
REPUBLIC OF TURKEY

**MEDIUM TERM
PROGRAMME
(2013-2015)**

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INTRODUCTION

Although almost five years has passed since the beginning of the economic crisis, no stability has been achieved in the world economy yet. For coming years, the risks and uncertainties especially arising from developed economies are going on.

Our economy has continued to perform positively in an environment of global uncertainty. The decisive implementation of high credible medium term programs has contributed remarkably to this outcome.

The main objectives of this Medium Term Programme (MTP) covering the period 2013-2015 are to achieve the potential growth rate, to further reduce the current account deficit, to decrease the inflation rate, to improve the public fiscal balances and thereby to strengthen macroeconomic and financial stability. The fiscal frame, which is envisaged in this Programme, the financial stability and the healthy structure of our banking system, will continue to support a private sector-led stable growth path.

In the forthcoming period, by closely monitoring the developments in the global economy and in our potential export markets, the policy adjustments will be put into practice within the main framework of MTP, when and as deemed necessary.

I. DEVELOPMENTS IN THE WORLD AND TURKISH ECONOMY

A. WORLD ECONOMY

The negative effects of global crisis on the world economy carry on although measures have been taken, and slowdown tendency in economies still continues. The global economy has started to reweaken, due to the contagion of problems especially in the Euro Area to other regions via trade and confidence channels. Economic and political developments in the Euro Area continue to be determining factors on the global outlook.

After a contraction in 2009, the world economy entered into a recovery phase in 2010 and grew by 5.1 percent. However, this recovery phase was not sustained in 2011. The financial turbulence in the Euro Area and its repercussions to the banking sector and uncertainties in decision-making processes about economic policy caused the growth performance to be lower than expected in advanced countries. This situation adversely affects growth in developing and emerging economies. Moreover, the uncertainty created by fluctuations in the energy, commodity and food prices has negative impacts on global growth. Along with these developments, negative impacts of disasters that hit Japan in March 2011 on the supply chain and the political uncertainties in the Middle East and North Africa region caused world growth to decrease to 3.8 percent in 2011. The growth rate that was 3 percent in 2010, declined to 1.6 percent in 2011

in advanced economies. In the same period, the growth rate of developing and emerging economies declined from 7.4 percent to 6.2 percent .

The growth rate of world trade volume that was 12.6 percent in 2010, declined to 5.8 percent in 2011 as a result of the slowdown in global economic activity.

Significant price increases were observed in developed and developing countries in 2011. World trade prices in goods and services increased 5.6 percent in 2010 and 11.2 percent in 2011. While consumer price inflation was 2.7 percent in advanced economies, it was 7.2 percent in developing and emerging economies. Increases in world prices of oil, metal and food as well as continuing monetary expansion by the U.S. Federal Reserve and the European Central Bank have been among the main causes of the increase in inflation at the global level in 2011.

Abundance of liquidity in dollars and euros and very low interest rates due to the monetary expansion has directed investors to developing economies. Short-term capital inflows in this way, by causing appreciation of the currencies of developing economies, extremely rapid increase in credit loan volume and deterioration of the foreign trade balance, create significant risks and vulnerabilities for these countries.

Because of the weak economic recovery on global scale in 2011, the lack of adequate employment growth in many countries has continued to be a major problem. The unemployment rates in the EU countries, especially in Greece, Portugal, Ireland and Spain have increased to substantial levels. In 2011, the unemployment rate in the U.S. economy, despite a slight decrease

compared to 2010, were 9 percent which was above the pre-crisis levels. On the other hand, the Euro-zone unemployment rate was 10.2 percent in 2011, which was very close to the previous year.

The measures that aimed to stimulate the economy and supports to the financial system caused fiscal problems in many EU countries and thus deterioration in public finance. Slow growth performance of some countries which face high public debt stock and budget deficits increased concerns about the debt rollover. Downgrading of credit ratings, as a result of rising risk premiums in these countries have increased the borrowing costs. The ratio of the general government gross debt stock to GDP which was 85.4 percent at the end of 2010 in the Euro Area, increased to 88 percent at the end of 2011. This ratio has increased from 98.6 percent to 102.9 percent in the US for the same period.

Despite the recovery tendency, weak growth performance was observed in the US economy currently, which grew by 1.8 percent in 2011. In the first half of 2012, negative repercussions of the crisis in the Euro Area, weakness in consumer spending, lack of consumer confidence, inadequate employment creation and structural problems in the labor market, point to a growth lower than expected in the U.S. economy at the end of the year. In addition to these, in 2013, with the expiration of legal duration of many tax incentives and inability of raising debt ceiling, automatic spending cuts will occur. The growth of the U.S. economy in the next period is expected to remain moderate due to developments such as fiscal tightening concerns as a result of automatic spending cuts, the absence of medium term fiscal plan and weak housing market.

Although important steps were taken in order to overcome crisis in the EU in the last period, a significant progress could not be achieved towards stimulating the economy and remarkable improvement in the fiscal balances. Euro zone leaders took important decisions in order to fight against the crisis; including strengthening of institutional structure, establishment of banking union roadmap, forming of joint supervision mechanism, giving elasticity to the rescue funds, assigning direct capitalization authority for banks to the European Stability Mechanism. However, uncertainties about implementation details of taken decisions still exist and pose significant risk to the global economy. In parallel with these developments, high levels of debt ratios and weak banking structure in Europe led to a downward revision of forecasts for the Euro Area growth rates.

The economic growth of developing countries has slowed down in parallel with the growth performance of the developed countries since 2011. The Chinese economy which is considered as the engine of the global growth in recent years and grew by 9.2 percent in 2011, recorded 7.6 percent growth in the second quarter of 2012. It shows that a significant slowdown in Chinese economy. This rate is the lowest growth rate in China in recent years. It is projected that growth in the developing countries except emerging Asian economies will remain below its potential due to applied contractionary policies, external factors and increasing risk perception.

As a result of these developments in the world economy, international organizations have revised their growth forecasts downward. The world growth

rate forecast for 2012 was reduced to 3.3 percent in October 2012, which was estimated as 4 percent in September 2011 by IMF. As for the years 2013, 2014 and 2015, it is estimated that world growth rate will be 3.6 percent, 4.1 percent and 4.4 percent, respectively.

