
REPUBLIC OF TURKEY

**MEDIUM TERM
PROGRAMME
(2010 - 2012)**

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INTRODUCTION

The most rapid contraction in the global economic activity after the Second World War has been experienced in 2009. The Medium Term Programme, which covers 2010-2012 periods, aims at resumption of robust and sustainable growth period for Turkey in these challenging times which contains intensive uncertainties in the world.

Current international conjuncture entails the increase of the pace of structural reforms that Turkey requires. The fundamentals of our economy will be more strengthened by the measures and structural reforms in the scope of The Medium Term Programme. The Programme, prepared with a holistic approach, will increase the predictability in our economy and strengthen the trust.

It is envisaged that Turkish economy will start to grow again in 2010 and the pace of growth will begin to increase as of 2011.

In order to obtain important gains in near future, the foreseen policies in the Programme will be carried out in a determined and timely manner. In the programme period, developments in global economy will be closely observed and necessary policies will be formulated with a dynamic approach.

I. ECONOMIC AND SOCIAL OUTLOOK

Transformation efforts since 2000

Increasing vulnerabilities in the macroeconomic structure, resulted from the fiscal and monetary policies implemented throughout 1990's, deteriorated the stable growth of Turkish economy; years, in which high growth rates were observed, were followed by the ones in which economic contraction or low growth rates were experienced. In this period, besides the unstable growth, high inflation, ever-increasing public deficits and debt stock, high interest expenditures and inefficiencies were the fundamental problems of the economy. Structural transformation to overcome the difficulties in the economy was not realized in this period.

In the aftermath of 2001 crisis, tight fiscal and monetary policies as well as structural reforms which will increase the life quality of our people, ensure a permanent macroeconomic stability and provide the economy with a flexible and productive structure, constituted the basic characteristics of the implemented policies. In this period, confidence and stability in Turkish economy were established and a deep rooted process of change was commenced towards the restructuring of economy and public management.

Significant developments, aimed at the enhancement of the competitiveness in economy, were realized in the fields such as financial sector particularly banking sector, the independence of Central Bank, tax, public finance, public financial management, labour market effectiveness, improvement of business climate, R&D, transportation, infrastructure of energy and ICT, agricultural subsidy, regulatory and supervisory agencies, public procurement system and privatization.

So as to improve life quality and income distribution, reformist steps have been taken in the areas such as social security, health and education infrastructure, housing and urban transformation, tax reductions in basic commodities, social assistances and tax reductions for low income groups, university establishments to enhance human resources, renewal of curricula and active employment programs.

In order to contribute to regional development; development agencies have been established, efforts within the context of Southeastern Anatolia Project (GAP), Eastern Anatolia Project Master Plan and Kon-ya Plain Project (KOP) have been intensified, Village Infrastructure Support Project (KÖYDES) and Municipal Infrastructure Support Project (BELDES) were carried out for the development of rural infrastructure and model development programs were performed.

To increase prevalence, quality and efficiency of the public services, important steps have been taken on the areas such as local administration reform,

e-transformation, justice, tax, land registry and cadastre infrastructure, disaster and emergency management.

Negotiations towards full membership to the EU were initiated and concrete developments were realized in the process of harmonization with the EU Acquis, foreign policy initiatives were conducted to enhance the international cooperation on economic and social fields and access new markets.

Political stability in our country, fiscal discipline and monetary policies implemented determinedly, realized structural reforms, positive conditions in international markets bring about desired outcomes with regard to macroeconomic stability and public balances.

In 2003-2007 period, annual average of 6.9 percent growth rate was realized. Moreover, in the same period, a high level of public primary surplus, 4.6 percent of GDP on annual average, was experienced. The ratio of total public debt to GDP, which was 10 percent in 2002, has been decreased to 0.1 percent and the ratio of the EU defined general government nominal debt stock to GDP fell to the level of 39.4 percent from a level of 73.7 percent. In the same period, annual consumer price inflation declined from 39 percent to 8.4 percent.

Turkey's 2003-2007 experience demonstrated that fiscal discipline, declining inflation and a sound growth performance would have been simultaneously carried out.

In this period, a high performance has also been performed in exports. On the other hand, rise in energy prices, increase in imports as a result of the dependence of domestic production to the imports and boost in domestic demand lead to high level current deficit. In addition, thanks to direct international capital inflow with the contribution of stability and confidence atmosphere, the financing of high current deficits were managed without any problem.

The Emergence of Global Crisis

Originating from the US housing market crash in the second half of 2007, the decline in asset prices in developed markets resulted in a decline in household wealth and thereby a contraction in domestic demand. This process also inflicted serious damage to the balance sheets of important investment banks. In such a period where a high level of global economic and financial integration existed, these developments quickly started to influence all economies worldwide. Starting from the second half of the 2008, the instability, which arose first in developed countries' financial markets and then spread to developing countries in the course of time, reached alarming levels and transformed into a global economic crisis.

Starting from the last quarter of 2008, many developed economies entered into recessionary period and growth rates began to slow down in many developing countries. It is forecasted that, world output will contract by 1.4 percent, United States by 2.6 percent, Japan by 6 percent, and Euro Area by 4.8 percent in

2009. On the other hand, developing countries are expected to grow by 1.5 percent mainly due to the high growth rates of China and India. The impacts of adverse developments in world economy can be observed more strikingly in world trade volume. As a matter of fact, it is forecasted that world trade volume will shrink by 12.2 percent in 2009.¹

Due to the significant declines in employment, it is forecasted that unemployment rates will rise in Euro Area from 7.5 percent to 10 percent, in United States from 5.8 percent to 9.3 percent, and in OECD countries from 5.9 percent to 8.5 percent in 2009.² The worldwide unemployment rate, on the other hand, is expected to increase by 2.6 percentage point.³

In 2009, inflation rates are expected to fall all over the world due to the global contraction. It is forecasted that consumer prices will rise by 0.1 percent in developed countries and by 5.3 percent in developing countries. On the other hand, it is expected that oil prices will decrease around 38 percent and non-fuel commodity prices around 24 percent in 2009, compared to the previous year.⁴

As a result of global economic contraction and the fall in inflation rates, it is expected that the ongoing decline in interest rates will continue in 2009 and interest rates will continue to float at low levels.

1 IMF, World Economic Outlook, July 2009 Update

2 OECD Economic Outlook, June 2009

3 IMF, World Economic Outlook, April 2009

4 IMF, World Economic Outlook, July 2009 Update

The recent data indicates that a relative recovery is beginning in world economy, the instability in financial markets is decreasing, and consumer and investor confidence are getting better comparatively. In this context, a positive revision may be the case for the above mentioned estimates on global economic growth. However, taking the depth and extend of the current global crisis into account, there are still some uncertainties especially on how fast the labour market will recover. Another factor preventing the formation of a strong positive expectation on global outlook is the different pace and scope of economic recovery in different parts of the world.

In the current outlook, there is a common agreement that all countries should act cautiously. There is also a consensus on the fact that the fiscal and financial measures administered to overcome the global crisis and the supports for the finance sector should not risk the price stability, financial stability, and financial sustainability in the medium and long term. In this context, a lot of countries are creating medium term programs and targets and designing exit strategies for the post-crisis period. The coordination of these strategies in a global manner will be the key factor for the recovery process.

The Effects of Crisis on Turkey

Global crisis affected Turkish economy through trade, financing and expectations channels.

Because of the fact that the impacts of crisis were more adverse on EU region, which constitutes around 50 percent of our exports, our export performance was affected negatively and exports, especially based on driving sectors, has started to decrease significantly since November 2008. This decline in exports which contributed significantly to the growth performance in recent years affected production and employment negatively.

Financing is the second channel that the crisis affected Turkish economy. As a result of the global financial crisis, similar to other developing countries net capital outflows was realized in Turkey starting from October 2008. Following this, real sector had difficulties about foreign financing, the access of which was easy in previous years. Therefore, the short-term and medium term foreign debt roll-over ratio of non-bank private sector decreased to 73 percent in the first 7 months of 2009, from 191 percent in 2008.

Global crisis increased uncertainty in Turkey similar to entire world. The increasing uncertainty caused investment and consumption decisions to be delayed and decreased the economic activity significantly through its negative effects on both confidence environment and forward looking expectations. The increase in production capacity of Turkey was restricted and the usage of existing capacity was affected negatively.

GDP decreased by 6.5 percent in the last quarter of 2008 and GDP growth rate was realized as 0.9 per-

cent in 2008. GDP is expected to decline around 6 percent in 2009. According to quarterly data, the decrease in economic activity, which was 14.3 percent in the first quarter of 2009, improved to 7 percent in the second quarter of the year. This tendency is expected to continue and in the third and fourth quarters of 2009, economy is expected to recover significantly.

This contraction in economy resulted in a decrease in employment and an increase in unemployment levels, similar to many other countries. Employment is expected to decrease by 1.1 percent compared to the previous year and become 14.8 percent in 2009. Besides employment losses, increase in labour force participation rate was also effective on these figures.

