the borrowing limits allowed to them was decreased to one week as it was before October 2008.

As for the Turkish lira market, considering the increases observed in the credits, the Turkish lira required reserve ratio was increased to the level of 6 percent by increasing it by 0.50 points in September and November. In addition to this, the implementation of paying interest for required reserve ratios in Turkish liras was ceased in September in order to ensure more effective use of required reserve ratios as one of the instruments reducing macroeconomic and financial risks. In addition to such arrangements, an extensive arrangement was made for Turkish lira required reserve ratios. Turkish lira required reserve ratios were differentiated according to maturities in order to extend the maturity of liabilities in the banking system and to direct the foreign capital inflows to longer terms, and some funds provided from domestic and foreign repo transactions which were not subject to reserve requirements in the past were taken into the scope of reserve requirements. Accordingly, the required reserve ratios were determined as follows;

- 8 percent in the liabilities other than current, call deposits, private current accounts, deposits/participation accounts termed up to 1 month and deposit/participation fund,
- 7 percent in the deposits/participation accounts termed up to 3 and 6 months,
- 6 percent in the deposits/participation accounts termed up to 1 year,
- 5 percent in the cumulative deposits/participation accounts and deposits/participation accounts termed up to 1 year or more,

and they entered into force as of 7 January 2011.

On the other hand, considering that the need for three-month maturity repo auctions, the said auctions were stopped as of 15 October 2010. Along with the completion of the process of gradual technical interest adjustment within the framework of the exit strategy, since the main funding tool was one week maturity repo auctions and on the other hand, other short term borrowing and lending opportunities were overnight maturity; it was decided that the market maker banks might use the repo facility allowed to them within the framework of open market transactions only, in overnight maturity as from 15 October 2010 in order to ensure compliance between liquidity management tools with similar nature in terms of their maturity.

Inflation targeting regime and floating exchange rate regime were continued in 2010. Furthermore, the Central Bank conducts foreign exchange purchase auctions within the framework of its policy to have strong foreign exchange reserve position, while paying attention to have the lowest possible effect on the market conditions in the periods the foreign exchange supply is increased compared to the foreign exchange demand. Within this framework, by the decision made on 2 August 2010, the amount of daily foreign exchange purchase auction was increased to 80 million dollars as 40 million dollars for auction and 40 million dollars for right of option, from 60 million dollars as 30 million dollar for auction and 30 million dollar for right of option in order to accelerate the reserve accumulation since the capital inflows to Turkey, together with other developing countries, had strengthened steadily. On 1 October 2010, it was decided to make a method change in foreign exchange purchase auctions in order to benefit from capital inflows to our country for the purpose of strengthening the foreign exchange reserves on one hand and to become more flexible against variability of the flows on the other hand, and this change began to apply as from 4 October 2010. Considering that the new method provides adequate flexibility in the periods in which the foreign exchange supply is increased compared to the foreign exchange demand in terms of reserve accumulation, it was decided that the Central Bank would have no right of option in the regular auctions to be realized as from 3 January 2011. Besides, with the same decision, daily auction purchase amount was raised up to 50 million dollars and it was aimed to enable the Central Bank to continue its foreign exchange purchases without slowing down due to cease of implementation of the right of option.

Within this framework, the Central Bank may increase the amount that may be purchased in the regular foreign exchange purchase auctions in order to accelerate foreign exchange purchases in the event of improvement in liquidity conditions due to the developments in international markets and sustainment of capital flows to the country. If it is decided to accelerate foreign exchange purchases, the maximum amount that may be purchased in one week will be determined on the first business day of the week and announced to the public. Total foreign exchange amount purchased through auctions in 2010 was 14.9 billion dollars. Gross foreign exchange reserves of the Central Bank excluding gold were 79.7 billion dollars as of 24 December 2010.

Table 2.3: 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	-	-	3,415
2010	14,865	-	-	-	14,865

Source: CBRT

2.1.3. Financial Sector

In 2010 in which the global crisis continued even if its effects are mitigated, Turkish banking sector maintained its strong and stable structure by differing from the banking sector of some developed EU member countries.

By September of 2010, the number of banks operating in the Turkish banking sector remained the same with 49 as in 2009. The total assets of the sector increased by 15.1 percent in dollar terms from 560 billion dollars in 2009 to 644.7 billion dollars by September 2010. Credit volume of the banking sector which showed a limited increase due to the impact of financial crisis in 2009 reached the level of 339.4 billion dollars by increasing 27.1 percent by September of 2010 compared to the end of 2009.

Thanks to restructuring of Turkish banking system and the strong regulatory and supervisory framework in recent years, the banking sector converge to the banking activities observed in the stable periods in Europe in terms of its scale and the functions undertaken. As a matter of fact, while a relative decrease is observed in the share of securities within total assets, the increase in credits still continues. The share of credits in total assets, which was at the level of 47.1 percent in 2009, increased to 51.3 percent in September of 2010. As well as the credits of real sector, consumer credits also recorded an important growth trend in recent years. The share of housing credits, credit cards and other consumer credits in total credits has a tendency to increase, and the share of consumer credits in total credits reached 24.6 percent as of September 2010.

In parallel to the stable growth in the assets and equities, the affirmative course of resilience indicators of banking system has also continued after the global crisis. The rate of capital adequacy of the sector was 19.3 percent in September 2009, implying well above the legal rate and rates of other countries. The principal capital of the sector is more qualified compared to the banking sectors of many European countries as of its components and acts as a buffer against possible problems. Ratio of the non-performing loans to gross credits, which is the indicator of credit risk in the sector, increased during the initial phase of global crisis but showed a tendency to fall in 2010 and declined to 4.3 percent by September. The sector’s foreign exchange net general position to capital ratio stood at 2.7 percent by September 2010 and its advantageous position in terms of liquidity indicators has continued. Off-balance sheet transactions whose ratio to assets has improved in recent years aim at protection from financial risks.

Profitability of Turkish banking sector stood at a high level in the period of global crisis, which attracts too much attention. The net profit of the banking sector, which was 13.6 billion dollars in 2009, stood at 11.7 billion dollars in the first nine months of 2010. Return on assets and return on equity rates which maintain high levels as 2.6 percent and 20.3 percent in 2009 stood at 2.5 percent and 18.3 percent in the first three quarter of 2009, respectively.

The adverse effects of the global crisis on the capital markets in 2008 disappeared in 2009 and the losses recorded in the stock market in 2008 were recovered in 2009. The stock market fluctuated in general throughout 2010 but with an upward trend. ISE 100 Index stood at 52,825 at the end of 2009 by increasing by 96.6 percent compared to the end of 2008 and stood at 66,004 as of 31 December 2010 by increasing by 24.9 percent compared to the end of 2009. ISE 100 Dollar Index increased by 101 percent in accordance with the TL based index and reached the level of 2,068 by the end of 2009. ISE 100 Dollar Index increased by 20.9 percent as of 31 December 2010 and reached the level of 2,500. The share of foreign investors in the stock market sustained its stable course in 2010, recorded a little decrease compared to its level of 67.3 percent at the end of 2009 and stood at 66.2 percent by the end of December 2010.

Table 2.4: Overview of the Banking Sector

	2005	2006	2007	2008	2009	Sept. 2010
Main Aggregates						
Assets (Billion Dollars)	295.9	356.0	502.0	481.0	560.0	644.7
Loans (Billion Dollars)	113.7	111.0	246.0	241.0	267.0	339.4
Deposits (Billion Dollars)	187.1	179.0	308.0	299.0	345.6	409.6
Number of Banks	47	50	50	49	49	49
Number of Employees (Thousands)	138.7	151.0	167.8	182.7	184.2	189.8
Performance Indicators						
Net Profit (Billion Dollars)	3.7	2.6	0.0	8.8	13.6	11.7
Return on Assets (%)	1.7	2.5	2.8	2.0	2.6	2.5
Rate of Return for Equity Capital (%)	12.1	20.1	21.7	16.8	20.3	18.3
Loans / Deposits (%)	38.0	44.0	49.2	50.2	47.1	51.3
Risk Indicators						
Capital Adequacy Ratio (%)	23.7	22.1	19.0	18.0	20.6	19.3
FX Position in Balance Sheet (BillionDollars)	-1.9	-5.5	-8.3	-3.3	-11.6	-14.4
Net General Position (Billion Dollars)	-0.1	0.1	0.2	-0.1	0.4	2.4
Non-Performing Loans / Gross Loans (%)	4.8	3.8	3.5	3.7	5.3	4.3
Securities Portfolio / Assets (%)	36.0	31.8	21.3	26.5	31.5	29.6
Off-Balance Sheet Transactions / T. Assets (%)	50.6	55.5	66.3	65.0	69.5	101.1

Source: BRSA

There were 58 companies operating in insurance and private pension sector, as of 30 September 2010. 34 of these companies were operating in the area of non-life insurance, 13 in life insurance and pension area, 10 in life insurance area and 1 in reassurance area. As of the same date, the premium production in insurance sector in nine months realized as 10.3 billion TL and total assets were 33.1 billion TL.

Since its initiation in 2003, the Private Pension Sector has been displaying a high growth tendency. As of the end of November 2010, the number of participants in the Private Pension System exceeded 2.2 million persons, the number of contracts exceeded 2.5 million and the fund accumulated in the system reached 11.6 billion TL. In the period of November 2009-November 2010, despite the increase of 15.7 percent in the number of participators, it is observed that the total amount of funds in the system increased by 33 percent. In this context, it is observed that the system also kept its tendency to grow in 2010 as it showed in recent years and the total amount of funds in system is expected to reach 12 billion TL as of the end of 2010.

In the mandatory earthquake insurance system, which was formed to meet the earthquake damages in the housings through insurance, total numbers of mandatory earthquake policies reached 3,280,000 as of November 2010 in spite of 5 percent decrease in the total number of policies in the first half of the year.

2.1.4. Balance of Payments

2.1.4.1. Current Account

The deep contraction in global trade volume in 2009, significantly affected foreign trade volume of Turkey. While exports contracted in line with the receding foreign demand, imports contracted more than imports as result of the combined effects of contracting domestic demand and contracting import demand of export producing industries. Thereby, the current account deficit contracted for the first time after a six year expansion. Foreign trade volume, which was 334.6 billion dollars and the current account deficit which was 41.9 billion dollars in 2008, declined to 244.2 billion dollars and 14.3 billion dollars in 2009, respectively. Thus, foreign trade volume to GDP ratio, which was 45.1 percent in 2008, recorded as 39.6 percent in 2009.

Table 2.5: Balance of Payments

(In Billion Dollars)

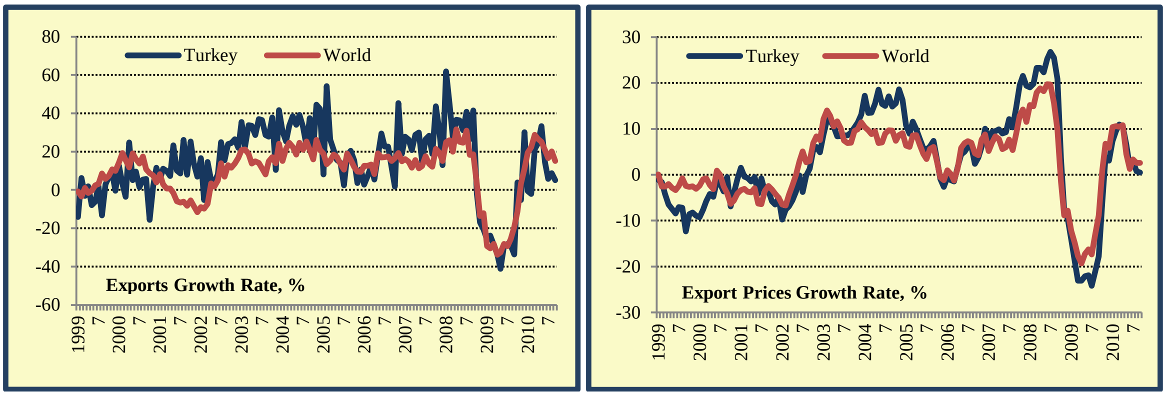
	Annual		**January-November**	
	2008	**2009**	**2009**	**2010**
Current Account	-41.9	-14.3	-11.0	-41.6
Trade Balance	-53.0	-24.9	-21.4	-49.0
Total Exports	140.8	109.6	98.9	108.5
Exports (fob)	132.0	102.1	92.1	102.1
Total Imports	-193.8	-134.5	-120.4	-157.5
Imports (cif)	-202.0	-140.9	-125.9	-164.9
Balance on Services	17.1	16.4	16.0	13.1
Credit	34.8	33.2	30.7	30.5
Tourism	22.0	21.3	20.1	19.5
Debit	-17.7	-16.7	-14.8	-17.4
Balance on Income	-8.2	-8.1	-7.4	-6.9
Credit	6.9	5.2	4.9	3.7
Debit	-15.0	-13.3	-12.3	-10.6
Current transfers	2.1	2.3	1.9	1.2
Capital and Financial Account	36.3	9.7	7.3	38.1
Financial Account (Excluding Reserves)	35.2	9.9	6.1	49.5
Direct Investment	15.7	6.7	6.6	4.9
Direct Investment in Turkey	18.3	8.3	7.6	6.3
Direct Investment Abroad	-2.5	-1.6	-1.1	-1.4
Portfolio Investment	-5.0	0.2	0.9	16.5
Other Investment	24.6	3.0	-1.3	28.0
Assets	-10.9	10.5	8.8	9.7
Liabilities	35.5	-7.5	-10.1	18.4
Trade Credits	1.6	-1.1	-1.3	1.1
Loans	30.1	-13.0	-15.2	4.4
Monetary Authority	0.0	0.0	0.0	0.0
General Government	3.4	0.9	0.8	0.8
Banks	3.0	-4.1	-6.3	9.0
Other Sectors	23.7	-9.7	-9.7	-5.3
Currency and Deposits	3.4	4.6	4.6	12.3
Monetary Authority	-1.8	-0.9	-0.9	-0.5
Banks	5.2	5.5	5.5	12.8
Other Liabilities	0.4	1.9	2.0	0.5
Reserve Assets	1.1	-0.1	1.2	-11.4
Net Errors and Omissions	5.6	4.5	3.8	3.5

Source: CBRT

The global recovery which started in the second half of 2009 has continued in 2010, but the recovery followed a quite slow course especially in the main export partner European economy. This said, domestic demand increased rapidly in this period and in the first three quarters of 2010 Turkish economy recorded 8.9 percent growth, compared to the same period of the previous year. The rises in energy prices and the faster rise of domestic demand compared to foreign demand caused the imports to increase far more rapidly than exports, and through the trade deficit the current account deficit rose to high levels again. Consequently, in January-October 2010 period, the current deficit reached 41.7 billion dollars with a 288 percent increase from the same period of the previous year.

In 2009, a period the global economic crisis deepened, world exports declined 22.2 percent, Turkish exports decreased 22.6 percent, with a 16.1 percent fall in prices and 7.8 percent real contraction. In the first nine months of 2010 world exports increased by 21.6 percent, but exports of Turkey increased only by 11.8 percent due to the slow growth performance of main trading partners. Therefore, declining in line with the world exports during the crisis, exports fell behind world exports in the recovery process.

Figure 2.8: Exports and Export Prices



Source: IMF-IFS, TURKSTAT

In January-November 2010 period, with a 10.9 percent increase compared to the same period of previous year, exports realized as 102.1 billion dollars. The export prices increased by 5 percent and real export growth was 5.6 percent in this period, compared to same period of previous year. In the mentioned period, chemicals and chemical products exports increased by 33 percent, electrical machinery and apparatus exports increased by 18.4 percent, motor vehicles and trailers exports increased by 15.2 and textiles exports increased by 12.9 percent.

Imports declined by 30.2 percent to 140.9 billion dollars in 2009, representing 19.5 percent decline in import prices and 13.3 percent real volume contraction. The recorded 34.4 percent decrease in the intermediary goods, which constitute 75 percent of imports, was effective on this decline. Result of the rapid economic growth and the basis effect of the low levels of export volume in the previous year, imports increased by 31 percent in January-November 2010 period. In this period, real import volume increased by 20.6 percent and the import prices rose by 8.6 percent. A contrasting point in the import growth in 2010 has been the rapid rise of consumption goods imports compared to its decline in 2009 (Table 2.6).

Table 2.6: Foreign Trade by Classification of Broad Economic Categories

(Billion Dollars)

	Annual					January-November				
	2008	Share %	2009	Share %	Rate of Change %	2009	Share %	2010	Share %	Rate of Change %
Total Exports	132.0	100.0	102.1	100.0	-22.6	92.1	100.0	102.1	100.0	10.9
Capital Goods	16.7	12.7	11.1	10.9	-33.5	9.9	10.7	10.6	10.4	7.3
Intermediate Goods	67.7	51.3	49.7	48.7	-26.6	45.0	48.8	50.6	49.5	12.5
Consumption Goods	47.1	35.7	40.7	39.9	-13.5	36.8	39.9	40.6	39.8	10.5
Other	0.5	0.4	0.6	0.5	-13.8	0.5	0.6	0.3	0.3	-31.6
Total Imports	202.0	100.0	140.9	100.0	-30.2	125.9	100.0	164.9	100.0	31.0
Capital Goods	28.0	13.9	21.5	15.2	-23.4	19.0	15.1	24.9	15.1	31.1
Intermediate Goods	151.7	75.1	99.5	70.6	-34.4	89.3	70.9	117.7	71.4	31.9
Consumption Goods	21.5	10.6	19.3	13.7	-10.2	17.1	13.6	21.9	13.3	28.1
Other	0.7	0.4	0.7	0.5	-5.7	0.6	0.5	0.5	0.3	-16.9

Source: TURKSTAT

Foreign trade by country groups shows that, in 2009 with 2 points decline compared to the previous year, share of EU countries in the exports receded to 46 percent and the share of other countries gained 2.4 points and increased to 52.1 percent. Efforts were directed to increasing the exports via market diversification and thereby compensating the loss in exports to crisis hit EU countries has been targeted in this period. Share of the imports from EU countries in total imports has increased to 40.1 percent in the same period, indicating a 3.1 points gain. In January-November 2010 period, share of exports to EU in total exports has been 46.3 percent and share of imports from EU in total imports has been 38.8 percent.

Table 2.7: Foreign Trade by Countries

(In Billion Dollars)

	Annual					January-November				
	2008	Share %	2009	Share %	Rate of Change %	2009	Share %	2010	Share %	Rate of Change %
Merchandise Exports	132.0	100.0	102.1	100.0	-22.6	92.1	100.0	102.1	100.0	10.9
Europe (EU-27)	63.4	48.0	47.0	46.0	-25.9	42.4	46.1	47.3	46.3	11.5
Other Countries	65.6	49.7	53.2	52.1	-18.9	47.9	52.0	52.9	51.8	10.5
Turkish Free Zones	3.0	2.3	2.0	1.9	-34.9	1.8	1.9	1.9	1.8	6.7
Merchandise Imports	202.0	100.0	140.9	100.0	-30.2	125.9	100.0	164.9	100.0	31.0
Europe (EU-27)	74.8	37.0	56.6	40.1	-24.4	50.4	40.0	64.0	38.8	27.0
Other Countries	125.8	62.3	83.4	59.2	-33.7	74.6	59.3	100.1	60.7	34.1
Turkish Free Zones	1.3	0.7	1.0	0.7	-27.7	0.9	0.7	0.8	0.5	-8.5

Source: TURKSTAT

Services balance surplus of 17.1 billion dollars in 2008, declined to 16.4 billion dollars in 2009, with the effect of the decrease in the tourism revenues. In January-November 2010 period, services balance decreased by 2.9 billion dollars compared to the same period of previous year and realized at 13.1 billion dollars. 0.6 Billion dollars decline in tourism revenues, 1 billion dollars decline in transportation account and 0.3 billion dollars decline in other services account were effective in this decrease.

In 2009, the income account deficit stayed at the 2008 level of 8.2 billion dollars. An improvement of 0.5 billion dollars was recorded in the income balance compared to same period of previous year and the deficit receded to 6.9 billion dollars in January-November 2010 period.

Current transfers item, which had 2.1 billion dollars surplus in 2008, recorded a surplus of 2.3 billion dollars in 2009. The current transfers item decreased by 0.7 billion dollars compared to same period of previous year and recorded a surplus of 1.2 billion dollars, in January-November 2010 period.

2.1.4.2. Capital and Financial Account

The global crisis and confidence crisis that started in 2008 adversely affected global capital flows and capital flows to developing countries decreased significantly in 2008 and 2009. Net capital flows to developing countries fell from 696.5 billion dollars in 2007 to 184.4 billion dollars in 2008, and realized as 234.8 billion dollars in 2009. Turkey was also significantly affected by these developments, capital outflow net of reserves started in the last quarter of 2008 and continued in the first four months of 2009, and in the remaining part of 2009 a low level of capital inflow was recorded compared to the recent years. Consequently, capital inflow net of reserves, which was 44.7 billion dollars in 2007, declined to 35.2 billion dollars in 2008 and to 9.9 billion dollars in 2009. The global economic recovery, which started in the second half of 2009 and continued in 2010, and the measures taken to improve and strengthen the financial system, resulted in improved international fund flow process, though some vulnerabilities in international financial markets persisted. Foreign capital inflow to Turkish economy recorded historical maximum level in this process, resulting from the high growth performance recorded and the improvement in risk perception regarding Turkish economy due to financial and fiscal performance displayed during the global crisis.

Foreign direct investment inflows to developing countries fell from 439 billion dollars in 2008, to 240.8 billion dollars in 2009. This item is expected to reach 296.3 billion dollars in 2010[9]. Turkish economy has also been affected from these developments. Consequently, net direct investment inflow which decreased to 6.7 billion dollars in 2009, continued to decline in 2010 and was recorded as 4.9 billion dollars in January-November 2010 period.

The global crisis deteriorated risk perceptions and future expectations of investors, and portfolio investments recorded outflow in the last 5 months of 2008. In 2009, with the partial fading of uncertainties in financial markets, portfolio inflows followed a fluctuated course throughout the year and net portfolio investment inflow realized at 0.2 billion dollars annually. In the mentioned year, while net outflow of 1.7 billion dollars was recorded in Government Domestic Borrowing Instruments (GDBI), net inflow of 2.8 billion dollars was recorded in the equity securities item and 1.8 billion dollars net inflow was recorded in debt security issues abroad by the Treasury. In January-November 2010 period, net portfolio investments recorded 16.5 billion dollars and the sub-items recorded 4.3 billion dollars in equity securities, 10.3 billion dollars in GDBI and 4.1 billion dollars in debt security issues abroad by the Treasury. In the same period, first debt security issue abroad of a private commercial bank was realized, providing 1 billion dollars foreign capital inflow. This issue is considered as a really important development in terms of showing the strength level of the banks reached with the structural reforms implemented after the 2001 crisis and the confidence on Turkish banking sector.

The other investment item, which reflects the credit and deposit relation of public and private sector with the rest of the world, declined to 3 billion dollars in 2009 with the contraction in the foreign trade volume and the credit crunch in international markets. The banks and other sectors being net debt payer in their foreign credit relations and their net payments amounting 4.1 billion dollars and 9.7 billion dollars respectively, was effective in this rapid decline. Other investments item realized 28 billion dollars in January-November 2010 period. The 12.3 billion dollars increase in the currency and deposits sub-item which shows the deposit relation of the banks with foreign banks and persons and the 7.6 billion dollars increase in the loans received by the banks from abroad are main developments in the other investment item. The 5.3 billion dollars decline in the loans of other sectors shows that non-bank sector has been increasingly using domestic banks instead of borrowing abroad, which has resulted from the easing of the restrictions on domestic agents' foreign denominated borrowing from domestic sources with the amendment made on June 2009 on the Decision No. 32 on Preserving the Value of Turkish Money[10].

Consequently, current account deficit was recorded as 41.6 billion dollars in January-November 2010 period. Current account deficit was financed by 49.5 billion dollars of capital

[9] IMF, World Economic Outlook Report, October 2010.
[10] No.89/14391 Council of Ministers decision dated 11 August 1989.

inflow net of reserves, 3.5 billion dollars inflow in net errors and omissions item, and since the financing items were higher than the current account deficit, reserves increased by 11.4 billion dollars.

2.2. Medium Term Macroeconomic Scenario

Economic policies have focused on mitigating the impacts of global economic crisis on Turkish economy since 2008. Although the fiscal space obtained in the previous periods was utilized in this period, the attempts endangering the long term fiscal discipline have been carefully avoided. While measures were taken in order to mitigate the economic impacts of crisis, social policies, especially job creation, are also developed in order to reduce the social impacts of the crisis. As a result, the economy was returned to its growth environment.

Within this framework, as it is mentioned in the Medium Term Program (2011-2013), the main objective of economic policies for the upcoming period is to ensure stability of growth, increase employment, improve fiscal balances and ensure price stability in line with the ultimate objective of increasing welfare of the country.

The policies will focus on increasing the quality of labour force, labour market flexibility and labour participation rate besides the policies which will ensure stable growth environment supporting job creation.

Reducing public sector deficits will contribute to enhance confidence, stability and predictability in the economy on one hand and to increase the resources available for private sector on the other, and therefore to support a private sector-led growth.

2.2.1. Real Sector

2.2.1.1. Demand Components of Growth

The high growth performance of Turkey in the period of 2002-2007 was interrupted as a result of the problems experienced in the global economy in 2008. Economy was contracted by 4.7 percent in 2009 when the impacts of global crisis were felt most intensely.

Many countries increased public expenditures significantly by implementing remarkable amounts of fiscal measures in addition to monetary policy measures in order to mitigate the impacts of the global crisis. In spite of these measures, significant contractions were observed in the economies of many countries. As a result of such fiscal and monetary measures, some countries managed to recover less harmfully. However, the crisis turned out to be an insurmountable situation especially for some developed countries. Despite the size and diversity of the measures taken, these measures were not sufficient for some countries depending on the characteristics and problems of their distinct economic structures. Therefore, such countries became obliged to implement some additional measures in 2010. Although global recovery started in 2010, the uncertainties resulted fiscal and financial vulnerabilities caused by the high budget deficits and poor growth performance especially in developed countries are still continuing for the upcoming period. However, in preparation of PEP, it is assumed that the world economy will recover gradually in the PEP (2011-2013) period.

Under this main scenario regarding the world economy, it is foreseen that the Turkish economy will complete the recovery period and will enter in a period of continuous growth in PEP (2011-2013) period.

In the 2009 PEP, it was projected that the Turkish economy would grow by 3.5 percent in 2010. However, the figures released during the year indicated that Turkey had a performance better than expected in the recovery process. In the first nine months of 2010, Turkish economy grew by 8.9 percent as a result of the recovery in the domestic demand and reached the pre-crisis production level. A result of successful management for overcoming the crisis, uncertainties were decreased consumer confidence and credit conditions improved. These factors affected domestic demand positively; increases in private consumption were recorded more than expected and especially in private investments. As a result of such developments, it became evident that the growth rate in 2010 would be quite above the PEP 2009 forecast.

Similarly, the figures released for the third quarter and leading indicators regarding the last quarter of 2010 indicates that the GDP growth rate will be higher than 6.8 percent which is the revised growth rate projection in Medium Term Programme (2011-2013). However, 6.8 percent growth projection of 2010 has not been changed.

Analyzing GDP by its expenditure items, it is estimated that private consumption expenditures will increase by 4.1 percent in 2010. Private sector fixed capital investment expenditures, in 2010, are expected to rise by 20 percent with the influence of base effect. However, these forecasts have an upward risk considering the developments in the last period.

On the other hand, it expected that the increase in public expenditures will continue as a result of continuation of some of the measures taken against the crisis in 2010 and the public sector consumption and fixed capital investments will increase in 2010.

The stocks, a large part of which was disinvested in 2009, began to increase again in 2010 as a result of the decreased uncertainties and the contribution of change in stocks to growth realized as 2.6 points in the first nine month of 2010. This positive contribution is expected to continue throughout 2010.

Since the course of recovery in the world economy is relatively slow in developed countries, the import demand in important trade partners of Turkey have not increased at expected rate yet. Thus, it is forecasted that the increase in goods and services export will remain quite below the performance of last period and stand at 4.1 percent in 2010. When compared to the increase in demand in trade partners, the domestic demand in Turkey increased at a very high rate in 2010. In addition to this high rate of increase in domestic demand, the appreciation in TL increased the import demand in 2010. Therefore, it is projected that imports of goods and services will increase by 13.1 percent in 2010.

Table 2.8: Demand Components of Growth

(Percentage Change, at 1998 Prices)

		Forecast			
	2009	**2010**	**2011**	**2012**	**2013**
Total Consumption Expenditure	-1.0	4.6	4.4	4.1	4.4
Private	-2.2	4.1	4.2	4.4	4.4
Public	7.8	7.6	5.6	2.1	4.1
Total Investment Expenditure	-28.0	29.6	9.4	10.1	10.0
Gross Fixed Capital Formation	-19.1	21.7	6.2	9.1	9.9
Private Fixed Investment	-22.3	20.0	10.0	10.8	11.6
Public Fixed Investment	-2.3	28.6	-8.9	0.7	1.0
Change in Inventories (1)	-2.1	1.0	0.6	0.2	0.0
Exports of Goods and Services	-5.2	4.1	4.7	7.4	8.4
Imports of Goods and Services	-14.3	13.1	8.2	8.8	8.7
Gross Domestic Product	-4.7	6.8	4.5	5.0	5.5
Domestic Demand	-7.2	9.1	5.4	5.4	5.7
Domestic Final Demand	-5.1	7.9	4.8	5.2	5.6

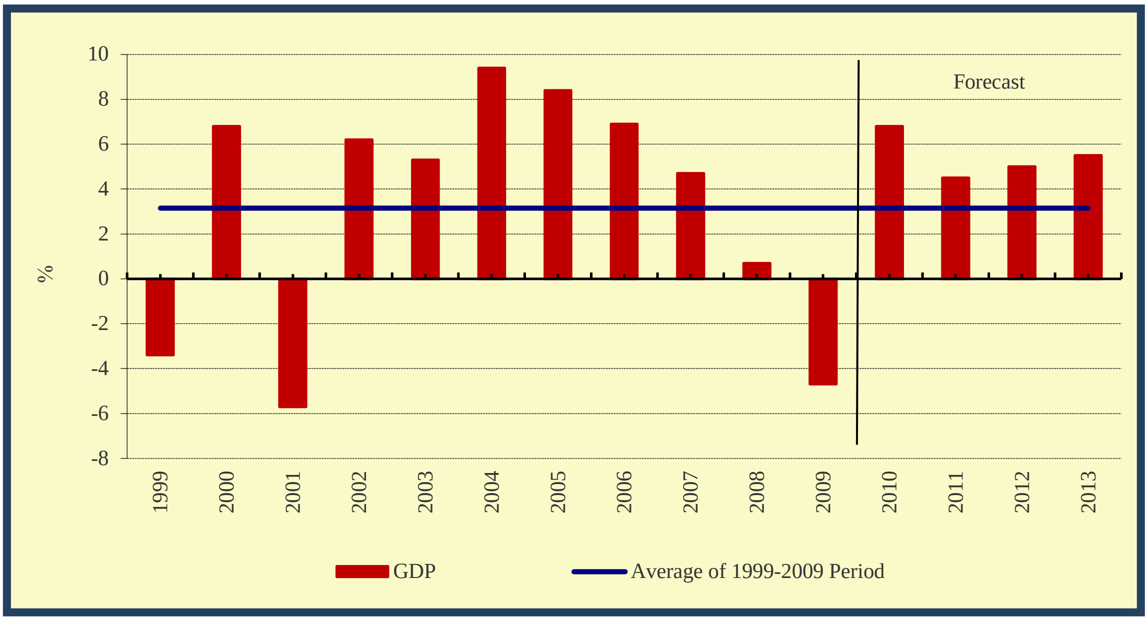
Source: Realization TURKSTAT, Forecast SPO.
(1) Contribution to GDP growth.