The economy of the Euro Area is expected to contract in 2012 by 0.4 percent in October 2012 forecasts, which was expected to grow by 1.1 percent in September 2011 forecasts. In the period of 2013-2015, the Euro Area is expected to grow by 0.2 percent, 1.2 percent and 1.5 percent, respectively. The US economy is expected to grow by 2.2 percent, 2.1 percent, 2.9 percent and 3.4 percent, respectively in the period of 2012-2015. In this period, emerging and developing economies are expected to grow by 5.3 percent, 5.6 percent, 5.9 percent and 6.1 percent respectively. In the same period, China is expected to grow between 7.8 percent and 8.5 percent .

The world trade volume is projected to grow by 3.2 percent in 2012 and 4.5 percent in 2013. It is expected to increase by 5.8 percent and 6.1 percent in 2014 and 2015.

A marked improvement in unemployment rates is not expected in the global level because of the low growth expectation in 2012 and difficulties in job creation. The unemployment rates in USA and the Euro Area are expected to be 8.2 percent and 11.2 percent, respectively in 2012. These ratios are expected to be 8.1 percent and 11.5 percent, respectively, in 2013.

A significant reduction in the US budget deficit is not expected because of the slow economic recovery and general government budget deficit to GDP ratio which

was 10.1 percent in 2011 is expected to be 8.7 percent and 7.3 percent in 2012 and 2013, respectively. By keeping the increasing trend, the general government gross debt stock to GDP ratio is expected to increase to 107.2 percent in 2012 and to 111.7 percent in 2013.

In the Euro Area, general government budget deficit to GDP ratio is expected to decline in the coming period with the effects of the fiscal measures taken in the European Union central and periphery countries especially in Greece, Ireland and Italy. This ratio which was 4.1 percent in 2011 is expected to be 3.3 percent in 2012 and 2.6 percent in 2013. The general government gross debt stock to GDP ratio is expected to increase to 93.6 percent and 94.9 percent in 2012 and 2013, respectively.

The global inflation rate which realised as 4.9 percent in 2011 is expected to be 4 percent in 2012 and 3.7 percent in 2013. In recent months, worldwide agricultural production problems have led to increase in food prices. Increases in agricultural commodity prices pose a risk to upward pressure on inflation and processed food prices. Fluctuating commodity prices have increased uncertainties.

The oil prices increased by political developments in the Middle East region, in the first months of 2012 and then declined in the second quarter of 2012 because of the positive developments in the supply side and reduced demand pressure by the slowdown in global economic activity but started to increase again in the second half of the year.

Downside risks for the world economy are expected to continue in the forthcoming period. Macro-financial

stability in developing countries can be affected adversely in the case of a further weakening of the global growth outlook and increased downside risks for global economy.

Macro prudential fiscal policies which have been implemented in recent years have critical importance to maintain the resilience of Turkish economy against global uncertainties. Structural reforms to reduce the saving gap and improve the quality of fiscal discipline can support the stability of the economy.

B. TURKISH ECONOMY

Turkey was one of the highest growing countries with 8.5 percent GDP growth in 2011. In 2011, growth mainly came from private consumption and fixed capital investment. Increases in domestic demand led to increases in value added of manufacturing industry, construction, trade and transportation. Within the framework of the main goal of sustainable growth, thanks to measures taken due to global uncertainties and increases in current account deficit, economic activities started to decline especially beginning from the last quarter of the year. This slowdown continued in the first half of 2012, as well. Since last year, due to the increases in the contribution of net exports of goods and services to the growth, the negative effect of the slowdown in domestic demand on the growth has been limited. For the last quarter of 2012, it is estimated that the contribution of net exports to the growth will decline whereas domestic demand will increase relatively. Thus, it is expected that the growth rate will be 3.2 percent in 2012.

According to seasonally adjusted data, the unemployment rate, which increased to 14.9 percent during the global crisis in April 2009 period, decreased to 8.9 percent in June 2012 period thanks to high growth and measures taken against unemployment. This unemployment rate is even lower than the pre-crisis period unemployment rates. In this period, unemployment rate has decreased despite 2.4 percentage point increase in labour participation rate.

Employment rate has increased in line with decreases in unemployment rate, as well. Seasonally adjusted employment rate increased to 45.3 percent in June 2012 period. Employment increased by 676 thousand persons in the period of June 2011-2012. Non-agricultural employment increased by 721 thousand persons. Thus, total employment has increased by more than 4 million since April 2009 period.

According to the ILO data, Turkey has been one of the countries, which have reduced the unemployment rate most rapidly since the beginning of 2009. Moreover, according to the OECD calculations, Turkey's seasonally adjusted unemployment rate in May 2012 period was below the OECD average for the first time.

Due to the slowdown in the economy beginning from the last quarter of 2011, in the 2012 January-July period, imports declined in nominal terms and current account deficit reduced by a significant amount. Current account deficit which recorded as 77.1 billion dollars in 2011 decreased to 61.4 billion dollars in July 2012 at annualized terms. It is estimated that this tendency will continue for the rest of the year and current account deficit will decrease to 59 billion dollars by the end of

the year. Therefore, it is estimated that current account deficit as a percentage of GDP, which was 10 percent in 2011 will decrease to 7.3 percent by the end of 2012. The decline in the current account deficit was mainly due to the measures aiming at controlling domestic demand and increases in net exports.

Besides factors, which decreased current account deficit in the short-run, with the aim of decreasing current account deficit in the medium to long-term permanently to sustainable levels, measures have been taken to reduce foreign trade deficit on one hand, to increase domestic savings and to improve quality of financing on the other.

In this framework, new incentive system was put into practice with the aim of changing import-dependent production structure. Furthermore, within the framework of input supply strategy, action plans have been prepared. Tax incentives to support service exports have been introduced. Activities, which ensure export market diversification have been carried on.