Crisis had some positive consequences on current account balance, inflation and foreign debt stock. Imports declined more than exports, thereby current account deficit decreased significantly. The contraction in imports stemmed partly from the decline in energy prices and partly from the slowdown in economic activity. Especially in a period of limited foreign financing facilities, the decrease in current account deficit eased the financing of deficit.

In addition to significant declines in commodity prices following demand contraction around the world, the contraction in domestic demand contributed to the declining trend in inflation. The decreasing inflationary pressures enabled the Central Bank to implement growth supporting monetary policy without deviating from the main objective of price stability.

The effect of global crisis on Turkish banking sector was quite limited. Contrary to many other countries, the necessity of intervention to the banking sector by public sector or resource transfers did not arise. The improvement in regulation and supervision framework and restructuring of the sector were the key factors of this success.

However, the global crisis has significant adverse effects on public finance performance. Tax revenues were realized well below the projected budget forecasts as a result of the contraction in growth and tax cuts to support the real sector. On the other hand, expenditures were realized as projected in budget regardless of the growth. Besides, additional increases were made in some expenditure items to lessen the impacts of the crisis. The contraction in economic activity caused social security premiums to stay well below the targets and an obvious increase in social security deficit was recorded. As a result, budget deficit, debt burden and Treasury debt rolling ratio increased more than projected.

Central government budget deficit for 2009 which was foreseen as 10.4 billion TL at the beginning of the year, is expected to realize as 62.8 billion TL as of the end of year, and IMF-defined primary balance for 2009, which was foreseen to give a surplus of 29.8 billion TL at the beginning of the year, is expected to give a deficit of 20.8 billion TL as of the end of 2009.

These developments in the budget balance and the contraction in the economy caused an increase in

EU-defined general government nominal debt stock to GDP ratio, which has been decreasing for the last seven years. EU-defined general government nominal debt stock to GDP ratio, which was realized as 39.5 percent in 2008, is expected to increase to 47.3 percent in 2009.

Measures Taken in Turkey Against the Global Crisis

In order to lessen the adverse effects of global crisis on Turkish economy, a series of expenditure and revenue measures have been taken since mid-2008. Along with the measures taken by the Central Bank, BRSA (Banking Regulation and Supervision Agency) and CMB (Capital Markets Board), measures that have no direct or instant effect on budget are also taken in order to increase credit volume and guarantee limit. With these measures, it is aimed to ease the economic activity, which is under pressure because of the crisis, by increasing the transactions in the good markets and thereby increasing the flow of goods and money; to accelerate the process for economic growth by restricting the effects of the crisis on potential production; and to sustain the employment and production levels.

In order to maintain the existing employment and create new employment, conditions of allowance for short-term working and eligibility criteria for unemployment benefits were improved; funds for education of labour force were increased; and new employment

areas for short-term working were developed. Transfers to EXIMBANK and KOSGEB (Small and Medium Industry Development Organization) and funds allocated to local administration from the central budget were increased to support the private sector. Additional funds to South Eastern Anatolian Project and investment projects of other infrastructure and irrigation were provided.

Arrangements for tax benefits to introduce some assets to national economy and tax concession were introduced in order to reduce the foreign financing problem resulted from the international credit crunch. Besides, to cut down the employment costs and to improve employment opportunities for the young, women and disabled, arrangements that decrease the employer's share of insurance premium were made. Moreover, in order to increase the domestic demand, reduction on tax rates were introduced for sectors that were significantly affected from the crisis. Finally, unpaid taxes were restructured in order to lessen the social and economic effects of the crisis, the duration of the Law No. 5084 was prolonged for a year, and also tax reductions and support for moving the factories were introduced with the new investment incentive system taking into consideration the regional differences.

Including various expenditure and revenue measures, the total cost of support packages on the budget is expected to be around 0.8, 2.1 and 1.6 percent as a ratio to GDP for 2008, 2009 and 2010, respectively.

II. MAIN OBJECTIVES AND REFORM AREAS

The main objective of the Medium Term Programme covering 2010 – 2012 periods is to provide our economy with sustainable growth period again and thereby to increase the social welfare of our country by taking the advantage of the powerful aspects of our economic and social structure in the course of breaking through the global crisis.

Public sector has crucial role in reducing the effects of global crisis on economy with the implementation of revenue and expenditure policies. From that policies, the short term ones focus on increasing consumption expenditures and eliminating bottlenecks in credit system, while the medium term ones concentrate on permanent increase in production, investment, and export in economy. Accordingly, it is targeted that breaking out the crisis and following growth process would be realized with the leadership of the private sector.

Gradual reduction in public sector borrowing requirement and maintaining the price stability is crucial to increase the available resources and the foresight of private sector in investment and production decisions.

In the Medium Term Programme period, a comprehensive structural reform program which will enhance competitiveness, ensure lasting improvement

in growth and fiscal balance will also be implemented. In this context;

- **Fiscal rules will be implemented.**

It is targeted that the legal infrastructure related to the fiscal rules will be completed before the first quarter of 2010. Starting from 2011 budget year, public fiscal management will be carried out in accordance with the determined fiscal rules. The necessary improvements in implementation, monitoring and control of the public fiscal management system will be made in 2010.

Within the framework of fiscal rules, public deficit to GDP ratio in the medium-long term is targeted to realize at a level compatible with a sustainable debt structure. The deviation of the actual deficit from the medium-long term target in the previous year will be considered while setting public deficit adjustment.

Another factor which will be taken into consideration when determining the adjustment in public deficit⁵

5 Fiscal rule can be expressed as $\Delta a = y(a_{-1} - a^*) + k(b - b^*)$

Δa : public deficit adjustment/GDP

a_{-1} : previous year realized public deficit/GDP

a^* : targeted medium-long term public deficit/GDP

b : real GDP growth rate

b^* : long term average of real GDP growth rate

y : convergence velocity coefficient of public deficit to medium-long term target

k : reflection coefficient of conjuncture effects

(y and k coefficients are negative. The negative Δa indicates a decrease in public deficit. Values of parameters, definition and content of public deficit, details about application, monitoring and reporting, exceptions and other issues will be finalized during the process of infrastructure formation for fiscal rule.)

is the effect of conjuncture. The adjustment in the public deficit will be higher when the annual growth rate is higher than the long-term growth rate average, lower when the annual growth rate is less than the long-term growth rate average.

- **A new governance model in SEEs will be implemented.**

A new draft law, based on the accountability, transparency, flexibility in decision-making processes and strategic management approach in SEEs, will be prepared.

- **Current public expenditures will be directed to priority areas.**

Under the coordination of State Personnel Agency, idle personnel in the public sector will be determined and public sector needs will be met primarily from this personnel. Under the supervision of Ministry of Finance, current expenditures and operations and savings opportunities will be reviewed, and the non-priority expenditures will be carefully avoided during the Programme period. Appropriations will be used without creating debt.

- **Public investments will be prioritized and made more efficient.**

Resources, allocated for public investments, will be directed to high priority economic and social infrastructure investments.

- **In the financing of investments, the use of public-private collaboration models will be expanded.**

In order to increase the volume of investment and accelerate them, the legal infrastructure of public-private collaboration model will be completed in 2010, and the number of projects carried out with this model will be increased.

- **Health services and expenditures will be made efficient.**

Under the coordination of Social Security Institution (SSI) in 2010, the prices in Health Communication Communiqué will be updated according to actual costs without increasing the total burden, and diagnosis related pricing system will be expanded. Measures to prevent unnecessary use of medicines and services will be taken. Global budget application will be expanded in the health expenditures.

- **Appropriateness and efficiency in social aids will be achieved.**

In 2010, under the coordination of the Prime Ministry, the duties and responsibilities of relevant organizations will be redefined in order to increase coordination and ensure appropriateness in the social aid system. Efficiency in spending will be provided by the strengthening of administrative capacity and the integration of IT infrastructure.

- **Agricultural supports will be rearranged.**

Agricultural support payments will be differentiated on the basis of field and product in order to increa-

se competitiveness in the sector and provide stability in revenues. Management and control of the supports will be made area-based.

- **Loss and fraud in taxes will be reduced.**

An effective inter-agency cross-control system will be established in the year 2010. Performance criteria about the reduction of loss and fraud in taxes will be determined for the Revenue Administration; these criteria will be followed precisely; measures will be taken towards the Revenue Administration to work more effective in this context. Also, income tax law will be renewed in the year 2010.

- **Fight against smuggling will be activated.**

Measures will be implemented in order to reduce the illegal trafficking of the goods such as fuel, tobacco and alcohol.

- **Arrangements will be made for the local governments to increase their own revenues and improve their financial management.**

Arrangements, increasing the own revenues of Municipalities and special provincial administrations, will be implemented in 2010 in order to strengthen their financial structure and increase their managerial responsibilities towards their fellow countrymen.

- **Training the man power will be accelerated in the nature that the business world demands.**

It will be provided that the representatives of the business world will take an active role in the manage-

ment of vocational schools and in determining the programs. Administrative and legal regulations on this issue will be held under the coordination of Higher Education Council in 2010. The Lifelong Learning Strategy, which was already prepared, will be implemented under the coordination of the Ministry of Education in 2010. The implementation of occupational standards and certification system, prepared under the coordination of Vocational Qualification Authority, will begin in 2010.