Therefore, it is expected that the contribution of domestic final demand to growth will be 8.1 points, contribution of change in stocks to growth will be 1.0 point and contribution of net exports to growth will be -2.3 points in 2010.

After the recovery experienced in Turkish economy in 2010, along with the contribution of the recovery in the world economy, it is expected that that the growth will be 4.5 percent in 2011, and the economic growth is expected to increase gradually in coming years and realized as 5 percent in 2012 and 5.5 percent in 2013. Therefore, the annual average growth rate of GDP is expected to be realised as 5 percent in 2011-2013 period.

The increase in private sector consumption expenditures is expected to remain below the economic growth in 2011 and afterwards (Table 2.8). It is forecasted that the private sector fixed capital investment will increase by 10 percent in 2011, 10.8 percent in 2012 and 11.6 percent in 2012. The expected increase in demand, delayed investments and low interest rates are among the reasons of the increase expected in investments.

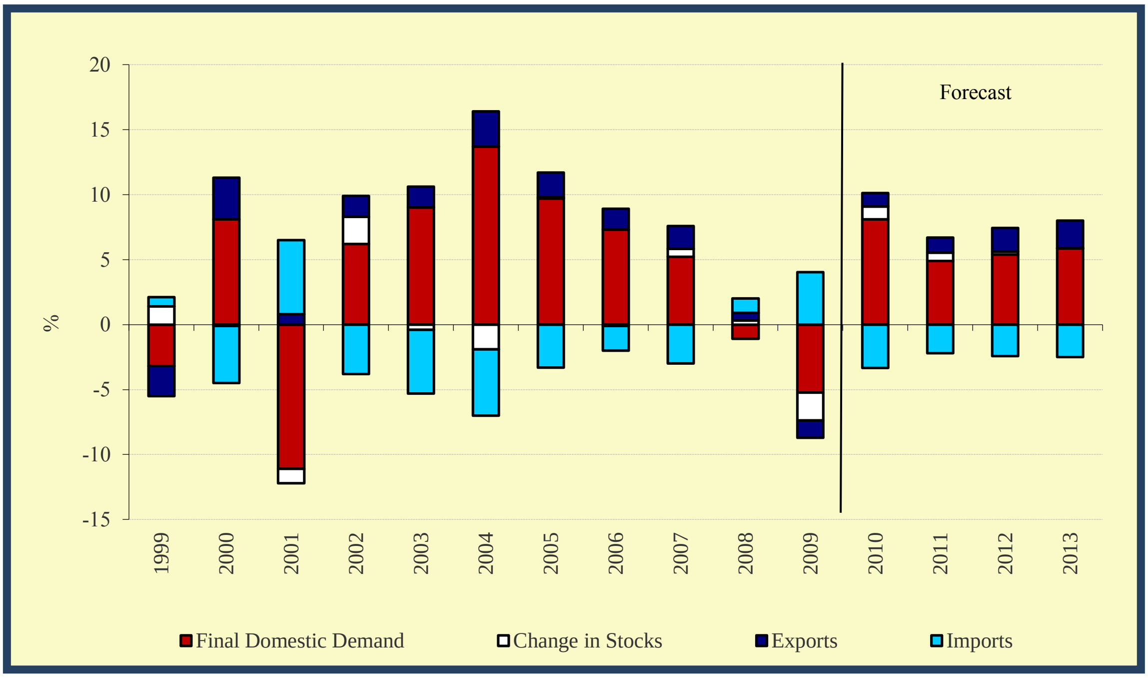
Figure 2.9: GDP Growth



Source: Realization TURKSTAT, Forecast SPO.

It is expected that the public consumption will increase by 3.9 percent annually on average, whereas public investments will increase by 2.5 percent in the period of 2011-2013. However, the level of real public investments will be higher than pre-crisis levels due to the high rate of increase experienced in 2010.

Figure 2.10: Contributions to GDP Growth



In PEP (2011-2013) period in which the recovery in the world economy is expected to continue, the exports of goods and services are expected to increase by 4.7 percent in 2011 due to the increase in foreign demand, this increase is anticipated to be 7.4 in 2012 and 8.4 percent in 2013 when the global recovery becomes more pronounced. In addition to the increase in exports, imports of goods and services are expected to increase by 8.2 percent in 2011, by 8.8 percent in 2012 and 8.7 percent in 2013 due to the recovery in domestic demand.

Looking at the contributions to growth, while it is expected that the growth will be led by the private sector in 2011-2013, it is foreseen that the contribution of net exports will be negative (Figure 2.10).

2.2.1.2. Investment-Saving Balance

The global crisis, which was deepened in 2009, affected the private sector investments at a significant level, and thereby the share of private sector fixed capital investments to GDP realized as 13.2 percent in the mentioned year with 2.8 points decrease compared to 2008. On the other hand, the share of public fixed capital investments in GDP decreased by 0.2 points compared to 2008 and realized as 3.7 percent in 2009. Therefore, the share of total fixed capital investments in GDP realized as 16.9 percent in 2009 (Table 2.9).

Since expansion of credit volume during the crisis with a contribution of strong structure of the banking sector and historically low levels of interest rates, the private sector fixed capital investments increased at high rates in the first three quarter of 2010. The share of total fixed capital investments in GDP is expected to rise to 18.5 percent in 2010. In this increase, 0.6 points rise in public sector fixed capital investments compared to 2009 also plays a role.

The fixed capital investments, which increased strongly in 2010, will keep on increasing in the period of 2011-2013 and thereby, the share of private investments to GDP is expected to reach the level of 16.6 percent at the end of the period. On the other hand, the share of public fixed capital investments in GDP is targeted to be 3.6 percent on average during the PEP period. In this framework, the share of total investments in GDP is expected to reach 20 percent at the end of the period.

Since significant reduction in capital inflows resulted from global financial crisis in 2009, the share of foreign savings in GDP decreased to 2.3 percent. On the other hand, in 2010, due to increase in external resource requirement in line with economic recovery and lack of problem in utilization of resources, the share of foreign savings to GDP is expected to be 5.4 percent. In the period of 2011-2013, foreign financing need as a share of GDP is expected to remain at 5.3 percent as a result of the gradual recovery in the economy.

As a result of large decrease in the incomes in 2009, domestic savings dropped significantly, and realized as 12.6 percent as a share of GDP. In 2010, the share of domestic savings to GDP is estimated to decline to 11.9 percent due to the increase in external resource utilization. An improvement is foreseen in domestic savings in the period of 2011-2013 and the share of domestic savings in GDP is expected to be 14.8 percent.

Table 2.9: Investment-Savings Balance

(Percent of GDP)

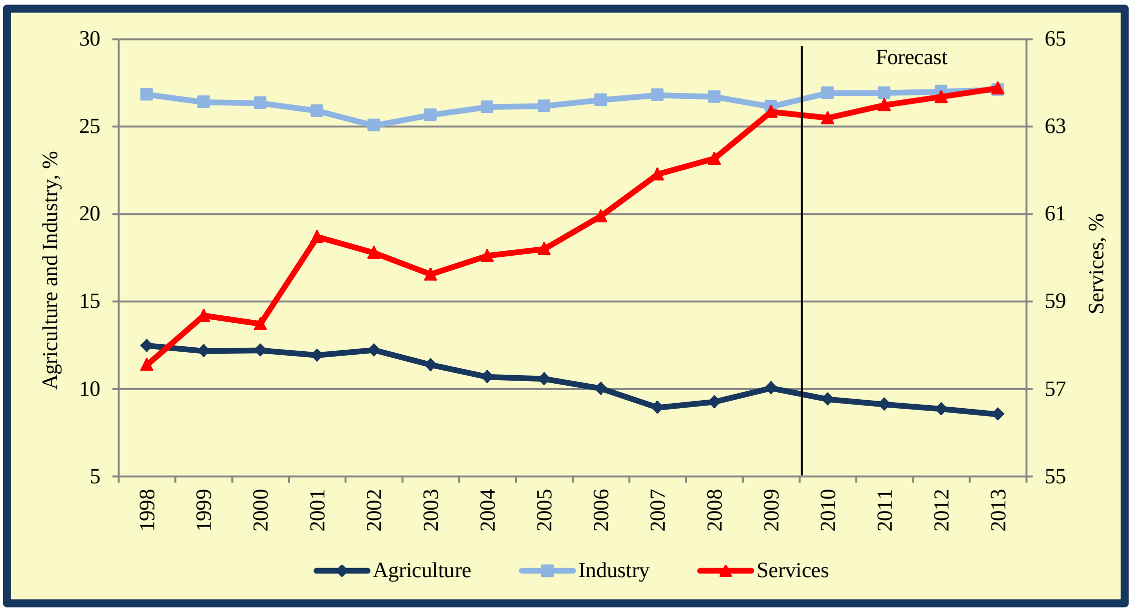
			Forecast		
	2009	**2010**	**2011**	**2012**	**2013**
Total Investment	14.9	17.3	18.3	19.2	20.0
Fixed Capital Formation	16.9	18.5	18.6	19.3	20.1
Public	3.7	4.3	3.8	3.6	3.5
Private	13.2	14.1	14.9	15.7	16.6
Change in Stocks	-1.9	-1.1	-0.4	-0.1	-0.1
Total Savings	14.9	17.3	18.3	19.2	20.0
Domestic Savings	12.6	11.9	12.9	13.9	14.8
Foreign Savings	2.3	5.4	5.4	5.3	5.2

Note: National accounts figures of TURKSTAT is used.

2.2.1.3. Growth by Sectors

Agriculture sector grew in 2009, whereas major contractions are observed in the industry and services sectors. While the value added in agriculture sector increased by 3.5 percent in 2009, the share of sector in total production increased compared to the previous year and reached to 10.1 percent. The value added in agriculture sector is not expected to increase in 2010, and share of the sector in GDP is expected to fell below the level of 10 percent again. In the period of 2011-2013, it is expected that agricultural value added will increase by 1.7 percent annually on average and by the end of the period the share of agriculture in GDP will drop to 8.6 percent (Figure 2.11)

Figure 2.11: Production by Sectors



Value added in the industry sector decreased by 6.7 percent in 2009. The industry sector is expected to be the sector which will recover most rapidly in the post-crisis period and the value added in industry is expected to increase by 10.0 percent in 2010. As a matter of fact, the value added in the industry sector increased by 13.9 percent in the first nine months of 2010. Additionally, the industry production index recorded an increase of 9.9 percent and 9.1 percent in October and November compared to the same months of the previous year. In the period of 2011-2013, it is expected that the industry sector value added will increase by 5.2 percent annually on average and by the end of the period its share in production will be realized as 27.1 percent (Table 2.10).

Table 2.10: Value-Added by Sectors

(At 1998 Prices, Percent)

	Realization			Forecast			
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
			Growth Rates				
Agriculture	-6.7	4.3	3.5	0.0	1.2	1.9	1.9
Industry	5.8	0.3	-6.7	10.0	4.5	5.3	5.9
Services	6.3	1.2	-3.1	6.6	5.0	5.3	5.8
GDP	4.7	0.7	-4.7	6.8	4.5	5.0	5.5
			Percent of GDP				
Agriculture	8.9	9.3	10.1	9.4	9.1	8.9	8.6
Industry	26.8	26.7	26.1	26.9	26.9	27.0	27.1
Services	61.9	62.3	63.3	63.2	63.5	63.7	63.9
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

Value added in services sector contracted by 3.1 percent in 2009. Value added in this sector is expected to increase by 6.6 percent in 2010. In fact, the increase in value added of the sector realized as 8.2 percent in the first nine months of 2010. It is anticipated that value added of the sector will grow at a rate of 5.4 percent annually on average in the period of 2011-2013. As a result, the share of the services sector in GDP is expected to reach 63.9 percent by the end of the PEP period. (Table 2.10)

2.2.1.4. Sources of Growth

After the significant slowdown in 2008, Turkish economy contracted by 4.7 percent in 2009. Analysing the sources of growth, significant decline was experienced in capital stock accumulation in 2009. Within this framework, the rate of capital stock accumulation, which is observed as 5.4 percent in 2008, increased by only 3.3 percent in 2009. On the other hand, the capital stock corrected by capacity utilization rate decreased by 11.6 percent since the capacity utilization rate fell down to very low levels due to the crisis (Table 2.11).

Employment increased by 0.4 percent in spite of the economic contraction experienced in 2009. Total factor productivity (TFP) rose by 0.2 percent in 2009 and became a factor softening the rate of economic contraction. Therefore, capital accumulation became the most important source for high level of economic contraction in 2009.

2010 was a year in which a rapid recovery period had been experienced in the Turkish economy. Significant increases in fixed capital investments were the most important contributory factor for the economic recovery. Within this framework, it is foreseen that the capital stock accumulation will get its momentum and reach 4.6 percent in 2010 and thereby, the economic activity is expected to increase by 6.8 in 2010. In line with economic recovery, an important increase was also observed in employment in 2010. In the light of the first nine months realizations, employment increase is estimated to be 5.6 percent in 2010. Therefore, it is anticipated that the TFP will decline by 1.1 percent in 2010 since the growth will be sustained through high level of employment and capital stock increases.

Table 2.11: Increases in Production Factors

(Percent)

Period	GDP Growth	Capital Stock Growth	Capital Stock Growth*	Employment Growth	TFP Growth
2006	6.9	7.1	7.9	1.8	0.8
2007	4.7	6.7	7.8	1.5	0.1
2008	0.9	5.4	1.5	2.2	-0.4
2009	-4.7	3.3	-11.6	0.4	0.2
2010	6.8	4.6	15.8	5.6	-1.1
2011	4.5	4.7	7.7	1.0	0.1
2012	5.0	5.0	6.8	2.2	0.3
2013	5.5	5.4	6.6	2.0	0.4
2011-2013	5.0	5.0	7.0	1.7	0.3

*Capital stock increase corrected by capacity utilization rate.

In the period of 2011-2013, Turkish economy is expected to head towards a potential growth path and grow by 5 percent annually on average. The capital stock is expected to increase by 5 percent annually on average and will support growth in this period. It is anticipated that the increase in employment will be limited in 2011 since the loss of employment was less than expected especially in non-agricultural sector during the period of economic contraction and there were significant increases in employment in 2010. The employment increase is expected to be 2.2 percent and 2 percent in 2012 and 2013, respectively. On the other hand, it is foreseen that the increase in TFP will be limited to 0.3 percent annually on average in the period of 2011-2013.

It is foreseen that the capacity utilization rate decreased dramatically during the economic contraction will reach the pre-crisis level towards the end of PEP (2011-2013) period. High level

TFP increase is expected after the capacity utilization rate reached pre-crisis level. Therefore, it is expected that growth will be sustained through capital stock and employment increase.

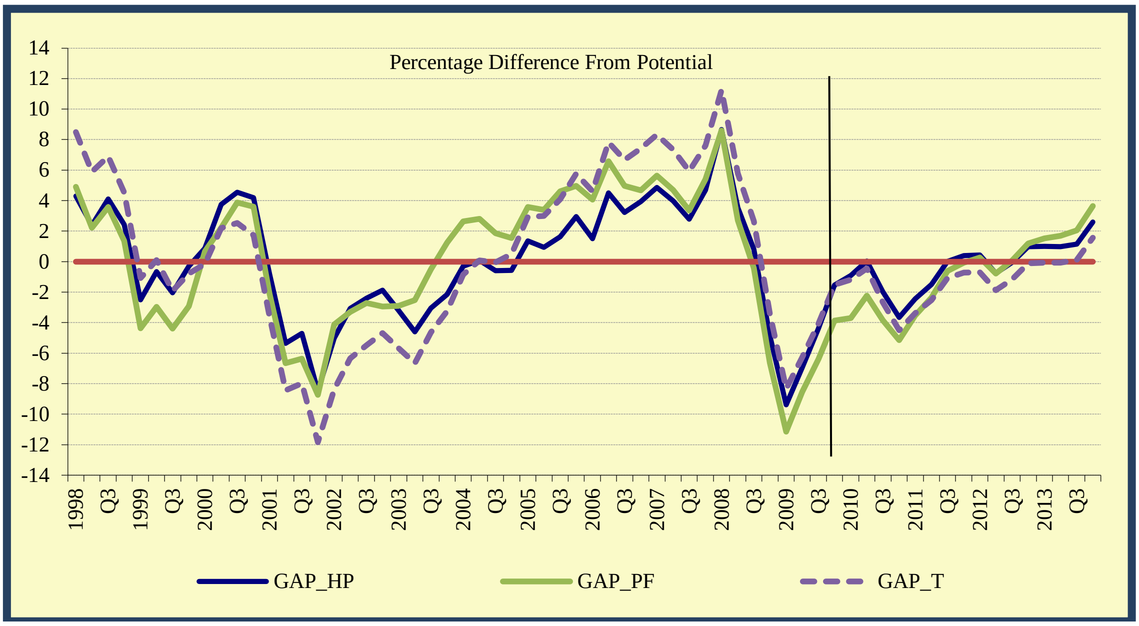
2.2.1.5. Potential Output

Output gap estimates by alternative methods indicate that the Turkish economy, which has displayed 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. Due to the sharp 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. From this point onwards, an evident upward trend began and output gap in the economy was closed in the second quarter of 2010 according to two of the three different output gap measures used. However, the data concerning third quarter of 2010 indicates that economic activity retreated again below its potential due to the slowdown in economic growth.

Current macroeconomic predictions suggest that the output gap will widen in the last quarter of 2010 and output gap will narrow in a more stable path starting from the first quarter of 2011. It is anticipated that the economy will reach its potential level on a date earlier than the predictions of the previous year, since the recovery in 2010 turned out to be stronger than the previous PEP estimates. Within the framework of current projections, the economic activity is expected to reach its potential level in 2012. Indications of a very moderate overheating might be observed in 2013. All output gap projections based on alternative methods display similar patterns.

Figure 2.12 provides output gap estimates based on three different methods; linear method, Hodrick-Prescott method, and the production function method.

Figure 2.12: Output Gap



GAP_HP : Output gap calculated by Hodrick-Prescott method.
GAP_PF : Output gap calculated by using production function.
GAP_T : Output gap calculated by linear method.

In light of the current output gap estimates, it is considered that no significant inflationary demand pressure will be prevalent in the 2009 PEP period. On the contrary, demand conditions are expected to contribute to the disinflation process until 2012.

2.2.1.6. Labor Market

The impacts of economic crisis on the labour market were felt quite significantly in 2009 and unemployment rate increased by 3 percentage points compared to the previous year. On one hand, the labour force participation rate increased rapidly due to the uncertainty created by the crisis and income losses experienced by households and returns to agricultural employment were observed, on the other. Although employment contracted rapidly in industry sector, total employment increased by 0.4 percent in 2009, since agriculture and services sectors compensated these employment losses. However, a shift from more qualified jobs to less qualified jobs was observed in the sectoral structure of employment.

A rapid recovery takes place in employment in 2010. Employment increased by approximately 5.7 percent in non-agricultural sectors in the first three quarters of 2010. The upward trend observed in agricultural employment along with the crisis also continued in 2010 and agricultural employment increased by 9.5 percent in the first three quarter of 2010. In this period, labour force participation rate also continued to increase.

Throughout 2010, non-agricultural employment is expected to increase by 5.1 percent, while agricultural employment is expected to rise by 6.9 percent. Thus, aggregate employment is expected to increase by 5.6 percent in 2010 yielding an unemployment rate of 12.2 percent.

Table 2.12: Developments in the Labor Market

(15+ Age)

	Realization		Forecast			
	2008	2009	2010	2011	2012	2013
Working Age Population (Thousands of Persons)	50,772	51,686	52,542	53,386	54,193	54,985
Labor Force Participation Rate (Percent)	46.9	47.9	48.7	48.3	48.4	48.5
Labor Force (Thousands of Persons)	23,805	24,748	25,571	25,778	26,257	26,680
Employment	21,194	21,277	22,462	22,689	23,177	23,650
Agriculture	5,016	5,254	5,616	5,533	5,444	5,346
Non-Agriculture	16,178	16,023	16,846	17,156	17,733	18,304
Unemployed	2,611	3,471	3,109	3,089	3,080	3,030
Employment Increase (Percent)	2.2	0.4	5.6	1.0	2.2	2.0
Agriculture	3.1	4.7	6.9	-1.5	-1.6	-1.8
Non-Agriculture	1.9	-1.0	5.1	1.8	3.4	3.2
Employment Rate (Percent)	41.7	41.2	42.8	42.5	42.8	43.0
Unemployment Rate (Percent)	11.0	14.0	12.2	12.0	11.7	11.4

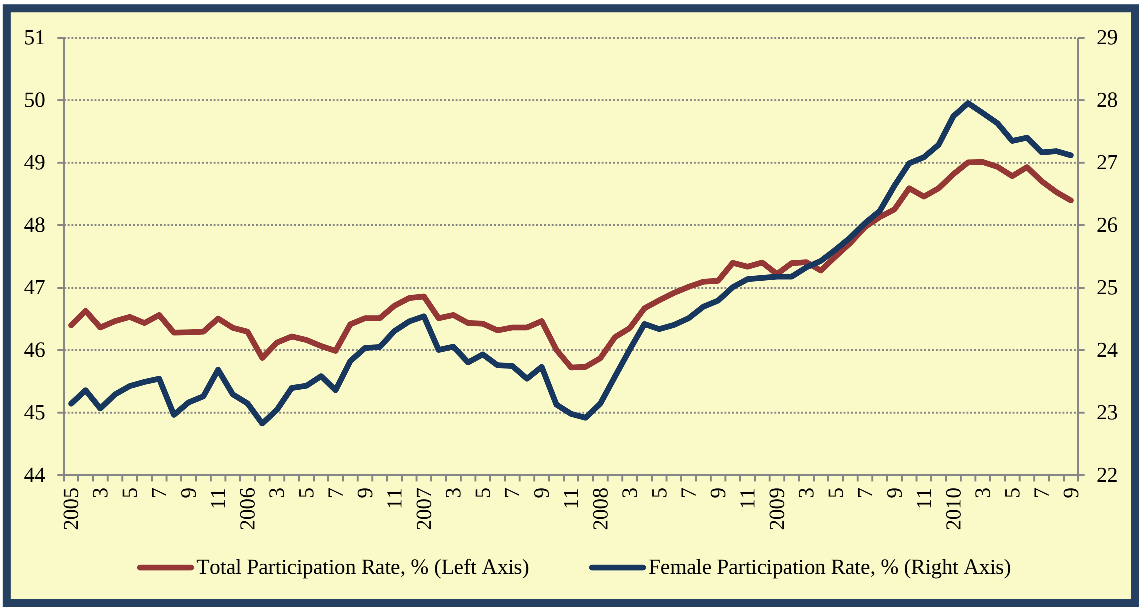
The sectors are expected to return back to their usual trends in the period of 2011-2013. In this context, it is anticipated that the agricultural employment will begin to decrease starting from 2011. As for the non-agricultural sectors, employment is expected to increase in a consistent way with economic growth and productivity increases. Within this framework, non-agricultural employment is expected to increase by about 2.8 percent annually on average during the period of 2011-2013. Thus, employment is expected to increase by 2.4 million people in 2013 compared to 2009.

The labour force participation rate, which began to increase starting from the first months of 2008, maintained its upward trend until the first months of 2010. During this time, one of the factors which caused a raise in the labour force participation rate was higher participation of women in the labour market.

Although the latest figures concerning 2010 indicate that the increase in labour force participation rate began to decline on a seasonally adjusted basis, it is considered that this decline will not be symmetrical to the increase observed during the crisis. Within this framework, it is anticipated that the labour force participation rate, which has been declining for many years, will stay around the levels it reached recently.

As a result of all these expectations, the unemployment rate is forecasted as 12 percent, 11.7 percent and 11.4 percent for 2011, 2012 and 2013, respectively.

Figure 2.13: Seasonally Adjusted Labour Force Participation Rate



Source: TURKSTAT

2.2.2. Inflation, Monetary and Exchange Rate Policies

Inflation targeting regime will be continued in the 2011-2013 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 2011 and 2012 were set as 5.5 percent and 5 percent, respectively. On the other hand, the 2013 end-year target has been announced to the public as 5 percent, with the policy document entitled "Monetary and Exchange Rate Policy for 2011", published on 21 December 2010.

Within this context, considering the structural transformation in the economy, the process of convergence to developed countries and the pricing behaviour inherited from the high inflation period, a gradual target path towards price stability is envisaged. The one week maturity repo auction interest rate will continue to be used as the main policy tool for the purpose of ensuring price stability. Additional policy tools such as required reserves and liquidity management will continue to be used actively in order to enhance the effectiveness of monetary policy and limit macro financial risks.

According to the forecasts included in the Inflation Report published at the end of October 2010, which is the main communication tool of the Central Bank, under the assumption that the measures proposed in the exit strategy were completed in the remaining period of 2010 and that the policy interest rate was kept at current levels and showed limited increase as from the last quarter of 2011, and remained at one-digit levels during the forecast horizon (three years), it is expected with a probability of 70 percent that the inflation would stand between the rates of 3.9 percent and 6.9 percent with a mid-point of 5.4 percent at the end of 2011. It is anticipated that the inflation will come down to the level of 5.1 percent at the end of 2012.

At the background of forecasts, it is assumed that the domestic demand proceeds stronger than in the previous period; the poor progress of foreign demand continues to limit domestic economic activity; the contribution made by overall demand conditions to reducing inflation continues albeit at a declining trend; import prices would increase during the forecast scope; and that the food inflation would stand at 7 percent for 2011 and 2012. Additionally, for the fiscal policy, an outlook where the ratio of non-interest expenditures to national income would decline gradually and tax adjustments will be in accordance with inflation targets and automatic pricing mechanisms. The updated assumptions and the new forecasts based on these assumptions will be announced by the Inflation Report that will be published on 25 January 2011.

The floating exchange rate regime will continue to be implemented in 2011, by maintaining its current framework. Unless there is significant deterioration in the foreign exchange liquidity conditions, the Central Bank will continue to accumulate foreign exchange reserves by means of flexible foreign exchange purchase auctions method, in line with the program announced by the Central Bank. However, in case there are developments different from expected, the Central Bank will continue to take measures as it did in the past in order to support foreign exchange liquidity and ensure effective operation of foreign exchange market in the next period. Within this framework, 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 in a way not to conflict with the floating exchange rate regime, and besides it may intervene directly by purchasing or selling if unhealthy price formation are observed in exchange rates due to speculative behaviour.

The Central Bank will continue to supervise macroeconomic risks and financial stability in 2011 as in the past in line with its main objective of ensuring and sustaining price stability, and for this purpose, it will also continue its applications with regard to making monetary policy and liquidity management more effective. The Central Bank, according to the needs to be encountered, may change its strategy for liquidity management in the next period, and may actively use other tools such as borrowing and lending interest rates corridor and required reserves implementation in order to limit the risks concerning financial stability and support effectiveness of one-week maturity repo auction interest rate which is the main monetary policy tool.

2.2.3. Balance of Payments

2.2.3.1. Current Account

The current account deficit which declined to 14.3 billion dollars in 2009 due to the slowdown effects of the global crisis rose to 41.6 billion dollars in January-November 2010 period.

2010 exports are forecasted as 111.7 billion dollars in the MTP, based on January-August data realizations[11]. The slow course of growth in the main trade partner European economy in 2011-2013 period will adversely affect Turkey’s export performance. With the mentioned slow course of economic performance in trade partners, average annual real export increase which was 9.3 percent in the 2002-2009 period, is forecasted to be 8 percent in the 2011-2013 period. Nominal exports are expected to reach 127 billion dollars in 2010, 143.5 billion dollars in 2012 and 160 billion dollars at the end of 2013 (Table 2.13).

Imports were realized as 140.9 billion dollars in 2009. Imports began to increase in the last months of 2009 and continued to increase in 2010 with the continuance of economic recovery. The imports, which were 164.9 billion dollars in January-November 2010 period, are expected to surpass the MTP forecast at the end of the year, which was 177.5 billion dollars. In the medium term, energy bill will also continue to constitute a significant part of the current account deficit of Turkey. Within this framework, imports are expected to continue increasing and reach 199.5 billion dollars in 2011, 222.5 billion dollars in 2012 and 245 billion dollars in 2013.

The number of tourists visiting our country increased in 2010. This trend is expected to continue in the forthcoming period and the tourism revenues are forecasted to increase steadily in 2011-2013 period and reach 28 billion dollars in 2013.

Within this context, current account deficit reached 41.6 billion dollars in January-November period parallel to the trade deficit and is expected to be higher than the MTP forecast, which was 39.3 billion dollars for 2010. In 2011-2013 period, bringing the budget balance which deteriorated in the crisis period to primary surplus position and maintaining fiscal discipline, keeping the current level of real exchange rate, and thereby attaining stable and sustainable current account deficit to GDP ratio is targeted. Current account deficit to GDP ratio is expected to be 5.4 percent, 5.3 percent and 5.2 percent in 2011, 2012 and 2013 respectively.

[11] According to records of Turkish Exporters Assembly, total exports in 2010 was realized as 113.7 billion dollars.

2.2.3.2. Capital and Financial Account

The global capital movements contracted in 2008 and first half of 2009 due to the global crisis, and increased in the second half of 2009 and first half of 2010. Along with this increase, foreign capital inflow to Turkish economy increased significantly. Capital account balance excluding reserves, which was realized as 9.9 billion dollars in 2009 despite the increase in the second half of the year, is expected to reach its historical maximum with 46.2 billion dollars by the end of 2010.

The slowdown observed in the economies of developed countries in the second half of 2010 adversely affected the global economic expectations and capital movements, and slowed the capital inflow to Turkish economy. The slowdown in the capital movements is expected to continue in 2011, and thereby the resource inflow to developing economies in 2011 is expected to realize below the level in 2010. Within this context capital inflow to Turkish economy in 2011 is expected to be 44.2 billion dollars, slightly lower compared to 2010.

With the acceleration of global economic growth in the second half of 2011, capital flows to developing countries is also expected to accelerate again in 2012 and 2013. Thereby, capital account balance excluding reserves is expected to realize at 48 billion dollars in 2012, 51.2 billion dollars in 2013.