With the aim of increasing domestic savings; legal arrangements have been put into practice to make private pension and life insurance more attractive and natural disaster insurance widespread. Moreover, new Turkish Commercial Law, which is expected to make important contribution to increase the corporate savings and foreign direct investment inflows and the strategy to combat with informal economy have been put into practice.

It was ensured that firms were promoted to use their own resources instead of borrowing. Arrangements for supporting business angel investment and venture

capital funds have been made and new Capital Market Law has been submitted to the Parliament. In order to increase Turkey's financial capacity and to support Istanbul International Financial Centre Project, portfolio management companies have been provided with tax facilities so that international funds could be managed from Turkey. In addition, the legal basis for the issuance of rental certificate at the international and domestic markets has been formed.

In 2011, the significant depreciation of Turkish Lira together with the increase of import prices in dollar terms accelerated annual core goods prices. Moreover, adverse developments in cost conditions accelerated annual services prices. In addition, the considerable decrease in the downward contribution of total demand to inflation in comparison to previous two years affected the increase in core inflation to 8.1 percent. Food prices followed a fluctuating course during the whole year and showed significant increase in the last quarter of the year. The change in energy prices remained high throughout the year in line with the increase in oil prices. CPI increased approximately 2 percentage points due to rapid rise in gold prices, price adjustments in electricity and natural gas and tax regulations with regard to tobacco products. Thus, CPI realized as 10.5 percent, with an increase of 4 percentage points compared to previous year, at the end of 2011.

In January-September 2012 cumulative CPI realized as 3.3 percent by decreasing 1.2 percentage points in comparison to same period of previous year. Slowdown in domestic demand and decreases in the non-fuel commodity and unprocessed food

prices caused to this development. However, CPI has remained high due to the base effect caused by remarkable increase in CPI in the last quarter of 2011 and thus recorded as 9.2 percent in September 2012. It is expected that CPI, being higher than the previous MTP forecast of 5.2 percent, will realize 7.4 percent at the end of year. The main reasons for this upward revision are the negative impact of high inflation on price behaviour during 2012, higher oil prices and price adjustments in September and October.

The CBRT has implemented considerable monetary tightening to limit the permanent effect of developments in 2011 on core inflation. In this context, the interest rate corridor was widened upwards and the average funding cost was raised significantly. CBRT has reduced the average funding cost in the last three months and the ceiling in interest rate corridor was decreased in September in accordance with the relative decrease in inflationary risks.

In 2012, CBRT has taken steps to make liquidity management of banks less costly and more flexible, to reduce the volatility in exchange rate and to strengthen FX reserves. In this context, the ceiling on the upper limit for FX reserves that might be held to maintain Turkish Lira reserve requirements has gradually increased.

In 2011, the general government deficit as percent of GDP realized 1.8 percentage points lower than the initial projection. The breakdown of this positive performance is as follows: 0.6 percentage points from revenues, 0.7 percentage points from interest payments, 0.5 percentage points from non-interest expenditures. In revenue performance, the strong

recovery in the economy, employment growth, and the restructuring of some public claims have been effective. In nominal terms, the interest payments remained below the programmed level, whereas non-interest expenditures exceeded the programmed level.

In 2012, it is expected that general government revenues to GDP ratio, in line with the increase in social security contributions, will be 37 percent, which is 0.6 percentage points higher than the previous year's level. Interest payments are expected to be close to level of 2011. Non-interest expenditures are expected to increase by 1.7 percentage points compared to the previous year, especially due to the increase in transfers and current expenditures. Thus, the general government deficit, which was targeted as 0.8 percent of GDP, is estimated to be 1.6 percent by the end of 2012. Moreover, public sector borrowing requirement as a percentage of GDP, which was programmed to be 1.1 percent, is expected to be 1.7 percent. On the other hand, public sector surplus, excluding interest payments and privatization revenues, is expected to be 1.7 percent.

In parallel with these developments, the EU-defined general government debt to GDP ratio, which was 39.2 percent in 2011, is expected to be 36.5 percent in 2012.

II. MAIN OBJECTIVE

The main objectives of the MTP covering the period of 2013-2015 are; despite the problems persisting in the global economy, to increase the growth to its potential level, to enhance the employment, to ameliorate the public balances, to continue fighting against inflation, to sustain the decreasing trend in the current account deficit, to increase the domestic savings and consequently, to strengthen the macro-economic stability.

In the Programme period, fiscal, monetary and income policies and the macro prudential measures will strengthen confidence, stability and the predictability and they will be implemented in a framework that enhance the economy's resilience against external shocks.

Besides the macro measures, the structural reforms for decreasing the current account deficit permanently in the medium and the long term and the implementation of sector-based measures will be continued.

To enhance employment, as well as the policies ensuring stable growth, the policies to improve quality of labour force, flexibility of labour market, participation in the labour force will be given priority.

The competitiveness of the economy, the efficiency of the public expenditures, good governance, education system, juridical system, tax system, informality, the continuation of structural transformation in the fields of local administration, regional development and

sustainable development, the realization of urban transformation are among the main priorities of the Programme.

III. MACROECONOMIC POLICIES AND OBJECTIVES

A. TARGETS AND INDICATORS IN THE PROGRAMME PERIOD

While formulating the Programme's macroeconomic framework; it is assumed that global growth will increase gradually, our trade partners' growth will be more moderate compared to global growth, capital inflow to emerging markets will continue and imports and exports prices' will follow a stable trend.

1. Growth and Employment

- i. Due to the lack of demand in foreign markets, mainly in EU countries, GDP growth in 2013 is targeted as 4 percent. In the years 2014 and 2015 the growth rate is targeted to be 5 percent which indicates convergence to its potential level. During this period, it is foreseen that the contribution of foreign demand to growth remained limited and growth will be based on domestic demand.
- ii. In the Programme period, the real average annual growth rate is expected to be 4.0 percent in private consumption, 7 percent in private fixed capital investment, 3.4 percent in public spending and 4.3 percent in public fixed capital investment.
- iii. It is expected that domestic savings, which have significantly fallen in recent years, will

increase gradually to 16.7 percent in 2015. Increase in the private savings will be the driving factor in this progress.