- **Forms of flexible employment will be expanded.**

To increase employment and reduce informal economy, flexible working models will be encouraged and expanded in the framework of flexicurity.

- **The contributions of newly established universities to the growth process will be increased by strengthening their human resources and physical infrastructure.**

Need for teaching staff of the universities, established between the years 2006-2008, will be resolved by using the Faculty Training Program and distance learning technologies under the coordination of Higher Education Council; and physical infrastructure needs will be met in advance.

- **Development agencies, of which organization process completed, will be put into operation.**

In 2010, all development agencies across the country will reach a capacity to provide financial and

technical support by putting them into operation. Agencies will execute programs that will support development, competitiveness and innovative local initiatives.

- **State aids will be made more transparent and efficient.**

Under the responsibility of Treasury, the legal and institutional infrastructure will be created to monitor and supervise the state aids in 2010.

- **The efficiency of Credit Guarantee Fund will be increased.**

The Credit Guarantee Fund, which was provided Treasury support guarantee in order to expand credit channels and meet the collateral needs of SME financing, will be made more operational.

- **The speed and efficiency of the judicial system will be increased.**

To improve the business environment, to enhance predictability and for effective functioning of market economy, related laws will be amended and the speed and efficiency of the judicial system in this field will be strengthened.

III. MACROECONOMIC POLICIES AND OBJECTIVES

Basic macroeconomic priorities of this program are to provide a transition of the economy for a sustainable growth period again, to increase employment, to maintain disinflation trend and to set public balances in order which has been deteriorated by the influence of the global crisis. To this end, the program captures short term measures and medium term structural reforms. Compatible execution of fiscal and monetary policies is very important in order to reach program targets.

The recovery of our country from the influence of the global crisis is closely related with the improvements in the world economy. Targets in the program are determined by taking also forecasts about foreign economic conjuncture. Recent estimations of international institutions suggest that throughout the world the recovery will start from the beginning of the last quarter of 2009 and in 2010 a positive growth will be realized even at a low level. However; in many countries especially in the developed ones, rises in the unemployment rates are estimated to continue also in 2010. Due to weak demand and employment conditions, global inflation is estimated to maintain at low levels also in 2010.

According to the frame of predictions regarding the world and measures to be taken, in the Program-

me period gradual improvement has been aimed in economic growth and public balances. Besides economic growth, with the help of policies to be implemented for the labour market, it is aimed that the escalation period in employment will begin in 2010 and thereby gradual downturn in the unemployment rate will start. Although, the tendency to increase in the current account deficit is anticipated in the Programme period by the influence of economic recovery and structural effects, current account deficit is predicted to remain in sustainable levels.

A. MACROECONOMIC POLICIES

1. Growth and Employment

- i. Monetary and fiscal policies, provided that they do not conflict with the price stability objective of the Central Bank, will be implemented in co-ordination in a way to support economic growth and stability.
- ii. In accordance with the aim of facilitating the economy to exit from the crisis and establishing a sustainable growth structure again, new policies will be executed to increase private sector investment, export and employment.
- iii. Public investment projects will be given weight in order to provide renewal and expansion of physical and social infrastructure investments in economy.

- iv. According to the new incentive system framework, large scale investments and investments in sectors determined on a regional base will be supported.
- v. Development agencies will contribute to increase the production and income by getting local potential into act.
- vi. A comprehensive industry strategy based on the creation and improvement of technological innovations will be carried out in cooperation with private sector.
- vii. In order to increase non-agricultural employment in rural areas, putting rural development policies and agriculture based industrial policies into practice is essential.
- viii. Resources to improve knowledge intensive and high technology based production structure will be raised, so a sustainability of the economic growth will be provided.
- ix. Structural reforms that contribute to a sustainable growth process will be continued.
- x. Domestic savings and long term capital inflows that do not create debt will be encouraged.
- xi. Collateral support provided by the Treasury to credit guarantee fund will be put into place effectively in order to make credit channels effective and meet collateral and financing requirements of SME's.

xii. A convenient environment for private sector to make long term plans will be established by decreasing uncertainties stemming from public policies.

2. Fiscal Policy

The main target of the fiscal policy which will be pursued in the Programme period is to gradually reduce the public sector deficit which has increased with the impact of the economic crisis to reasonable levels in order to lower the increasing share of resource usage of the public sector.

Implementation of fiscal policy, in harmony with the revenue and monetary policy will be carried out by an approach that ensures the realization of the medium term fiscal targets determined in this Programme, which is related with revenue, expenditure, public sector deficit and debt.

As of 2011 budget period, public financial management will be implemented in accordance with the fiscal rules determined.

The statistics related to public finance which has great importance in making and analyzing the policies will be provided as more inclusive and of good quality.

The efforts aiming at strengthen the fiscal transparency will be maintained and arrangements and implementations which violate fiscal transparency will be diligently avoided.

a. Public Expenditure Policy

In utilization of public resources, it is essential to act in accordance with pre-determined policies and priorities and to build public expenditures on firm grounds by revising activities and projects in terms of necessity, effectiveness and efficiency.

The basic expenditure policies that will be implemented during the Programme period are as follows:

- i) The expenditure programs will be reviewed by the public administrations; activities and projects which have lost their priority and are inefficient will be eliminated.
- ii) Regarding the employment of new personnel in the public sector, the limitations in the central government budget laws will be continued.
- iii) Without compromising the quality of health services, measures aiming at making medicine and treatment expenditures more rationalistic will be continued as such including the arrangements that make beneficiaries contribute to the costs of the system.
- iv) General health insurance system will be continued to be implemented together with the health transformation program in order to keep its financial burden at a reasonable level.
- v) The deductions from the general budget tax revenues of the local governments on account of the liabilities to the public sector will be made re-

gularly and the ratio of deductions will be determined in a way that it will avoid new debts and help reducing the stock of debt.

vi) Concerning the arrangements and implementations leading to fiscal outcomes, impact analyses including medium and long term reflections as well as short term will be made.

vii) In order to make social assistance programs more effective, the social assistance system will be restructured by taking it as a whole.

b. Public Investment Policy

The effectiveness of public investments will be enhanced. The investments will be directed towards infrastructure that meets social needs having priority and supports productive activities and it will be used as an effective instrument in realizing the aims of sectoral, regional and cohesion to EU. Within this framework;

i) The efforts targeting efficient use of the existing capital stock and effective, productive and punctual realization of public sector investments will be maintained.

ii) Infrastructure investments in education, health, technological research, transportation, drinking water and improvement of communication and information technologies will be given priority.

iii) Public sector investments, especially South Eastern Anatolian Project, Eastern Anatolian Pro-

ject, and Konya Plain Project, will focus on economic and social infrastructure projects that aim at reducing inter-regional development disparities.

iv) The investments required by the efforts for realizing the policies and priorities maintained for the EU membership will be accelerated.

v) The usage of models that encourage private sector participation in public infrastructure investments will be enhanced.

vi) The proposals of and the decisions on public investments will be based on sectoral research including problem and result-oriented analyses and qualified feasibility analyses and studies.

c. Public Revenue Policy

The main aim of the public revenue policies is to contribute to support growth, investment and employment and reduce informal economy. Encouragement of individual and institutional savings and capital accumulation has particular importance. Within this framework;

i) Stability in implementing tax policies and foresight in taxation will be essential. Legal structure in tax legislation and implementations will be strengthened in order to maintain simplicity and stability.

ii) The studies regarding the determination of fiscal amount of tax expenditures will be finalized.

- iii) Audits for the purpose of preventing tax losses and exiles, mainly in heavily taxed products will be increased.
- iv) In order to ensure punctual payments of taxes and other fiscal liabilities, an effective collection system will be established.
- v) The studies about increasing voluntary tax obeying and broadening the tax-base will be continued.
- vi) Lump-sum taxes and fees will be updated by taking the general economic environment into account.
- vii) Studies about strengthening the audit and implementation capacity of tax administration will be continued.
- viii) Necessary arrangements will be made for tax disputes in the area of administrative adjudication.
- ix) In order to strengthen fiscal structure of municipalities and special provincial administrations and increase their administration responsibilities towards their citizens, arrangement about raising their own revenues; will be implemented. In order to increase local administrations' proprietary revenues, it will be benefited more from the increases in asset values led by the construction and infrastructure services.

- x) Necessary measures will be taken for State Economic Enterprises in order to discharge their tax liabilities of past years.

d. Public Borrowing Policy

The main target of debt management is to meet financing need at the lowest possible cost in medium and long term, in accordance with the risk level determined considering cost factors, domestic and foreign market conditions.