Table 2.13: Balance of Payments Forecasts

(Billion Dollars)

	Realization			Forecast			
	2007	2008	2009	2010	2011	2012	2013
Current Account	-38.3	-41.9	-14.3	-39.3	-42.2	-45.1	-47.8
Balance on Goods	-46.8	-53.0	-24.9	-49.5	-54.4	-59.1	-64.8
Total Exports	115.4	140.8	109.6	120.5	135.2	153.1	169.9
Exports (fob)	107.3	132.0	102.1	111.7	127.0	143.5	160.0
Total Imports	-162.2	-193.8	-134.5	-170.0	-189.6	-212.2	-234.8
Imports (cif)	-170.1	-202.0	-140.9	-177.5	-199.5	-222.5	-245.0
Balance on Services	13.3	17.1	16.4	15.9	16.9	18.5	21.8
Credit	28.9	34.8	33.2	35.3	39.5	42.1	45.9
Tourism	18.5	22.0	21.3	22.5	23.8	25.5	28.0
Debit	-15.6	-17.7	-16.7	-19.4	-22.5	-23.6	-24.1
Balance on Income	-7.1	-8.2	-8.1	-7.2	-7.2	-7.2	-7.7
Current Transfers	2.2	2.1	2.3	1.5	2.5	2.7	3.0
Workers' Remittances	1.2	1.4	0.9	1.0	1.1	1.3	1.4
Capital and Financial Account	36.7	36.3	9.7	38.1	42.2	45.1	47.8
Financial Account (Excluding Reserves)	44.7	35.2	9.9	46.2	44.2	48.0	51.2
Foreign Direct Investment	19.9	15.7	6.7	7.1	9.4	10.3	11.9
Direct Investment in Turkey	22.0	18.3	8.3	8.5	11.0	12.1	13.8
Direct Investment Abroad	-2.1	-2.5	-1.6	-1.4	-1.6	-1.8	-1.9
Portfolio Investment	0.7	-5.0	0.2	14.7	7.3	6.6	6.7
Assets	-2.1	-1.3	-2.7	-0.7	-1.2	-1.5	-1.9
Liabilities	2.8	-3.8	2.9	15.5	8.5	8.0	8.5
Other Investment	24.1	24.6	3.0	24.4	27.6	31.1	32.6
Assets	-4.9	-10.9	10.5	9.0	9.1	3.4	0.4
Liabilities	28.9	35.5	-7.5	15.5	18.5	27.8	32.3
Reserve Assets	-8.0	1.1	-0.1	-8.1	-2.1	-2.9	-3.4
Net Errors and Omissions	1.6	5.6	4.5	1.2	0.0	0.0	0.0

Source: Realization CBRT, Forecast SPO.

Considering the current realizations, net direct investments are expected to be lower than the MTP forecast 7.1 billion dollars for 2010. Direct investments are forecasted to increase starting from 2011 due to the global economic recovery, but in the medium term not to reach the levels before the crisis. Within this framework, net direct investments are expected to reach 9.4 billion dollars, 10.3 billion dollars and 11.9 billion dollars in 2011, 2012 and 2013, respectively.

While recovery has followed a fluctuating course in the advanced economies, recording high growth performance throughout 2010 improved international credibility of Turkish economy. These developments led to a substantial increase in portfolio investment and portfolio investment which realized at 196 million dollars in 2009 exceeded the expectations in 2010 and realized as 16.5 billion dollars in January-November period, surpassing the MTP forecast of 14.7 billion dollars.

Other investment which declined to 3 billion dollars in 2009 will exceed the MTP forecast 24.4 billion dollars at the end of 2010. Along with the increase in foreign credit usage and bank deposits, other investment has been the highest inflow item in balance of payments. With the continuance of economic recovery and increase in international credibility of economy, other investments item is forecasted to be the biggest financing item in the forthcoming period. Within this context, other investment is expected to rise to 27.6 billion dollars in 2011, 31.1 billion dollars in 2012 and 32.6 billion dollars in 2013.

2.2.4. Main Risks in Projections

Although the recovery is moderate in the world economy, it follows a course which is substantially in compliance with expectations. Additionally, it is obseved that there are still various risks in either national or global level. In this framework, it is possible that some extraordinary developments in the global economy may create important positive or negative impacts on the economic performance. This situation contains some domestic and foreign risks in terms of macroeconomic outlook. These risks may be listed as follows:

- Especially in some developed countries, medium term plans which will remove financial sustainability concerns could not be adopted totally yet. If the budget deficits and debt burden cannot be sustained within the framework of an effective fiscal plan, financial markets will be affected adversely, global uncertainties and concerns will rise and this situation will cause the foreign demand and growth rates to be low.
- Turkish economy is dependent on foreign resources in terms of energy. An increase in world commodity and oil prices above the expectations may create negative effect on the current account deficit and inflation.
- Additional monetary expansion measures recently announced in European and US economies may have possible effect of increasing short term capital inflows. This may cause an adverse effect on current account balance by fostering the differentiation between growth rates of domestic and foreign demand and rapid credit expansion.
- Devaluation of dollar against other currencies due to the financial measures announced by the US, increases uncertainties concerning exchange rates.
- The fact that the growth performance of developed economies remained poor although policy interest rates approached to the level of zero in these countries, shows that the manoeuvre area of policy makers was narrowed.
- The Turkish economy, which solved the inflation problem, improved fiscal structure, has a strong banking sector and thus decreased its vulnerabilities in recent period, may further increase its economic performance when its credit ratings reach at investment grade level.

3. PUBLIC FINANCES

The financial crisis, which deepened in 2009, has necessitated using a certain part of the fiscal space, created as a result of tight fiscal policies implemented during 2000s, for expansionary fiscal policies. Consequently, general government deficit at the end of 2009 increased to 5.45 percent due to the decrease in revenue performance stemming from the contraction in economic activity and the stimulus package which is set for the purpose of mitigating effects of the crisis and reached 3.3 percent as a ratio to GDP in total. and the In the medium term, the main priority of the fiscal policy is to support a growth process lead by private sector which will be achieved by decreasing the general government deficit and increasing the resources available for the private sector. The increase in the volume of economic activity which is more rapid than expected has supported fiscal consolidation. While many developed and developing countries, still struggling with the effects of the crisis, are adding new components to their stimulus initiatives; it is seen that in Turkey, temporary and one-time measures have not been repeated and the fiscal burden of the decisions taken during the crisis will follow a decreasing trend in the medium term.

3.1. General Government Balance and Public Debt

In Turkey, the general government consists of the institutions and organizations within the scope of central government, local administrations, social security institutions and general health insurance, extra budgetary funds, revolving funds and Unemployment Insurance Fund. By consolidating the expenditures and revenues of these units, general government total expenditures, revenues and balance are obtained.

Box 3.1: Production and Consolidation of General Government Statistics

A different methodology is used while calculating the general government statistics which have been produced since 1999, in terms of obtaining total expenditures and revenues, and netting of the fiscal relations among the units included in the scope. In this context, in parallel with international standards total expenditures and revenues are based on gross values and no netting was made between the revenue-expenditure items.

General principle in calculating the expenditures and the revenues of general government units is abstaining from recording transfers made from a budget classification to another budget classification as an expenditure item in the accounts of the institutions making the transfer and as a revenue item in the accounts of the institution receiving the transfer. Such an accounting practice helps showing public revenue as an income item in the budget of the public institution which first receives the flow as income while as an expenditure item in the account of the institution which performs the final expenditure.

As a result, deficit (or surplus) figures vary as to budget classifications (or public institutions) while total balance figures stay the same. Within the framework of the consolidation approach adopted;

- The shares transferred to local governments and funds from the general budget tax revenues and other transfers are cleared from the central government budget base and displayed in the balances of local governments or funds to which they are related,
- The current transfers to the social security and general health insurance system from the central government budget are cleared from the budget expenditure base and social security and general health insurance system revenue base,
- The amounts transferred to the central government budget from revolving funds, extra budgetary funds and Unemployment Insurance Fund are cleared from the central government budget revenue base and expenditure base of relevant units,
- Fiscal relations among the institutional units included in the scope of general government except for the central government budget are structured in a way to prevent double counting.

3.1.1. Fiscal Policy Strategy and Medium Term Objectives

Studies on strengthening the structural side of the public financial management system will be continued by means of continuing the regulations which will increase transparency, accountability and effectiveness in the medium term along with numerical fiscal consolidation targets.

Within this scope, main policies to be implemented in the period of 2011-2013 are as follows:

3.1.1.1. Revenues Policy

- Legal arrangements will be introduced to ensure stability and simplicity in tax legislation and implementations.
- Studies on increasing voluntary tax compliance and broadening the tax base will be continued.
- Tax policies which accelerate the inflow of direct foreign capital investments to the country, support investments and R&D activities, increase employment and decrease development differences between regions will be continued to be implemented.
- Lump-sum taxes and fees will be updated by taking the general economic environment into account.
- The amount of tax expenditure emerged due to the exceptions, exemptions and deductions will continue to be calculated.
- Audits for preventing tax losses and evasion will be increased mainly on heavily taxed products.
- Efforts on strengthening the audit and implementation capacity of the tax administration will be continued.
- Arrangements to increase the own revenues of the local governments will be implemented. In order to increase own revenues of local governments it will be benefited more from the increases in asset values led by the construction and infrastructure services.
- Idle immovable s belonging to the Treasury will be brought in the economy by means of the projects to be developed in coordination with relevant public institutions and organizations.
- Through the implementation of the cost-based pricing formula, it will be ensured that energy SEEs attain their fiscal targets.

3.1.1.2. Expenditures Policy

- More importance will be attached to the expenditures supporting growth and employment as well as the expenditures reducing inter-regional development disparities. Policies aimed at increasing the quality of life and the qualifications of human capital through giving priority to health, education and social expenditures will continue to be implemented.
- Infrastructure investments supporting efficiency and productivity of the economy in medium and long term will be given weight. Infrastructure investments regarding education, health, technologic research, transportation, drinking water and information and communication technologies will be prioritized.
- Strategic planning and performance based budgeting, which was put into implementation in order to enhance fiscal transparency and accountability and improving decision making processes of public administrations, will be broadened.
- Public investment proposals and decisions will be based on sectoral studies which include problem and solution analysis, and high quality feasibility analysis. Agricultural supports will be differentiated on the basis of area and product in a way to ensure effectiveness, efficiency and quality of the production.
- Public expenditure policies will be reviewed, unproductive expenditure programmes which have lost their priority will be eliminated and, and by this way more effective use of public resources will be ensured.
- Programme based classification studies will be completed for the effective monitoring of expenditure programmes.

- The compatibility of public financial statistics, which have critical importance in the process of decision making and monitoring-assessment, compatible with international standards will be ensured.
- New personnel employment in public institutions and organizations will be made in line with the studies on determining personnel need and enhancing the qualifications of personnel, and in accordance with the limitations determined.
- Measures will be continued in order to make medicine and treatment expenditures more rational without compromising the quality of the health care services. In order to make the audits regarding health expenditures more effectively necessary steps will be taken and the infrastructure will be enhanced.
- General health insurance will continue to be implemented together with the Health Transformation Programme in order to keep the fiscal burdens brought by the system at a reasonable level.
- With regard to ensure effectiveness in social assistances, links will be set up between social assistances and employment, and double utilization from social assistances will be prevented.
- Legal arrangements which will ensure compliance with EU acquis regarding scope, definitions and exceptions, and enhance efficiency and transparency of the public procurement system, will be put into effect.

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 continue to be kept.
- Efforts will be continued to create new borrowing instruments and retail selling methods in order to enhance investor base of the government domestic borrowing instruments (GDBI).
- Financing instruments compatible with the investor demands will be developed with the aim of improving public borrowing opportunities and decreasing costs.

3.1.1.4. Public Financial Management and Audit

- Administrative and legal arrangements regarding increasing fiscal transparency and accountability will be continued and effectiveness will be increased in implementation of the started reforms.
- Necessary studies on implementing financial management and internal control and internal audit activities more effectively in public administrations included in the scope of general government will be continued.
- In order to establish an internal control system complying with international standards in public administrations, the public administrations will be required to implement their internal control action plans effectively. By this way, it will be ensured that the public administrations' activities are predicated public internal control standards.
- It will be ensured that The Court of Accounts will contribute more to the effective operation of internal control and internal audit system.
- By implementing financial management, internal control and internal audit effectively, financial responsibility awareness will be strengthen in public institutions and organizations, human resources infrastructure of administrations will be enhanced in terms of quality and quantity in order to ensure more effective presentation of services required by the audit system.

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

Thanks to decisive implementation of the measures taken against the crisis and expansion in the volume of economic activity together with the strong recovery in domestic demand the economy has recovered stronger than expected and a major improvement has been observed in public financial balances. In this regard, the central government budget, which constitutes the most important part of the increase in the public deficit in 2009, the year which the impacts of the global crisis were felt most deeply, will also be the main determinant of the fiscal consolidation expected to be obtained in the medium term.

Since the global crisis caused contraction in economic activities in 2009, the increase in tax revenues has been limited. Temporary discounts made in value added tax (VAT) and special consumption tax (SCT) rates of certain products for the purpose of recovering domestic demand contributed to the low rates of increase in tax revenues despite the increase in consumption of the products which are subject of the tax. As a result, in 2009, as a ratio to GDP, central government budget total revenues, tax revenues and non-tax revenues were realized as 22.6 percent, 18.1 percent, and 4.5 percent respectively.

The contraction in employment and decrease in interest rates affected income tax adversely in the mentioned year. Corporate tax also realized below the programmed level as in case of income tax. Within this framework, as a ratio to GDP, the income tax realized as 4 percent, and the corporate tax realized as 1.9 percent.

The privatization revenues realized within the scope of central government budget remained quite below the expected level in 2009 due to the global economic crisis and realized as 1.8 billion TL. Additionally, transfers made from privatization and Unemployment Insurance Fund and the implementation of the rate of transfers to be made from the interest revenues of Unemployment Insurance as 3/4 instead of 1/4 exclusively in 2009 and 2010 made a partial contribution to central government budget revenues and balance.

Examining the central government budget expenditures, it is seen that as ratio to GDP total expenditures and non-interest expenditures were realized 28.2 percent and 22.6 percent respectively, at the end of 2009. Besides, the ratio of interest payments to GDP realized as 5.6 percent in 2009. The downward trend of domestic borrowing interest rates despite of increased cash needs because of the global crisis and public deficit, led to a decrease in borrowing costs.

In 2009, no need aroused for inflation compensation. The sum of personnel expenditures, government premiums to social security institutions and personnel expenditure reserve appropriations remained 1.7 billion TL below the budget appropriations.

In 2009, significant expenditure pressures arose regarding expenditures on goods and services, and the total expenditures on goods and services realized 4.3 billion TL above the initial appropriation. Increasing health and defense-security expenditures, expenditures realized pursuant to the Law regarding disabled people and additional appropriation needs required for physical and human projects realized by line ministries and organizations were determinant on the mentioned development.

Duty loss payments for SEEs, social security transfers which increased because of decreasing premium collection and declining registered employment due to the crisis, and the extension of the Law No. 5084 regarding regulation of initiatives are the main reasons for the increase in current transfer expenditures. On the other hand, the downward trend in tax performance caused the revenue shares allocated to local administrations and funds to remain below the appropriation. Therefore, current transfers realized 4 billion TL above the initial appropriation.

The rate used in calculation of the amount of transfers made from Unemployment Insurance Fund interest revenues in order to be used in the investments regarding GAP Action Plan and other economic and social development projects was applied as 3/4 instead of 1/4 in 2009. Besides, the ratio of total capital expenditures to GDP rose to the level of 2.1 percent as a result of the resource allocation increased for supporting the process of overcoming the crisis.

Table 3.1: Central Government Budget Balance

(Share in GDP, Percent)

	2008	2009	2010*	2011**
Expenditures	23.9	28.2	27.0	25.7
Non-interest Expenditures	18.6	22.6	22.5	21.8
Personnel Expenditures	5.1	5.9	5.7	6.0
Social Sec. Ins. Government Premium Expenditures	0.7	0.8	1.0	1.0
Goods and Services Purchase Expenditures	2.6	3.1	2.7	2.5
Current Transfers	7.4	9.7	9.5	9.5
Capital Expenditures	1.9	2.1	2.6	1.8
Capital Transfers	0.3	0.5	0.4	0.4
Lending	0.5	0.6	0.6	0.5
Reserve Appropriation	0.0	0.0	0.0	0.1
Interest Payments	5.3	5.6	4.5	3.9
Revenues	22.1	22.6	23.0	23.0
Tax Revenues	17.7	18.1	19.1	19.1
Non-Tax Revenues	3.1	3.7	3.1	2.8
Capital Revenues	0.9	0.2	0.3	0.8
Grants, Aids and Special Revenues	0.4	0.6	0.4	0.2
Primary Surplus	3.5	0.0	0.5	1.2
IMF Defined Primary Surplus	1.8	-1.6	-0.7	0.0
Borrowing Requirement	1.8	5.5	4.0	2.8

Source: SPO, Ministry of Finance
* Realization forecast.
** Program

Additionally, in Support of the Infrastructure of the Villages (KÖY-DES), TÜBİTAK R&D supports and the capital transfers to SEEs, the realizations had been above the initial appropriations.

In accordance with these developments mentioned above, the central government budget deficit realized as 52.8 billion TL and 5.5 percent as ratio to GDP, and the programme defined balance turned into negative.

In 2010, central government budget revenue is expected to increase to the level of 23 percent from its 22.6 percent level in 2009 as a ratio to GDP. The share of tax revenues in GDP, which was 18.1 percent in 2009, is expected to rise to the level of 19.1 percent due to the increase in the collection of VAT and SCT. Withdrawal of one-off tax discounts implemented in the crisis period, update of fixed taxes, increase in imports and complete fulfillment of taxation liabilities of energy SEEs played an important role on this development. The ratio of non-tax other revenues to GDP, which was 4.5 percent in 2009, will decline to the level of 3.9 percent mainly because of the decrease in the Treasury interest revenues, special revenues and corporate returns.

In 2010, the income tax is expected to realize below the budget target and the corporate tax is expected to realize 2.9 billion TL above the budget target and 1.9 percent as a ratio to GDP thanks to the recovery in economy.

The SCT, one of the important components of central government revenues, is expected to realize 2.1 billion TL above the budget target and reach the level of 5.2 percent as ratio to GDP in 2010. Realization of SCT charged for motor vehicles is expected to be above the budget target due to the increase in domestic sales. Similarly, realization of SCT charged for oil and natural gas products is anticipated to realize above the budget target as a result of the update of fixed taxes.

SCT charged for alcoholic beverages and durable consumption goods is also expected to realize above the targeted level. On the other hand, SCT charged for tobacco products will realize below the budget target due to smoking bans pursuant to provisions of the Law No. 4207 and the sharp decrease in consumption caused by tax increases made in July and December of 2009.

In 2010, due to the increase in the volume of domestic economic activities, internally collected VAT; and due to the dramatic increase in imports, VAT for imports are expected to realize above the budget target.

For the purpose of solving the problem of debts and receivables among the energy SEEs, the Draft Law regarding Arrangement of Certain Debts and Receivables of Some Public Institutions and Organizations, which was prepared by the Undersecretariat of Treasury, was passed by TGNA Plan and Budget Commission on June 25, 2010 and taken into agenda of General Assembly.

Within the framework of membership negotiations carried out with the European Union, pursuant to the Cabinet Decree No. 2009/15685 which was published on the Official Gazette dated December 29, 2009 and No. 27447, the Tobacco Fund, which was taken from processed tobacco, was abolished in accordance with the Action Plan dated May 18, 2009 submitted to the European Commission. Pursuant to the Cabinet Decree No. 2009/15725 which was published on the Official Gazette No. 27449 on December 31, 2009, the proportional tax regarding the wine listed under the number of 22.04 Turkish Common Customs Tariff (G.T.I.P.) was repealed. Furthermore, minimum fixed tax amounts of alcoholic beverages included in the list (III) attached to the SCT Law and fixed tax amounts included in the sheets (A) and (B) of the list (I) were rearranged. Pursuant to the Cabinet Decree No. 2009/973 which was published on the Official Gazette No. 27743 on October 28, 2009, minimum fixed tax amounts of the alcoholic beverages included in the list (III) attached to the SCT Law were re-determined.

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 2012. 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.

Pursuant to Article 28 of the Law Amending Some Laws and Decree Laws and Income Tax Law No. 6009, arrangements were made on Article 17/2-a of the VAT Law as being effective from August 1, 2010. Accordingly, administrations in the scope of general and annexed budget, special provincial administrations, municipalities, villages, associations founded by local authorities, universities, revolving funds, public institutions and organizations established by law, occupational organizations with public institution statue, political parties and unions, pension and support funds established by law or which are legal entities, non-profit organizations, agricultural cooperatives, and diagnostic and therapeutic deliveries and services of health foundations exempted from tax by the Cabinet are free of VAT.

Pursuant to the Law No. 6009 which makes amendment in the Law No. 6802 regarding Expenditure Taxes; the definition of banker within the scope of Banking and Insurance Transactions Tax was changed. Within this framework, the transactions concerning futures and option contracts realized in the stock exchanges in Turkey have been exempted from Banking and Insurance Transactions Tax.

Pursuant to the Cabinet Decree No. 2010/926, dated September 27, 2010, following the amendment made by the Law No. 6009 in paragraph (1) of Provisional Article 67 of the Income Tax Law; withholding rates were rearranged, and the differentiation of domestic and foreign investors was terminated for the revenues obtained within the scope of paragraphs (1), (2) and (3) of the Provisional Article 67.

The ratio of central government budget expenditures to GDP is expected to realize as 27 percent in 2010. For the mentioned year, while the sum of non-interest expenditures are expected to realize above the appropriation, the interest expenditures are expected to realize below the anticipated level thanks to the domestic borrowing compound interest rates which fell down to the level of 7 percent.

The personnel expenditures, which consist of the sum of central government budget personnel expenditures, personnel expenditures reserve appropriation and the government premiums to social security institutions are expected to realize as 6.7 percent as ratio to GDP in 2010. It is forecasted that the total personnel expenditures is expected to realize as 73 billion TL, 1.3 billion TL above the appropriation. Additional personnel employment and inflation compensations paid in January and July in addition to the general wage increases at the rates of 2.5 percent and 2.5 percent are the reasons for the aforementioned development.

While it is expected to record a decrease compared to 2009 because of the reason that the health expenditures of public servants are defrayed by Social Security Institution, the good and services purchase expenditure is expected to rise above the initial appropriation and realize as 2.7 percent as ratio to GDP. Transfers to relevant items from reserved appropriations and additional needs arising within the scope of the projects carried out especially by the General Directorate of Highways, Ministry of National Education, Ministry of National Defense, Ministry of Health and Ministry of Internal Affairs are the reasons for the aforementioned development.

In 2010, due to the high revenue performance the revenue shares allocated to local administrations and funds are expected to realize above the budget estimation. Moreover, as a result of the increase in the registered employment, social security premium collection is expected to increase, which in turn will decrease the transfers for the social security deficit. In addition, duty losses of SEE and public banks are expected to decrease in 2010.

Table 3.2: Central Government Budget Balance for 2010

(Billion TL)

	Budget Appropriation / Target	**Forecast**	**Realization***
Expenditures	287.0	297.0	293.6
Non-interest Expenditures	230.2	247.5	245.3
Personnel Expenditures	60.3	62.2	62.3
Social Sec. Ins. Government Premium Expenditures	11.1	11.0	11.1
Goods and Services Purchase Expenditures	25.2	29.4	28.8
Current Transfers	102.2	104.7	101.9
Capital Expenditures	18.9	28.7	25.9
Capital Transfers	3.4	4.8	6.7
Lending	6.9	6.8	8.6
Reserve Appropriation	2.2	0.0	0.0
Interest Payments	56.8	49.5	48.3
Revenues	236.8	252.8	254.0
Tax Revenues	193.3	210.2	210.5
Non-Tax Revenues	25.0	25.8	31.0
Capital Revenues	10.6	3.6	3.4
Grants, Aids and Special Revenues	1.0	4.8	1.2
Special Budget and Reg. and Sup. Agencies	6.8	8.3	7.9
Primary Surplus	6.6	5.3	8.7
Borrowing Requirement	-50.2	-44.2	-39.6

Source: SPO and Ministry of Finance
* Provisional

Capital expenditures are expected to realize significantly higher than the budget appropriation. The increase in the sources allocated for the projects and activities carried out in the areas of health and education and disaster house construction and in particular for the transportation sector is the reason of the aforementioned development. In addition to this, the rate used in calculation of the amount of transfers made from Unemployment Insurance Fund interest revenues in order to be used in the investments regarding GAP Action Plan and other economic and social development projects was applied as 3/4 instead of 1/4 in 2010 as in the previous year.

In 2010, it is expected that the expenditures concerning the regional and rural development projects and SEE capital transfer expenditures will realize above the budget appropriation.

In accordance with the above mentioned developments, a significant improvement is expected in central government budget in 2010 compared to 2009. Within this context, the ratio of central government budget deficit to GDP, which was 5.5 percent in 2009, is expected to decline to the level of 4 percent at the end of 2010.

3.1.2.1.2. Developments Regarding General Government Revenues and Expenditures

As a result of the tight fiscal policy implemented as from 2000s; general government balance which gave surplus in 2006 due to high privatization proceeds and one-off revenues gave deficit as a result of the decrease in the mentioned revenues together with increase in primary expenditures in 2007. The ratio of general government deficit to GDP increased to 1.6 percent in 2008 mainly due to the decrease in indirect taxes and privatization performance. Starting of contraction in economic activity was determinative on the aforementioned development as being primary signals of the imminent economic crisis which will be deepened in 2009.

The ratio of general government deficit to GDP realized as 5.45 percent in 2009 in which stimulus packages put into practice was effective as well which aim to mitigate global economic downturn. In this year, the ratio of general government primary surplus to GDP decreased to 0.3 percent and general government balance excluding interest expenditures and privatization proceeds, which had given surplus during 2000s, gave a deficit of 0.2 percent.

Table 3.3: Revenues and Expenditures of General Government - 1

(Share in GDP, Percent)

	2006	2007	2008	2009
Taxes	18.8	18.6	18.2	18.5
Direct	5.2	5.6	5.9	6.0
Indirect	13.0	12.4	11.7	11.9
Wealth	0.5	0.6	0.6	0.6
Non-Tax Revenues	2.5	2.1	1.8	2.0
Factor Incomes	6.1	5.8	5.6	6.3
Social Funds	5.9	5.7	6.5	7.4
Total	33.2	32.2	32.1	34.2
Privatization Revenues	1.6	1.4	0.9	0.5
Total Revenues	34.8	33.6	32.9	34.6
Current Expenditures	14.6	15.0	15.7	17.7
Investment Expenditures	3.0	3.2	3.4	3.3
Fixed Investment	2.9	3.1	3.4	3.3
Change in Stocks	0.0	0.1	0.0	0.0
Transfer Expenditures	15.9	15.6	15.5	19.1
Current Transfers	14.9	15.0	14.8	18.1
Capital Transfers	1.0	0.6	0.7	1.0
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Non-Interest Expenditures	27.3	27.9	29.2	34.4
Total Expenditures	33.4	33.8	34.6	40.1
Primary Surplus	7.5	5.7	3.8	0.3
Borrowing Requirement	-1.4	0.2	1.6	5.5
IMF Defined Primary Surplus	4.4	2.7	1.5	-1.7

Source: SPO

3.1.2.1.3. Medium Term Perspective

In the calculation of the general government figures, various assumptions were made about revenues and expenditures for the period of 2010-2013 as it shown below:

- Stability in implementation of tax policies and predictability in taxation will be a primary concern.
- Fixed tax and duties will be updated in line with the general economic conjuncture.
- Efforts on strengthening the supervision and implementation capacity of the tax administration will be continued.
- Efforts on reducing informal economical activities and preventing tax losses and evasions will be accelerated. To this end, a just and simple Income Tax Law will be put into practice on the basis of stability and predictability. Besides, efforts on finalizing the Action Plan on the Strategy of Struggling with the Informal Economy, which will cover the period of 2011-2013, are still in progress.
- The exemptions, exceptions and tax discount provisions included in the tax laws will be revised within the framework of socio-economic policy and targets, and the tax legislation will be simplified. It will be continued to calculate the tax expenditure amounts which arise due to exemptions, exceptions and tax discounts.
- In 2010, the three fourth of the Unemployment Insurance Fund’s interest receipts and the cash surplus of the Privatization Fund will be recorded as budget revenue, and as for 2011 and 2012, one fourth of the Unemployment Insurance Fund’s interest receipts and cash surplus of the Privatization Fund will be recorded as budget revenue.
- In order to ensure harmonization with the EU legislation, efforts on taxing strong alcoholic beverages in the list (III) of the SCT Law, in line with the Directives no 92/83/EEC and 92/84/EEC will be continued.
- The legislative efforts with an aim to increase own revenues of the Municipalities will be continued.
- SEE prices will be determined in a rational way in line with the programme targets.
- Retirement payments of public servants will be increased by 5.3 percent in a way to compensate the forecasted inflation difference in the first half of the year and by 4 percent in the second half of the year; retirement payments of those included in the scope of clauses (a) and (b) of Article 4 of the Law No. 5510 will be increased by 4 percent for whom the 4 percent increase corresponds to 60 TL or more, and by 60 TL for whom the 4 percent increase corresponds to an amount below 60 TL.
- Wages and salaries in the public sector will be increased in line with the inflation targets and binding restrictions on the new hirings in the public institutions will be continued.
- The health expenditures will be tried to be kept under control and it will be continued to take measures in order to make medicine and treatment expenditures more rational without compromising the quality of health services.

Since the recovery in domestic demand is above the expectations and due to decisive implementation of the measures taken against the crisis and expansion in the volume of economic activity, the economy has bounced back stronger than expected and a significant improvement has been observed in general government balance in 2010. Within this framework, the ratio of general government deficit to GDP is estimated to realize as 3.7 percent in 2010.

The ratio of general government revenues including privatization revenues to GDP is realized as 34.6 percent in 2009. In 2010, as a result of the positive effect of growth performance on tax and social security premium collections, removal of the impact of one-off tax discounts implemented for supporting real sector during the crisis and update of fixed taxes as proposed, the aforementioned revenues are expected to reach the level of 35.4 percent of GDP. On the other hand, general government total expenditures as a ratio to GDP are estimated to realize as 39.1

percent with 1 point decrease compared to the previous year primarily as a result of decreasing interest payments.

The ratio of borrowing requirement of local governments to GDP is expected to realize as 0.5 percent with a decrease of 0.2 points compared to the previous year. The fact that the ratio of revenues of local governments to GDP improved by 0.3 points compared to the previous year due to the increase in the shares earmarked from central government budget tax revenues was the main determinant on this. Additionally, as a result of the developments in premium collections, it is forecasted that the borrowing requirement of social security institutions and general health insurance will improve by 0.4 points and realize as 2.6 percent as ratio to GDP.