- iv. During the program period, it is targeted that private and public saving-investment gaps will be narrowed.
- v. In the Programme period, the creation of 1.6 million additional jobs in non-agricultural sectors is expected as a result of economic growth. Due to the limited decline in agricultural employment, increase in total employment is expected to be 1.5 million.
- vi. At the end of the Programme period, labour force participation rate, employment and unemployment rates are expected to be 49.8, 45.5 and 8.7 percent respectively.

2. Public Finance

- i. Public sector deficit to GDP ratio which is estimated to be 1.7 percent at the end of 2012 is targeted to decline to 0.9 percent at the end of the Programme period.
- ii. Similarly, general government deficit to GDP ratio, which is expected to be 1.6 percent in 2012, is targeted to decline to 0.9 percent at the end of the 2015.
- iii. Program defined public sector primary surplus to GDP ratio which is expected to be 0.5 percent in 2012 is estimated to increase continuously to 1.1 percent at the end of the Programme period.

- iv. General government expenditures and revenues, as a ratio of GDP, is expected to remain around the levels reached in recent years.
- v. The ratio of tax burden including social security premiums (excluding tax rebates) to GDP, which is expected to be 27.2 percent in 2012, is estimated to be 28.2 percent in 2013 and decrease to 27.5 percent at the end of Programme period.
- vi. General government nominal debt stock (EU definition) to GDP ratio which was 39.2 percent in 2011 is estimated to decrease to 36.5 percent in 2012. Having a steady declining trend, this ratio is projected to further decrease to 31 percent by the end of Programme Period.

3. Balance of Payments

- i. It is expected that the growth of our trading partners will remain moderate and market and product diversification of exports will increase during the Programme period. It is envisaged that export and non-fuel import prices increase at a low and similar rate. Thus; a significant change is not expected in the terms of trade.
- ii. In this context, the annual average of real exports and imports are expected to increase by 5.7 and 5.4 percent respectively, in the Programme period.
- iii. Non-monetary gold exports and imports

are expected to return to the same level of previous years during the Programme period.

- iv. Energy imports (chapter 27), which are expected to be 59.1 billion dollars in 2012, are estimated to be 65.4 billion dollars at the end of the Programme period taking into consideration the growth performance and oil prices expectations.
- v. Tourism revenues, which are expected to be slightly below the estimated level in 2012, are predicted to increase at an average of 6.5 percent during the Programme period.
- vi. Through the contribution of policies aiming to increase domestic savings and decrease the high import dependency of production during the Programme period, the current account deficit to GDP ratio which is expected to realize as 7.3 percent of in 2012 is targeted to decrease to 6.5 percent at the end of the Programme period.

4. Inflation

- i. It is expected that the downward contribution of total demand conditions to inflation will continue in the Programme period and commodity prices will follow a stable path. Food inflation is expected to fluctuate around 7 percent and Brent oil price is assumed to be 110 dollars per barrel in the same period. In this framework, annual growth rate of CPI is estimated to decrease to 5 percent at the end of the Programme period.

B.MACROECONOMIC POLICIES

1. Growth and Employment

Raising the domestic savings and competitiveness of the economy has great importance in a macroeconomic framework where current account deficit is gradually reduced, while growth rate is increased. To this end;

- i. Taking into consideration the balance between domestic and foreign demand; monetary, fiscal and incomes policies will be implemented in due coordinated manner to ensure a stable growth rate at potential levels.
- ii. Increase in domestic savings will be motivated through income growth by supporting the policies aiming at increasing the employment, raising the quality of labour force, reducing the informality and disparities between the regions.
- iii. In order to increase domestic savings, policies that ensure the growth of consumption to be in line with income growth will be implemented.
- iv. Policies aiming to decrease waste of resources will be implemented both in public and private sectors.
- v. Endeavours in direction to increasing awareness in savings will be regularly administered.
- vi. In order to increase the competitiveness; the transition to a more efficient, R & D-based

and innovative production structure will be supported.

- vii. In order to achieve sustainable growth and create new employment opportunities, domestic and international investments that increase exports and reduce import dependency will continue to be supported.
- viii. Policies aimed at increasing the competitiveness of SMEs will be continued.
- ix. Contribution of each region to national growth and development will be enhanced by taking into consideration their potential and dynamics.
- x. Implementations that encourage the participation of social aid beneficiaries in labour force will be made widespread.
- xi. Employment and value added in rural areas will be increased by enhancing economic activities that have relatively high productivity.

2. Fiscal Policy

Fiscal policy will be carried out with an approach that will contribute to strengthen macroeconomic stability, to promote private sector-led growth process and to fight against current account deficit and inflation.

The revenue, expenditure and debt targets in the Programme will be closely monitored and necessary policy measures will be taken in case of significant deviation possibility from fiscal targets of the Programme and, thus fiscal discipline will be maintained.

a. Public Expenditure Policy

Public administrations are to use allocated appropriations effectively, economically and efficiently in accordance with policies and priorities and to stick to the programmed public expenditure limits which were determined with a multi-year budgeting approach. To this end;

- i. Strategic planning and performance-based budgeting, introduced to increase fiscal transparency and accountability and to strengthen decision-making processes of public administrations will be extended and resource allocation will be based on strategic plans and performance programs.
- ii. Spending programs will be revised in order to increase productivity. For this purpose, an administrative mechanism will be established.
- iii. Transfers to social programs and agricultural sector will be examined to assess whether the expected benefits are obtained.
- iv. Impact analysis capacity of public administrations will be strengthened.
- v. Effectiveness of the public procurement system will be increased.
- vi. Medicine and treatment expenditures will be made more rational by preventing unnecessary drug and service consumption, without compromising the quality of health services.