- i) In order to increase the amount of funds that can be used by the private sector, rollover ratio of domestic debt will be decreased gradually.
- ii) Regular announcement of the financing programs and debt information and increasing the transparency in debt management will be continued.
- iii) Studies about the development of new instruments and retail sales methods in order to enhance the investor base of Government Domestic Borrowing Instruments will be continued.
- iv) In order to enhance public borrowing facilities and decrease the costs, financing instruments will be developed in accordance with the investors' demands.
- v) To reduce liquidity risks, which may arise from cash and debt management, the policy of holding adequate amount of reserves and the studies for more effective management of cash reserves will be continued.

e. Public Fiscal Management and Audit

In order to realize new fiscal management and auditing understanding in public sector created by Public Financial Management and Control Law No. 5018, which aims that the administrative and fiscal responsibilities are fulfilled, it is essential that internal control systems in a healthy way to be established and internal and external auditing are conducted in an effective and coordinated way.

i) To ensure an effective external auditing in accordance with Public Financial Management and Control Law No. 5018, necessary regulations about Court of Accounts will be made.

ii) To enhance auditing capacity of Court of Accounts, emphasis will be given to training activities.

iii) In order to ensure fiscal discipline and increase the efficiency of public expenditures, auditing activities of Court of Accounts at the international standards will be made widespread in public sector.

iv) In order to ensure expected performance from auditing activities of Court of Accounts, it is needed that internal control systems are to be established in accordance with the international standards in whole public sector and internal audit systems to be functional. In this context, necessary steps will be taken by Court of Accounts to make internal control and auditing systems function in a healthy way.

v) In order to strengthen responsibility of administration in public sector institutions, measures about effective implementation of fiscal management, internal control and internal audit activities will be strengthened.

vi) To increase the number of internal auditors who could be assigned in public sector, training and certification activities will be accelerated.

f. State Economic Enterprises and Privatization

It is essential that SEEs will be operated in accordance with profitability and efficiency principles. Privatization activities of SEEs in line with a pre-determined schedule and strategy will be maintained decisively.

i) A strategic management approach based on delegation, accountability, transparency, efficiency in decision making processes and performance based management in SEEs will be made widespread.

ii) All corporate policies of SEEs will be determined so as to attain the targets foreseen in the strategic plans and in the general investment and financial decrees, and implemented effectively.

iii) The current market value will be taken as the basis in appraisal of idle real estate properties of SEEs. The transfer of properties of SEEs which are not idle will be possible in such a way so as the efficiency and integrity of the SEEs and environmental health will not be adversely affected.

- iv) Problems of operating units of SEEs that incur losses will be resolved by also taking their functions into account.
- v) Measures will be taken to meet SEEs requirements for qualified personnel.
- vi) It is targeted that public will withdraw from distribution of electricity and sugar production sectors completely; the share of public in telecommunication and port operation sectors will be decreased. Preparation studies intended for public offerings of some part of shares of Ziraat Bank will be started; decisions regarding implementation will be made by taking the results of efforts and market conditions into account.

3. Monetary Policy

Monetary policy in 2010-2012 periods will be implemented in accordance with the inflation targeting regime. Within this framework the basic objective of the monetary policy is to establish price stability.

In line with this target;

- i) The short term interest rates will continue to be used as the main policy tool.
- ii) The collaboration between the Government and Central Bank in determining inflation target will continue.
- iii) Central Bank, in order to support healthy work of transmission mechanism in line with monetary policy targets, will continue to execute li-

quidity management in a flexible and effective way.

iv) In a case where the problems in international credit markets create loss of confidence in domestic financial system, Central Bank can take additional measures to overcome the foreign exchange and Turkish Liras liquidity shortage and to make the markets operate healthier.

v) The floating exchange rate policy will be pursued.

vi) Foreign exchange selling auctions may be started if unreliable price formation occurs as a result of loss of depth in exchange market. Moreover, in case of speculation depending on loss of market depth, the foreign exchange market can be intervened directly.

vii) If foreign exchange supply exceeds demand, foreign exchange buying auctions can be made in line with the general strategy of having strong foreign exchange reserves position.

viii) Inflation Report will continue to be the main communication tool of monetary policy and accounting mechanism.

ix) In cases which inflation realizations exhibit excessive deviations from the target or when any probable risk of deviation emerges, to ensure accountability and transparency of the monetary policy, the Central Bank will declare in written form to the government and announce to the public the

reasons of the deviation from the target and measures that should be taken in order to converge to the original target again.

4. Balance of Payments

Sustainability of the current account deficit during the Programme period and financing it by the resources that do not create debt are major aims. Within this framework;

- i. In order to provide sustainable export growth, production and marketing processes of innovation and R&D based, high value added and branded products and services will be encouraged.
- ii. Directing towards value added increments in traditional export sectors, existing supports regarding design, brand, marketing and advertisement will be improved by diversification.
- iii. Exports to neighbours and periphery countries, African and Asia-Pacific countries, anticipated relatively less influenced by the global crisis, will be increased within the context of market variety strategy at exports.
- iv. In order to decrease high dependency of production and exports on imports, domestic production capacity intensifier policies and supports will be maintained especially in intermediate and capital goods.

v. To provide the supply of safe and quality products to domestic markets, progress at harmonization of our regulation to EU technical regulation will be recorded. Furthermore, our regulations will also be made compatible with product safety audit systems at EU imports from the third-world countries.

vi. With the aim of increasing financing facilities against the global crisis, credit and guarantee supports to production and exports will be maintained to deliver.

B. TARGETS AND INDICATORS IN THE PROGRAMME PERIOD

1. Growth and Employment

i. Taking economic contraction in 2009, domestic and foreign demand conditions and foreign financing opportunities into consideration, it is targeted that economic growth will be about 3.5 percent in 2010 and will gradually reach to 5 percent in 2012.

ii. In Programme period, annual real private consumption expenditures are expected to increase by 3.5 percent, annual real private fixed capital investment expenditures by 10 percent, annual real public consumption expenditures by 2.4 percent and annual public fixed capital investment expenditures are expected to increase by 1.2 percent on average.

iii. In line with growth that is expected in Programme period, it is estimated that there will be an increase about 1 million 250 thousand people in employment.

iv. The unemployment rate which is estimated to increase to 14.8 percent because of the crisis in 2009 is expected to decline to 13.3 percent at the end of the Programme period.

2. Public Finance

i) It is foreseen that public sector deficit to GDP ratio, which is expected to be 6.5 percent at the end of 2009, would decline to 2.1 percent at the end of the Programme period.

ii) Similarly, it is targeted that general government deficit to GDP ratio, which is expected to be 6.6 percent in 2009, would decline to 2.7 percent in 2012.

iii) At the end of the Programme period, it is expected that public sector balance excluding interest payments and privatization revenues to GDP ratio would increase to 2.1 percent surplus from 0.4 percent deficit in 2009 by improving constantly.

iv) It is foreseen that general government expenditures to GDP ratio, which is estimated to be 40.1 percent in 2009, would decline to 37.8 percent in 2012.

v) It is expected that the general government non-interest expenditures to GDP ratio, estimated

to be 33.6 percent in 2009, would increase to 34.3 percent in 2010 then by getting into declining trend, would drop to 33 percent in 2012.

vi) It is foreseen that general government revenues excluding privatization revenues to GDP ratio, estimated to be 33 percent in 2009, would be 34.4 percent in 2012.

vii) It is expected that the tax burden including social security premiums (excluding tax rebates) to GDP ratio, which is estimated to be 24 percent in 2009, would increase to 26.2 percent in 2010 and would be at the same level during the Programme period.

viii) It is foreseen that General Government Nominal Debt Stock (EU Definition) to GDP ratio, which realized at 39.5 percent in 2008, would increase to 47.3 percent in 2009. This ratio, which is estimated to increase to 49 percent in 2010, is expected to drop to 47.8 percent by the end of the Programme period.

ix) It is targeted that the SEEs would have a primary surplus around 0.4 percent of GDP during the Programme period. In order to reach the targets, all kinds of necessary measures, particularly through the price, stocks and investment policies, will be taken.

3. Balance of Payments

i) Quick deterioration on trade and world economy resulted from global crisis is expected to

disappear in the Programme period gradually. In this framework, by 2012, exports are expected to reach USD 130 billion with an annual average growth of 9.7 percent while imports are expected to reach USD 187 billion with an annual average increase of 11.7 percent.

ii) Tourism revenues that are estimated to be USD 21 billion in 2009 is expected to reach USD 24.5 billion in 2012 by increasing during the entire Programme period.

iii) The ratio of current account deficit to GDP, in the face of contraction on foreign and domestic demand, financing, production as a result of global crisis, is expected to be around 3.3 percent during the Programme period.

4. Prices

i) Reduction in the inflation recorded on the first half of the 2009 is expected to continue when the recession in demand and deterioration in world energy and commodity prices are taken into consideration. In this context, YoY increase projections in CPI inflation are taken as 5.9 percent for 2009; 5.3, 4.9, 4.8 percent for the years 2010, 2011 and 2012 respectively.

IV. DEVELOPMENT AXIS IN THE PROGRAMME PERIOD

A. ENHANCING COMPETITIVENESS

1. Improving the Business Climate

The main objective is to improve the business climate by providing a competitive structure.