As a result of the above mentioned developments, it is estimated that the ratio of general government balance excluding interest expenditures and privatization revenues to GDP will improve by 0.8 points and turn into a surplus of 0.6 percent from the deficit of 0.2 percent in 2010.

The general government tax revenues which are estimated to realize as 19.7 percent as ratio to GDP are expected to maintain the same level in 2011. It is projected that the ratio of direct taxes to GDP will realize as 5.8 percent, indirect taxes to GDP will realize as 13.2 percent and wealth taxes to GDP will realize as 0.7 percent.

It is projected that the ratio of general government non-tax revenues to GDP will remain at the level of 1.8 percent in 2011, which was also the same level in 2010. The ratio of general government factor incomes to GDP is expected to decrease by 0.6 points compared to the previous year and realize as 4.9 percent. The estimation of Treasury portfolio and participation revenues, and enterprise and property revenues will fall compared to 2010 was primarily determinant on this situation.

Table 3.4: Revenues and Expenditures of General Government - 2

(Share in GDP, Percent)

	2010	2011	2012	2013
Taxes	19.7	19.7	19.6	19.6
Direct	5.7	5.8	6.0	6.1
Indirect	13.3	13.2	13.0	12.7
Wealth	0.7	0.7	0.7	0.7
Non-Tax Revenues	1.8	1.8	1.9	2.1
Factor Incomes	5.5	4.9	4.6	4.5
Social Funds	8.0	8.3	8.3	8.2
Total	35.0	34.6	34.5	34.3
Privatization Revenues	0.4	1.1	0.9	0.7
Total Revenues	35.4	35.8	35.4	35.0
Current Expenditures	17.2	17.1	16.6	16.2
Investment Expenditures	3.9	3.3	3.3	3.1
Fixed Investment	3.9	3.3	3.2	3.1
Change in Stocks	0.0	0.0	0.0	0.0
Transfer Expenditures	17.9	17.4	17.4	16.8
Current Transfers	17.2	17.1	17.0	16.3
Capital Transfers	0.7	0.3	0.4	0.5
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Non-Interest Expenditures	34.4	33.8	33.2	32.6
Total Expenditures	39.1	37.9	37.2	36.1
Primary Surplus	1.0	1.9	2.2	2.4
Borrowing Requirement	3.7	2.1	1.8	1.1
IMF Defined Primary Surplus	-0.5	0.1	0.6	1.1

Source: SPO

Social funds, which is the sum of premium collections obtained from private sector and public sector for the purpose of financing social security system, is estimated to increase by 0.3

points compared to the previous year and reach the level of 8.3 percent as ratio to GDP in 2011. The estimation that collection of social security system premiums will rise is mainly stemmed from the increase in registered employment.

Within this framework, general government revenues excluding privatization proceeds are estimated to decrease by 0.4 points and fell down to 34.6 percent of GDP in 2011. Total general government revenues are expected to reach 35.8 percent of GDP in 2011 along with the privatization revenues of 1.1 percent of GDP which is increased by 0.8 points compared to 2010.

The ratio of government budget primary expenditures to GDP is expected to decrease by 0.6 points compared to the previous year and fell down to 33.8 percent in 2011. The decrease in central government budget capital expenditures will be determinant in this decrease. Additionally, it is estimated that the ratio of interest expenditures to GDP will decline to the level of 4.1 percent in 2011 from its level of 4.6 percent in 2010. Thus, the ratio of total general government expenditures to GDP is expected to decrease by 1.2 points compared to the previous year and fell down to 37.9 percent in 2011.

As a result of the developments expressed above, the ratio of general government deficit to GDP, which is expected to realize as 3.7 percent in 2010, is projected to decline 2.1 percent in 2011. Additionally, it is forecasted that the ratio of general government surplus excluding interest payments and privatization revenues, which is expected to realize as 0.6 percent in 2010, will be 0.8 percent in 2011.

After a stable recovery and strong fiscal adjustment period, the ratio of general government deficit to GDP, which is expected to realize as 1.8 percent in 2012, is expected to decrease 1.1 percent at the end of 2013. Moreover, the ratio of general government balance excluding interest expenditures and privatization proceeds to GDP is expected to give a surplus of 1.7 percent at the end of 2013.

3.1.3. Structural and Cyclical General Government Balance

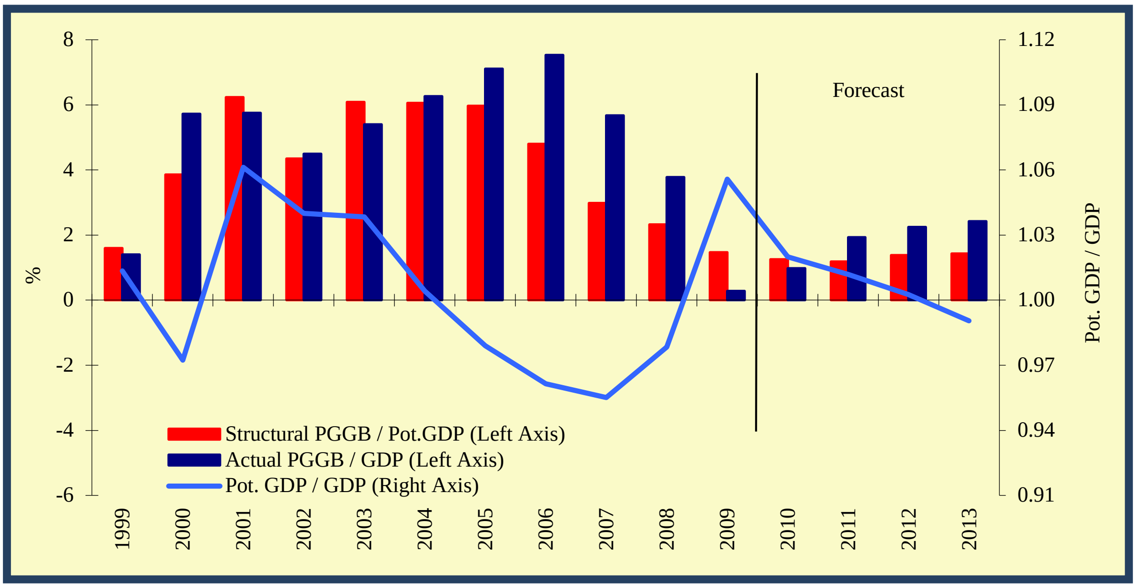
In PEP 2009, the method used in the previous years was rearranged in a way to reflect the fiscal policy in Turkey more effectively. The scope of structural balance was extended in addition to the change in method, and the revenues and expenditures regarding local administrations, social security institutions, general health-care insurance, extra-budgetary funds, revolving funds and unemployment insurance fund were included in the calculations in addition to the institutions included in the scope of central government budget in this year. Therefore, structural general government balance, which was obtained with consolidation of the balances of mentioned institutions and organizations, was calculated (Box 3.2).

Structural and actual primary general government balance is presented in Figure 3.1. Examining the figure, it is observed that the tight fiscal policy put into implementation as from the beginning of 2000s was reflected on the structural primary general government surplus. As a matter of fact, the ratio of primary general government surplus to potential GDP realized as 5.3 percent on average for the period of 2000-2006. In the same period, the ratio of actual primary general government surplus to GDP was 6 percent on average.

The ratio of actual primary general government surplus to GDP, which began to decrease as from 2006, was realized as 3.8 percent in 2008. In this period where the output surplus stood at the highest levels, the ratio of structural primary general government surplus to potential GDP was significantly decreased and realized as 2.3 percent in 2008.

In 2009, in order to mitigate the adverse effects of the global crisis, measures were taken in Turkey as in many countries and expansionary fiscal policy was used as an instrument. As a result of this, in 2009 in which GDP was quite below the potential level, ratio of actual primary general government surplus to GDP was expected to decrease by 3.5 points compared to 2008. In the same period, it was observed that the downward trend in structural primary general government surplus was more limited. Besides, due to the measures taken starting from the second half of 2009, the primary general government surplus began to increase again in 2010. As a result of these developments, the ratio of structural primary general government surplus to potential GDP is expected to be 1.3 percent in 2010.

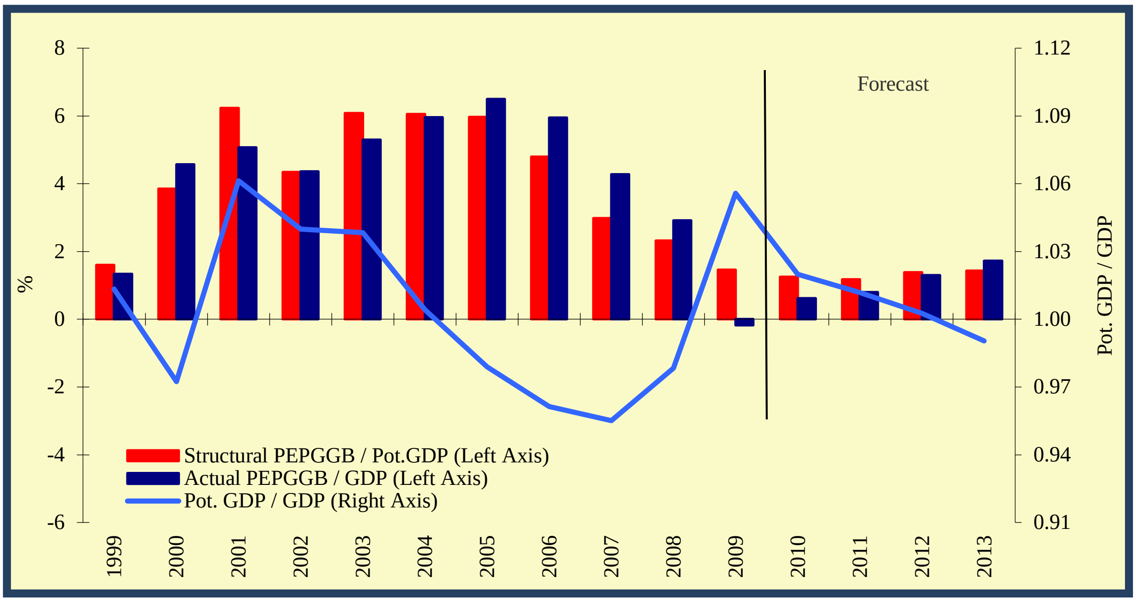
Figure 3.1: Actual and Structural Primary General Government Balances



PGGB: Primary General Government Balance
Pot. GDP: Potential GDP

For the period of 2011-2013, it is anticipated that the ratio of actual primary general government surplus to GDP will increase gradually and be 2.2 percent on average, along with the recovery in the economy. When revenues from privatization are excluded, the ratio of the said surplus to GDP is expected to be 1.3 percent on average. On the other hand, the ratio of structural primary general government surplus to GDP, which began to decrease in 2010 and 2011, is expected to increase as from 2012 and stand at 1.3 percent in the period of 2011-2013. Since the privatization revenues and one-off revenues are excluded in the calculations of structural general government balance, the ratio of general government surplus excluding interests and privatization to potential GDP gives the same result.

Figure 3.2: Actual and Structural Privatization Excluded Primary General Government Balances



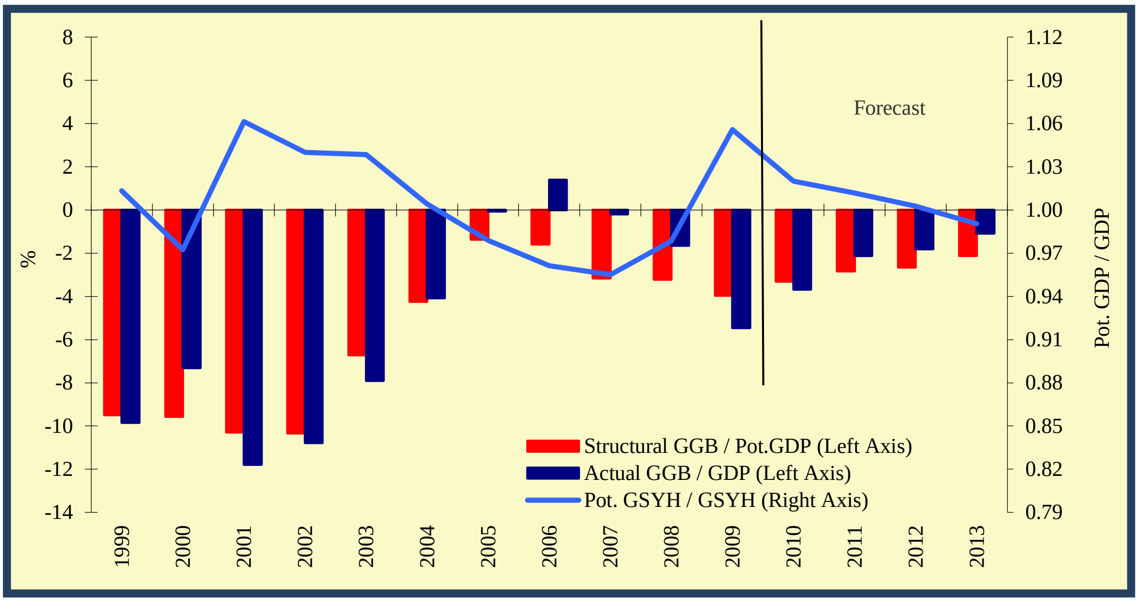
PEPGGB: Privatization Excluded Primary General Government Balance
Pot. GDP: Potential GDP

The need for borrowing, which increased due to the uncertainty environment deepened by November 2000 and February 2001 crisis, caused a major burden on the public sector. Rapid increase in the ratio of public debt stock to national income due to public deficits and high real interests, the debt structure with high cost and short maturity, and the interest payments, whose share in budget transfer expenditures had increased continuously, caused further expansion in the borrowing requirement. Therefore, the ratio of general government deficit to GDP stood at 11.8 percent in 2001 and reached the highest level in the history of Turkey.

After all these developments, measures increasing income and ensuring expenditure discipline were taken in order to re-establish macroeconomic stability, structural reforms were realized and thus decreasing borrowing reqirement caused actual general government balance to record surplus first time in 2006. Significant decreases were also achieved in structural general government deficit in the period until 2006, however, proportional increases were observed in the actual and structural general government deficits starting from this date due to the adverse effects of financial fluctuations experienced in 2006.

A series of measures were taken in 2009 in order to mitigate adverse effects of the global crisis, and with this regard, additional increases in some expenditure items, tax cuts for recovering demand and similar implementations significantly increased the general government borrowing requirement. Effects of the implemented expansionary fiscal policy were also observed on the structural general government balance and the ratio of structural general government deficit to potential GDP, which was 3.2 percent in 2008, reached 4 percent in 2009. The actual and structural general government balance, which has started to a downward trend in 2010 as a result of implemented measures, are expected to decrease further in the period of 2011-2013.Thus, due to the anticipated gradual recovery in the economy and the relative tightening in the fiscal policy, the ratio of actual general government deficit to GDP is expected to realize as 1.7 percent and the ratio of structural general government deficit to GDP as 2.5 percent on average in the period of 2011-2013 (Figure 3.3).

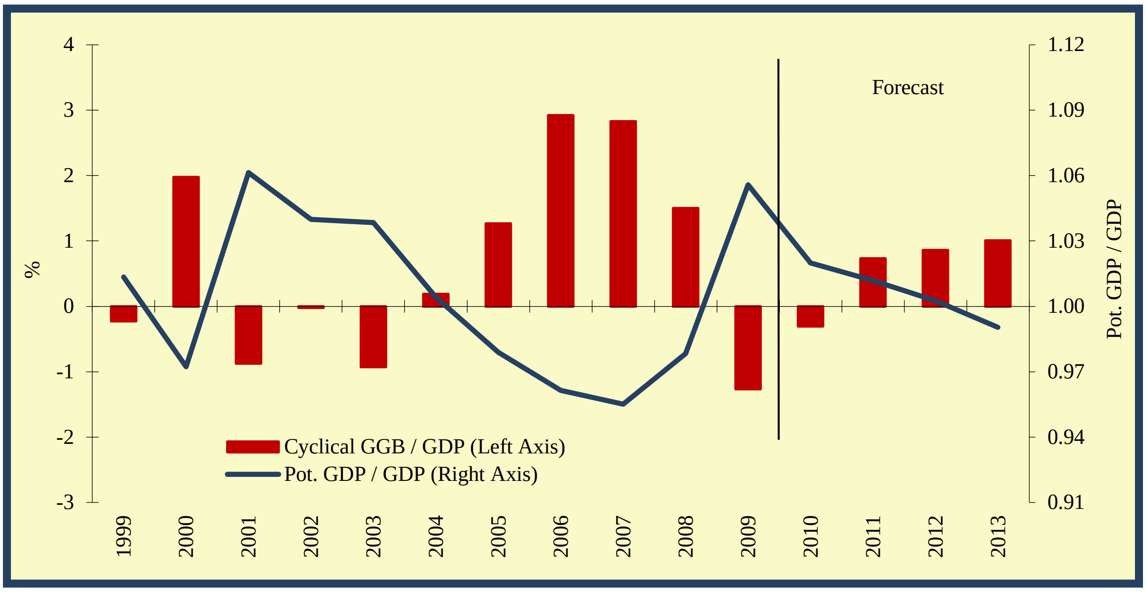
Figure 3.3: Actual and Structural General Government Balances



GGB: General Government Balance
Pot. GDP: Potential GDP

Cyclical general government balance is calculated by subtracting the structural general government balance from the actual general government 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 the period of 2011-2013, the cyclical effect is forecasted to decline together with the expected economic recovery (Figure 3.4).

Figure 3.4: Cyclical General Government Balances



GGB: General Government Balance
Pot. GDP: Potential GDP

Box 3.2: Structural and Cyclical General Government Balance Calculation Methodology

The methodology determined in PEP 2009 is adhered and in addition to this, the scope of structural balance is expanded. The revenues and expenditures regarding the institutions and organizations included in the scope of central government budget, local administrations, social security institutions, general health- care insurance, extra-budgetary funds, revolving funds and unemployment insurance fund are included in the calculations. Therefore, structural general government balance, which was obtained with consolidation of the balances of mentioned institutions and organizations, is achieved.

The main difference in methodology is mainly the harmonization of the composition of revenue and expenditure items. The methodology is presented in detail below.

Mainly, the concept of the actual general government balance means the balance reflecting the impacts of temporary and permanent factors and thus including cyclical movements which influence revenue and expenditure items. On the other hand, the structural general government balance expresses a fiscal policy free from the effects of economic fluctuations by means of eliminating the effects of cyclical movements on general government balance. The structural general government balance is defined as follows:

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

b* : structural general government balance (as a ratio to potential GDP),
Ti* : structural value of revenues in category i,
Gj* : structural value of expenditures category j,
X : other general government items that are assumed to be not affected from cyclical movements,
YP : potential output.

The relationship between structural revenues and 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_j : 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 is influenced by the characteristics of the revenue components that are subject to taxation. Therefore, the items that are less sensitive to conjunctural movements in income taxes, such as wages, are separated.

While calculating structural revenues; non-tax revenues, which are sensitive to conjectural movements, such as revenues from SEE's, tax penalties, valuable paper sales revenues, Treasury shares from GSM operators, are accepted sensitive to economic developments.

The wealth taxes, which are less sensitive to economic developments, are considered insensitive to conjuncture.

Whole of the tax revenues of funds are considered sensitive to conjuncture. While making income tax, corporate tax and indirect tax allocation, the transfers made from the general budget are based on.

While determining sensitivity of tax revenues of local administrations to economic developments, the items which were less affected by conjunctural developments, especially the property tax item, are sorted. A major part of tax revenues are considered sensitive to conjuncture although they vary according to years. A large part of indirect taxes are considered insensitive to economic developments and the taxes included in the structural balance account and affected by conjuncture are shown as indirect taxes.

Whole of the revolving funds tax revenues are considered sensitive to conjuncture.

A small part of non-tax revenues of local administrations which mostly include performance of duties given by the law are considered sensitive to conjunctural developments.

Only 10 percent of revolving funds factor revenues; and as changing by years, 10 to 20 percent of local administrations are considered sensitive to conjunctural developments. Since a major part of property incomes in local administrations covers natural monopoly service, it is considered less sensitive to conjunctural developments.

In social security balance, the whole of social funds other than pension fund premium revenues and the whole of premium revenues of unemployment insurance are considered sensitive to conjuncture.

In unemployment insurance balance, the interest revenues are considered sensitive, and other factor revenues are considered insensitive to conjuncture.

One-off revenues, such as privatization, that affect actual general government balances are not included in structural 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:

Budget 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 the items such as green card payments, duty losses, one part of agricultural subsidies and risk account. On the other hand, the insensitive expenditures include items such as investment, personnel, capital transfers and interest expenditures items.

The items such as transfers to household which are included in the transfer expenditures of local administrations and capital increases of companies are considered sensitive to conjunctural developments.

The fact that the urban infrastructure need is continuous and extensive shows that the increases in investment expenditures of local administrations depend on financing opportunities rather than being sensitive to economic developments. Therefore, only one fourth of investment expenditures are considered sensitive to conjunctural developments in parallel with the increase in income.

Although it changes by years, a small part of the current expenditures of local administrations other than personnel expenditures are considered sensitive to conjunctural developments.

In unemployment insurance balance, the education expenditures are considered sensitive and the current expenditures other than education expenditures are considered insensitive to conjuncture.

Whole of the transfer expenditures of unemployment insurance, especially the insurance payments, is considered sensitive to conjuncture.

In fund balance, a large part of the transfers made by the Social Aid and Solidarity Promotion Fund is considered sensitive and remaining current transfers are considered insensitive.

Calculations are made by considering the expenditures of social security institutions and revolving funds insensitive to conjunctural developments.

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

Cyclical General Government Balance:

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

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

b^{**} : cyclical general government balance (as a ratio to GDP),

b : actual general government balance (as a ratio to GDP),

b^{*} : structural general government balance (as a ratio to potential GDP).

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.

This Law establishes the 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 reasonable 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 could be increased up to 5 percent within the year by considering the needs and developments in debt management. In the cases where such amount is not sufficient, an additional increase of five percent may be made only by Cabinet Decree upon the view of the Undersecretariat of Treasury and offer of the Ministry to which the Undersecretariat of Treasury is affiliated.

On the other hand, in parallel with the best country practices as from 2002, steps have been taken in the areas of market and credit risk management in order to manage the assets and liabilities of Treasury effectively and to take necessary measures by determining the risks that may occur in time and accurately. Additionally, the works of operational risk management carried out by providing technical support from SIGMA, which commenced in 2007 as a joint venture of the EU, were completed in 2010 and put into implementation.

Within this scope, internet based “Operational Risk Management Information System” (ORMIS) was put into service in April 2010 in order to increase effectiveness of status notification reports where the records concerning the risks encountered in daily implementations were included and to assist dynamic monitoring of operational risks. Prevention of time and data loss was targeted by creating a reliable and user friendly platform, therefore accurate and timely intervention to operational risks were provided by means of reporting the troubles encountered in daily work processes in time and notification of such troubles in advance by decision mechanisms.

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 and 2010, 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 information sharing has been carried out 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 2010:

- 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.

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, Primary Dealership System practices will be continued. Besides, the works for direct sales of GDBS to individuals within the scope of retail sales will continue. On the other hand, issuing of the benchmark securities will be maintained for the purpose of providing liquidity in GDBS and forming a reliable yield curve.

In line with the transparency principle in debt management, financing programs, quarterly domestic borrowing strategy 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 service which constitutes the large part of the annual financing requirement, buy back and switching operations will continue to be applied 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, considerable improvements were observed in the EU defined general government nominal debt stock as from 2002; the ratio of EU defined general government nominal debt stock to GDP, which was 73.7 percent in 2002, declined to 45.5 percent at the end of 2009. Considering that the mentioned rate was 39.5 percent at the end of 2008, it is seen that an increase of 6 points was experienced in 2009 due to the impacts of global crisis. Additionally, a gradual decrease is projected in the ratio of EU defined general government nominal debt stock to GDP for the next period.

Table 3.5: EU Defined General Government Debt Stock

(Percent of GDP)

	2003	2004	2005	2006	2007	2008	2009
General Government Nominal Debt Stock	67.4	59.2	52.3	46.1	39.4	39.5	45.5

Source: Undersecretariat of Treasury

The total debt stock of the central government which was 331.5 billion TL by the end of 2005, realized as 473.3 billion TL by the end of 2010. As of the end of December 2010, the 74.5 percent of the stock was composed of domestic debts, while the share of the foreign debts was 25.5 percent. As a result of the borrowing strategies, borrowing in TL gained acceleration and, the share of the debt stock in TL in the total stock has increased in years and reached 73.4 percent as of the end of 2010. The share of foreign exchange denominated and foreign exchange indexed debts fell down to 26.6 percent by the end of 2010 with a decline of 11 points compared to the end of 2005, and during the same period the share of debts with a fixed interest rate increased by 5.9 points to 56 percent.

Table 3.6: Central Government Gross Debt Stock

(Percent of GDP)

	2003	2004	2005	2006	2007	2008	2009
Domestic Debt Stock	42.7	40.2	37.7	33.2	30.3	28.9	34.6
External Debt Stock	19.4	16.5	13.4	12.3	9.3	11.1	11.7
Total	62.2	56.6	51.1	45.5	39.6	40.0	46.3

Source: Undersecretariat of Treasury

Central government domestic debt stock increased by 55.2 billion TL compared to its 2008 levels and reached 330 billion TL by the end of 2009. As of the end of 2010, it reached 352.8 billion TL. When the ratio of the respective stock to GDP is considered, it is seen that it rose to the level of 34.6 percent in 2009, from its level of 28.9 percent in 2008.

The share of the TL denominated debt stock in the total domestic debt stock has increased from its level of 91.6 percent in 2008 to the level of 94.8 percent by the end of 2009. As of December 2010, the relevant ratio was realized as 98.4 percent.

Table 3.7: Central Government Debt Stock Composition by Instruments

	2005		2006		2007		2008		2009		2010	
	Million TL	%	Million TL	%	Million TL	%	Million TL	%	Million TL	%	Million TL	%
OVERALL TOTAL	331,520	100.0	345,050	100.0	333,485	100.0	380,321	100.0	441,508	100.0	473,302	100.0
Fixed	166,265	50.2	186,335	54.0	186,017	55.8	216,735	57.0	235,947	53.4	264,993	56.0
Floating	165,255	49.8	158,715	46.0	147,468	44.2	163,586	43.0	205,561	46.6	208,309	44.0
TL Denominated	206,852	62.4	216,800	62.8	229,168	68.7	251,836	66.2	312,837	70.9	347,347	73.4
Fixed	101,444	30.6	111,457	32.3	116,993	35.1	126,271	33.2	144,891	32.8	170,322	36.0
Floating	105,408	31.8	105,343	30.5	112,175	33.6	125,566	33.0	167,945	38.0	177,025	37.4
FX Total	124,667	37.6	128,250	37.2	104,317	31.3	128,484	33.8	128,671	29.1	125,956	26.6
FX Denominated	119,098	35.9	126,569	36.7	103,106	30.9	127,721	33.6	128,671	29.1	125,956	26.6
Fixed	64,821	19.6	74,878	21.7	69,024	20.7	90,464	23.8	91,056	20.6	94,671	20.0
Floating	54,277	16.4	51,690	15.0	34,082	10.2	37,256	9.8	37,615	8.5	31,284	6.6
FX Indexed	5,570	1.7	1,681	0.5	1,211	0.4	764	0.2	0	0.0	0	0.0
Fixed	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Floating	5,570	1.7	1,681	0.5	1,211	0.4	764	0.2	0	0.0	0	0.0
Total Dom. Debt Stock	244,782	100.0	251,470	100.0	255,310	100.0	274,827	100.0	330,005	100.0	352,841	100.0
Total Fixed	111,061	45.4	121,053	48.1	128,148	50.2	140,614	51.2	155,076	47.0	175,740	49.8
Total Floating	133,720	54.6	130,417	51.9	127,162	49.8	134,213	48.8	174,928	53.0	177,101	50.2
TL Denominated	206,852	84.5	216,800	86.2	229,168	89.8	251,836	91.6	312,837	94.8	347,347	98.4
Fixed	101,444	41.4	111,457	44.3	116,993	45.8	126,271	45.9	144,891	43.9	170,322	48.3
Floating	105,408	43.1	105,343	41.9	112,175	43.9	125,566	45.7	167,945	50.9	177,025	50.2
CPI Indexed	18,427	7.5	17,778	7.1	22,481	8.8	21,686	7.9	37,658	11.4	53,031	15.0
FX Denominated	32,360	13.2	32,989	13.1	24,931	9.8	22,227	8.1	17,168	5.2	5,495	1.6
Fixed	9,617	3.9	9,596	3.8	11,155	4.4	14,344	5.2	10,185	3.1	5,418	1.5
Floating	22,743	9.3	23,393	9.3	13,776	5.4	7,884	2.9	6,983	2.1	76	0.0
FX Indexed	5,570	2.3	1,681	0.7	1,211	0.5	764	0.3	0	0.0	0	0.0
Fixed	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Floating	5,570	2.3	1,681	0.7	1,211	0.5	764	0.3	0	0.0	0	0.0
External Debt Stock	86,738	100.0	93,580	100.0	78,175	100.0	105,493	100.0	111,503	100.0	120,461	100.0
USD	42,245	48.7	49,236	52.6	43,310	55.4	57,303	54.3	59,894	53.7	66,182	54.9
JPY	3,095	3.6	3,062	3.3	2,701	3.5	4,774	4.5	4,849	4.3	6,195	5.1
EUR	21,089	24.3	25,451	27.2	23,253	29.7	29,593	28.1	31,727	28.5	36,170	30.0
SDR	19,662	22.7	15,130	16.2	8,327	10.7	12,965	12.3	14,224	12.8	11,012	9.1
Other	647	0.7	700	0.7	584	0.7	858	0.8	809	0.7	902	0.7
External Debt Stock	86,738	100.0	93,580	100.0	78,175	100.0	105,493	100.0	111,503	100.0	120,461	100.0
Fixed	55,204	63.6	65,282	69.8	57,869	74.0	76,121	72.2	80,871	72.5	89,253	74.1
Floating	31,534	36.4	28,298	30.2	20,306	26.0	29,373	27.8	30,632	27.5	31,208	25.9

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

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 23.9 percent in 2008, 18.5 percent in 2009 and to 14.6 percent by the end of 2010 as a result of reimbursement of the whole of non-cash bonds issued to public banks.