- vii. Auditing models taking into account previous behaviours of health service providers will be developed; software, hardware and education infrastructure will be strengthened in risk analysis and data mining fields.
- viii. The deduction from the general budget tax revenues of the local administrations on account of the liabilities to the public sector will be made regularly and the ratio of deductions will be determined in a way to avoid new debt creation and to help reducing the debt stock.

b. Public Investment Policy

Effectiveness of public investments will be increased; investments will be directed to the infrastructure which fulfil the priority social needs and support the productive activities. Public investments will be used as an effective instrument to achieve the institutional, regional, sectoral goals and objectives towards harmonisation with EU institutions and acquis. To this end;

- i. Public investments will be realized effectively, productively and timely. Using existing capital stock more efficiently will be targeted.
- ii. Infrastructure investments in such sectors as; education, health, technological research, transportation, drinking water, judicial services and improvement of information and communication technologies will be given priority.
- iii. Public investments, namely South Eastern

Anatolian Project, Eastern Anatolian Project, Konya Plain Project and Eastern Black Sea Project will focus on economic and social infrastructure projects that aim at reducing regional development disparities.

- iv. Public investment proposals and decisions will be based on sectoral, regional and institutional strategies that include need and result-oriented approaches, and sound feasibility analyses and studies.
- v. The monitoring and evaluation studies will be developed in order to increase efficiency of public investments.
- vi. The models encouraging private sector participation in public infrastructure investments will be widespread.

c. Public Revenue Policy

The main objective of the public revenue policy is to support sustainable development, to increase domestic savings, to encourage employment and investment, to reduce informal economy and to contribute to mitigation of regional disparities by constituting an effective, simple and fair tax system. To this end,

- i. Stability and predictability in implementation and regulation of tax policies will be essential.
- ii. Implementations of tax policies, aimed to support R&D activities and to increase competitiveness of the economy at the international level by developing high value-added products, will be maintained.

- iii. Studies on revision of the basic tax laws in accordance with necessities will be completed.
- iv. Tax policies will be implemented in a way to enhance financing quality.
- v. Tax policy will be used effectively if needed to cope with problems threatening the sustainability of growth, primarily insufficient domestic savings and current account deficit.
- vi. Calculation of the tax expenditures due to the exceptions, exemptions and deductions will be widened and maintained to be shared by the public opinion.
- vii. Works on increasing tax compliance and broadening the tax-base will be continued.
- viii. In order to use public sector owned immovable effectively, efficiently and economically, all the alternatives including sale will be taken into consideration.
- ix. In the determination and implementation of tax policies, priorities concerning climate change and efficiency in energy consumption will be taken into account.

d. Public Borrowing Policy

Public debt management policy will be carried out to meet the medium and long term financing needs at the lowest possible cost within the framework of risk level determined by domestic and external market conditions and cost factors. To this end;

- i. Debt management policies based on strategic benchmarking will be continued to be implemented.
- ii. Exchange rate and interest rate risks will be reduced by borrowing mainly in TL denominated and fixed rate instruments in the proper periods of market conditions. Liquidity risk will be reduced by extending the average maturity of debts and keeping sufficient reserve assets.
- iii. In order to ensure balanced distribution of debt service between terms and to increase the price efficiency in the secondary market, buy-back and switching auctions will be conducted.
- iv. In order to obtain a healthy yield curve and providing liquidity in the secondary market, the policy of re-issuing instruments in decreasing maturity will be sustained.
- v. In order to expand the investor base of domestic government bonds, works on new borrowing instruments will be maintained.
- vi. Primary dealership system will continue to be applied.
- vii. Information about borrowing such as financing programs, domestic borrowing strategies and tender announcements will continue to be announced on a regular basis.

e. Public Financial Management and Audit

Financial management, control and audit approach that of the legal base completed substantially will be implemented with all its components. In this context;

- i. In public administrations, it will be ensured that internal and external audit systems function effectively and in a coordinated manner and internal control system operate healthy.
- ii. In order to ensure an effective external audit in the public administrations, implementation capacity of Court of Accounts will be strengthened.
- iii. Compliance with the internal control and internal audit standards of public administrations will be enhanced.
- iv. Human resources capacity in financial management and audit will be strengthened in public administrations.

f. State Economic Enterprises and Privatization

It is essential that SEEs will be operated in accordance with profitability, productivity and corporate governance principles.

- 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. Annual performance programmes of SEEs' strategic plans will be monitored and evaluated.

- iii. In SEEs, internal control units that follow international standards will be established and internal control systems will be improved.
- iv. All corporate policies, especially pricing, 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 efficiently.
- v. The current market value will be taken as the basis for disposal of real estate of SEEs. For the transfer of non-idle real estate of SEEs; prevention of negative impacts to the productivity and integrity of the SEEs, conservation of agricultural lands and environmental health will be taken into account.
- vi. Operation units of SEEs that continuously incur losses and appear not possible to be operated profitably will be eliminated.
- vii. Measures will be taken to meet SEEs requirements for competent personnel.
- viii. The state will withdraw completely from electricity distribution and sugar production sectors; the share of the state will be reduced in electricity production, local natural gas distribution, telecommunication, port, highway and bridge operation.

3. Balance of Payments

In order to ensure stable growth, it is essential for the current account deficit to be reduced to a sustainable level and to be financed by foreign direct investments and long term sources to a possible extent.

Increasing domestic savings, sustaining the fiscal discipline, improving the investment climate, increasing the efficiency and flexibility of labour market, combating efficiently with informal economy, works pursued to make İstanbul as an International Finance Center will significantly contribute to fight against the current account deficit.

- i. In energy sector, share of domestic and renewable sources will be increased and import dependency will be reduced by supporting activities ensuring energy efficiency.
- ii. With the aim of increasing global competitiveness of firms in international trade, production and marketing processes of innovation based, trademarked, high value added products and services will be continued to be supported.
- iii. Within the framework of Input Supply Strategy (ISS), actions for procurement of more efficient and low cost inputs in export oriented production, decreasing dependency of production and exports on intermediate goods imports and thus contributing sustainable and competitive advantage in exports will be initiated.