Within this framework;

- i. Measures towards overcoming the financing problems of SME's, deepened by effects of global crisis, will be taken; in the mid and long term, efforts on structural and institutional improvements in order to facilitate the access of enterprises, particularly the SME's, to financial resources and diversify the financial instruments will be intensified.
- ii. Efforts on reducing bureaucracy, accelerating the procedures and decreasing the cost of procedures with a view to improve the business environment will be continued.
- iii. Efforts to harmonize the state aid system with the EU acquis will be continued.
- iv. In the intellectual property system, institutional capacity and legal framework will be strengthened, efficient cooperation and coordination between institutions will be ensured.

- v. Entrepreneurial information system will be improved.
- vi. Studies on improving the business climate to enhance the competitiveness of artisans and craftsmen and support the process of changing and transformation will be conducted.

2. Reducing the Informal Economy

In the Programme period, the main objective is to reduce the informal economy through the targets of increasing competitiveness, preventing unfair competition and contributing to public finance. Within this framework;

- i) Under the scope of the Strategic Action Plan to Combat with Informal Economy which has been implemented since February 2009, registered activities will be encouraged, auditing capacity will be improved, deterrence of the sanctions will be increased, corporate and social agreement against informality will be strengthened.
- ii) In order to ensure effectiveness in auditing, primarily tax auditing, in a way that also includes cross-checking among institutions, human and technological infrastructure of public institutions will be improved by attaching importance on development of implementation capacity of institutions.

3. Developing the Financial System

Confidence and stability in the financial sector will

be strengthened and international competitiveness of the sector will be increased. Within this framework;

- i) Measures taken to keep credit channels active, which are affected negatively due to global financial crisis, will be developed.
- ii) Current approaches and instruments that aim to strengthen confidence in financial markets and to prevent systematic risk will be made operational.
- iii) The regulation and supervision of financial sector will be improved in line with the international standards, EU acquis, new actions executed by the leadership of G-20 platform following the global crisis period, collaboration and information sharing with foreign supervisory authorities and related international agencies will be increased.
- iv) Istanbul International Financial Centre Project will be implemented according to the strategy document to be declared.
- v) Capital Market Strategy Document will be prepared and implemented.

4. Improving the Energy and Transportation Infrastructure

a. Energy

The main objective of the energy policy is to meet the energy needs of an increasing population and a growing economy in a continuous, quality and secure

manner at a minimum cost in a competitive free market environment. Within this framework;

- i) Necessary measures will be taken to preclude the projected medium term energy supply shortfall which has been suppressed due to global economic crisis at present and to sustain long term energy supply security.
- ii) Privatizations, especially in electricity distribution, will be completed to establish a properly functioning free market in electricity and maintaining private sector investments in a stable manner will be supported.
- iii) Construction of nuclear power plants (NPP) which will help to contribute to the diversity of electricity supply resources and the security of electricity supply will commence.
- iv) Use of domestic and renewable resources in electricity production will be expedited to reduce the overdependence on imported natural gas.
- v) Effective implementation mechanisms for increasing the energy efficiency will be developed.
- vi) Natural gas usage will be expanded through a competitive process and natural gas supply security, taking the seasonal demand variations into account, will be ensured at a national level.
- vii) Due studies will be continued to make Turkey a transit country and a hub for the transportation of energy (oil, gas and electricity) resources in our region to the world markets.

b. Transportation

The main objective in the transportation sector is to create a transportation infrastructure which is securing a balance among modes, is compatible with modern technological and international standards and is sensitive to the environment in due time, where transportation is conducted safely, economically and rapidly. Complementary balance between transportation sub sectors and widespread use of combined transport are essential. Within this framework;

- i) In realization of the transportation infrastructure investments, public-private partnership models will be made widespread.
- ii) Traffic safety will be increased in all transport modes; maritime safety will be given priority.
- iii) With utmost utilization of the EU funds, efforts for integrating national transport network to Trans-European transport, providing Turkish ports to take place on the main axis of EU Motorways of the Sea (MoS) and integration to the Single European Sky will be continued.
- iv) The existing dual carriageway infrastructure works will be completed and also the standards of existing highways will be improved.
- v) Turkish State Railways' (TCDD) quality of service will be increased and high speed train passenger transport will be made more widespread. TCDD will be restructured in order to reduce its financial burden on the public sector.

vi) In freight transport, the priority will be given to rail and maritime transport; ports will become logistics centres that enable combined transport via improving hinterland connections. Appropriate port areas will be determined, hub ports will be established, effective and efficient management of the ports will be ensured.

vii) In order to determine the medium and long term capacity needs of airports, studies will be conducted. In this framework, measures will be taken to promote regional air transportation.

viii) Studies in order to enhance the administrative capacity at the central and local level will be realized to ensure the efficiency and the productivity, during the planning, scheduling, realization and management stages of the infrastructure projects of urban transport.

5. Protection of Environment and Improvement of Urban Infrastructure

The main objective is environmental protection by improving the living standards of cities, providing sustainable urban development and forming livable atmosphere. Within this framework;

- i) Administrative, supervision and implementation capacity for implementation of environmental legislation, which is formed to comply with the EU acquis, will be strengthened.
- ii) Contribution will be made to global efforts to-

wards reducing impacts of climate change within the framework of national strategy to be prepared.

iii) Administrative, legal and financial arrangements will be implemented in order to manage water sources effectively.

iv) Regarding the domestic solid waste management; decomposition at the source, collection, transportation, recycling and disposal stages will be evaluated both technically and financially as a whole, sanitary landfill technology will be preferred.

v) The institutional capacity of municipalities towards environmental protection will be strengthened in planning, designing projects, realization and operating urban infrastructure services.

vi) Urban development strategy and action plan will be prepared.

vii) Arrangements will be made by taking disaster risk within planning and structuring process into account.

6. R&D and Improving Innovation

Main targets of science and technology policy are; improving the innovation capability of the private sector, increasing competence in science and technology and converting this competence into economic and social benefits. Within this framework;

- i) Increasing R&D capacity and R&D demand of the private sector, particularly SME's, will be ensured.
- ii) Programs for enhancement of cooperation among private sector, universities and research institutions and pre-competition R&D collaboration will be supported.
- iii) Commercialization of research results and technology transfer applications will be made more effective and Technology Development Zones will be strengthened.
- iv) Functionality of programs for development of products and technologies based on domestic technology will be increased in sectors with high external dependency such as defence, health and energy will be increased.
- v) Researcher human power in prioritized technology fields will be improved in terms of quality and quantity, considering needs of the private sector.
- vi) In order to strengthen R&D based production capability, foundation of research centers and central laboratories, particularly in developing universities, will be supported.

7. Dissemination of Information and Communication Technologies

The main objective is accelerating the transformation into information society and thereby contributing

to the improvement of Turkey's welfare, by means of widespread and effective use of information and communication technologies. Within this framework;

- i) In order to develop information and communication technologies infrastructure, competition in electronic communications sector will be enhanced through the introduction of alternative infrastructure and services.
- ii) Necessary legal arrangements in order to establish effective competition environment throughout the sector will be accomplished, current arrangements will be reviewed in line with the needs emerging from changes in technology and market structure and effective and timely execution of arrangements will be ensured.
- iii) In order to improve productivity level and competitiveness of the economy, regional variety in information and communication technologies infrastructures will be decreased, access to information and communication technologies, broadband access in particular, will be made available to all segments of the society and widespread use with appropriate costs will be ensured.
- iv) In the area of satellite technologies, efforts on the production of a domestic satellite and relevant R&D activities will be intensified.
- v) Training programs directed at development of qualified human resources in the areas of speci-

alization, which the IT sector needs will be implemented.

vi) Postal sector will be restructured with a competitive approach on the principles of quality, reliability and accessibility in parallel with EU regulations and effective regulation and supervision in the sector will be ensured.

vii) Broadcasting sector will be improved by taking the developments in technology into consideration and transition to digital terrestrial broadcasting in parallel with EU countries will be ensured.

8. Improving the Agricultural Structure

The basic objective in the agricultural sector is to develop a well organized and highly competitive structure by taking food security and safety concerns into account along with the sustainable use of natural resources. Within this framework;

- i) Agricultural supports will be restructured for the objective of increasing effectiveness, productivity and quality in production via differentiating them on the basis of area and product.
- ii) Data contributing to the implementation of agricultural policies will be improved in terms of quality and quantity and information infrastructure will be reinforced.
- iii) The modernization efforts of the agricultural and food industry enterprises will be supported

within the framework of phytosanitary, animal health and food safety priorities.

iv) Priority of export subsidies for agricultural products will be given to high value added, branded and final consumer oriented products.

v) Producers will be supported to be organized so as to transform into commercial enterprise in order to improve productivity and marketing opportunities in their operations.

vi) Practices for the purpose of increasing productivity in the plant production will be extended and phytosanitary practices such as the usage of integrated combating methods regarding plant diseases and harmful organisms will be improved.

vii) In animal husbandry, supports will be arranged to enhance the structural transformation and activities related to breeding, combating diseases and pests and increasing the production of quality fodder will be given priority.

viii) In the fisheries sector, institutional capacity for resource management system will be improved and aquaculture production policies will be implemented taking its environmental sustainability into account.

ix) Training and publication services will be given emphasis mainly through strengthened producer organizations and existing public services will be improved.