Table 3.8: Domestic Debt Stock by Lenders

	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
	Million TL						**Share in Domestic Debt Stock. Percent**					
Total	244.8	251.5	255.3	274.8	330.0	352.8	100.0	100.0	100.0	100.0	100.0	100.0
Public	75.5	71.4	66.9	65.8	60.9	51.4	30.8	28.4	26.2	23.9	18.5	14.6
CBRT	18.4	17.8	16.0	13.0	8.0	-	7.5	7.1	6.3	4.7	2.4	-
State Banks	25.0	19.9	15.8	10.1	5.6	-	10.2	7.9	6.2	3.7	1.7	-
SDIF	4.5	4.5	3.8	3.1	2.3	2.3	1.8	1.8	1.5	1.1	0.7	0.7
CBRT (IMF Credits)	0.0	-	-	-	-	-	0.0	-	-	-	-	-
Other	27.5	29.3	31.3	39.6	45.0	49.1	11.2	11.6	12.3	14.4	13.6	13.9
Market*	169.3	180.1	188.4	209.1	269.1	301.4	69.2	71.6	73.8	76.1	81.5	85.4

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

The average time remaining to maturity of the central government domestic debt stock, which was 23.9 months at the end of 2008, rose to 24.4 months at the end of 2009. As of the end of 2010, the figure was recorded as 31 months. For the same periods, average time remaining to maturity of the non-cash domestic debt stock fell from the level of 19.8 months to 14.4 months and then rose to 40,4 months; the average time remaining to maturity of cash domestic debt stock rose to the level of 25 months and then 30.9 months from the level of 24.4 months.

The central government external debt stock was 120.5 billion TL at the end of 2010. Considering the interest composition of foreign debt stock, the share of fixed interest rate debt in the foreign debt stock has been on the rise since 2005 and was realized as 74.1 percent with an increase of 10.4 points by the end of 2010. 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 48.7 percent and 24.3 percent, respectively by the end of 2005 rose to 54.9 percent and 30 percent respectively as the end of 2010, and the SDR denominated debt, including the SDR appropriations provided by IMF in August and September 2009, decreased by 13.5 points and realized as 9.1 percent.

Table 3.9: Maturity Structure of Central Government Domestic Debt Stock

	2005	2006	2007	2008	2009	2010
	Average Maturity of Stock (Month)					
Cash	19.6	22.3	25.7	24.4	25.0	30.9
Non-Cash	38.7	32.0	25.7	19.8	14.4	40.4
Total	23.5	24.0	25.7	23.9	24.4	31.0

Source: Undersecretariat of Treasury

Average time remaining to maturity and time remaining to maturity of the foreign debt stock of the central government increased approximately 0.9 years compared to the end of 2009 and reached 8.8 and 10.5 years respectively by the end of 2010.

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 2005.

Table 3.10: Time Remaining to Maturity of the Central Government's External Debt

	2009				2010*			
	Stock		Time Remaining to Maturity	Time Remaining to Average Maturity	Stock		Time Remaining to Maturity	Time Remaining to Average Maturity
	Million Euros	%	Year	Year	Million Euros	%	Year	Year
Maturity	**50,572**	**100**	**9.6**	**7.9**	**57,673**	**100**	**10.5**	**8.8**
Short Term (Less than 1 year)	16	0	0.6	0.6	0	0	0.0	0.0
Medium Term (1-5 years)	50,555	100	9.6	8.0	57,673	100	10.5	8.8
Long Term (More than 5 years)	**50,572**	**100**	**9.6**	**7.9**	**57,673**	**100**	**10.5**	**8.8**
By Lender	22,064	44	9.5	5.0	24,337	42	10.7	6.7
Credit	13,861	27	8.6	4.4	14,626	25	10.2	6.9
International Organizations	5,531	11	3.4	1.6	4,247	7	2.4	1.1
IMF	3,942	8	16.6	8.3	4,643	8	17.9	9.7
Government Institutions	4,261	8	6.1	3.7	5,067	9	5.6	3.4
Other	28,507	56	9.6	10.3	33,337	58	10.3	10.3
Bond	**50,572**	**100**	**9.6**	**7.9**	**57,673**	**100**	**10.5**	**8.8**
By Currency	27,726	55	10.4	10.1	32,299	56	10.9	10.2
USD	2,244	4	16.6	8.3	3,023	5	18.6	10.1
JPY	14,687	29	9.3	6.6	17,652	31	10.2	7.9
EUR	5,540	11	3.4	1.6	4,259	7	2.4	1.1
SDR	374	1	10.7	5.1	440	1	11.4	5.8

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

The share of bonds denominated liabilities in general government foreign debt stock has increased since 2005 and reached 53.8 percent as of the third quarter of 2010. The share of bonds in total debt stock has increased as a result of repayment of credit liabilities as well as realization of borrowing in terms of bonds.

Table 3.11: General Government External Debt Stock

	Million Euros						Percentage Distribution					
	2005	2006	2007	2008	2009	2010 Q3	2005	2006	2007	2008	2009	2010 Q3
By Type												
Total	55,719	51,514	46,865	51,117	53,767	59,836	100.0	100.0	100.0	100.0	100.0	100.0
Bond	26,676	27,594	26,387	27,484	28,507	32,177	47.9	53.6	56.3	53.8	53.0	53.8
Credit	29,043	23,920	20,478	23,633	25,260	27,659	52.1	46.4	43.7	46.2	47.0	46.2
By Maturity												
Total	55,719	51,514	46,865	51,117	53,767	59,836	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	55,719	51,514	46,865	51,117	53,767	59,836	100.0	100.0	100.0	100.0	100.0	100.0
By Lender												
Total	55,719	51,514	46,865	51,117	53,767	59,836	100.0	100.0	100.0	100.0	100.0	100.0
Government Institutions	4,448	3,804	3,353	4,036	4,147	4,735	8.0	7.4	7.2	7.9	7.7	7.9
Monetary Institutions	32,117	32,592	31,328	33,033	33,962	38,502	57.6	63.3	66.8	64.6	63.2	64.3
Non-Monetary Institutions	27	8	5	2	0	0	0.0	0.0	0.0	0.0	0.0	0.0
International Organizations	19,128	15,110	12,180	14,047	15,658	16,599	34.3	29.3	26.0	27.5	29.1	27.7
By Currency												
Total	55,719	51,514	46,865	51,117	53,767	59,836	100.0	100.0	100.0	100.0	100.0	100.0
USD	27,131	27,091	26,015	27,707	28,670	32,348	48.7	52.6	55.5	54.2	53.3	54.1
JPY	1,949	1,654	1,579	2,230	2,245	2,855	3.5	3.2	3.4	4.4	4.2	4.8
EUR	13,571	14,066	13,981	14,687	15,877	18,365	24.4	27.3	29.8	28.7	29.5	30.7
SDR	12,386	8,172	4,869	6,056	6,584	5,823	22.2	15.9	10.4	11.8	12.2	9.7
Other	682	531	421	437	391	445	1.2	1.0	0.9	0.9	0.7	0.7

Source: Undersecretariat of Treasury

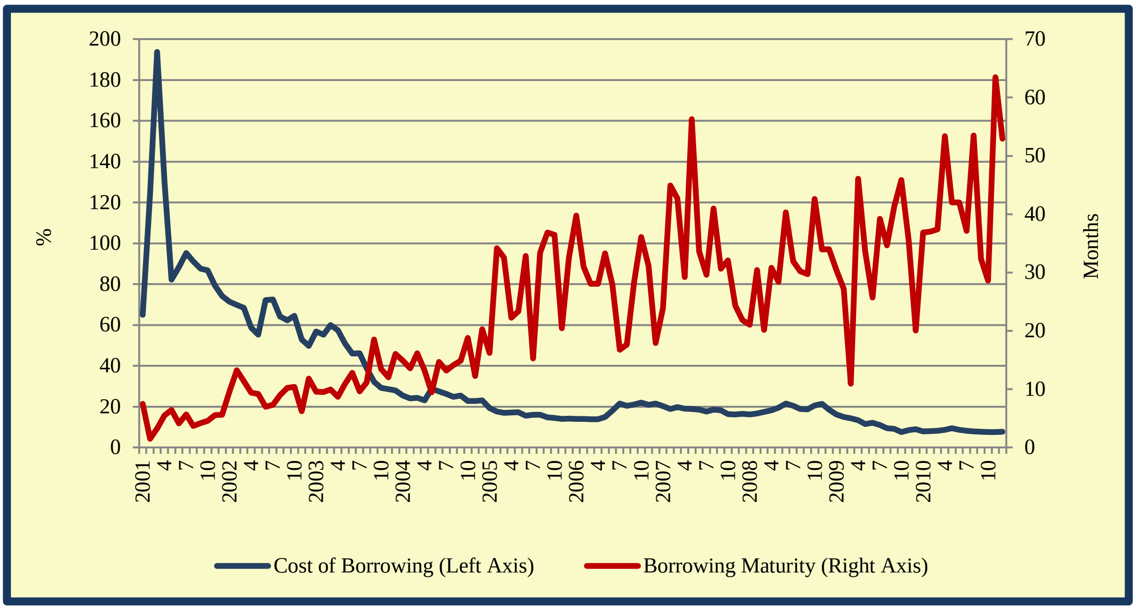
The share of the loans provided by the international organizations in general government foreign debt stock declined by 6.6 points from its level in 2005 and realized as 27.7 percent. The share of the respective liabilities in the stock has been declining since 2005 as a result of large repayments.

Examining the currency composition of general government foreign debt stock, it is seen that the largest share belongs to dollar denominated debts with a share of 54.1 percent. The share of the dollar denominated debts in total stock increased by 5.4 points compared to 2005. The share of SDR denominated debt which was 22.2 percent by the end of 2005, realized as 9.7 percent in the third quarter of 2010, as a result of repayment of SDR denominated debts to IMF. The share of euro denominated debt which was around 25 percent during the same period rose to 30.7 percent with an increase of 6.3 points.

Analyzing the borrowing realizations in 2010, the cost of zero-coupon TL denominated borrowing which was 11.6 percent in 2009 realized as 8.1 percent as of December 2010.

The average maturity of the cash domestic borrowing which was 35.3 months in 2009 was realized as 44.1 months by December 2010.

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 but more than 50 percent of 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 and administrations included in the Law No. 5018, List II/B in order to minimize the investment financing costs, ensure sustainable growth and meet funding requirements of multi-year investment projects of the mentioned institutions. Within this context, Undersecretariat of Treasury provides guarantees only for the financing opportunities to be provided from foreign market by the aforementioned institutions, and does not provide any guarantees 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; Undersecretariat of Treasury provides investment guarantees.

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

Endogenous Credit Rating Model which considers the debt-receivable relationship between the institutions and the Treasury and financial statements of these institutions, was put into practice in January 1, 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. With this regard, the expected loss identifies the expectation regarding the cost which will occur in the case where the organizations demand undertaking due to their financial inadequacies or where they fail to fulfill other liabilities to Treasury.

In this context, the limit covering repayment guarantees, investment guarantees and on-lent foreign loans to be provided under the Law No. 4749 is set by 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. In addition to this guarantee opportunity, as from 2009, the foreign financing to be used on-lent was taken into the scope of this limit and it was determined as 4 billion dollars in 2009, as 3 billion dollars in 2010.

If a 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. On the other hand, upon amendment made in the Law No. 4749 in 2008, 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 the general budget scope at a minimum level, between the years 2002 and 2006 was replaced by an upward trend starting from the year 2007 until 2010. 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 6,576 million dollars at the end of 2009. The mentioned stock stood at the level of 6,931 million dollars as of the end of September 2010. The reason of this increase is the treasury guarantees provided to the public banks (T. Halk Bank and T. Vakıflar Bank) and to the development and investment banks (TSKB, TKB). Since the aforementioned banks pay the credit liabilities regularly, no additional burden is put on the Treasury due to the increase in debt stock.

While the Treasury-guaranteed debt stock increased by 651 million dollars compared to its level in 2002 and realized as 6.9 billion dollars by the end of September 2010, undertaking ratio which was 52 percent as of the end of 2006, receded to 9.2 percent as of the end of 2010.

Examining the payment projection of the Treasury-guaranteed foreign debt stock in the medium term, it is seen that the payment amounts increased in parallel to the increase in loan usage.

Table 3.12: Treasury Guaranteed External Debt Service Projections*

(Million Euro)

	Principal	Interest	Total
2011	446	114	560
2012	472	103	575
2013	480	91	571
2014-2016+	3,974	449	4,423

(*) In terms of usage, as of September 2010, temporary.
Source: Undersecretariat of Treasury

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 mode (10 plants), the Built-Operate model (5 plants) and the Transfer of Operating Rights model (1 plant) constitute an important explicit contingent liability. Although, there have been no undertakings for the investment guarantees up to now, mentioned fiscal risks are taken into account while calculating the burdens that may arise from contingent liabilities.

Additionally, 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. Within the context of this investment guarantee, approximately 1.79 billion dollars was undertaken in total from 1999 until the end of 2010.

3.1.4.3.5. Treasury Receivables

Considering the Treasury's receivables stock at the end of December 2010, local administrations have a share of 58.1 percent, SEEs have a share of 23.8 percent and other receivables have a share of 18.1 percent.

When the distribution of collections is analyzed, according to their sources, 88.1 percent of the collections in January- December 2010 came from the payments made in cash by organizations. The collections from municipalities by means of deductions from their tax income shares made by the Ministry of Finance constitute the 8.4 percent of the total collections made in the same period, and collections made by the Iller Bankasi make up 1.5 percent of the collections. The collections within the scope of the Law No.6183, amount to 1.6 percent of the collections made during this period. Additionally, 0.40 percent of total collection made in this period was realized in the form of payment transferred by another institution.

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 have been decreasing 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 a level of 240 million TL at the end of 2006. In 2009 and as of the end of 2010, the residual amount of the account was adequate to cover undertakings and therefore budgetary allocations were not used.

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

As a result of the strict fiscal policies implemented as from 2002 and the high growth rates achieved in an environment of increased confidence and economic stability, the ratio of the general government nominal debt stock to GDP decreased significantly. But, due to the economic contraction caused by the global crisis and increase in the budget deficit, general government nominal debt stock increased slightly and realized as 45.5 percent of GDP in 2009. On the other hand, it is anticipated that the mentioned stock rate will tend to decrease in the period of 2010-2013 and fall down to the level of 36.8 percent at the end of 2013.

Table 3.13: Public Debt Stock Projections

(Percent of GDP)

	Realization	Forecast			
	2009	2010	2011	2012	2013
EU Defined General Government Gross Debt Stock	45.5	42.3	40.6	38.8	36.8

Source: Undersecretariat of Treasury.

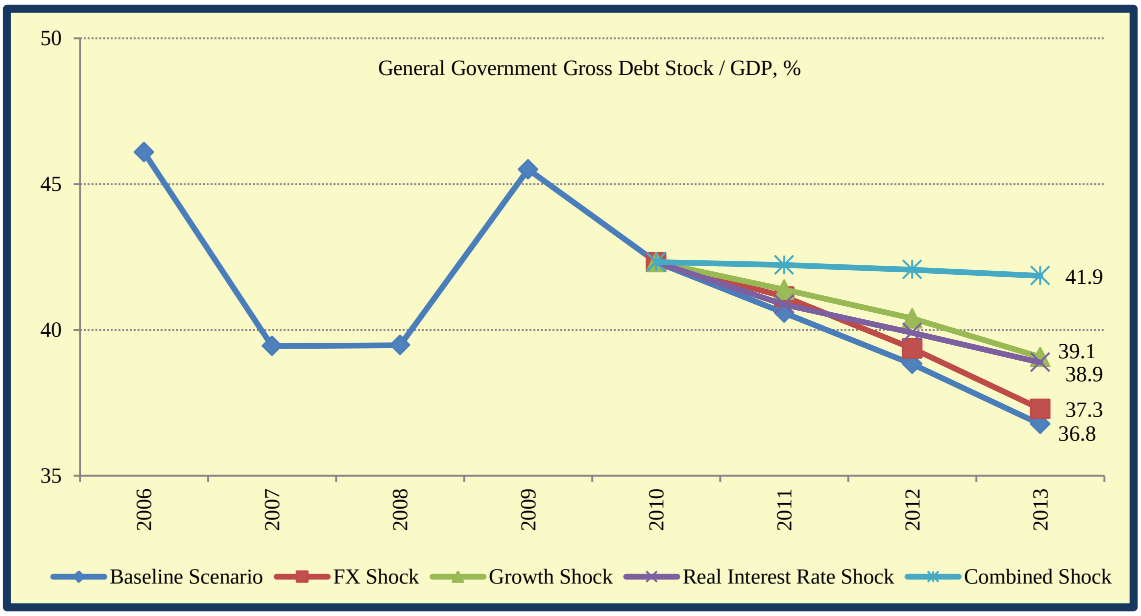
3.1.5. Budgetary Implications of Major Structural Reforms

With the Law No. 5763, effective after 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 after the effective date in addition to the existing workers, all of the disability, old age and death premiums of these new employees will be paid by the Unemployment Insurance Fund in the first year. 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. And also, effective as of October 1, 2008, 5 points of the employer share of the disability, old age and death premiums of these 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 July 1, 2010 and those who did not have insurance registry in the period of December 2008 and January 2009 were taken into scope. The five-point discount in premium is expected to create an additional burden of 0.35 percent, 0.39 percent and 0.40 percent (as a ratio to GDP) on the social security balances in 2010, 2011 and 2012 respectively.

3.2. Sensitivity Analysis

Since 2002, within the framework of public debt and risk management implementations, and also considering macroeconomic balances, a sustainable, transparent and accountable debt management policy that conforms to monetary and fiscal policies has been implemented. Tight fiscal policies implemented in the period of 2002-2008 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 improved the resilience of the debt stock structure against shocks. As a matter of this fact, the ratio of EU defined government budget nominal debt stock to GDP recorded a limited increase due to the global crisis continuing in 2009 and reached 45.5 percent in 2009, and this ratio is expected to fall down to the level of 42.3 percent in 2010.

Figure 3.6: Sustainability Scenarios



The sustainability analysis regarding the course of debt stock against various macroeconomic shocks in the period of 2011-2013 is included below. In the scenario analyses, compared to the base scenario, impacts of 5 percent increase in the exchange rates, 2 points decrease in the real growth rate and 500 base points increase in the real interest rates in each year have been assessed separately and jointly. Examining the scenarios stated above, in 2013, compared to the base scenario, it is evaluated that the debt stock will record an increase of 0.5 points under the exchange rate shock; 2.1 points under the real interest rate shock and 2.3 points under the growth rate shock. In the collective shock scenario in which all shocks are taken into consideration together, it is proposed that the debt stock may increase by 5.1 points compared to the base scenario. On the other hand, even in the collective shock scenario in which all of the negative shocks are assumed to realize together, it is proposed that debt stock to GDP ratio will decrease slightly in the medium term. The analysis conducted shows that sensitivity of the public debt stock to exogenous shocks has declined substantially compared to the previous years.

3.3. Public Finance Risks

In the 2011-2013 periods risks that might constitute obstacle to reach the basic objectives in the public finances are summarized below:

- In the event that growth rate is realized lower than expected, the central government revenue performance will be adversely affected; therefore, there is a possibility of increase in the financing needs.
- Failing to update the fixed taxes and fees will adversely affect the revenue performance.
- Underperformance of privatization will result in lower realization of public revenues than the expectations.
- 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 at 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 level, compensation for exceeding inflation rate will be paid to public servants.
- The sensitivity of the current public debt stock to the market risk has significantly declined compared to previous years but the excessive volatilities that may occur in the markets may adversely affect the mentioned stock.

3.4. Quality of Public Finances

In 2010, effects of the crisis were mitigated, economy was recovered strongly and the growth environment was achieved again. In order to make the growth performance achieved in this period permanent, it is important to use public sources in a way to support potential growth, and the public finance to have a private sector based growth perspective.

As is 2010, in 2011-2012, a certain part of cash surplus of the Privatization Fund and interest revenues of the Unemployment Insurance Fund will continue to be used within the scope of GAP and other regional development projects. Besides, pursuant to the temporary 6th article of the Law No.4447, amended with the Law No.5921, the rate of 3/4 was used in 2009 and 2010 for the calculation of the transfers from the Unemployment Insurance Fund to GAP Action Plan and other economic development and social development investments. This rate will be implemented as 1/4 again in 2011 and 2012. To this end, a total of 14.5 billion TL will be used for the GAP Action Plan and other economic development and social development investments in the 2010-2012 period.

In order to support the process of exiting the crisis, the capital expenditures of central government budget are tried to be increased as much possible as budgetary means in 2010. In 2011, attempts are made for decreasing central government budget capital expenditures to a sustainable base by considering financing means. Within this scope, the ratio of capital expenditures to GDP is expected to stand at 1.8 percent in average for the period of 2011-2013.

The Social Support Program (SODES) which was put into implementation in GAP provinces in 2008 in order to effectively meet the need of improving human capital and providing social integration under the component titled Providing Social Development of GAP Action Plan was extended in a way to cover DAP provinces in 2010. Within the scope of the mentioned programme, it is estimated that a total resource of 887 million TL will be used in the period of 2010-2013. Additionally, for 2011, it is programmed to allocate a resource of 450 million TL from the central government budget to 26 development agencies which were designed for the purpose of activating local development potential and of which establishment process was completed as of the end of 2010. Within the scope of the activities to be carried out by development agencies, a total resource of 2 billion TL is proposed for use in the period of 2010-2013.

As a result of the amendments in the Laws no 5350 and 5615, the scope of the incentive for development 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 access for the real 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 one year. Accordingly, within the scope of the Treasury incentive payments which are made in the form of current transfer expenditures in the general government budget, 2.7 billion TL for 2011-2013 were projected.

For the R&D incentives managed by TÜBİTAK, an expenditure of 775 million TL for 2010 and a total of 2.5 billion TL for 2011-2013 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. In the law, 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 is also regulated.

The Decree No. 2009/15197 on the Principles and Procedures regarding the Treasury Support to be Provided to Credit Guarantee Institutions, which was prepared in order to provide easier access of SMEs to financing opportunities, was published on the Official Gazette on 15 July 2009. Pursuant to the aforementioned decree, it is determined to provide support up to 1 billion TL. After that regulation, the first credit guarantee institution which will be provided with support by the Undersecretariat of Treasury was determined as KGF. On the other hand, so as to facilitate application conditions for SMEs, resolve financing problems of the companies engaging in activities in the area of ship construction and ship management and reduce costs of beneficiaries, regulations were made regarding more active operation of the system by means of some amendments made in the aforementioned Decree in 2010. Credit amounting to a total of 157.49 million TL was issued for 309 SMEs during the period between July 2009, in which the said support became operative, and October 2010.

For the incentives offered by the Directorate for the Promotion and Development of the Small and Medium Scaled Enterprises (KOSGEB), an expenditure of 699 million TL for the period of 2011-2013 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 2011-2013. Accordingly, it is programmed that 1.7 billion TL of a resource will be allocated to the said project in the period of 2011-2013. No allowance has been proposed in 2009 for the Project “Support of Infrastructure of Municipalities” (BEL-DES), which was commenced in 2007. Within the scope of a similar project, it is anticipated that a total resource amounting to 100 million TL will be used in 2010. As for the period of 2011-2013, it is programmed to make an expenditure of 1.6 million 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. Law on Court of Accounts

Court of Accounts Law No. 6085 was accepted in TGNA on 3 December 2010, with the aim of providing an effective external audit in a way to ensure compliance with the Public Financial Management and Control, Law No. 5018; in order to conduct audits to be made for the purpose of obtaining, maintaining and using public resources in compliance with the determined objectives, targets, and operating of public administrations effectively, economically, efficiently and in consistent with the law, and to give final judgment regarding accounts and transactions of responsible persons and to make examinations, audits and ruling operations assigned by laws.

3.5.2. 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 administrations as a result of the transfer examinations made in 2006 and 2007 were completed at the end of 2008. In order to improve financial management and control capacities of public administrations, an examination was held in 2008 in order to employ assistant financial services specialists, and 231 assistant financial service specialists were recruited to the public institutions. A training program was applied for these assistant financial services specialists and an examination was made at the end of the training.

Another examination was made on 12 December 2010 for the vacant positions for assistant financial service specialists in the public administrations.

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 plan 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. The mentioned action plans were examined and evaluation results were published on the Internet site.

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 April 1, 2009. Within the scope of the project, our existing public financial management and control system is compared with the EU legislation and international standards and the deficiencies were identified in a Gap Analysis Report and an Action Plan containing the actions proposed to be taken was prepared. Within the scope of the mentioned project, basic and advanced trainings and training of trainers were completed. A trainer pool was formed as a result of these trainings. Besides, works for preparing Financial Management and Control Guide and Central Harmonization Department Guide are still in progress.

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 2010, 771 appointments were made to 1200 vacant internal auditor positions which were allocated for the institutions under the Decree Law No.190. An examination for determining candidates for the internal auditor assignments to be made pursuant to Article 65 of the Public Financial Management and Control Law No. 5018 was held in November 2010 and those who will pass the exam will be transferred to the training programme. In addition, the Guide on Quality Assurance and Improvement in Public Internal Audit and the Guide for the Information Technology Audit in Public Internal Audit are expected to be published in 2011.

4. STRUCTURAL REFORMS

4.1. Enterprise Sector

4.1.1. Privatization

In the year of 2010, the followings have been realized in terms of privatization:

- Block sales of the whole shares of Osmangazi, Uludağ, Çamlıbel, Çoruh, Yeşilırmak and Fırat Electricity Distribution Companies,
- Privatization of Camalti and Ayvalik Salterns of the Tobacco, Tobacco Products, Salt and Alcohol Enterprises (TTA) by methods of sales and transfer of operating rights,
- Privatization of Samsun and Bandirma ports of the General Directorate of Turkish State Railways (TCDD) by means of transfer of operating rights method,
- Sale of plant and assets of machinery and equipment of Tasucu Enterprise belonging to Sumer Holding,
- Sales of various immovable properties of TTA, Turkish Electricity Distribution Inc. (TEDAŞ), Turkish Sugar Factories Inc. (TŞFAŞ) and TCDD.

Whereas the total amount of privatization implementations of which sales/transfer operations were completed was about 2.3 billion dollars in 2009, this amount was about 3.1 billion dollars as of the end of 2010. The total amount of privatization implementations which are at the stage of approval/contract is 13.8 billion dollars and such implementations include electricity distribution companies (Aras, Vangölü, Boğaziçi, Gediz, Trakya, Dicle, İstanbul Anadolu Yakası, Toroslar, Akdeniz), river power plants, Turkish Sugar Factories (C) portfolio group, TCDD Iskenderun Port and Başkent Natural Gas Distribution Company.

The privatization implementations for which transfer operations were completed in 2010 are shown in Table 4.1.

Table 4.1: Privatization Transactions Completed in 2010

Company	Privatization Transaction	Sales Price (Dollars)
Osmangazi Electricity Distribution Company	Sale of Plant/Asset	485,000,000
Çamlıbel Electricity Distribution Company	Sale of Plant/Asset	258,500,000
Uludağ Electricity Distribution Company	Sale of Plant/Asset	940,000,000
Çoruh Electricity Distribution Company	Sale of Plant/Asset	227,000,000
Yeşilırmak Electricity Distribution Company	Sale of Plant/Asset	441,500,000
Fırat Electricity Distribution Company	Sale of Plant/Asset	230,250,000
TCDD Bandırma Port	Transfer of Operating Rights	175,500,000
TCDD Samsun Port	Transfer of Operating Rights	125,200,000
TTA Çamaltı Saltern	Sale and Transfer of Operating Rights	77,966,102
TTA Ayvalık Saltern	Sale and Transfer of Operating Rights	6,101,695
Sale of plant and assets of Sümer Holding (Taşucu)	Sale and Transfer of Operating Rights	20,049,704
Others	Sales and transfers of various real estates and facilities	96,897,485
TOTAL		3,083,964,986

Sales/transfer operations of the river plants belonging to EÜAŞ, Vangolu Electricity Distribution Company, and Başkent Natural Gas Distribution Company, for which tender processes were completed, are expected to be completed. In addition to them; sales/transfer approval and contract stages of TCDD İskenderun Port, C portfolio group composed of Kastamonu, Kırşehir, Turhal, Yozgat, Çorum and Çarşamba Sugar Factories of TŞFAŞ, and Aras, Boğaziçi, Gediz, Trakya, Dicle, İstanbul Anadolu Yakası, Toroslar and Akdeniz Electricity Distribution Companies are expected to be completed.

The privatization tender for Izmir and Derince ports of TCDD was cancelled. Works for the zoning plan in order to call the privatization tender of both ports are still in progress.

The works are carried on to re-open the cancelled tender regarding the privatization of chance games by means of licencing.

4.1.2. Competition Law and Policies

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 fulfilment 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 works regarding establishing a legal and institutional infrastructure with regard to monitoring and supervising state aids under the responsibility of the Undersecretariat of Treasury in order to make the state aid system compliant with the EU acquis, and to make the system more transparent and efficient has been continued. “Law on Monitoring and Supervision of State Aids” with Law No 6015 was prepared within this scope and entered into force after being published on the Official Gazette dated 23 October 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 increase in investments has been accomplished with the realization of various regulations, primarily ensuring macroeconomic stability in Turkey.

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 2010. At the YOİKK Steering Committee, the mutual issues are discussed, the developments in the action plans of Technical Committees are evaluated and solutions sought for the problems raised.

In 2010, the Law No. 5996 on Veterinary Services, Plant Health, Food and Feed, which provides licensing for business places making food production technically and hygienically, and collection of authority in the Ministry of Agriculture and Rural Affairs for an effective supervision and control system, entered into force after being published on the Official Gazette[12].

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

[12] Law on Veterinary Services, Plant Health, Food and Feed (O.G. 13 June 2010/27610)

regulation arranging related permission procedures in electronic environment entered into force as of 1 April 2010[13].

In 2011, within the scope of Development Agencies, it is planned to continue the works for establishing and activating Investment Support Offices, which aim to shorten and simplify the investment processes, for the investors in addition to approval and license operations. As of 22 December 2010, Investment Support Offices were put into service in 54 provinces within the framework of 19 development agencies and a total of 121 personnel are being employed in such offices.

The works for developing an entrepreneur information system which will contribute to the investors and other users in the market in making more accurate decisions by enabling collecting, updating and providing the industry and trade sectors data in an integral, systematic way and as compatible with each other are still in progress under the coordination of the Ministry of Industry and Trade.

The new Turkish Commercial Code, which was prepared by considering the new developments in international substantive law and law regimes, multilateral trade, electronic commerce and liability laws as well as the need to harmonize the Commercial Code with newly enacted other laws and EU legislation, was approved by the TGNA on January 13, 2011. New regulations in the areas of the definition of commercial undertakings, intellectual property rights, electronic transactions, transportation of goods, maritime law, insurance law and building consumer awareness was brought by this Law. Before the approval of the President, works on last arrangements on the Law, which has 1535 articles, are continuing in the Laws and Decrees General Directorate of the TGNA.

Draft Law on Code of Obligations, which was prepared considering both developments in the area of law of obligations and especially law of contracts and current economic and social conditions, was approved by TGNA on 12 January 2011. With this law, improving legal infrastructure in terms of adopting current business practices and thus making the Code of Obligations respondent to current social, industrial, economic and technical developments is aimed. As a matter of fact, asset-liability relations of everyday and business life is arranged in a apprehensible way in the framework of modern legal principles and up-to-date technological developments like electronic signature and internet usage are generalized. With this regulation, improvement of the investment environment is aimed by increasing the consistency between Code of Obligations and new Turkish Commercial Law.