- iv. Policies will be developed to increase the share of domestic production in supply chains of multinational companies operating in domestic markets.
- v. The necessary measures in Inward Processing Regime will be taken in a comprehensive manner considering its impacts on domestic production, exports and foreign trade balance.
- vi. With the aim of raising awareness for consuming high domestic value-added products, encouraging measures, primarily labelling, will be taken.
- vii. The efficiency of market monitoring and supervision system in imports will be increased.
- viii. In public procurements, it will be ensured that domestic products will be preferred.
- ix. Increasing market diversity and facilitating market entry will be continued to be supported in exports.
- x. Improvements in export credit and guarantee schemes directed to exports will be carried on. In addition, awareness of financing programs towards exporters will be increased and efforts will be made to introduce new financial instruments.
- xi. In order to contribute to increase Turkish exports, technical assistance will be provided to countries in need and Turkey's effectiveness will be improved on a global

and regional scale within the scope of Turkey's bilateral and multilateral cooperation activities.

4. Monetary Policy

The main objective of the monetary policy is to establish and to sustain the price stability. Financial stability, as a supportive objective, will also continue to be taken into consideration. Within this framework;

- i. Monetary policy will be implemented in accordance with the inflation targeting regime.
- ii. Besides the usage of short term interest rates as the main monetary policy tool, the complementary instruments such as reserve requirements and interest rate corridor and Turkish Lira and foreign exchange liquidity applications will continue to be practiced together.
- iii. Inflation targets will be determined by the Government and Central Bank for three year periods.
- iv. 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.

- v. The operational framework of monetary policy enabling a flexible and efficient liquidity management will continue to be followed in the Programme period.
- vi. The floating exchange rate policy will continue to be pursued in the Programme period.
- vii. Foreign exchange selling auctions may be started if unhealthy price formation or excess volatility 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.
- viii. In the proper periods of market conditions, foreign exchange buying auctions for foreign exchange reserve accumulation will continue within the pre-declared program.

IV. DEVELOPMENT AXES 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. To this end;

- i. Efforts on easing bureaucratic procedures, accelerating procedures and lowering cost of procedures will be maintained.
- ii. Support mechanisms for increasing investments and exports, enhancing the competitiveness of SMEs, entrepreneurs, craftsmen/artisans, and fostering co-operatives, will be diversified, and efficiency of present support will be increased.
- iii. Cluster formations, especially competitive ones, which increase the innovation capacity, efficiency, exports and help develop entrepreneurship will be supported.
- iv. In order to increase SMEs' access to financing; provided supports will be made efficient, financial instruments will be diversified and adaptation of standards of accounting and financial reporting by SMEs will be ensured.
- v. Monitoring and assessment systems will

be developed for the public supports and coordination and collaboration between institutions will be strengthened.

- vi. Efforts geared to the improvement of customs infrastructure and simplification of related procedures will be maintained.
- vii. To ensure the efficiency of the intellectual property system; short, medium and long term strategies will be determined, institutional capacity, legal infrastructure and inter-institutional collaboration will be strengthened, efforts for the formation of a settled and common culture of intellectual property rights in the society will be maintained.
- viii. Information systems and data infrastructure for businesses will be developed.

2. Reducing the Informality in the Economy

In order to prevent unfair competition, enhance competitiveness in the economy and increase public revenues, an efficient struggle against informal economy will be waged within the scope of The Strategic Action Plan to Combat with Informal Economy. To this end;

- i. Public awareness will be increased and social consensus against informal economy will be strengthened.
- ii. Voluntary compliance of taxpayers against informality will be supported, audits will be made more efficient and the deterrence of sanctions will be increased.

- iii. Auditing and implementation capacity of public institutions will be improved and coordination among institutions, primarily on data sharing will be strengthened.
- iv. Tax loss due to operations performed electronically, primarily in e-commerce, will be prevented.
- v. Combat against smuggling, primarily on fuel, alcohol and tobacco products, will be made in an efficient manner.

3. Developing the Financial System

The main objective is to maintain financial stability. Towards the objective of making Istanbul as an international financial center, our priority is increasing the competitiveness of the sector in the international markets with diversification and deepening of financial transactions. To this end;

- i. Financial markets will be monitored more efficiently and collaboration with international institutions will be improved.
- ii. Within the principles of corporate governance framework; transparent, fair and encouraging practices which are protecting the rights of consumers and investors in the financial sector will be strengthened.
- iii. The regulation and supervision of financial sector will be improved in line with international standards and works led by G-20 platform.
- iv. Istanbul International Financial Center

Strategy and Action Plan will be revised in accordance with needs.

- v. Policies aimed at improving capacity and competitiveness of the financial system will be developed, transaction and brokerage costs in the sector will be evaluated periodically.
- vi. The diversification of financial transactions in Turkey will be supported by arrangements to be made within the scope of the taxation of financial instruments.
- vii. In order to increase domestic savings, financial markets and instruments will be used efficiently; efforts will be focused on increasing financial awareness.
- viii. Contribution to the deepening of the financial system will be provided by developing new markets and products.

4.Improving Energy and Transportation Infrastructure

a.Energy

The main objective of the energy policy is to meet the energy needs of increasing population and growing economy in a continuous, highly qualified, secure and environmentally friendly manner at a minimum cost in a competitive free market environment. To this end;

- i. Necessary measures will be taken to ensure electricity supply security and to provide the realization of electricity generation, transmission and distribution investments

- within the supply-demand projections framework.
- ii. The privatization of electricity distribution and generation facilities will be continued to be realized by considering the price structure in the market and the other sectoral priorities.
 - iii. For the purposes of creating healthy resource diversity, mitigating the risks caused by import dependency and enhancing the security in electricity supply, the efforts for the construction of nuclear power plants will be accelerated.
 - iv. For improving the electricity trade with neighbouring countries, necessary infrastructure investments will be realized.
 - v. In electricity generation the necessary measures will be taken to increase the share of domestic and renewable energy resources and the share of natural gas and imported coal will be decreased.
 - vi. Natural gas usage other than electricity generation will be expanded to all provinces through a competitive process and natural gas supply security will be ensured at the national level considering the seasonal demand variations as well.
 - vii. Minimizing the losses in electricity transmission and distribution, increasing the energy efficiency in buildings, transportation and industry, and improvement of related financial opportunities will be provided.