- x) Methods and means for effective use of land and water resources will be given priority.
- xi) So as to alleviate the scale problem of agricultural enterprises, hereditary fragmentation of agricultural lands will be prevented and land consolidation efforts will be expedited.
- xii) While extending irrigation investments, implementation of Southeastern Anatolia Project (GAP), East Anatolia Project (DAP) and Konya Plains Projects (KOP) will be accelerated. Furthermore; construction, operation and/or maintenance of irrigation projects will be opened to private entrepreneurship.
- xiii) Forests will be protected and exploited considering health and needs of society within the approach of sustainable management; afforestation, rehabilitation and urban forestry will be extended; training and publicity activities having more emphasis on ecosystem and ergonomics will be intensified.

9. Ensuring the Shift to High Value-Added Production Structure in Industry and Services

a. Industry

The main objective in manufacturing industry is to accelerate the structural transformation by increasing the production of high value-added goods. Within this framework;

- i. Regulations and supports towards the restructuring of enterprises will be prioritized.
- ii. Initiatives directed towards increasing exports of industry and structural transformation, particularly those in medium and high technology sectors, will be supported.
- iii. Clustering policy will be formulated; within this framework, establishment of the enterprises in the industrial zones will be encouraged, cooperation between enterprises and clustering activities will be supported within a model.
- iv. Enlargements and mergers of SME's will be encouraged. In this context, productivity enhancement, setting up a business and development activities will be supported.
- v. In order to increase the quality of industrial goods, conformity assessment and market surveillance systems will be activated.
- vi. In defence industry, a system based on domestic technology and capability acquiring will be established.
- vii. In the mining sector, country potential will be benefited at the highest level. Domestically and internationally oil and natural gas exploration and production activities will be accelerated. Studies on the necessary institutional structure will be conducted.

b. Services

In services sector, which has an increasing share in the economy and has become the repulsive power, main objective is to improve quality, efficiency, competitive environment and to increase the exports of services.

Tourism

In tourism sector, besides increasing the number of incoming tourists, the main objective is to form a structure, which increases the quality of services as well as targeting high income groups through diversifying marketing channels, preserving the natural wealth while ensuring its sustainability and focusing on diverse tourism products where Turkey has relative competitive advantage. Within this framework;

- i. Tourism investment will be diversified and tourism facilities will be ensured to expand to entire year by shifting them from developed regions and those are subject to intensive demand to other areas.
- ii. All investments related to the sector will be evaluated with an approach of protecting and improving natural, historical, social and cultural environment.
- iii. In order to increase the share from global tourism market, promotion activities, particularly in target markets, will be given importance.

iv. Cultural, social and natural assets of tourism regions which have high growth potentials, especially Istanbul, will be evaluated in a context of sustainable tourism perspective.

Construction, Engineering-Architecture, Technical Consultancy and Contracting Services

Main objective is to construct a sector structure appropriate to national economy and social requirements, compatible with modern technology and international rules, sensitive to environment, also with high value – added, foreign exchange inflow and employment. Within this framework;

- i) Competitiveness in the foreign contracting and consultancy services will be increased.
- ii) Supervision activities in the sector will be activated.
- iii) The quality of the labour force in the sector will be improved.
- iv) The usage of technical consultancy services in the sector will be made widespread by improving its quality.

Commercial Services

The main objective in the commercial sector is to increase efficiency in a competitive environment, to enhance activity capacity, to encourage innovation and new technologies. Raising the competitive power, the level of quality and productivity, improving the competition environment and increasing service ex-

port of SMEs in the sector is essential. Within this framework;

- i) High value-added service production will be supported in commercial sector and that the sector will again be provided to reach to a high growth rate in the medium term.
- ii) In the wholesale and retail trade sectors; a sector structure protecting the competition and consumer, supporting the production in the related sectors, preventing unregistered economy, increasing efficiency and quality, providing compatibility with hygienic rules and a balanced development among the internal players in the sector will be formed.
- iii) Logistic and combined transportation activities will be improved for sustaining physical flow of goods by means of reliable, cheap and rapid transportation systems having high standards.
- iv) Arrangements will be made for supervising of unfair commercial applications in the context of protecting consumer rights.

B. FOSTERING EMPLOYMENT

1. Improving Labour Market

Within the framework of employment-oriented sustainable growth, reducing the negative effects of the crisis to the minimum level, increasing employment and activating the labour market are the main objectives. Within this framework;

- i) In order to increase employment and decrease informality, flexible working models will be encouraged and extended within the concept of flexicurity. In this context, social dialogue channels will be utilized effectively.
- ii) Adaptation capacity and capability of businesses and workers to the changes in the world and in our country will be enhanced.
- iii) In the labour market, supporting policies towards disadvantaged groups, particularly the youth, women and disabled will be carried on.
- iv) New models, which will enable businesses to create additional employment and discourage informality, will be developed.

2. Increasing Sensitivity of Education to Labour Demand

Increasing sensitivity of education to labour demand and training labour force in accordance with the quality and quantity required by the market is the main objective. In this perspective;

- i) Life-long learning strategy will be implemented effectively.
- ii) The coherence between secondary and higher education and the labour market will be increased.
- iii) Studies towards the harmonization of the

curriculum of the vocational and technical schools with the professional standards will be initiated.

3. Improving Active Labour Market Policies

Extending active labour programs including vocational trainings which will raise occupational skills and qualities in order for individuals to find appropriate jobs, public employment services and job creation programs and increasing the quality of the related services is the main objective. Within this framework;

- i) Taking the negative effects of the crisis towards the labour market into account, active labour market programs will be expanded in line with the labour market need analysis and the effects of these programs on the labour market will be assessed.
- ii) In order to implement to active labour programs effectively the institutional capacity of Turkish Employment Agency (İŞKUR) will be increased
- iii) For unemployed people, programs aiming to create short term employment particularly the public-work programs will be carried on.

C. STRENGTHENING HUMAN DEVELOPMENT AND SOCIAL SOLIDARITY

1. Improvement of the Educational System

The main objective of the education policy is to bring up individuals of the information society with

well-developed thinking, perceiving and problem-solving capabilities. They should also be open-minded, self-confident and responsible, devoted to the principles of Atatürk, loyal to democratic values, acquainted with their national culture and able to understand different cultures. Within this framework;

- i) Schooling rates in all levels of education will be raised, equipment and physical infrastructure will be improved, regional imbalances and gender disparities in access to education will be reduced.
- ii) The Ministry of National Education and the Higher Education Council will be restructured in order to increase quality, competitiveness, efficiency and equality of opportunities in education.
- iii) Alternative financing models in all levels of education will be developed; educational investments of private sector will be encouraged by focusing on quality.
- iv) The share and quality of vocational training will be increased, active participation of private sector and professional organizations to vocational education process will be provided.
- v) International programs in order to increase the exchange and mobility of students and teachers in secondary and higher education will be extended as well as grant programs to enable foreign students and lecturers to participate in educational activities in Turkey and new programs will also be developed. In this context, necessary

arrangements will be made in administrative structure.

2. Improving Health System

The main objective of health policy is to ensure that all citizens will take part in economic and social life as healthy individuals and to raise their quality of life. Within this framework;

- i) Implementation of family medicine will be made widespread.
- ii) Accessibility to health services will be increased.
- iii) Preventive health services will be strengthened and made widespread.
- iv) Effectiveness of health expenditures, particularly medicine expenditures, will be increased through applications such as rational use of drugs and diagnosis related pricing.

3. Improving Income Distribution, Social Inclusion and Combating Poverty

The main objective is to enable the individuals and groups, who are under the risk of poverty and social exclusion, to participate more actively in economic and social life, to upgrade their quality of life and to secure social integration. Within this framework;

- i) The accessibility of major services such as education, health, employment and social security will be improved for the disadvantaged groups.

- ii) In the context of activities for combating poverty, implementations which prevent the formation of a culture of poverty and the intergenerational transmission of poverty will be emphasized.
- iii) Transfers aiming to decrease poverty will be made more effective.
- iv) Family support services will be made widespread, violence against women and children will be combated more intensively, the quality of preventive, protective and rehabilitative services towards disadvantaged children will be improved.

4. Increasing Effectiveness of the Social Security System

The basic objective is to make the social security system have a structure that covers the entire population, can meet the changing needs of the society, has financial sustainability and effective control mechanism, and provides good quality services. Within this framework;

- i) Aiming to prevent loss of rights and repeated benefits, the IT infrastructure of the social security system will be strengthened; the system will be in a structure which provides effective, accessible and sustainable services.
- ii) The shortage of qualified personnel and intermediate staff in the area of social services and assistance will be eliminated.

iii) To enable the disabled to participate more actively in economic and social life, improvement of the social and physical milieu conditions will be continued.

iv) In order to improve the collaboration and appropriateness in the social assistance system, the authorization, tasks and responsibilities of the related institutions will be redefined with the coordination of Prime Ministry.