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 2010. 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. The expected benefits of the electricity privatization include the reducing costs by efficient management and reflecting them to consumers, decreasing high energy losses, empowerment of 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.

An important stage has been reached in the liberalization attempts started in the energy sector of Turkey as from the early 2000s. In 2010, privatization tenders of 52 small hydroelectricity plants, which were operated by Electricity Generation Company (EUAS) and had an installed power of 142 MW, were completed. Works for transfer of such plants to the companies which were awarded with the tender and which will operate the plants for 49 years are still in progress. Installed power of the plants which were privatized until now is about 280 MW when the

[13] Regulation on the Approvals and Licenses required to be Received pursuant to the Environment Law (O.G. 29 April 2008/27214)

plants whose privatization was completed in 2008 (7 hydroelectricity, 1 geothermal) are added. It is targeted to continue privatization works in 2011. Within this framework, it is planned to complete transfer operations of small scaled hydroelectricity plants whose tenders were completed and to start tenders of large scale plants.

In order to liberalize electricity distribution system, the public electricity distribution company TEDAS was restructured in the form of 20 regional electricity distribution companies. Privatization works were started after the agreements for transfer of operating rights were signed between TEDAS and such companies. One region was transferred to private sector with no tenders in 2007, pursuant to former rights of the relevant company. Transfer works of 6 regions were completed in 2009. The mentioned privatizations were continued in 2010, privatization tenders of 11 distribution regions (Vangolu, Fırat, Çamlıbel, Uludağ, Boğaziçi, Trakya, Gediz, Dicle, İstanbul Anadolu Yakası, Akdeniz and Toroslar) were completed. Thus, a major progress was made in privatization works of 18 out of 20 regions in 2010. It is expected that the transfer operations of mentioned electricity distribution regions will be completed and all companies except for two regions (Goksu and Aras EDAŞ) having legal problems will be privatized in 2011.

For the purpose of transfer of natural gas import to private sector pursuant to law, offers of 4 companies regarding the natural gas agreement of 4 billion sm^3 were deemed appropriate as a result of the tender made by BOTAS, the public natural gas company. After the transfer conditions were met and EMRA gave the license for import, import of 250 million contract m^3/year gas was started on 19 December 2007, import of 750 million contract m^3/year gas was started on 3 January 2009 and import of 3,000 million contract m^3/year gas was started on 1 April 2009. On the other hand, spot LNG imports were started by private sector in May 2009 for the first time.

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[14] 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) 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 implementation 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.

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
1 January 2007	-	2.00	3.7	14.0	15.2	17.5
1 March 2007	-	1.89	3.0	13.6	14.5	16.7
1 April 2008	-	1.71	2.7	9.1	9.5	11.2
1 May 2009	1.39	1.71	2.7	6.55	6.75	7.75
1 April 2010	1.39	1.71	2.24	3.13	3.23	3.7

Source: Information Technologies and Communications Authority

ITCA has completed sectoral secondary legislation and authorized numerous 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 infrastructures it controls. To this end, relevant markets and operators with significant market power (SMP) in these

[14] The Electronic Communications Law, which entered into force on 10 November 2008, with reference number 5809 changed the name of Telecommunications Authority as Information Technologies and Communications Authority.

markets have been identified. SMP operators send their reference access and interconnection offers to ITCA and these are published after the approval by the Authority. Standard reference interconnection charges of the incumbent and GSM operators are provided in the following table with their effective dates.

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 July 2010, and reduced some wholesale tariffs. Prices for access to the local loop for the last three years are shown in the following table.

Table 4.3: Local Loop Access Charge Tariffs

Enforcement Date	Turk Telekom Local Loop Unbundled Shared Access Charge Tariffs	
	Subscriber Loop Establishment Charge (TL)	Subscriber Loop Usage Charge (TL/Month)
2008	110	5.75
2009	74	5.75
2010	38.6	5.5

Source: Information Technologies and Communications Authority

To increase the share of alternative operators in broadband access market, regulations were made in the previous period in favour of alternative operators to facilitate subscriber transfers. Besides, regulation regarding Naked ADSL, which allows to use broadband access service without subscribing to fixed telephone service, was made in July 2010.

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 number portability in the period ahead.

The share of alternative operators was 9 percent in fixed telephone services market and 7.5 percent in DSL broadband services market as of September 2010.

Fierce competition exists among three 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 attractive mobile tariffs to the benefit of users that render calls towards all networks.

4.2. Financial Sector

4.2.1. Banking Sector

The Banking Law No. 5411 and relevant secondary regulations were made in order to enhance compliance with relevant EU Directives and a range of reforms were made on the basis of these regulations. Among such developments, shifting to a more integrated surveillance and supervision structure by means of transferring the authority and responsibilities regarding leasing, factoring and consumer finance companies to the Banking Regulation and Supervision Agency; disciplining the market by making the regulations, supervision and accounting standards of non-bank financial organizations parallel to the banks; enhancing the surveillance and supervision regarding the banking sector with risk based supervision view, information systems supervision and some electronic tools and applications; attaching importance to supervision and monitoring of off-balance sheet transactions; making arrangements regarding management and following of liquidity; shifting to implementation of 12 percent target ratio with a more prudent approach for capital adequacy; removing the legislation gap regarding the credit cards market and enhancing the regulation framework regarding rating and valuation organizations. Besides, the arrangements encouraging maintenance of high rate of capital and making profit distribution subject to permission became the indicators of the flexible regulating approach implemented in the process of the crisis period.

The issues becoming prominent in the banking area within the scope of Harmonization Program of Turkey to EU Acquis and Turkey's National Program regarding Undertaking European Union Acquis for 2008 are harmonization to Basel-II Capital Adequacy Directives, enhancement of corporate risk management and consolidated audit.

Since the basic secondary regulations regarding the banking sector were substantially completed in the previous years, the regulations of 2010 were complementary to those made in the previous years. By means of the arrangements made in 2010, some amendments were made under the light of new requirements in the current regulations regarding information systems of the banks, credit transactions, measurement and evaluation of liquidity adequacy, indirect shareholding and transactions subject to approval, and current arrangements regarding bank cards and credit cards.

Within the scope of the legislation regarding information systems of the banks, the information systems were classified under the title of "primary systems" as main systems, "secondary systems" as auxiliary systems, and the issue of "business continuity" came into prominence conceptually.

One of the main amendments brought by Basel-II was met by the Regulation regarding Measurement and Evaluation of Capital Adequacy of Banks which was published on the Official Gazette on 1 November 2006 and the item of operational risk was included in the calculations of capital adequacy as of June 2007. On the other hand, the works regarding implementation of Basel II by the banks operating in Turkey have been continued by BRSA within the framework of the National Program and Harmonization Program to EU Acquis. As the end of 2010, it is planned to shift to Basel II by means of ensuring compliance with relevant directives (CRD). Draft arrangements regarding capital adequacy, equity, internal systems, financial statements to be announced to public and announcements and footnotes concerning them, and authorization and activities of rating organizations were prepared in 2010.

In order to implement Basel-II standards, only the measurement methodology depending on the standard approach was used regarding the measurement of credit risk in the draft regulations prepared based on 2006/48/EC and 2006/49/EC concerning capital measurement and capital standards, and it is planned to realize the measurement methodology based on internal rating in the next periods.

On the other hand, the works for arranging measurement and evaluation of interest rate risk caused by the transactions of banks other than purchase-sales operations are in progress in compliance with 2006/48 directive of the EU.

Within the scope of the regulations regarding foundation and activities; within the framework of harmonization with EU acquis and international standards, financial holding companies, the provisions to which these companies shall be subject and consolidated audit have been included in the Banking Law and it was proposed to make detailed regulations separately. Since the companies included in financial companies group are subject to supervision and audit of different institutions according to the implementation in our country, it is required to determine the principles and procedures regarding financial holding companies jointly by CMB, Undersecretariat of Treasury and BRSA who are responsible for regulating and auditing banking, insurance and investment companies. Efforts for providing coordination between the institutions responsible for this subject are still in progress.

The works of amendment in legislation in order to provide full harmonization with the EU Directive having the subject of Deposit Insurance amended in 2009 are in progress.

Within the scope of the resolving of the banks within the body of SDIF, in order to minimize the burdens brought by the said banks on the public, a total of 19.5 billion dollars was collected from the receivables put into a repayment schedule, subsidiaries, associates, real estates, movables and bank sales within the period between the end of September 2010 and the dates on which such banks were transferred to SDIF, and it is expected to collect nearly 2.4 billion dollars more until the end of 2018.

The Systemic Risk Coordination Committee formed within the scope of the Systemic Risk Cooperation Protocol regarding Financial System, which was signed between the Undersecretariat of Treasury, Banking Regulation and Supervision Agency, SDIF and CBT with regard to management of risk and preparation of emergency action plan concerning a possible systematic risk that may occur in the sector, commenced its operations in 2010.

Model based scenario analysis was developed in order to increase the capacity of stress test realization of the Banking Regulation and Supervision Agency. The works for enriching the said model in a way to include economic growth, real sector and foreign deficit data are still in progress. Besides, it was started to process the results of information systems supervision regarding the banks electronically in 2010.

In the area of foreign relations, while regular relations with equivalent authorities in other countries and international organizations were continued, a memorandum of understanding regarding information sharing and cooperation was signed with Central Banks of Ukraine, Macedonia, Russia and Syria and thus the number of countries with which memorandum of understanding was signed increased to 25.

4.2.2. Capital Market

At the end of 2009 and in 2010, 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.

- It is aimed to facilitate public offerings by means of the amendments made in the communiqué of principles regarding real estate investment trusts.
- With the amendments made in the Communiqué of Principles regarding Venture Capital Investment Trusts, it is mainly aimed to increase the share of venture capital investment trusts in the venture capital investments, broaden the fields of activities, encourage investments to be made on the companies which are classified as SMEs, facilitate resource transfer to venture capitals by means of foreign investors which can act together with venture capital investment trusts and to enable such companies to compete with the organizations carrying out such activity without being subject to the legislation of Capital Markets Law.
- With amendments made on portfolio management, the activity scope of portfolio management companies was extended in a way to allow such companies to provide market consultancy service in the ISE Emerging Companies Market. Furthermore, the venture capital investment trusts were allowed to make portfolio management, provided to be limited to venture capital portfolio management service.
- With the amendments made in the Communiqué regarding the Principles on Investment Funds, the scope of the assets that may be included in the investment fund portfolio was extended and an upper limit was set for the management fee for all types of funds. Furthermore, it is made mandatory to announce the management fee applied to investment funds and entrance and exit commissions on the web site of fund founder in in order to enable investors to easily reach such information.
- With the amendments made in the Regulation regarding the Principles on Establishment and Activities of Pension Mutual Funds, the instruments on which investment may be made were diversified, borrowing limit was raised, arrangements minimizing announcement costs were made and for benefiting from economies of scale, share groups were allowed to be formed on the basis of fund operating cost under the same fund.
- In order to contribute to the growth of capital market, public offering seminars were arranged in various provinces within the scope of the works for “Initial Public Offering Campaign” which commenced with the Cooperation Protocol signed between The Union

of Chambers and Commodity Exchange of Turkey, CMB, The Association of Capital Market Intermediary Institutions of Turkey and ISE in 2008. The companies which want to benefit from the capital market were informed in the seminars held.

- Arrangements were made in the public offering communiqués in order to make public offering processes of the companies more rapid and easier.
- The principles and procedures regarding the delisting by own will of ISE traded companies, whose free float rate is below a certain level, were determined due to the fact that the trading depth will decrease, formation of effective prices will be hindered during transactions and therefore that the investors having little shares may suffer losses.
- Some amendments were made in the relevant communiqués for the purpose of solving the problems encountered in implementation regarding borrowing instruments and the required communiqué arrangement for a market of borrowing instruments which would be opened within the body of ISE and where only qualified investors could make transaction was completed. Furthermore, works were carried out in cooperation with Banking Regulation and Supervision Board in order to enable the banks to issue bonds within a certain limit.
- The Communiqué regarding the Principles on Renting Certificates and Asset Renting Companies were published in line with the target of increasing product diversity in the capital market.
- In order to accelerate integration of capital markets of our country to global markets, to allow the institutions and/or companies having a high credibility in the global markets to issue foreign capital market instruments in our country and to ensure instrument diversity in Turkish capital markets and to increase market depth, the principles regarding public offering and sale of foreign capital market instruments and deposit certificates were rearranged.
- The procedures regarding mergers of public companies were updated in order to remedy the problems stemming from EU regulations and implementations.
- The forms of registration statement used in public offerings of capital market instruments were made compatible with the EU regulations.
- Works for revising Corporate Governance Principles in accordance with the developments in the world and needs of our country were started.
- In line with the objectives of trying to prevent speculative balloon formation in secondary market transactions which are independent from main indicators of the company and not connected with main indicators of the company and to minimize and to deter manipulative transactions, the works for dividing the stocks traded in ISE into groups (A), (B) and (C) and differentiating transaction rules of stocks in these groups were completed.
- The Market Abuse Audit Project, which was financed by the Dutch government and implemented together with Dutch Authority for Financial Markets, to improve the audit capacity of Capital Markets Board was completed.

The list of actions to be carried out in the period of 2011-2013 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 law which is in harmony with EU regulations are continued. Following the enactment of law, secondary regulation works, which ensure 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” aims to prepare compliance drafts of CMB

to EU legislation, to complete the works for enhancing capacity regarding implementation of new regulations effectively and to enhance the capacity of information technologies of CMB. The project regarding raising the capacity of information technologies 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 tender documents concerning these projects is in progress.

- The project which will be realized by means of utilizing EU funds within about 3 months and which will help to enhance the capacity of supervision of information systems of CMB was started in November 2010.
- Amendments shall be made in capital market legislation regarding collective investment funds in order to enhance collective investment vehicles considering compliance with EU acquis, the issues preventing the development of the system shall be reviewed, communiqué on real estate investment trusts will be amended and regulations shall be made regarding new products such as real estate investment fund and venture capital investment fund.
- Necessary arrangements will be made regarding trade of the shares of publicly-held companies which are not traded in ISE but satisfy the condition of necessary size.
- The principles regarding split-off publicly-held companies will be determined.
- In terms of surveillance between the markets, the transactions in spot markets and derivatives markets were followed simultaneously and works for preventing market deteriorating activities that may arise in the markets were started.
- It is planned to make a more close cooperation with the countries in the region and with developing markets and to carry out joint works with international organizations. It is targeted to contribute to Istanbul International Financial Centre project within this scope. Besides, it is proposed that activities for promotion of our capital markets in domestic and foreign markets will be accelerated
- A web site for investor to provide clear, easy and effective access of investors to information on the capital market tools and markets will be in service within 2011.
- Regulations shall be made on the classification of financial services within the framework of EU acquis and on the structuring of these services in a way to provide flexibility to financial intermediaries in order to satisfy the needs of customers.
- Regulatory works regarding public disclosure of the information concerning future shall be performed.
- Works shall be performed for bringing private sector borrowing instruments into force and developing the infrastructure regarding local administration borrowing instruments, commercial papers, derivative products and interest-free financing instruments and in order to develop new financial products and enhancing transaction volume of existing financial products.
- Works for securitization and activating housing finance market shall be performed.

4.2.3. Insurance Sector

Important developments were experienced in insurance and private pension markets in 2010 and remarkable improvements were provided in terms of the quality of services supplied to citizens.

In order to enable citizens to receive better service with respect to insurance products, a great importance is attached to education activities in insurance sector. In spite of the short time elapsed as from the establishment of Insurance Sector Education Centre which was established pursuant to the importance attached to education in the sector, a great success was obtained on performance of education and examination activities in a coordinated way. In this area, especially the Insurance Agencies Technical Personnel Educations which were carried out throughout the country and completed between the years 2009 and 2010 attract attention. The works for planning education activities regarding other insurance intermediaries are still in progress. Within the framework of the process started in 2009, two insurance damage expertises were purchased, and course and examination activities for a total of 810 expert candidates are carried out by Insurance Sector Education Centre.

The Arbitration Commission, for which legal and operational infrastructure works were completed in 2009, began to accept applications in October 2009. As of 31 September 2010, number of the member organizations to the system is 46 and the share of these organizations in the sector premium production is 94.4 percent. On the other hand, there are currently 119 insurance arbitrator registered in the list of arbitrators. As of September 2010, 934 applications were made to Insurance Arbitration Commission and 430 conflicts were concluded by insurance arbitrators in this process. Considering the number of files concluded totally or partially in favour of insurance, it is seen that the system provides benefit for insured people, make positive impacts on development of the sector by contributing to insurance sector in terms of enhancing confidence.

Box 4.1: İstanbul International Financial Centre (IFC-İstanbul)

Turkey, in particular Istanbul, which progresses towards full EU membership and stands at an attractive position among developing countries, has a potential to become a centre in the region covering East Europe, Middle Asia, North Africa and Middle East in order to gather economic and financial resources and to direct international resources to said regions.

Along with this potential, making Istanbul an international financial centre was adopted as a policy. This policy was firstly appeared in the 9th Development Plan covering the period of 2007-2013 and then in the 2008 Medium Term Programme (2009-2011). After a priority is given to implementing the Istanbul International Financial Centre (IFC) Project in the 2009 Annual Programme under the title of "Developing Financial System", the works for making Istanbul an international financial centre accelerated. The "Strategy and Action Plan for IFC-Istanbul" which entered into force after being published on the Official Gazette on 2 October 2009 was prepared with an extensive participation by nine woringk groups consisting of experts of private and public organizations, academicians and representatives of non-governmental organizations.

In the Istanbul Strategy and Action Plan containing 23 priorities and 71 actions, the vision was determined as Istanbul shall first become a regional financial centre and ultimately a global financial centre. In order to achieve this vision, the priorities and actions were determined for forming a legal infrastructure that operates in international standards, increasing diversity of financial products and services, building a simple and effective tax system, improving regulatory and supervisory framework, enhancing physical and technological infrastructure, providing an education infrastructure which will satisfy the need for qualified human resource and establishing an organizational structure which will carry out promotion and monitoring at world scale.

In order to carry out the works of IFC with cooperation between private and public sector and in full coordination, IFC-Istanbul administrative structure was formed by the Circular issued by the Prime Ministry on 1 May 2010. In this administrative structure, "IFC High Council" was placed at the superior position in order to represent the political will and to ensure continuance of the support provided by the political will and its shareholders at the next stage of IFC works. The "National Advisory Committee", which consists of 24 senior representatives from public and private organizations, in particular from finance sector, is in the form of a broad platform where the sector comes together. "International Advisory Committee" is designed to have a structure in which senior managers of leading organizations of finance world will convey their experiences and contribute to introduction of the project in abroad. 8 working committees were established in order to realize the actions determined for the IFC-Istanbul project and carry out required technical works. Undersecretariat of SPO was assigned as the IFC Coordinator in order to provide coordination between these structures.

The committees, consisting of the representatives of public and private organizations began to work in the second half of 2010, finalized 5 of 71 actions included in the strategy and action plan as of October 2010 and made important progress in realization of 11 actions.

By means of the IFC-Istanbul project, Turkey will become a centre in its region in terms of collecting economic and financial resources and directing international resources to said regions and improve economic and financial activity of the EU economy with different countries.

4.3. Labor Market

Within the framework of a sustainable growth focused on employment, developing employment opportunities in line with the requirements of a competitive economy and information society, reducing unemployment, attaining a more flexible labour market structure while maintaining security, establishing an effective relationship between education and employment and extending active labour programmes are the main priorities.

As of 31 December 2009, 53.7 million people out of a total population of 72.5 million are at working age in Turkey.

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 2009, working age population increased by 1.8 percent and employment increased by 0.4 percent compared to the previous year. In 2009, the overall labour force increased by 4 percent and most important reason for this increase was the fact that the family members, who used to be idle, began to search for work due to the impacts of the global crisis, which became evident in the last months of 2008 and affected the labour market of Turkey significantly. The number of unemployed increased by 32.9 percent in 2009 compared to the previous year. Besides, the unemployment rate reached 14 percent in 2009, unemployment in non-agricultural sector reached 17.4 percent and unemployment rate among young people reached 25.3 percent.

One of the most important impacts of the global crisis on the Turkish labour market is that the women who were previously out of the labour market began to search for jobs and thus increased their participation in the labour market. As a matter of fact, female labour force participation rate increased to 26 percent in 2009 from 24.5 percent the previous year. Besides, the global crisis reversed the dissolution process experienced in agriculture. As a matter of fact, in contrast to the agricultural dissolution experienced in the previous years, agricultural employment rate increased to 24.7 percent in 2009 from 23.7 percent in 2008. On the contrary, an employment loss of 141,000 people was experienced in non-agricultural sectors in the mentioned period.

The increase in agricultural employment and the fact that the persons who were not able to find registered jobs during the crisis headed towards informal sectors, caused informal employment to increase. Thus, in 2009, the share of informal employment increased by 0.3 points compared to the previous year and reached 43.8 percent; the share of informal employment in non-agricultural sectors increased by 0.3 points and reached 30.1 percent. The high shares of informal employment create a dual structure in the labour market and lead to unfair competition among enterprises.

The labour force participation rate in Turkey is significantly lower than EU averages. This rate (for the age group of 15-64) was 50.8 percent in our country, whereas it was 71.5 percent in the EU-25 in 2009. The main reason behind this disparity is the fact that female labour force participation rate is considerably low. Although more women have begun to search for jobs with the effects of global crisis in 2009 and more women have participated in the labour force for this reason, female labour force participation rate still remains lower than participation of male, both in rural and urban areas. As a matter of fact, in 2009, male labour force participation rate is 69.9 percent in the urban areas, and 72 percent in the rural areas, whereas these ratios are 22.3 percent and 34.6 percent, respectively, for females. With migration to the urban areas from rural areas, women, who were previously employed in agricultural activities in rural areas, cannot participate in the labour 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 unregistered sectors. This situation crates an impediment in front of the entry of women in the labour market.

Although labour productivity increased in the recent periods in our country, it is still much lower than the level of EU countries due to reasons such as the low quality of vocational education, inadequacy of on-the-job training and lifelong education activities, deficiencies in capital accumulation and technological renovation processes. According to ILO data, labour productivity, which is calculated as the purchasing-power-parity adjusted GDP per hour worked, increased to 20.6 dollars from 10 dollars between the years 2002 and 2009. However, this figure stands at 50.8 in France, 43.1 in Italy, 42.9 in Spain, 40.5 in England and 38.5 in Germany for 2009.

Table 4.4: Basic Employment and Labor Indicators

(Percent)

	Turkey				EU-25			
	2006	2007	2008	2009	2006	2007	2008	2009
Labor Force Participation Rate (15-64)	49.0	49.1	49.8	50.8	70.7	70.9	71.4	71.5
- Female	25.1	25.2	26.2	27.8	63.4	63.7	64.3	64.8
- Male	73.3	73.4	73.8	74.0	78.0	78.1	78.4	78.2
Employment Rate (15-64)	44.6	44.6	44.9	44.3	64.8	65.8	66.3	65.0
- Female	22.7	22.8	23.5	24.2	57.6	58.6	59.4	58.9
- Male	66.9	66.8	66.6	64.5	72.1	73.0	73.2	71.1
Unemployment Rate (15+)	10.2	10.3	11.0	14.0	8.2	7.2	7.0	9.0
- Rural	6.2	6.8	7.2	8.9	-	-	-	-
- Urban	12.2	12.0	12.8	16.6	-	-	-	-
Non-Agricultural Unemployment Rate	12.7	12.6	13.6	17.4	-	-	-	-
Youth Unemployment Rate (15-24)	19.1	20.0	20.5	25.3	17.1	15.3	15.5	19.6

Source: TURKSTAT, EUROSTAT

Flexible working conditions prevalent in EU countries cannot be practiced effectively in our country. Dissemination of flexible working conditions is of particular importance to increase employment, reduce unemployment and informal employment, and increase employment of women and disadvantaged groups within the context of social inclusion. Within this framework, the need to encourage flexible working forms and to strengthen their relation with social security maintains its importance.

Considering the fact that labour force participation rates increase along with education level, increasing schooling rates is very important. In the recent periods, it is observed that the schooling rates increased significantly. Demand for vocational and technical education, which has an importance for the labour market, increased in the recent years due to the reforms made especially at the level of secondary education.

Table 4.5: Trends in Gross Schooling Rates

(Percent)

	1998-1999 (1)	2008-2009	2009-2010
Pre-School (2)	10.2	33.9	40.7
Primary Education (3)	94.3	103.8	106.5
Secondary Education (3,4)	57.1	76.6	84.2
- Standard High Schools	32.2	45.4	48.1
- Vocational-Technical High Schools	24.9	31.3	36.1
Higher Education Total (5)	16.3	54.2	67.0
- Formal	9.0	35.3	35.6

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.
(6) Schooling rate of 2007-2008 academic year has been calculated using Adress Based Population Registration System 2007 Census results.

In Turkey in 2009, 63.3 percent of the labour force, 63.7 percent of the employed people, and 61.1 percent of the unemployed people have less than high school education including the illiterate. The mismatch between labour supply and demand due to the low qualification and productivity of the existing labour force is an important factor reducing the efficiency of labour market.

Active labour policies aimed at improving qualifications of the individuals who have low qualifications and difficulties in entry to the labour market, creating jobs and training the labour force maintain their importance. As in OECD countries, the resources allocated for active labour programmes are increased in Turkey. The expenditures made by İŞKUR within the scope of active labour programmes increased by nine times and the number of people benefiting from these programmes increased by about seven times in 2009 compared to the previous year.

Table 4.6: Education Level of the Labor Force in 2008

(Percent)

	Labor Force	Employed	Unemployed	Labor Force Participation Rate	Employment Rate	Unemployment Rate
Total	100.0	100.0	100.0	47.9	41.2	14.0
Illiterate	4.4	4.7	2.5	18.8	17.3	8.0
Pre-High School	58.9	59.0	58.6	45.8	39.4	13.9
High Schools and Equivalents	21.3	20.6	25.7	57.6	47.9	16.9
- Vocational and Technical High Schools	10.2	10.0	11.3	65.4	55.2	15.6
Higher Education	15.3	15.6	13.2	78.0	68.5	12.1

Source: TURKSTAT

In addition, 161.9 million TL was reserved for İŞKUR in the period of 2008-2012 within the scope of GAP Action Plan. 51.7 million TL of the mentioned resource was spent as of November 2010. It is expected that this major resource allocated to GAP provinces will lead to an important increase in employment in the region.

The budget of "Increasing Labour Market Intermediary Activities in favour 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 labour market in order to decrease long term unemployment. At the end of the project, the capacity of İŞKUR to make region based labour force analysis shall be enhanced, tools of intervention to labour market which will be implemented in two pilot activity areas will be defined including the cooperation to be made with relevant institutions, at least 100 unemployed people will be intermediated for waged work (including those working for their own account and waged workers) in two pilot area (Adana and Malatya) and the results and experiences will be shared with other provincial directorates. The Dutch Government made a resource transfer of 200,000 euros in 2010 as the continuance of the project. This resource will be allocated to business consultancy training and 150 business consultants will receive training in 2010-2011 within this scope.

In 2009, 108,630 unemployed people received training in 5,174 general vocational courses organized by İŞKUR. 21,628 unemployed people received training in 942 courses with employment guarantee. Within the scope of the Public Work Programmes, 44,628 people received training in 1,613 courses. Entrepreneurship training was provided to 6,655 people for starting up their own business in 304 courses. Besides, 2,619 disabled and 4,082 convict and ex-convict unemployed persons were provided vocational training by İŞKUR. Through 22 courses, a total of 370 unemployed persons were provided vocational training in 2009, in the context of placement of unemployed persons receiving unemployment insurance.

Some progress was achieved in employment of women having problems about entering labour market in 2009. As a matter of fact, while 25,011 unemployed women registered in İŞKUR was placed in jobs in 2008, this figure increased to 29,453 in 2009. There was a significant increase in employment of disabled persons, who constitute another group having problems in entering the labour market, in 2009 compared to 2008. While 21,967 disabled people were placed in jobs in 2008, 26,405 disabled people were placed in jobs in 2009.

İŞKUR conducts a Labour Market Research in order to assess the needs of the labour market since 2007. The Labour Market Research helps to determine how many personnel employers need in each sector and profession at the moment and in the coming periods and in which professions they have difficulties to find personnel. Besides, this survey also contributes to the design and implementation of active labour programmes in accordance with the needs of market.

Table 4.7: Active Labor Force Programs Provided by İŞKUR

	Expenditure (Thousand TL)	Number of Beneficiaries
2005	21,716	11,473
2006	15,174	17,106
2007	29,672	33,597
2008	35,602	32,206
2009	306,366	213,852
2010*	289,901	188,850

Source: İŞKUR
* As of October 31, 2010.

Within the framework of Operational Programme on Developing Human Resources of the Instrument of Pre-Accession Assistance (IPA), İŞKUR manages the Operations of Encouraging Employment of Young People, Improving Quality of Public Employment Services and Supporting Employment of Women, of which the total budget amounts to 68 million euros. By the Operation of Encouraging Employment of Young People, it is aimed to encourage integration of young people in the labour market by using effective active labour market measures and it is planned to create a model by harmonizing activities of all relevant actors carrying out activities related to entrepreneurship in accordance with the principle of complementariness within this scope, to provide internship opportunities for young people, to organize entrepreneurship and career days and to make young employment summits.

The Operation of Improving Quality of Public Employment Services aims to improve the quality and effectiveness of public employment services by means of increasing institutional and administrative capacities of İŞKUR, Ministry of Labour and Social Security, Provincial Employment and Vocational Education Boards.

Within the scope of the Operation of Supporting Employment of Women, it is aimed to support İŞKUR in order to minimize the impediments in front of the participation of women in the labour market and to facilitate their access to jobs and to better employment conditions, for the purpose of improving employability of women. Within the scope of the project, it is planned to provide entrepreneurship training for 2,600 women, children/old people caring training for 780 women, career consultancy and guidance training for 11,700 women.

National and international markets increasingly demand labour that is creative, has high analytical thinking abilities, can quickly adapt to new skills and can access information. 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 new curriculum in general secondary education have been competed at a large extent.

In Turkey, the number of students for one computer is 26 while this number is 6 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 provide the qualified intermediate labour force required by the labour 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 42.8 percent in the 2009-2010 academic year. 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. Works for enhancing the level of compliance of vocational and technical secondary education with the labour 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. The Professional Qualifications Agency, which is an important part of the national competences system, began its works for improving the professional standards by considering the needs of labour market and for making certification after evaluating the students. As of 2010, 280 professional standards were prepared, 115 national professional standards entered into effect after being published on the Official Gazette.

The Lifelong Learning Strategy Document was accepted by the High Planning Council decision dated 5 June 2009 and put into implementation. Additionally, the works for preparing Vocational Education and Teaching Strategy Document covering 2008-2012 continue in order to handle vocational and technical education in integrity and to carry out the implementations.