- viii. Efforts to make Turkey a transit country and a hub for the transportation of energy (oil, gas and electricity) resources in our region to the international markets will be continued.

b. Transportation

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

- i. Traffic safety will be improved in all transport modes.
- ii. 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 axes of EU Motorways of the Sea (MoS) and integration to the Single European Sky will be continued.
- iii. Dual carriage highway projects will be sustained and the highway standards will be enhanced by means of bituminous hot mixture pavements. The use of intelligent transportation systems in highway network and urban transportation will be expanded.
- iv. Turkish State Railways' (TCDD) service quality will be increased and high speed train passenger transport will be expanded. In order to increase the share of rail transport

in the sector and reduce TCDD's financial burden on public finance, rail transport sector and TCDD will be restructured.

- v. In freight transport, priority will be given to rail and maritime transport; ports will become logistics centers that enable combined transport via improving hinterland connections. Hub ports will be established in the zones determined by Ports Master Plan, and efficient management of the ports will be ensured.
- vi. Medium and long term capacity needs of the airports will be studied and necessary measures will be taken in order to develop regional air transport.
- vii. Logistic sector structure providing safe, cheap and rapid services will be developed. Logistic centers will be established in the key production and consumption zones to meet regional and global needs as well as to support competitiveness of Turkey's main export products and services.
- viii. Efficiency and productivity will be increased in the planning, design, construction and operation stages of the urban transport infrastructure projects.

5. Protection of Environment and Improvement of Urban Infrastructure

The main objective is to improve the living standards of cities, to provide sustainable urban development, to form liveable spaces and to protect the environment.

To this end;

- i. Capacities of all related institutions will be strengthened in order to improve the efficiency in implementation of environmental legislation.
- ii. Actions in the context of combat with climate change will be carried out within the National Climate Change Strategy framework.
- iii. Sustainable utilization of natural resources will be ensured through studies for protection, improvement and productive use of natural resources, particularly for biodiversity.
- iv. Administrative, legal and financial regulations will be implemented in order to manage water sources efficiently.
- v. Studies for providing cities with adequate, clean and healthy drinking water, treating wastewater, and collecting rain water will be accelerated.
- vi. In solid waste management; decomposition at the source, collection, transportation, recycling and disposal stages will be assessed technically and financially as a whole.
- vii. The institutional capacity of municipalities will be strengthened in planning, project design, realization and operating of urban infrastructure services towards environmental protection.
- viii. Housing supply to low and middle income groups will be given priority. Efforts on improving healthy and sustainable living environments will be continued.

- ix. Basic principles, strategies and standards in subjects of physical planning, implementation and construction will be enhanced through increasing harmony between development and spatial development policies.
- x. Along with the re-structuring in environment and urbanization domains, in order to ensure consistency in implementation, urbanization and land development legislation will be reviewed, based on subsidiarity principle and including effective monitoring and supervision mechanisms.
- xi. Studies in National Coastal Strategy and Integrated Coastal Area Planning and efforts for protection and balanced use of coasts will be sustained.
- xii. The urban regeneration Works undertaken to achieve a healthier structure for disaster-prone areas by considering urban aesthetics and energy productivity will be accelerated.
- xiii. A comprehensive urban regeneration framework legislation will be developed for purposes of reducing disaster risks, increasing urban life quality and provision of urban aesthetics based on the unique architecture.

6. Improving R&D and Innovation

Improving the innovation capability of the private sector, which plays an important role in transforming R&D efforts into innovative products, processes, and services and in enhancing contribution of these efforts

to competitiveness, increasing competence in science and technology, and converting this competence into economic and social benefits are the main objectives of science and technology policy. Reducing technologically foreign dependency, developing domestic innovative products, and increasing human resources in the field of science and technology will be practiced by adopting target oriented approaches in areas with strong R&D and innovation capacity, need oriented approaches in areas asking for gaining momentum, and creativity promoting bottom-up approaches in other areas. To this end;

- i. Cooperation among the actors of national innovation system, efficiency of the private sector within the system and international cooperation in this area will be improved.
- ii. Increasing R&D capacity and R&D demand of the private sector, particularly of SMEs, will be ensured and innovation-based entrepreneurship will be scaled up.
- iii. Programs for enhancing cooperation among private sector, universities and research institutions, pre-competitive R&D collaborations, and innovation-based clustering efforts will be supported.
- iv. Research manpower will be improved in terms of quality and quantity, by particularly considering the needs of the private sector, and attraction of researchers abroad to our country will be ensured.
- v. Research infrastructures will be improved and effective utilization and sustainability

thereof will be assured.

Dissemination of Information and Communication Technologies

The main objective is to accelerate the transformation into information society through extensive and effective use of information and communication technologies. Within this framework;

- i. Information society policies and strategies will be renewed and, effective coordination, implementation and monitoring of the results will be ensured.
- ii. A special emphasis will be given to alternative infrastructures and service provision in the electronic communications sector, and thus, the competition in the sector will be increased.
- iii. In the electronic communications sector, the existing regulations will be reviewed based on the needs posed by changing technology and market structure, and timely and efficient implementation of the regulations will be ensured.
- iv. To improve the fiber-optic infrastructure, building and using common infrastructures will be promoted, efforts on supporting local administrations and organizations establishing and operating network infrastructures will be carried out.
- v. Regional disparities in the infrastructure of the electronic communications sector will be reduced. Access to ICT, especially to

broadband technologies, with reasonable costs will be increased.

- vi. Effective use of ICT by all parts of the society will be ensured and, the digital gap will be reduced.
- vii. In the field of satellite technologies, efforts to increase national competency and to produce national satellites will be accelerated.
- viii. In the ICT sector, public procurement will be used as a policy tool to support the development of the sector, and to increase the national added value and competition in the sector.
- ix. Employment opportunities and entrepreneurship will be improved and competent human resources will be trained in the ICT sector.
- x. In the ICT sector, R&D and innovation will be encouraged and overseas expansion of the sector will be supported.
- xi. Postal sector will be restructured with a competitive approach on the principles of quality, reliability and accessibility, and effective regulation and supervision will be ensured in the sector.
- xii. Broadcasting sector will be improved by taking the international obligations into consideration.