5. Protecting and Promoting Culture and Strengthening Social Dialogue

The main objective is protecting the cultural prosperity and diversity in the social change process and transmitting them to the next generations. Accordingly, synthesis of our cultural heritage with contemporary values and, with an understanding which considers our differences as our richness, creating an environment of collaboration and tolerance in which all individuals can live within the framework of common cultural values are aimed. Within this framework;

i) Priority will be given to social research projects to determine institutions and sources that fed the culture of solidarity, reconciliation and tolerance in our society and to mark factors that weaken this culture.

ii) Youth services will be restructured so as to cover all areas regarding the youth and will improve their self-confidence and feeling of belonging to the society.

iii) Expansion of TV series, documentaries and cartoons in print and visual media that emphasize the integrity and importance of the family and aim to strengthen family relations will be supported.

iv) Studies will be carried out to draw up an inventory of our domestic and overseas cultural heritage and to protect and restore this heritage. Public awareness will be increased regarding this issue.

v) Economic aspect of culture sector will be strengthened by developing culture tourism and encouraging the production of cultural films and documentaries.

D. REGIONAL DEVELOPMENT AND REDUCING REGIONAL DISPARITIES

The main objective of regional development policies is; on the one hand, to decrease the development disparities among the regions and improve the minimum standard of living in rural areas; and on the other hand, to maximize the contribution of regions to national development, competitiveness and employment through increasing the regions' competitiveness.

1. Increasing the Effectiveness of Regional Development Policy at the Central Level

i) National Strategy for Regional Development will be formulated to ensure coordination at central level in terms of regional development and competitiveness, as well as establish a general framework for the lower-scaled plans and strategies.

ii) Regional Development Committee will be established in order to improve governance by ensuring coherence and coordination between the central government policies and regional development policies in terms of planning, implementation and monitoring.

iii) The applicability of regional plans and programs will be taken into account, the existing integrated regional development plans will be transformed into applicable programs and/or action plans through the contributions of development agencies, a consistent resource allocation planning which allows diversified funding opportunities will be conducted, monitoring and evaluation mechanisms will be set up.

iv) The Management System of the Development Agencies will be developed together with the existing agencies.

v) Support programs for growth poles will be rolled out.

vi) Depending on the progress in the negotiation process, a strategic framework will be drawn for the harmonization with the EU regional development policies and preparation for the use of the structural funds.

2. Ensuring Development to be Based on Local Dynamics and Inner Potentials

i) Development Agencies' potentials will fully be utilized in order to alleviate the negative

impacts of the crisis and to adapt all regions to the post crisis prospective global economic conditions after the crisis.

ii) By focusing on competitive sectors at the regional level and highlighting local initiatives; clustering policies which support innovations, increase employment and efficiency, provide national and international competitive advantage and collaboration will be developed and a relevant governance and support mechanism will be established.

iii) Regional innovation infrastructure will be developed as a model which is based on local specialization as well as university-business cooperation.

iv) Entrepreneurship and business models which take the regional potential and local labour market characteristics into account and support economic transformation at the local level will be developed.

3. Improving the Institutional Capacity at Local Level

i) Development Agencies will be functional in all of the NUTS II Regions.

ii) The Provincial Coordination and Monitoring System (IKIS) will be established to support coordination and decision making processes between the central and local level organizations and insti-

tutions and to enhance the flow of information between the centre and the local.

4. Achieving Rural Development

- i) The structures concerning the implementation, monitoring and evaluation of Rural Development Plan will be established.
- ii) In the provinces where the EU Rural Development Program (IPARD) will be implemented, Provincial Coordination Units of the Organization for Support to Agriculture and Rural Development (TKDK) will execute this program. In these provinces, harmonization will be ensured between the agricultural and rural development programs of the development agencies and TDKD's practices.
- iii) During the restructuring process of the agricultural sector, rural development projects focusing on employment will be implemented to mitigate the economic and social risks.
- iv) Technical, financial and institutional capacities of local administrations and their unions will be strengthened in rural development practices.
- v) Measures will be taken to provide sustainable living conditions for the citizens who departed from their settlements due to force majeure reasons in their initial or new settlements on their demand.
- vi) The procedures and principles for settlement and construction in rural areas will be established in a manner that is respectful to local conditions, protecting natural, historical and cultural envi-

ronment, increasing disasters preparedness, meeting the needs of the citizens in rural areas and enhancing their quality of life.

E. IMPROVING THE QUALITY AND EFFECTIVENESS IN PUBLIC SERVICES

1. Rationalizing Authorities and Responsibilities Among Institutions

In order for the public agencies and institutions to perform their principal duties; the main targets are ensuring harmonization between their tasks and administrative structures, the abolition of the units whose functions are no more needed, non-establishment of new departments except for necessary conditions arising from service requirements, the transfer of duties and authorities from the central administration to local administration taking into account the principles set forth by the European Charter of Local Self-Government, setting up nationwide minimum service standards for the services provided by local administrations and auditing the compliance with these standards. Within this framework;

- i) Studies on elimination of ambiguities of duties and authorities among public institutions will be continued.
- ii) Regulations that cover the principles which public agencies and institutions obey in their operations will be realized.
- iii) Minimum service standards for the basic ser-

vices provided by local administrations will be determined.

2. Enhancing Policy Making and Implementation Capacity

It is aimed to structure the budget in a way to indicate performance of public administrations by considering; maintaining of transformation in public administrations required by strategic management, shaping administrative decisions with a mid-term and long-term approach based on strategic plans, opportunity cost, affected groups and cost of policies to be implemented. Within this framework;

- i) “By-Law on Principles and Procedures on Strategic Planning in Public Administrations” and “Strategic Planning Guide” will be updated.
- ii) Measurement, monitoring and assessment processes will be designed in accordance with the strategic plans.
- iii) Current administrative and human resources capacity in the public administrations will be improved in terms of quality and quantity in line with strategic management approach and programs will be implemented in order to adapt administrative culture to the new structure.

3. Developing Human Resources in the Public Sector

Main objectives are implementing effective human resources planning in public institutions and en-

sureing employment of personnel in accordance with the quality and quantity needs of the services. Within this framework;

- i) Studies regarding the establishment of public personnel information system will be conducted.
- ii) Studies will be carried out to improve public personnel system in terms of legislative and institutional aspects.

4. Dissemination of e-Government Applications

The main objective is to establish the e-government structure based on effective public management approach that will reduce administrative burden and meet the needs of citizens and the business community by improving decision making processes, in a way to provide interoperable and integrated public services and include technical, administrative and legal measures, considering the principles of participation, transparency and accountability. Within this framework;

- i) Decision making processes in the public sector will be made more effective by means of information and communication technologies, business processes of e-government services targeting the needs of citizens and the business community will be improved in terms of reduction of administrative burden, elimination of duplications and ensuring interoperability.
- ii) Improvement of service efficiency will be the main principle, applications leading to quick gains

and savings, basic databases and common infrastructure and services will be prioritized.

iii) Public information and communication technology investment projects will be carried out in an integrated manner with an approach based on principles of coordination among public institutions and sharing of information in a secure electronic environment.

iv) Number of services provided over the e-Government Gateway will be increased.

v) In order to establish trust in e-Government, studies to establish legal infrastructures regarding confidentiality of personal data and information security will be carried out and usage of e-government services will be improved.

5. Improving the Judicial System

The main objective in the context of the rule of law and the supremacy of law, is to provide legal services in more fair, fast, reliable and proper way; to continue efforts to increase the quality of judicial process and its main components; to provide legal rules to save as well as to be a mean of improving and enhancing the social order. Within this framework;

i) Legal and institutional arrangements ensuring the operation of judicial services in more fair, fast, reliable and proper way will be made by taking into consideration of EU implementations.

- ii) Arrangements will be made to strengthen judicial independence and impartiality.

6. Enhancing the Effectiveness of Security

Services

Public order services that focus on the individual and are supported by the society will be provided while respecting rights and protecting delicate balance between the freedom and security. Within this framework;

- i) Importance will be attached to preventive law enforcement and intelligence services in order to prevent crime in advance and a structure to support an approach that reach, in principle, from the evidence to the offender will be enhanced in providing public order service.
- ii) Additional legal and institutional arrangements to fight against organized and financial crimes, particularly terrorism and financing the terrorist activities, will be made.
- iii) Fighting against illegal migration and asylum, human trafficking and smuggling, drugs using and trading will be implemented effectively. Studies on restructuring of border security will continue.

7. Natural Disasters

The main objective is to achieve a disaster management structure that is effective, sufficient and comprehensive both at central and local levels. Within this

framework;

- i) National Disaster Management Strategy and Action Plan will be prepared.
- ii) Settlements under natural disaster risk will be prioritized nationwide according to disaster risk levels and technical and financial studies to reduce the risk in a planned way will be concluded.
- iii) Natural Disaster Insurance Law with nationwide coverage will be enacted including all disaster types and also sanctions.