Furthermore, the “Action Plan for Enhancing the Relation between Employment and Vocational Education”, which was prepared with participation of all relevant partners in coordination with the Ministry of Labour and Social Security in order to provide the vocational and technical education in line with the needs of labour market, implement active labour market policies effectively, increase employability of the labour force by means of overcoming the problem of vocational competence, entered into force after being published on the Official Gazette No. 27642 on 15 July 2010. On the other hand, it is aimed to increase the quality of formal education and arrange vocational courses by enhancing machinery and equipment infrastructure of 111 industrial and vocational high schools in 82 provinces and by providing in-service training for the teachers within the scope of the project on “Specialized Vocational Centres” to be implemented with cooperation of the Ministry of National Education, Ministry of Labour and Social Security, İŞKUR and TOBB.

Table 4.8: Matrix of Policy Commitments: Labor Market

(In 1000 Euros)

	2009	2010	2011	2012	2013
1. Encouraging Employment of Young People Operation					
A. Implementation Profile	---	---	---	---	---
B. Net Budgetary Effect	---	-3,827	-140	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	---	-3,827	-140	---	---
2. Improving Quality of Public Employment Services Operation					
A. Implementation Profile	---	---	---	---	---
B. Net Budgetary Effect	---	-331	-894	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	---	-331	-894	---	---
3. The Women Employment Support Operation					
A. Implementation Profile	---	---	---	---	---
B. Net Budgetary Effect	---	-3,411	-915	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	---	-3,411	-915	---	---
Total Net Budgetary Effect					
A. Implementation Profile	---	----	----	---	---
B. Net Budgetary Effect	---	-7,549	-1,949	---	---
B.1. Direct Effect on Budgetary Revenues	----	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	---	-7,549	-1,949	---	---

4.4. Agriculture Sector

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

In this context, while the policy instruments are implemented to direct the production according to demand, 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 Law No. 5996 on Veterinary Services, Plant Health, Food and Feed was issued in June 2010 in order to ensure compatibility to EU in the field of food, feed, phytosanitary, plant health and veterinary services. Along with the issuance of this law, criteria of Chapter12 titled Food Safety, Veterinary and Phytosanitary Policy were completed in the EU participation negotiations and the mentioned Chapter was opened.

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 the agricultural support budget was recorded as 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 competitiveness of livestock sector 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 2010 and this ratio is expected to remain unchanged also in 2011. In this context, fodder crops support payments per dekar (thousand square meters), 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 was started in 2009 for identification of sheep and goats and works for this project are still in progress. Besides, Restructuring of Border Inspection Posts Project, which commenced 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. Furthermore, it is planned to commence implementation of the second stage of Rabies Control Project and Foot and Mouth Disease Control Project in 2011.

On the other hand, the meat prices began to increase as from August 2009 and reached its top level in April and May 2010. In order to obstruct such increase, import of breeding and butchery living animal and carcass from the countries satisfying the animal health conditions including the EU member states has been accelerated.

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 1.4 percent in total support budget in 2007 and it is foreseen to be 5 percent in 2011 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 amount of state aid related to the risks under assurance especially on the subjects such as hail, frost, and animal life, reached 93 million TL as of December 2010.

In the framework of above mentioned issues, taking into consideration 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 Grand National Assembly of Turkey. In addition to that, the works on construction of offices at the landing points, improvement of fisheries information system and spreading the usage of remote sensing method for ensuring the effectiveness of control services have been continued. Furthermore, the project named “Introduction of Stock Assessment to Fisheries Management System of Turkey” will be carried out within the scope of Pre-Accession Financial Cooperation for the purpose of determining legislative and institutional needs and improving the human capacity in order to form a basis for the establishment of stock assessment system.

The works for harmonizing the food safety, veterinary services and phytosanitary legislation with the EU acquis and international standards are proceeding within the framework of the strategy determined within the scope of the opening criteria of Chapter 12. Within the framework of the mentioned Chapter, after the classification works which show the status of compliance of food enterprises with the EU food legislation, the works for completing the deficiencies of food enterprises within the scope of a programme and enabling such enterprises to produce in line with the EU food legislation will be proceeded.

The privatization process of public sugar factories is still in progress and completion of corporate arrangements in the sector and finalization of legislation arrangements are expected in order to activate quote management and supervision in the same process.

4.4.1. Rural Development

In the Ninth Development Plan period (2007-2013) the main objective of the rural development policy is enabling the rural community to achieve sustainable business and life conditions in its region. In accordance with this purpose, the Rural Development Plan (2010-2013) prepared in line with the strategic objectives and priorities which were determined in the National Rural Development Strategy (UKKS), was approved by the High Planning Council in August 2010. Within the scope of the plan, 96 activities were determined under 30 measures. Within the framework of the mentioned activities, the plan will contribute to capacity improvement in the subjects of implementation, monitoring and evaluation in relevant institutions for post-2013.

The works carried out by the National Fund regarding accreditation of the central organization and local coordinators of the Agriculture and Rural Development Support Institution which will carry on implementation and payment activities of the IPA Rural Development Programme (or IPARD Programme) covering the period of 2007-2013 were completed as of July 2010 and application was made to the European Commission for conferring of management. The local audits covering 20 provinces have continued as from 2 September 2010 by independent experts assigned by the European Commission. The accreditation package renewed in line with the change offers of the Commission was conveyed to the European Commission by the National Fund on 26 November 2010. The whole IPARD structuring will be accredited along with completion of the works carried out by the Commission as of May 2011 at the best. Under the light of all these developments, Agriculture and Rural Development Support Institution made a call for conditioned offer on 28 July 2010 in order to use agricultural development funds for 2007 (the total amount allocated for 2007 was 25.9 million euros, as 20.7 million euros of this amount was the contribution of EU) which were allocated within the scope of IPARD. Besides, within the scope of the works carried out for the purpose of preparation to “agri- environment” measure of the IPARD programme; the “Agri-environment Project” which was carried out within the framework of “Technical Assistance from Government to Government (G2G)” implementation was completed and implementations of “Environment and Rural Area Project” and “LEADER” project are still in progress.

Non-agricultural employment rate which was 38.8 percent in 2008 declined to 37.4 percent in 2009 due to inadequacy of non-agricultural employment opportunities in the rural section and as a reflection of the global economic crisis experienced in 2009.

Implementations of Sivas-Erzincan Development Project (2004–2012), Anatolian Water Basins Rehabilitation Project (2004–2012), Diyarbakır-Batman-Siirt Development Project (2008–2012), Ardahan-Kars-Artvin Development Project (2010–2015), Project of Improving Life Conditions of Small Scaled Farmers in East Black Sea Region (2007–2013) and Coruh River Basin Rehabilitation Project (2010–2016) and GAP Integrated Rural Development Project (2010-2013), which are financed by national and international resources are still in progress.

Furthermore, in order to manage the ongoing economic and social transformation process in the rural areas; the attempts to create national capacity on different issues (mountain settlements, village architecture, etc.) have been supported by pilot projects which are implemented with cooperation with central and local administration institutions serving rural areas.

In the period of 2006-2010; Rural Development Investments Support Programme (KKYDP) was implemented; in which the projects on the subject of processing, packaging and storage of agricultural products, irrigation systems and purchase of machinery and equipment were supported. Within the scope of the programme implemented in the form of five stages, in total, 628.4 million TL was provided as grant support.

By means of the Project of Social Support in Rural Area (KASDEP) which is implemented in 81 provinces as from 2003 under the cooperation of the General Directorate of Social Assistance and Solidarity and the Ministry of Agriculture and Rural Affairs, the poor included in the scope of the Law No. 3294 are supported to become producers by means of agricultural and other non-agricultural income generating activities. A source of 104.5 million TL was allocated for KASDEP in 2009.

For the Village Infrastructure Support Project (KOYDES) which has been implemented in 79 provinces except for Istanbul and Kocaeli provinces in order to eradicate the infrastructure problems of villages and sub-villages regarding road and drinking water since 2005, a resource of 1,050 million TL was allocated in 2010

Table 4.9: Matrix of Policy Commitments: Agriculture - I (Main Developments in Agriculture Support)

(In 1000 Euros)

	2008	2009	2010	2011	2012	2013
1. Area Based Supports						
A. Implementation Profile	---	---	---	---	---	---
B. Net Effect on Budget	-1,120,373	-580,053	-1,109,409	-1,072,594	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	1,120,373	580,053	1,109,409	1,072,594	---	---
2. Supports for Livestock Sector Pursuant to the Decree 2005/8503						
A. Implementation Profile	---	---	---	---	---	---
B. Net Effect on Budget	-577,826	-421,995	-629,514	-613,962	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	577,826	421,995	629,514	613,962	---	---
3. Support for Rural Development Investments						
A. Implementation Profile	---	---	---	---	---	---
B. Net Effect on Budget	-57,694	-114,684	-78,120	-146,506	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	57,694	114,684	78,120	146,506	---	---
4. Agricultural Insurance						
A. Implementation Profile	---	---	---	---	---	---
B. Net Effect on Budget	-24,568	-28,365	-35,236	-48,173	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	24,568	28,365	35,236	48,173	---	---
Total Net Effect on Budget						
A. Implementation Profile	---	---	---	---	---	---
B. Net Effect on Budget	-1,780,461	-1,145,098	-1,852,279	-1,881,235	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	1,780,461	1,145,098	1,852,279	1,881,235	---	---

Source: 2011 Annual Programme.

Note: The values of agricultural support budget in 2011 Annual Programme are converted to euro by using average exchance rates with respect to related years.

Table 4.10: Matrix of Policy Commitments: Agriculture - II (Important Projects in Agriculture [(1)])

(In 1000 Euros)

	2008	2009	2010	2011	2012	2013
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 (2)						
A. Implementation Profile	---	---	---	---		---
B. Net Effect on Budget	1,598	209	0	1,276		---
B.1. Direct Effect on Budgetary Revenues	2,357	327	0	1,549		---
B.2. Direct Effect on Budgetary Expenditures	759	118	0	273		---
3. Tagging and Vaccination of sheep and goats						
A. Implementation Profile	---	---	---	---		---
B. Net Effect on Budget	---	11,220	377	4,821		---
B.1. Direct Effect on Budgetary Revenues	---	18,182	2,812	4,871		---
B.2. Direct Effect on Budgetary Expenditures	---	6,962	2,435	50		---
4. Avian Influenza and Human Pandemic Preparedness and Response						
A. Implementation Profile	---	---	---	---		---
B. Net Effect on Budget	-4,846	-4,108	-7,265	-5,872		---
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	5,872		---
5. Land Parcel Identification System Project						
A. Implementation Profile	---	---	---	---		---
B. Net Effect on Budget	---	---	---	11,292		---
B.1. Direct Effect on Budgetary Revenues	---	---	---	13,299		---
B.2. Direct Effect on Budgetary Expenditures	---	---	---	2,007		---
6. Combatting Against FMD Project (2)						
A. Implementation Profile	---	---	---	---		---
B. Net Effect on Budget	10,477	10,298	311	8,558		---
B.1. Direct Effect on Budgetary Revenues	15,715	15,407	444	10,392		---
B.2. Direct Effect on Budgetary Expenditures	5,238	5,109	133	1,834		---
Total Net Effect on Budget						
A. Implementation Profile	---	---	---	---		---
B. Net Effect on Budget	10,555	18,125	-6,488	20,075		---
B.1. Direct Effect on Budgetary Revenues	25,315	35,587	3,389	30,111		---
B.2. Direct Effect on Budgetary Expenditures	14,760	17,462	9,877	10,036		---

(1) In EU-funded projects, impact on budgetary revenues results from EU contributions with grant and investment component in the related projects.
(2) Second phase implementation of projects will be commenced in 2011.

4.5. Administrative Reform

4.5.1. Strategic Planning and Performance Based Budgeting

Within the framework of the Public Financial Management and Control Law No. 5018, as of December 2010, in 140 out of 180 central public administrations that were obliged to prepare a strategic plan and a performance programme, strategic planning works have been completed and 2011 performance programme studies have been carried out.

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 scope, 15 out of 19 SEEs completed their strategic plans as of December 2010 and works is in progress in the remaining 4.

For the purpose of effectively implementing strategic management, the research project which was started to design a capacity development model by the Undersecretariat of State

Planning Organization in order to enhance theoretical and practical knowledge of public managers was completed.

The Undersecretariat of State Planning Organization carries out a project called "Stakeholder Engagement in Strategic Planning and Policy Making". The project aims to assess the current status of engagement, create a framework in order to determine how engagement can be evaluated better in strategic plan assessments made by the Undersecretariat of State Planning Organization and to increase awareness about engagement.

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 2011 in order to overcome the problems encountered and enable the system to function more effectively.

Preparation works for the IPA project titled "Improved Strategic Management Capacity for Central Administrations" were completed and project fiche was prepared. By the project, capacity improvement activities, for the Undersecretariat of State Planning Organization, other administrations having central guidance role and administrations under the obligation to prepare strategic plans, will be carried out in the area of strategic planning. Besides, a monitoring and evaluation system will be set up for strategic plans.

Pursuant to clause b of paragraph 3 of Article 7 of the Regulation on the Principles and Procedures regarding Strategic Planning in Public Administrations, public administrations other than the local administrations may renew their strategic plans as a result of the general elections to be held in 2011.

The performance programmes prepared by the administrations which completed their works for strategic plans based on the "Bylaw on the Performance Programmes to be Prepared by Public Administrations" and the "Performance Programme Preparation Guide" regulated by the Ministry of Finance pursuant to the Law No. 5018, shall be submitted to the Plan and Budget Commission in order to be evaluated together with the budgets of the related administrations during the meeting on the Draft Law regarding Central Management Budget.

Within this scope, the General Directorate of Budget and Financial Control of the Ministry of Finance developed a "Performance Budget Module" within the e-budget system in order to create cost tables with parameters of the performance programme, provide infrastructure in establishment of budget connection and to collect and report the data centrally. Besides, the "Performance Monitoring and Evaluation" section has been added to the mentioned module and put into service for the use of public administrations in order to monitor, evaluate and report the performance programmes.

In line with this, 120 public administrations which prepared performance programmes regarding their 2010 budget began monitoring and evaluation. The performance programmes which were prepared and finalized by the administrations and sent to the Ministry of Finance were evaluated and a general assessment letter was forwarded back to relevant public administrations to provide them with guidance for the performance programmes to be prepared in the following years.

In the following period, in addition to technical assessments, the Ministry of Finance will monitor implementation and realization level of performance programmes.

4.5.2. Economic and Social Council

Economic and Social Council (ESC) became a constitutional institution with the "Law on Changes on Some Provisions of the Constitution of Turkish Republic" on September 2010. In this context, efforts are continued to make changes in ESC Law in order to make the ESC more functional with more participation in the context of European Union standards.

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 Centres" that have high potential to grow and to serve to their periphery are determined. In this respect, works for the better accessibility of growth centres and fortification of their physical and social infrastructures have continued. Studies for the special support programme that started in 2008 have been continued in 2010. Project implementations are ongoing. The implementation continued in Diyarbakir will also be extended to the provinces Erzurum, Şanlıurfa and Van.

Incentive system has been restructured by taking into account of the regional disparities with the Decision on the State Aid on Investments No. 2009/15199 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 Nomenclature of Units for Territorial Statistics (NUTS II) Regions. In the first and second regions, investors provided the conditions which are determined in accordance with the regional development 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.

In the GAP region, the amount of investment allocated at the beginning of 2008 increased to 2 billion TL from 1 billion TL in the mid-year due to the entry of GAP Action Plan (GAP AP) into force. In 2009 and 2010, 3 billion TL and nearly 4 billion TL were allocated for total investments in the region respectively. As a result, share of investments in the region in the total public investments rose to the level of 14 percent from the level of 7 percent along with the start of implementation of GAP AP.

For GAP AP, there is a need for resource amounting to 27.2 billion TL in terms of 2010 prices in the period of 2008-2012 for the projects and activities more than 300. It is envisaged that 22.3 billion TL of this resource will be allocated from the central budget. Allowance for the investments within the scope of GAP AP in 2008 is 1.9 billion TL. The total allowance allocated to the activities within the scope of GAP AP were 2.8 billion TL and 3.2 billion TL for the years 2009 and 2010, respectively.

Social Support Programme (SODES) had been implemented in GAP provinces in 2008 and 2009 in order to ensure social integration and develop human resources. The SODES projects prepared and implemented locally under the coordination of governorships target to increase employability, to enable the disadvantageous sections of society to participate in the economic and social life more and to allow children, youth and women in the region to express themselves better by means of cultural, artistic and sportive activities.

Within the scope of SODES, it was approved to finance 378 projects with a budget of 42 million TL in 2008 and 778 projects with a budget of 92 million TL in 2009. Allowance for 2010 is 155 million TL. The scope of SODES was extended in a way to cover DAP provinces as well as GAP provinces in 2010. It was decided to support 1,187 projects with a budget of 150 million TL in 2010. Furthermore, an allowance of 3.5 million TL for institutional capacity building will be transferred to governorships in order to carry out the activities within the scope of SODES more effectively and efficiently.

Establishment of development agencies which are considered an important tool in regional development policies was completed in all NUTS II regions with the establishment of 16 agencies in accordance with the Decision of the Council of Ministers published in July 2009. The agencies have focused on activities concerning institutional capacity building, publicity and awareness rising on the first stage. On the other hand, the agencies rapidly began to work for determining priority areas of the region and providing financial and technical support for the projects in these areas.

- As of December 2010; regional plans were prepared in 19 of 26 NUTS II regions under the coordination of development agencies.
- Project supports which have been provided as from 2008 by development agencies are increasing in terms of the number of supporting agencies, the number of supported priority areas and projects and amount of support. Within this scope:
    - In 2008, 2 agencies supported 263 of 1,129 project applications in 6 priority areas with a budget of 48 million TL.
    - In 2009, 5 agencies supported 398 of 2,576 project applications in 9 priority areas with a budget of 95 million TL.
    - As of December 2010, 17 agencies have carried out calls for proposal amounting to 260 million TL in 34 priority areas.
- Therefore, as from 2008, 19 agencies made calls for proposals at least for once, 5,257 project applications were made in total, 810 projects were supported and an amount of 404 million TL was allocated to projects.
- Additionally, the agencies began to carry out the works for guided project support, direct activity support and technical support in the regions.

The Work Programme, Budget and Accounting module in Development Agencies Management System (DAMS) was completed. It is envisaged that this module will be opened to the use of development agencies until the end of 2010. Process modelling and software development works are continuedin other modules.

The issues regarding monitoring and evaluation of regional development programmes which were were implemented within the scope of financial cooperation between Turkey and the EU for 2004-2006 period were transferred to relevant development agencies.

With the implementation of regional development programs cofinanced under the scope of Turkey-EU financial cooperation, project preparation, implementation and monitoring capacity in development unions and governorships responsible for coordinating programs in the region were built and further developed.

It is aimed at transferring this locally formed capacity to agencies and developing it by means of agency resources. Studies on the design and infrastructure of Province Coordination and Monitoring System (PCMS), developed for handling investments and socio-economic developments in a local and regional development perspective, are proceeding within the framework of TUBİTAK Programme for Supporting Research and Development Projects of Public Institutions.

The above mentioned project which will be activated in three phases was commenced on 1 March 2009. The first prototype was put into operation as of 4 February 2010 and the second one in 21 October 2010. Currently, there are nearly 7,000 users of the system in 81 provinces. With respect to the third prototype, studies were initiated for putting PCMS into service for central institutions, verifying the data entered by local departments and establishing infrastructure for integration of PCMS. Meetings were held with relevant institutions and organizations in education, health and energy sectors and necessary data is being gathered. It is expected that the project activities will be completed within March 2011.

Table 4.11: Matrix of Policy Commitments: Regional Development

(In 1000 Euros)

	2009	2010	2011	2012	2013
1. GAP Action Plan					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-1,302,022	-1,735,270	---	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	1,302,022	1,735,270	---	---	---
2. Development Agencies					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-120,902	-226,347	-218,087	-214,000	-208,497
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	120,902	226,347	218,087	214,000	208,497
Total Net Effect on Budget					
A. Implementation Profile	---	---	---	---	---
B. Net Effect on Budget	-1,422,924	-1,961,617	-218,087	-214,000	-208,497
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	1,422,924	1,961,617	218,087	214,000	208,497

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 to restructure the Ministry of Health to strengthen its regulating, planning and supervising roles, establish the universal health insurance system which gathers everyone under same roof, ensure rational use of medicine and medical devices and make the health information system effective. The program also aims at spreading the health services, increasing their quality and ensuring easy access to these services.

1st 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. An agreement was made regarding financing of the project between the Republic of Turkey and International Bank of Reconstruction and Development on 30 June 2009 for the “Project of Health Transformation and Social Security Reform” which is 2nd stage of the project and 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 Centre will be transformed into a National Public Health Institution with international accreditation. 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, of substances used in drug production and of medical devices. It 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. As of the end of 2010, family medicine implementation was spread throughout the country.

Considering the fact that old age population of our country will increase gradually, it is important to diversify the preventive health services regarding the non-communicable diseases. Program for Struggling and Controlling Obesity (2010-2014) in Turkey was prepared under the coordination of the Ministry of Health and put into implementation with the Prime Ministry Notice No. 2010/22 in order to increase the level of information on preventing obesity which increases in prevalence in our country and to encourage people to gain the habit of sufficient and balanced nutrition and regular physical activity. Besides, Program for Preventing and Controlling Cardiovascular Diseases was prepared by the Ministry of Health and it will be put into implementation in 2011.

In order to reduce the deficit of health personnel, in particular physicians, in our country, an increase of 63 percent in the quotas of faculties of medicine, and an increase of 36 percent in the quotas of nurse schools were recorded in the period of 2007-2010. Besides, new faculties of medicine and health sciences are being established in order to reduce the deficit 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 still has importance. Ministry of Health implementation such as, compulsory service, personnel distribution schemes and incentives regarding employing personnel in the region where there is need for personnel decreased the difference in distribution of physicians and nurses working in service units of Ministry of Health among provinces in the period of 2002-2010.

In order to make medical care and rehabilitation of old or bedridden patients in their own houses instead of health institutions and to shorten hospitalization durations, supply of home care services by the Ministry of Health has been regulated by a directive which came into force on 1 February 2010. Within this scope, implementation was started in 60 provinces as of November 2010.

In order to make health information system efficient, the citizens are enabled to get appointment from service units of the Ministry of Health in the province through call centres established in the Central Hospital Appointment System Project of which pilot implementation was started in Erzurum and Kayseri in 2009. Within this scope, the project has been implemented in state hospitals in 10 provinces as of November 2010 and it will be spread gradually. Besides, pilot implementation of tele-medicine project, which was developed in order to support the hospitals having specialist deficiency, prevent unnecessary referrals and to provide cost efficiency in service supply, continue in 68 hospitals in radiology and pathology areas.

Within the scope of drug monitoring system, the square code, which will ensure drug monitoring, drug safety, protection from fake drugs and packs, and collection of relevant clinical data, has begun to take place on all products as from 1 January 2010.

While the rate of public health expenditures to GDP was 3.7 percent in 2002, this rate stood at 5.1 percent in 2009 and is expected to be 4.5 percent in 2010. The increase in health expenditures with the effect of the capacity increase in health service supply, improvement of accessibility of services and increase in foreign exchange rate caused an increase in public health expenditures by years. As a result of the measures taken regarding pharmaceutical and treatment expenditures, and expanding the scope of global budget implementation in a way to cover university hospitals in addition to state hospitals and with the high growth performance expectation in the economy in 2010, the rate of health expenditures to GDP is expected to stand at 4.5 percent.

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 Securities and General 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 audit mechanism for the social security system are in progress within the body of Social Security Institution (SSI). Within this scope, projects regarding executing all insurance operations with automation are being carried on.

Health services of public personnel were taken over by SSI as of 15 January 2010. Therefore, the public personnel have been taken in the scope of General Health Insurance. It is envisaged to transfer health expenditures of the people, who are included in the scope of Green Card application which allow the citizens not having power to pay to benefit from health services, to SSI as of 1 January 2012.

Table 4.12: Matrix of Policy Commitments: Health Care-Social Security

(In 1000 Euros)

	2009	2010	2011	2012	2013
1. Health Transformation and Social Security Reform Project [(1)]					
A. Implementation Profile	---	---	---	---	---
B. Net Effect On Budget	47,839	89,660	79,015	90,422	90,651
B.1. Direct Effect on Budgetary Revenues	50,000	100,000	100,000	100,000	100,000
B.2. Direct Effect on Budgetary Expenditures	2,161	10,340	20,985	9,578	9,349
2. Avian Influenza Project [(2)]					
A. Implementation Profile	---	---	---	---	---
B. Net Effect On Budget	-433	-4,165	-5,806	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	433	4,165	5,806	---	---
Total Net Budgetary Effect					
A. Implementation Profile	---	---	---	---	---
B. Net Effect On Budget	47,406	85,495	73,209	90,422	90,651
B.1. Direct Effect on Budgetary Revenues	50,000	100, 000	100,000	100,000	100,000
B.2. Direct Effect on Budgetary Expenditures	2,594	14,505	26,791	9,578	9,349

(1) 2009 year data cover Health Transformation Projects.
(2) Project is being carried out by World Bank and European Union funds.

4.6.3. R&D and Innovation

The main objectives of the science and technology policy are to improve the innovation capability of the private sector, to increase competence in science and technology, and to transform this competence to economic and social benefits. In Turkey, the share of the R&D expenditure in GDP was 0.85 percent in 2009; however, the EU-27 average was 2.01 percent. It is aimed to increase this ratio up to 2 percent in Turkey in 2013. For this purpose, the public R&D investment, which was 319 million TL in 2003, was increased to 1,644 million TL in 2011 with an increase of 415 percent.

The share of the R&D activities performed by the private sector in overall R&D activities, which was 33.8 percent in 2005, rose to 40 percent in 2009. However, considering that this rate is below the EU-27 average of 62.2 percent in 2009, the need for increasing effectiveness of the private sector in R&D activities arises. Within this framework, the supports and incentives for R&D projects were increased on the one hand; and the number of the Technology Development Zones (TDZ) and research centres, which were established to bring together the stakeholders that generate knowledge and convert it to new products and processes, and to enable the companies within their structure to benefit from various incentives, were increased on the other hand. As of August 2010, 39 TDZ's have been established, and 27 of them are operational. Investments are carried on for the establishment and operation of the inactive TDZ's. The number of the companies operating in the Technology Development Zones rose to 1,451 as of the end of August 2010.

Besides, after the Law No. 5746 on Supporting Research and Development Activities, which was codified to regulate tax incentives provided for R&D activities, entered into effect in 2008, 99 R&D Centre applications were made and 76 R&D Centre Certificates had been issued as of September 2010. The firms received R&D Centre Certificate are expected to make R&D expenditure amounting to 1.9 billion dollars and to employ 9,795 R&D personnel in 2010.

Increasing the R&D capacity and R&D demand of the private sector, particularly SMEs', will be aimed in 2011. Improvement of R&D activities carried out by private sector will be supported and the R&D supports provided for SMEs will be generalized. At the same time, pre-competitive R&D collaborations and the programs for enhancing the cooperation among private sector, universities and research institutions will be supported.

Another matter as important as enhancement of the sources allocated to R&D activities is making up the researcher shortage. As of 2007, while 0.56 percent of the total employment consisted of R&D employees in Turkey, this ratio was 1.57 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 equivalent (FTE) in 2005, this ratio rose to 40.8 percent in 2007. At the same time, this ratio was 52 percent for EU-27 countries as of 2008. The share of women researchers in the total researchers in terms of FTE, which is an important criterion for gender equality in working life, was calculated as 34 percent for Turkey in 2007 while this ratio was above the EU-27 average of 31 percent.

The number of academicians will be increased and balanced distribution of them will be ensured across the country within the scope of enhancing researcher human resources. Besides, in order to cover the academician shortage of developing universities, especially the newly established universities, academician development programs will be expanded.

In line with enhancing scientific and technologic cooperation with the EU countries and being a part of European Research Area, Turkey has participated to EU's Seventh Framework Programme on Science and Technology.

4.6.4. Information and Communication Technologies

Works on Information Society Strategy covering the years 2006-2010 and its annex Action Plan are still in progress, within the context of the target of transforming Turkey into an information society, one of the main objectives of Ninth Development Plan. In this context, works for determining policy and strategy steps to be taken after 2010 have been started.

Within the objective of educating human resources required by information society, the Ministry of National Education has provided broadband Internet access to 96 percent of elementary school students and to all of the secondary school students as of November 2010.

According to the Use of Information and Communication Technology (ICT) in Households Survey announced by TURKSTAT in August 2010, the ratio of individuals using the internet is 41.6 percent, and 27.2 percent of those use the internet for personal communication with public institutions and organizations. According to the ICT Usage in Enterprises Survey published by TURKSTAT in November 2010, ratio of the enterprises that have internet access was 90.9 percent while ratio using the internet to communicate with the public institutions and organizations was 72.8 percent among these enterprises.

Feasibility work for the Informatics Valley Project to be established was completed as of August 2010. The Project targets making Turkey a production and operation centre in the region, attracting foreign investment in information technologies area, and providing domestic firms in this sector to expand abroad.

Within the objective of creating more qualified labour force which produces higher value added, the Qualified Informatics Employees Project carried out by İŞKUR aims to train more qualified informatics employees in the areas needed by the information and communication technologies sector by means of the education programmes developed by international information and communication technologies firms. All preparation works regarding the programme has been completed and the education programmes will begin.

Besides commonly used primary e-government applications, the works on health and social security implementations, the third phase of Automation of Tax Administrations Project (VEDOP), land registry and cadastre information system (TAKBİS), unique number system for legal persons and the Pilot Project on Citizenship Card are continuing.

Pilot implementation works on the project regarding the electronic citizenship card, which will allow secure identity confirmation in access of citizens to the services both in traditional and electronic environments and replace the current paper based identity cards, were completed in November 2010. It is targeted to begin the works for spreading it across the country in 2011.

The number of the electronic signature users has been increasing steadily. The number of qualified electronic certificates has been around 251,000 by June 2010. 105,000 of these are being used for mobile signature, which was put into implementation in 2007. Many public and private institutions and organizations are using e-signature in their institutional procedures.

e-Correspondence Project has been initiated to provide running of official correspondences between the public institutions on digital environment. Within this scope, the set of rules which will allow the mentioned electronic official correspondences in 2011 will be adopted and a solution realizing this set of rules and necessary legal arrangement offers will be developed.

The Draft Law on Protection of Personal Data is still in TGNA Justice Commission. Besides, a new article regarding protection of personal data was added to Article 20 of the Constitutional Law of Republic of Turkey, with the Constitutional amendment package accepted with the referendum held on 12 September 2010. Right to ask for protection of personal data has been explicitly granted to individuals by means of the added article and therefore this right has gained a Constitutional guarantee. The mentioned right includes the right to ask for being notified about the data about the individual himself, access, correct or erase such data and learn whether such data was used in line with the pre-determined objectives. The condition of processing personal data is linked to the situations to be determined by law or the free will of the individual.

Within the scope of the works carried out in the area of cyber crimes, Turkey signed the Cyber Crime Convention of European Council No. 185 on 10 November 2010. The works regarding approval of the Conventions No. 108 and 181 of the Council will be started.

Following the enactment of the Electronic Communications Law, works on harmonization of secondary legislation with this Law has been initiated and in this context, 11 by-laws were put into force as of October 2010.

As of September 2010, fixed telephone, mobile telephone and broadband subscriber penetration rates are 22.6 percent, 85.4 percent and 11 percent in Turkey, respectively. At the same date, the number of subscribers using broadband service over fibre optic connections was 100,000. As of the end of September 2010, the number of 3G subscribers reached 16.6 million and the number of subscribers using mobile broadband access services reached 1.16 million. Breakdown of authorized operators, as of November 2010, 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: 20
6. Satellite Platform Services: 3
7. Internet Service Providers: 108
8. Fixed Telephone Services: 95

9. Infrastructure Operation Services: 56
10. Cable Broadcasting Services: 11
11. Virtual Mobile Network Services: 23
12. GSM Mobile Communication Services: 4

The effectiveness of alternative infrastructure operators in the market and coverage of their fibre optic networks have been increasing lately. The length of fibre optic cables these operators own reached 34,158 km in September 2010, while this figure was 9,216 km at the end of 2008. Within the scope of mobile number portability, 21.6 million subscribers ported their numbers until September 2010. In 2010, Turkey has continued its works within the framework of EU Information and Communication Technologies Policy Support Programme, which is one of the components of the Competitiveness and Innovation Framework Programme of EU and to which Turkey has been a party since 1 January 2009.

In line with the policy of transition to terrestrial digital broadcasting, amendments in the Law No. 3984 on Broadcasts of Radio and Television Organizations were deemed necessary and the draft Law prepared by Radio and Television Supreme Council (RTÜK) was transferred to the TGNA. The draft covers regulations in parallel with the developments in the broadcasting sector and aims to enhance the level of harmonization with the EU Acquis.

Draft law aiming gradual liberalization of the postal services market; establishment of an effective competition environment; separation of policy setting, regulation and operation functions in the sector; and restructuring the sector in line with relevant EU directives, was submitted to the Council of Ministers.

4.6.5. Transportation

Trans-European Networks Chapter was opened to negotiations in December 2007 and technical criteria were met as of 13 December 2010. For the above mentioned chapter, two technical closure criteria have been submitted by the 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. Other technical closure criterion is related to agreement of the parties on a project of European Interest within the TEN-T network. Within this framework, the priority projects determined for 2020 in TINA-Turkey Study, which was approved by the Decision of High Planning Council on 10 July 2008 with reference number 2008/35 were expanded in a way to cover the year 2030 by a new TEN-T Document prepared by Turkey.

In order to establish legal and structural framework of Turkish Railway Sector aligned 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 reorganized by including general rationale and article rationales via taking the views of the relevant governmental institutions and organizations as well as nongovernmental organizations, was submitted to the Ministry of Transportation as of 15 July 2008 but their enactment process have not been completed yet.

The Turkish Railways Reform Project was prepared in order to have preparatory works for the regulations that will be required when the laws in effect; 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, and increasing the capacity of infrastructure management and railway enterprises which will be formed after restructuring of TCDD, on safety and interoperability. Besides, the project aims to increase capacity of infrastructure management on the allocation of railway infrastructure and pricing for utilization of infrastructure. The terms of references of the Project were 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 that moved to the White List following the Committee Meeting of Paris Memorandum of Understanding maintained its position.

In the light of the experiences acquired by Turkish Straits Vessel Traffic Services, at Gulfs of İzmit, İzmir, Iskenderun and Mersin, and Aliağa/Nemrut Region, where the maritime traffic is dense and risky, studies for implementing the Vessel Traffic Management System (VTMS) are carried on with the purpose of improving sea safety and security.

Works for integrating the LRIT (Long Range Identification and Tracking) System, which was put into operation 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 by means of the Vessel Traffic Services and Automatic Identification System realized in order to improve the sea safety, are in progress.

Turkey's harmonization process to EU acquis and the process of becoming a party to certain important maritime contracts are 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. Within the scope of the accession process to EU, the Air Traffic Security Electronics Staff Certificate and License Legislation (SHY-5) and the regulation on Air Traffic Management Software were published in 2010. 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 harmonization process, 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 Travelling by Air, and in 2010 Computerized Reservation Systems Regulation are planned to be published.

The Safety Evaluation of the Domestic and Foreign Aircrafts Legislation was published on 14 May 2010.

For the purpose of benefiting from the SEI funds, four project applications were made in 2010. Regarding the said projects, Enhancement of the Capacity of the General Directorate of Civil Aviation in the Fields of EU Aviation Politics and External Relations Project, which have a budget of 120,000 euros with 2 months life-time, was started on 1 September 2010 and completed in November 2010.

Technical Support to the General Directorate of Civil Aviation on Sector Strategy Document Preparation Project, which have a budget of 200,000 euros with 6 months life-time, started on 5 May 2010 with the opening meeting, and activities of the project works are still in progress.

The third project accepted in 2010 is the Preparation of a Feasibility Report regarding the Education Centre Planned to be established from the EU IPA Fund within the scope of Enhancing Administrative Capacity in the Field of Education on Security and Safety Requirement of Turkish Civil Aviation, which has a budget of 200,000 euros with 6 months life-time. Tender process of the project is continued by CFCU.

The fourth project whose application was approved in 2010 is the Project of Increasing Administrative Capacity of General Directorate of Civil Aviation regarding Emission Trade System, which has a budget of 160,000 euros with 3 months life-time. Tender preparations regarding this project are still continuing.

Negotiations between the Government of Republic of Turkey and the EU Commission on Horizontal Agreement were continued over 2009-2010 and as a result of the negotiations; the agreement was initialized between the concerned parties at Brussels on 25 March 2010.

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.

In order to make the airports environmentally sensitive, the criteria for the airport users have been determined by the General Directorate of Civil Aviation. If those 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 fulfil 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 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 an 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 Instructions which took place among the obligations of 2008 National Programme were continued and it was decided to prepare the instructions as the Passenger Rights Regulation and the last stage was reached regarding the Regulation. It is planned to issue the Regulation in 2011. 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 Ataturk Airport.. In 2010, this implementation has also been started for international flights from Ankara Esenboga Airport, Izmir Adnan Menderes Airport and Dalaman Airport.

In the field of road transportation, by means of the Road Transportation Law which was put into 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, 193 fixed and 71 new mobile stations have been set up in all 81 provinces by the private sector as of December 2010.

21 vehicle weight and size control stations were 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 30 October 2009, Turkey has become a party to the European Agreement (ADR) related to the International Carriage of Dangerous Goods by Road, and the said agreement entered into effect on 22 March 2010. 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.

Communiqués, which aimed at the withdrawal of the vehicles older than 1979 model at first and then the vehicles older than 1985 model, published for the purpose of expansion of road safety and environmental protection. In accordance with the Communiqués, 160,000 old commercial vehicles are planned to be withdrawn from the domestic market until the end of 2013. Within this scope, the number of scrapped old vehicles is 23,784 as of 1 December 2010.

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 completed in 2008. In scope of the twinning component of the project, which started on 11 May 2006, it is aimed at ensuring harmonization of the existing road legislation with EU legislation, and making 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, started 30 November, 2006, technical training has been provided on various subjects, mainly in English. Within the frame of the third component on material/equipment procurement, 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, Enhancement of Weight and Size Controls and Enhancement of Intermodal Transportation in Turkey Projects were approved by the EU Commission and these EU Projects are planned to start in 2011. Within this framework, implementation of the twinning project on Enhancement of Intermodal Transportation will began in the first quarter of 2011 with partnership of the Ministry of Transportation of Spain. The project regarding Weight and Size Controls reached the tender stage.

As it is known, pursuant to Article 13 of the European Agreement concerning the work of Crews of the Vehicles engaged in International Road Transport (AETR), which is managed by the United Nations Economic Commission for Europe and to which Turkey is a party, a transition period was given to the countries which are not a member of European Union but a party to AETR in order to start numerical tachograph application in international road transport until 16 June 2010. However, the above mentioned transition period has been extended until 31 December 2010 since it was not possible to implement the Numerical Tachograph system as a whole in many countries until 16 June 2010. Following completion of the mentioned transition period, using Numerical Tachograph (NT) in commercial cargo and passenger vehicles registered after 16 June 2010 and used in international transportations has become mandatory as from 1 January 2011. Within this scope, the Ministry of Transportation was assigned as the “National Authority” on 4 January 2010 in order to implement Numerical Tachograph System in Turkey.

On the other hand, pursuant to the Protocol regarding Transfer of Authority in order to enable TOBB to carry out Some Works related to Implementation of Numerical Tachograph, works and operations during the course of taking and evaluating applications regarding tachograph cards, certifying the cards, personalization of the cards and distribution of them to their owners are carried out by TOBB under the control and audit of the Ministry.

In this respect, TOBB established and opened a Numerical Tachograph Research and Implementation Centre (STAUM) within its own body.

As a result of the intense works of relevant institutions and organizations, acceptance of Numerical Tachograph card applications has been started throughout the country as of 1 October 2010.

Table 4.13: Matrix of Policy Commitments: Transportation

(In 1000 Euros)

	2010	2011	2012	2013
1. Modernization of Maritime Communication Infrastructure				
A. Implementation Profile	---	---	---	---
B. Net Effect on Budget	-435	-190 (1)	---	---
B.1. Direct Effect on Budgetary Revenues	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	435	190 (1)	---	---
2. Transport Operational Program				
A. Implementation Profile	---	---	---	---
B. Net Effect on Budget	---	-9,142(2)	-17,193	-16,446
B.1. Direct Effect on Budgetary Revenues	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	---	9,142(2)	17,193	16,446
Total Net Budget Effect				
A. Implementation Profile	---	---	---	---
B. Net Effect on Budget	-435	-9,332	-17,193	-16,446
B.1. Direct Effect on Budgetary Revenues	---	---	---	---
B.2. Direct Effect on Budgetary Expenditures	435	9,332	17,193	16,446

(1) Included in Investment Programme. Figures are indicative.

(2) Indicative amount for Project of Making Current Köseköy-Gebze Railroad Suitable for High Speed and Project of Reahbilitation and Signalization of Irmak-Karabük-Zonguldak Railway, which are under Improving Railroad Infrastructure priority of Transport Operational Program, and Technical Support Project on Capacity Enhancement of IPA Unit and Its Beneficiaries, Project of Technical Support on Information and Promotion and Project of Technical Support on IPA Unit Compatibility Audit, which are under Technical Assistance priority.

4.6.6. Energy

The main objective in the energy sector is providing energy needed for economic development and social progress in a continuous, high quality and reliable manner with minimum cost in a competitive free market. For this purpose, Turkey attaches utmost importance and gives priority to realizing energy market reforms and harmonizing the national energy legislation fully with the EU energy legislation. In this context, fundamental sectoral legislation has been completed to a large extent and efforts for establishing a fully competitive energy market have been going on.

Following liberalization of national electricity markets, interconnection lines are used for the purpose of creating regional and continental markets and obtaining maximum benefit from interconnections is targeted. Our country has determined, working synchronized-parallel to and sharing backup with the Union for the Coordination of Transmission of Electricity (UCTE) and operating the electricity system in a more economic, qualified and reliable manner as a national target. In our country, works for harmonizing with the market rules for membership to UCTE, which was renamed as European Network of Transmission Systems Operators for Electricity (ENTSO-E) on 1 July 2009, has been continued for a long time. Technical and administrative arrangements in this regard were completed and synchronized parallel trial operation has started on 18 September 2010.

To ensure continuity in the petroleum market, to keep 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, to align the stock system with the EU legislation and establish 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.

With the aim of expanding the use of natural gas across the country, EMRA held city natural gas distribution tenders for 58 distribution regions so far and 53 winning companies were awarded gas distribution licenses. Along with 7 distribution licenses granted before 2003 to the companies active in the natural gas using provinces, the number of distribution companies reached 60 and the number of distribution regions to which gas supply has been provided reached 58.

Increasing efficiency in all processes from energy generation to transmission, from energy distribution to usage, preventing waste and reducing energy intensity at both sectoral and macro level are important issues in the agenda of Turkish energy sector. According to calculations, reducing both general energy and electricity consumptions by 20-25 percent by means of efficiency implementations in the industry, buildings and transportation sectors is possible. Within this context, works for utilizing the prospected measures in the Energy Efficiency Law No.5627 are still continuing. The last stage was reached in the preparation works for the Energy Efficiency Strategy Document which was designed as a roadmap for all parties in energy efficiency activities. The document is planned to be published as a High Planning Council Decision.

With the Regulation on Increasing Efficiency in Energy Resources and Energy Usage, which entered into force after being published on the Official Gazette dated 25 October 2008 No.27035, the “efficiency increasing project” (VAP) and “voluntary agreement” models were put into force, in order to support the works of energy efficiency in the industry. In VAP supports, industrial plants which received approval of the Energy Efficiency Coordination Board with the documents prepared may get approximately 20 percent of their investments back from the government, provided that their investments do not exceed certain limits. Within this scope, a total support over 2 million TL was provided to 17 projects in 2009 and 15 project in 2010 across Turkey.

The “Electricity Market and Supply Security Strategy Document” which was published as a Decision of High Planning Council (YPK) dated 18 May 2009 No.1009/11 presents long term electricity resource usage targets of Turkey. According to this document, the share of nuclear energy in electricity generation is envisaged to reach 5 percent until 2020. The works towards this target and nuclear energy usage for electricity generation purposes were continued in 2010. Within this framework, the “Law on Assent to Approval of the Agreement regarding Cooperation on Establishment and Operation of a Nuclear Power Plant in Akkuyu Region in the Republic of Turkey Signed between the Government of Republic of Turkey and Government of Russian Federation” entered into force after being published on the Official Gazette dated 21 July 2010 No.27648.

With the aforementioned Agreement and Law, works for establishing and operating a nuclear energy plant in Mersin-Akkuyu gained a formal status. With this Agreement, establishing a VVER 1200 type (AES 2006 design) nuclear plant with four units of third generation water reactors with a total installed power of 4,800 MW and operating it for 60 years in Akkuyu region is planned. According to the Agreement, signing an electricity procurement contract between Turkish Electricity Trading and Contracting Company (TETAS) and the project company is envisaged. Accordingly, TETAS will purchase 70 percent of the electricity generated by the first two units and 30 percent of the electricity generated by the last two units of the nuclear plant for 15 years, starting from units becoming operational. The project company will sell the remaining amount in the free market.

Table 4.14: Legal Regulations Realized in Energy Market in 2010

Date	Number	Name	Description
3 December 2010	Official Gazette No. 27774	Regulation regarding Electricity Generation without License in the Electricity Market.	The objective of the Regulation is to make the cogeneration plants and the plants depending on renewable energy resources with an installed power less than 500 kW exempt from the liability of receiving licence and creating a company.
30 January 2010	Official Gazette No. 27478	Regulation regarding Energy Labelling of Home Type Refrigerators, Deep Freezers, Refrigerators with Deep Freeze and Their Combinations	The objective of the Regulation is to determine the rules regarding energy labelling of home type refrigerators, deep freezers, refrigerators with deep freeze and their combinations which use electricity power for operation and to determine their performance standards.

There are 2 projects to be carried out with the EU in the next period within the framework of the reforms in the energy sector.

1. The “Project of Improving the Structure and Capacity of TEİAŞ” was offered within the scope of Pre-Accession Financial Cooperation Programming 2009 and accepted by the European Commission. The Financing Agreement 2009 required for implementation of the project was signed on December 2010 and the project is expected to commence actually in 2011. Total budget of the project is approximately 2,005,500 Euros and 200,550 Euros, about 10 percent of this budget will be covered by national co-financing.

2. Project for Rehabilitation of the Frequency Control Performance of Turkish Electricity System for Synchronous Parallel Operation with UCTE, which was proposed by TEİAŞ within the scope of the Pre-Accession Financial Assistance Programming 2008 in order to ensure integration of Turkish electricity system with European electricity system and which was approved by the European Commission was signed on December 2010. 2.5 million Euros of EU contribution and zero national co-financing is planned for the Project.

Table 4.15: Matrix of Policy Commitments: Energy

(In 1000 Euros)

	2009	2010	2011	2012	2013
1. Project for Improving the Structure and Capacity of TEİAŞ					
A. Implementation Profile	---	---	---	---	---
B. Net Budget Effect	---	---	-200.6	---	---
B.1. Direct Effect on Budget Revenues	---	---	---	---	---
B.2. Direct Effect on Budget Expenditures	---	---	200.6	---	---
Total Net Budget Effect					
A. Implementation Profile	---	---	---	---	---
B. Net Budget Effect	---	---	-200.6	---	---
B.1. Direct Effect on Budget Revenues	---	---	---	---	---
B.2. Direct Effect on Budget Expenditures	---	---	200.6	---	---

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	97,144	-4.7	6.8	4.5	5.0	5.5
2. GDP, at current prices	B 1 * g	952,635	0.2	15.3	10.6	10.6	10.6
Components of Real GDP (1998 Prices. Percentage Change)							
3. Private Consumption Expenditure	P3	68,626	-2.2	4.1	4.2	4.4	4.4
4. Public Consumption Expenditure	P3	11,111	7.8	7.6	5.6	2.1	4.1
5. Gross Fixed Capital Formation	P51	19,345	-19.1	21.7	6.2	9.1	9.9
6. Changes in Inventories and Net Acquisition of Valuables*	P52+P53	-1,962	-2.1	1.0	0.6	0.2	0.0
7. Exports of Goods and Services	P6	24,605	-5.2	4.1	4.7	7.4	8.4
8. Imports of Goods and Services	P7	24,581	-14.3	13.1	8.2	8.8	8.7
Contribution to Real GDP Growth							
9. Final Domestic Demand	---	---	-5.2	8.1	4.9	5.4	5.8
10. Changes in Inventories and Net Acquisition of Valuables	P52+P53	---	-2.1	1.0	0.6	0.2	0.0
11. External Balance on Goods and Services	B11	---	2.7	-2.3	-1.0	-0.6	-0.4

* Contribution to growth.

Table 1.b: Price Developments

Percentage Changes. Annual Averages	ESA Code	2009	2010	2011	2012	2013
1. GDP Deflator	---	5.2	8.0	5.8	5.3	4.8
2. CPI	---	6.5	6.4	5.5	5.0	5.0

Table 1.c: Labor Market Developments

	ESA Code	2009	2009	2010	2011	2012	2013
		Level	Rate of Change, Percent				
1. Employment, persons (Thousands)*	---	21,277	0.4	5.6	1.0	2.2	2.0
2. Unemployment Rate (ILO Definition)	---	3,471	14.0	12.2	12.0	11.7	11.4
3. Labor Productivity, persons	---	---	-5.1	1.2	3.5	2.8	3.4
4. Compensation of Employees	---	---	---	---	---	---	---

*+15 years-old

Table 1.d: Balance of Payments

Percentages of GDP	ESA Code	2009	2010	2011	2012	2013
1. Current Account	---	-2.3	-5.4	-5.4	-5.3	-5.2
- Balance of Goods	---	-4.0	-6.8	-7.0	-7.0	-7.1
- Balance of Services	---	2.7	2.2	2.2	2.2	2.4
- Balance of Incomes	---	-1.3	-1.0	-0.9	-0.8	-0.8
- Balance of Current Transfer	---	0.4	0.2	0.3	0.3	0.3
2. Capital and Financial Account (Including Reserves)	---	1.6	5.2	5.4	5.3	5.2
- Private Sector	---	---	---	---	---	---
- Public Sector	---	---	---	---	---	---
Statistical Discrepancy	---	0.7	0.2	0.0	0.0	0.0

Table 2: General Government Budgetary Prospects

Percentages of GDP	ESA Code	2009	2010	2011	2012	2013
Net Lending(B9) by sub-sectors*						
1. General Government	S13	5.5	3.7	2.1	1.8	1.1
2. Central Government	S1311	2.9	1.8	0.8	0.3	-0.5
3. Funds	S1311	-0.1	-0.3	-0.7	-0.5	-0.5
4. Local Administration	S1313	0.7	0.5	0.3	0.3	0.5
5. Social Security Fund	S1314	3.0	2.6	2.5	2.5	2.4
6. Revolving Funds	S1311	-0.2	-0.2	-0.2	-0.1	-0.1
7. Unemployment Fund	---	-0.8	-0.7	-0.7	-0.7	-0.7
General Government (S13)						
8. Total Receipts	TR	34.6	35.4	35.8	35.4	35.0
9. Total Expenditures	TE	40.1	39.1	37.9	37.2	36.1
10. Net Lending	EDP.B9	5.5	3.7	2.1	1.8	1.1
11. Interest Payments	EDP. D41+FISIM	5.7	4.6	4.1	4.1	3.5
12. Primary Balance	---	-0.3	-1.0	-1.9	-2.2	-2.4
Components of Revenues						
13. Taxes	---	18.5	19.7	19.7	19.6	19.6
14. Social Funds	D61	7.4	8.0	8.3	8.3	8.2
15. Factor Incomes	D4	6.3	5.5	4.9	4.6	4.5
16. Other	---	2.0	1.8	1.8	1.9	2.1
17. Total Receipts	TR	34.6	35.4	35.8	35.4	35.0
Components of Expenditures						
18. Total Consumption	P32	17.7	17.2	17.1	16.6	16.2
19. Total Social Transfers	D62+D63	5.9	5.5	5.6	5.6	5.5
20. Interest Payments	EDP. D41+FISIM	5.7	4.6	4.1	4.1	3.5
21. Subsidies(1)	D3	0.8	0.7	0.8	0.7	0.7
22. Gross Fixed Capital Formation	P51	3.3	3.9	3.3	3.3	3.1
23. Other	---	6.7	7.0	7.0	7.0	7.1
24. Total Expenditures	TE	40.1	39.1	37.9	37.2	36.1

*(+) 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

	ESA Code	2009	2010	2011	2012	2013
Percentage of GDP						
1. Gross Debt	---	45.5	42.3	40.6	38.8	36.8
2. Change in Gross Debt	---	---	-3.2	-1.7	-1.8	-2.0
Contributions to Change in Gross Debt						
3. Primary Balance	---	---	-1.0	-1.9	-2.2	-2.4
4. Interest Expenditure	EDP D.41	---	4.7	4.0	4.0	3.5
5. Current GDP Growth	---	---	-6.5	-4.3	-4.1	-3.9
6. Other	---	---	-0.4	0.5	0.5	0.8

Table 4: Cyclical Developments*

	2009	2010	2011	2012	2013
1. Real GDP Growth (1998 Prices)	-4.7	6.8	4.5	5.0	5.5
2. Net Lending of General Government / GDP (%)	5.5	3.7	2.1	1.8	1.1
3. Net Interest Expenditure / GDP (%)	4.8	5.5	5.3	4.7	4.3
4. Potential GDP Growth (%)	2.8	3.2	3.7	4.0	4.2
5. Output Gap (Percentage Difference from the Potential)	-5.6	-2.0	-1.2	-0.3	1.0
6. Cyclical Component / GDP (%) **	1.3	0.3	-0.7	-0.9	-1.0
7. Cyclically Adjusted Balance / Potantial GDP (%) **	4.0	3.3	2.8	2.7	2.1
8. Cyclically Adjusted Primary Balance / Potential GDP (%)**	-1.5	-1.3	-1.2	-1.4	-1.4

*General Government
** (+) refers to deficit. (-) refers to surplus.

Table 5: Divergence from Previous Update

	2009	2010	2011	2012	2013
GDP Growth (Percent)					
Previous Update	-6.0	3.5	4.0	5.0	---
Latest Update	-4.7	6.8	4.5	5.0	5.5
Difference	1.3	3.3	0.5	0.0	---
General Government Net Lending (Percentage of GDP)					
Previous Update	6.6	4.7	3.5	2.7	---
Latest Update	5.5	3.7	2.1	1.8	1.1
Difference	-1.1	-1.0	-1.4	-0.9	---
General Government Gross Debt (Percentage of GDP)					
Previous Update	47.3	49.0	48.8	47.8	---
Latest Update	45.5	42.3	40.6	38.8	36.8
Difference	-1.8	-6.7	-8.2	-9.0	---

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

	2009	2010	2011	2012	2013
Exchange Rates					
Parity (USD/ €)	1.39	1.33	1.33	1. 33	1. 33
Real Exchange Rate (Percentage Change)**	-9.7	7.0	0.1	0.4	0.2
GDP Growth					
Euro Area (Real. Percentage Change)	-4.1	1.7	1.5	1.8	--
World Trade (In Real Terms)					
World Import Volume Increase (Percent)	-11.0	11.4	7.0	--	--
International Prices					
EU CPI (Percentage Change)	0.9	1.9	1.8	1.7	1.8
US CPI (Percentage Change)	-0.3	1.4	1.0	1.4	1.6
Oil Prices (USD per Barrel)	61.8	76.2	78.8	--	--

*IMF, World Economic Outlook, October 2010; EC, Economic Forecasts, Autumn 2010.
** (+) shows appreciation, (-) shows depreciation.

Table. 7: Structural Reform Agenda and Developments

Measures in Previous PEP	Realization Status (Y/N)	Date[15]	Comments
Privatization			
Privatization of electricity distribution companies	Y	2010	Privatization process of electricity distribution companies (Osmangazi, Uludağ, Çamlıbel, Çoruh, Yeşilırmak and Fırat) were completed.
Privatization of lottery games	N	---	Efforts are carried on to call again the cancelled tender related to privatization of the national lottery games by means of licencing.
The completion of the privatization transactions regarding TCDD İzmir, Derince, Samsun, and Bandırma Ports	Y	2010	Privatization transactions for TCDD Samsun and Bandırma Ports were completed. Works for the zoning plan in order to call again the cancelled privatization tender of İzmir and Derince ports are still in progress.
Privatization of Çamaltı and Ayvalık salterns belonging to TTA	Y	2010	Privatization process of İzmir Çamaltı and Ayvalık salterns were completed.
Privatization of TŞFAŞ (Sugar Factories Co.)	Y	2011	In order to privatize Kastamonu, Kırşehir, Turhal, Yozgat, Çorum and Çarşamba Sugar Factories belonging to TŞFAŞ as whole C portfolio group, via asset sale, tender process has been completed, and their procedures are at approval stage. Works to privatize all sugar factories until the end of 2011 are proceeding.
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	2011	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.	Y	2010	Regarding establishing a legal and institutional infrastructure with regard to monitoring and supervising state aids in order to make the state aid system compliant with the EU acquis, and to make the system more transparent and efficient, "Law on Monitoring and Supervision of State Aids" with Law No.6015 was prepared and entered into force after being published on the Official Gazette dated 23 October 2010.
Improvement of the Investment Environment			
The Draft Bill on Amending the Law on Work Permits for Foreigners and some other laws	Y	2010	12th Article of The Law on Work Permits for Foreigners, which arranges the work permits or their extention, was amended by the Law No. 5951 published on the Official Gazette dated 5 February 2010 No. 27484.
The Coastal Act	N	2011	Concerning The Draft Bill Amending the Coastal Act prepared by Ministry of Public Works and Settlement, the process of gathering the opinions of the related entities is going on.
Turkish Commercial Law	Y	2011	The draft Law was enacted by TGNA and submitted to the Presidency of Turkish Republic.

[15] 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	Y	2010	Within the framework of the works carried out by ISE since 2008 for the establishment of the market, where the capital market instruments issued by SMEs will be traded, ISE Emerging Companies Market Regulation entered into effect by being published on the Official Gazette in August 2009. Issues subject to the approval of CMB and technical works by ISE were completed and the emerging companies market under the ISE is now taking the applications of the companies willing to trade in this market.
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 EU acquis about the capital adequacy of the intermediary institutions	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	2011	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, 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 timing of 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 about food, feed, food hygiene and veterinary services	Y	2010	Chapter 12 was opened to the negotiations by means of the enactment of Law No. 5996 on Veterinary Services, Plant Health, Food and Feed

Enactment of the law on the establishment and duties of the Ministry of Agriculture and Rural Affairs	N	2011	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 from especially providing plant health, veterinary and food safety services 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.
Regional Development			
By-law Amending the By-law on Budget and Accounting in Development Agencies	Y	2010	"Total amount of allocation relating to projects and activities which were announced in the financial year but their implementation impend to the following years shall be shown as estimated cost in the three months expenditure programme regarding the related year budget providing that this amount granted in its budget and financial resources transfer shall realize accordingly" statement was appended to the Article 28 of By-law on Budget and Accounting in Development Agencies.
By-law Amending the By-law on Development Agencies Surveillance	Y	2010	Two expressions, "until the date of 1 July 2010" and "until the date of 1 July 2011" located in the first paragragh of the Provisional Article 3 of By-law replaced by "until the date of 1 January 2012" and "until the date of 1 July 2012", respectively.
Health and Social Security Reform			
Implementation of family medicine will be extended	Y	2005-2010	Family Medicine was extended to whole country.
National Health Information System will be strengthened	Y	2010	Pilot implementation of Hospital Appointment and Referral Integration System will be extended. Individuals' digital data regarding primary health in the family medicine information system will be expanded to cover hospital services. Studies for medicine tracking system will be completed. Implementation of tele-medicine will be extended.
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. Currently it is at the Justice Commission of the Assembly.
Cyber Crime Convention of the European Council, No. 185	Y	2010	Turkey signed the Cyber Crime Convention of the European Council, No. 185 on 10 November 2010.
By-Law on Processing of Personal Data and Protection of Privacy in the Telecommunications Sector	N	2010	Work is underway to ensure harmonization with 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 networks.

Law on Amendment of Some Articles of the Constitution of Republic of Turkey, No. 5982	Y	2010	With the 2nd Article of the Law No. 5982, which was published in Official Gazette dated 13 May 2010 No.27580 and was accepted as result of the referendum held on 12 September 2010, a new article regarding protection of personal data was added to Article 20 of the Constitutionof Republic of Turkey.
Energy			
Continuation of privatization process of the electricity distribution companies	Y	2011	Privatization works of electricity distribution assets have been continued in 2010. Privatization of electricity distribution regions is expected to be completed in 2011.
Continuation of privatization process of the electricity generation companies	N	2004-2012	Privatization tenders of small hydroelectricity power plants have been performed in 2010. It is expected that the privatization of electricity generation companies will be accelerated in 2011.
Improving 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 occupational safety and training activities, revision of human resources policies, recovery of the IT structure and restructuring of the organization is planned. The Project was submitted in scope of 2009 Pre-Accession Financial Cooperation Programming and was accepted by the European Commission. The Financing Agreement 2009 required for implementation of the project was signed in December 2010 and the project is expected to commence actually in 2011.
Activities to provide supply security in electricity	N	2007-2010	Necessary measures will be taken to activate the licenses for investment and to complete the investments within the envisaged periods. Investments for efficiency improving and rehabilitation in public power plants will be continued. A law will be enacted to keep adequate amount of petroleum stock, align the stock system with the EU legislation and establish a more robust stock management.
Institutional division of coordination and supervision activities in nuclear energy field	N	2007-2011	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.