ANNEX TABLE 1: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012
GROWTH AND EMPLOYMENT				
GDP (Billion TL, Current Prices)	947	1,029	1,118	1,227
GDP (Billion Dollars, Current Prices)	608	641	669	723
GDP Per Capita (Dollars)	8,456	8,821	9,096	9,732
GDP Growth ⁽¹⁾	-6.0	3.5	4.0	5.0
Total Consumption ⁽¹⁾	-2.3	2.5	3.3	4.4
Public	5.2	2.3	2.8	2.2
Private	-3.1	2.5	3.4	4.7
Total Fixed Capital Investment ⁽¹⁾	-17.9	7.5	6.8	10.2
Public	0.6	5.7	-4.6	2.6
Private	-22.0	8.0	10.0	12.0
Total Final Domestic Demand ⁽¹⁾	-6.1	3.6	4.1	5.7
Total Domestic Demand ⁽¹⁾	-7.6	3.8	4.4	5.8
Population (Midyear, Million)	71.9	72.7	73.5	74.3
Labour Force Participation Rate (%)	47.6	47.4	47.3	47.3
Employment (Million)	20.9	21.3	21.7	22.2
Unemployment Rate (%)	14.8	14.6	14.2	13.3
FOREIGN TRADE				
Exports (FOB) (Billion Dollars)	98.5	107.5	118.0	130.0
Imports (CIF) (Billion Dollars)	134.0	153.0	168.0	187.0
Foreign Trade Balance (Billion Dollars)	-35.5	-45.5	-50.0	-57.0
Export / Import (%)	73.5	70.3	70.2	69.5
Foreign Trade Volume / GDP (%)	38.2	40.6	42.8	43.9
Tourism Revenues (Billion Dollars)	21.0	22.5	23.5	24.5
Current Account Balance (Billion Dollars)	-11.0	-18.0	-22.0	-28.0
Current Account Balance / GDP (%)	-1.8	-2.8	-3.3	-3.9
Crude Oil Price (Dollars per Barrel) ⁽²⁾	62.1	75.2	78.0	80.9
Crude Oil Imports (Billion Dollars)	7.9	12.4	13.6	15.5
Energy Imports (27 th Chapter, Billion Dollars)	26.1	34.5	38.4	43.4
INFLATION				
GDP Deflator	6.0	5.0	4.5	4.5
Consumer Prices (End of Year, % Change, Estimate) ⁽³⁾	5.9	5.3	4.9	4.8

(1) Percentage change in fixed prices.

(2) Calculations by SPO by using IMF expectations.

(3) The inflation targets set at June 3, 2008 were 7.5, 6.5 and 5.5 percent for 2009, 2010 and 2011 respectively.

ANNEX TABLE 2: FIGURES ABOUT PUBLIC FINANCE

(Billion TL)

	2009	2010	2011	2012
Central Government Budget Balance (1)	-62.8	-50.0	-45.1	-39.1
Central Government Budget Revenues	203.9	236.8	253.1	275.4
Central Government Budget Expenditures	266.8	286.8	298.2	314.4
Public Sector Primary Surplus (Programme Definition)	-19.8	-3.5	4.4	11.9
Central Government Budget Primary Surplus (Programme Definition)	-20.8	-8.4	-2.1	4.3
Central Government Budget Revenues (Programme Definition)	190.3	220.4	239.6	262.0
Central Government Budget Primary Expenditures (Programme Definition)	211.1	228.8	241.7	257.7
Rest of the Public Sector Primary Surplus (Programme Definition)	1.0	4.9	6.5	7.6
Privatization Revenues (2)	4.3	10.4	9.4	8.9

(As of GDP, %)

Central Government Budget Balance (1)	-6.6	-4.9	-4.0	-3.2
Central Government Budget Revenues	21.5	23.0	22.6	22.4
Central Government Budget Expenditures	28.2	27.9	26.7	25.6
Public Sector Primary Surplus (Programme Definition)	-2.1	-0.3	0.4	1.0
Central Government Budget Primary Surplus (Programme Definition)	-2.2	-0.8	-0.2	0.4
Central Government Budget Revenues (Programme Definition)	20.1	21.4	21.4	21.4
Central Government Budget Primary Expenditures (Programme Definition)	22.3	22.2	21.6	21.0
Rest of the Public Sector Primary Surplus (Programme Definition)	0.1	0.5	0.6	0.6
Privatization Revenues (2)	0.5	1.0	0.8	0.7
Tax Burden Excluding Social Security Premiums (Excluding Tax Rebates)	17.7	19.4	19.4	19.3
Tax Burden Including Social Security Premiums (Excluding Tax Rebates)	24.0	26.2	26.2	26.2
Public Nominal Debt Stock (EU Definition)	47.3	49.0	48.8	47.8

(1) Since the regulatory and supervisory agencies submit their budget proposals directly to the Turkish Grand National Assembly until the end of September, budget figures of these institutions are used as estimation.

(2) Total amount of the central government budget privatization revenues and the privatization revenues transferred from the Privatization Fund.

Note: Negative sign indicates deficit.

ANNEX TABLE 3: PUBLIC SECTOR BORROWING REQUIREMENT (1)

	(As of GDP, %)			
	2009	2010	2011	2012
PUBLIC SECTOR GENERAL BALANCE (PSGB) (2)	-6.5	-4.2	-3.0	-2.1
General Government	-6.6	-4.7	-3.5	-2.7
Central Government Budget (3)	-6.6	-4.9	-4.0	-3.2
Local Governments	-0.3	-0.3	-0.3	-0.3
Extra Budgetary Funds	0.0	0.0	0.0	0.0
Unemployment Insurance Fund	0.3	0.4	0.7	0.7
Social Security Institutions	0.0	0.0	0.0	0.0
General Health Insurance	0.0	0.0	0.0	0.0
Revolving Funds	0.1	0.0	0.1	0.1
SEEs (Including SEEs under the scope of privatization)	0.1	0.5	0.6	0.6
PSGB EXCLUDING INTEREST PAYMENTS AND PRIVATIZATION REVENUES	-0.4	0.9	1.5	2.1
General Government	-0.6	0.3	0.8	1.4
Central Government Budget (3)	-1.0	0.1	0.6	1.1
Local Governments	-0.2	-0.1	-0.1	-0.1
Extra Budgetary Funds	-0.3	-0.4	-0.5	-0.4
Unemployment Insurance Fund	0.8	0.7	0.8	0.8
Social Security Institutions	0.0	0.0	0.0	0.0
General Health Insurance	0.0	0.0	0.0	0.0
Revolving Funds	0.1	0.0	0.1	0.1
SEEs (Including SEEs under the scope of privatization)	0.2	0.6	0.7	0.7

(1) Based on the State Planning Organization's Classical Public Sector General Balance definition.

(2) Indicates the difference between revenue and expenditure.

(3) Since the regulatory and supervisory agencies submit their budget proposals directly to the Turkish Grand National Assembly until the end of September, budget figures of these institutions are used as estimation.

Note: Negative sign indicates deficit.

ANNEX TABLE 4: GENERAL GOVERNMENT BORROWING REQUIREMENT (1)

	(As of GDP, %)			
	2009	2010	2011	2012
GENERAL GOVERNMENT BALANCE (GGB) (2)	-6.6	-4.7	-3.5	-2.7
Central Government Budget (3)	-3.4	-2.1	-1.4	-0.6
Local Governments	-0.5	-0.5	-0.5	-0.4
Extra Budgetary Funds	0.1	0.4	0.5	0.4
Unemployment Insurance Fund	0.3	0.4	0.7	0.7
Social Security Institutions	-1.9	-2.1	-2.1	-2.1
General Health Insurance	-1.4	-1.0	-0.9	-0.7
Revolving Funds	0.2	0.2	0.2	0.2
GGB EXCLUDING INTEREST PAYMENTS AND PRIVATIZATION REVENUES	-0.6	0.3	0.8	1.4
Central Government Budget (3)	2.3	2.9	3.2	3.6
Local Governments	-0.4	-0.4	-0.3	-0.3
Extra Budgetary Funds	-0.1	-0.1	-0.1	-0.1
Unemployment Insurance Fund	0.8	0.7	0.8	0.8
Social Security Institutions	-1.9	-2.1	-2.1	-2.1
General Health Insurance	-1.4	-1.0	-0.9	-0.7
Revolving Funds	0.2	0.2	0.2	0.2
General Government Revenues	33.5	35.6	35.3	35.1
General Government Revenues Excluding Privatization Revenues	33.0	34.6	34.5	34.4
General Government Expenditures	40.1	40.3	38.8	37.8
General Government Expenditures Excluding Interest Payments	33.6	34.3	33.6	33.0

(1) Based on the definition of the Pre-Accession Economic Programme submitted to the EU by the State Planning Organization. In this context, the general government balance, which does not include the SEEs, is calculated by recording the public resource as a revenue item in the account of the public unit which received the flow first, as an expenditure item in the account of the public unit which performed the final expenditure. Therefore, deficit (or surplus) figures vary as to budget classifications, while the total balance figure stay the same with respect to the one calculated through the classical definition.

(2) Indicates the difference between revenue and expenditure.

(3) Since the regulatory and supervisory agencies submit their budget proposals directly to the Turkish Grand National Assembly until the end of September, budget figures of these institutions are used as estimation.

Note: Negative sign indicates deficit.