8. Improving the Agricultural Structure

The main objective in the agriculture sector is to develop a well-organized and highly competitive

structure by taking into account the food security and safety concerns along with the sustainable use of natural resources. In this framework;

- i. Agricultural supports will be restructured for increasing efficiency, productivity and quality in production via differentiating them on the basis of area and product.
- ii. Market mechanisms will be improved to ensure stability in product prices and producer incomes, and producer organizations are aimed to be more efficient.
- iii. Supports for increasing production of agricultural products having supply deficit will be continued by considering markets and the balance among production of crops.
- iv. Transformation of institutional and administrative structure, especially in information infrastructure, in agricultural sector will be given priority, and agricultural statistics will be improved in terms of quality and quantity.
- v. The public service delivery capacity regarding phytosanitary, animal health and food safety will be improved, and the modernization efforts of the agricultural holdings and food establishments will be supported.
- vi. High value added, branded and final products will be taken precedence allocating export subsidies for agricultural products.
- vii. Practices for the purpose of increasing productivity in the plant production will be

extended and phytosanitary practices will be improved.

- viii. In animal husbandry, supports will be restructured to enhance the structural transformation such as stabilization of meat and dairy markets and improvement of animal husbandry. Besides, fight against diseases and pests via breeding activities, and increasing the production of quality fodder will be given priority.
- ix. Activities regarding training of producers and extension services in the sector will be improved.
- x. Methods and means for preservation and effective use of land and water resources will be given priority, the scale of agricultural holdings will be optimized via land consolidation efforts and required legal arrangements, irrigation investment will be expanded, and irrigation systems will be modernized for efficiency.
- xi. In the fisheries sector, institutional capacity for resource management system will be improved and it will be ensured that aquaculture production is performed within the framework of environmental sustainability principles.
- xii. 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 improved; activities

against desertification and erosion will be accelerated.

9.Ensuring the Transition 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 to increase the competitiveness and the share in the world trade. To this end;

- i. To become a production center in middle and high technology products; application of Industrial Strategy and sectoral strategies, which will contribute to the structural transformation, will be continued.
- ii. Recycling investments will be given special importance in sectors with high external dependence and National Recycling Strategy will be developed.
- iii. To ensure the production of high value-added goods, to increase the quality of industrial goods and to assure prevalence of safe products in market, legislation studies will be completed, installation of laboratories will be supported, conformity assessment and market surveillance systems will be activated.
- iv. Commercialization and marketing processes of high value-added products and services based on innovative ideas and R&D will be supported.

- v. Unique design activities mainly in traditional sectors such as textile, ready-made clothing, leather, ceramics, glass, furniture and jewellery will be encouraged; creation of national and international brands will be supported.
- vi. Growth and mergers of SMEs will be encouraged. In this context, productivity enhancement, business set up and development activities and ICT infrastructure will be supported.
- vii. For the enterprises to operate effectively, the industrial and technological zone support programmes, primarily the organized industrial zones, will be improved and their effectiveness will be increased.
- viii. In defense industry, domestic technology, design and manufacturing capabilities will be enhanced.
- ix. In the mining sector, mining and geothermal resource exploration activities, oil and natural gas exploration and production activities will be accelerated locally and internationally. Importance will be attached to transformation of minerals into high value-added products.

b. Services

In the services industry, the main objectives are improving the competitiveness of our country, increasing the share of high value added areas and raising employment level of these areas, increasing and diversifying exports in the sector.

Tourism

In tourism sector, the main objectives are to increase receipts per tourist and the number of tourist arrivals and to form a structure which increases the quality of services, targets high income groups through diversifying marketing channels, preserves the natural wealth and ensures its sustainability and focuses on diverse tourism products where Turkey has relative competitive advantage. Within this framework;

- i. Tourism investments will be diversified by shifting from developed regions with intensive demand to other areas and tourism activities will be expanded to the entire year.
- ii. With an approach of green growth, tourism investments will be appraised in a manner of protecting and improving natural, historical, social and cultural environment.
- iii. To increase the share from global tourism market, promotion activities particularly in target markets and cooperation with international tourism organizations will be given importance.
- iv. Cultural, social and natural assets of tourism regions which have high growth potentials, especially Istanbul, will be evaluated with a sustainable tourism perspective; transportation and technical infrastructure deficiencies in these regions will be resolved.

Construction, Engineering-Architecture, Technical Consultancy and Contracting Services

The main objective is to create a sector structure which hinges on quality-based competition and demand, accommodates advanced human and physical capital, utilizes high technology and produces environmentally friendly output, and becomes a trademark in international markets with its high service quality. To this end;

- i. Building supervision will be enhanced to ensure construction in international standards that conform to science, art and health rules.
- ii. The overall quality of labour in the sector will be improved through effective certification and supervision activities.
- iii. In order to increase the market share of overseas contracting services sector, competitiveness of the sector will be enhanced through support programs on access to finance and political risk insurance.
- iv. Technical consultancy services will be utilized efficiently by increasing the quality of demand for the services. Additionally, international competitiveness of the sector will be enhanced through fostering design capabilities.
- v. Quality of construction materials production will be improved, and construction materials and machinery-equipment export potential

of the overseas contracting services will be increased.

Commercial Business

The main objectives in commercial business are to achieve high value-added production and productivity increase, to expand trade volume and to encourage new technologies and innovation. To this end;

- i. In the wholesale and retail sectors, an environment protecting the competition and consumer, preventing unregistered economy, increasing efficiency and quality, regarding compatibility with hygienic regulations and supporting a balanced development among different segments of the sector will be formed.
- ii. Facilities such as fair and exhibition grounds, convention centers, cultural, tourism and accommodation establishments that support trade will be developed.
- iii. Legal and technical arrangements towards a secure and widespread use of electronic commerce will be made and entrepreneurs will be encouraged to penetrate domestic and international markets through e-commerce.

B. FOSTERING EMPLOYMENT

1. Improving Labour Market

Within the framework of employment-oriented sustainable growth, increasing employment opportunities, reducing unemployment and enhancing

the labour market in a competitive economic structure and in line with the transition towards a knowledge based society are the main objectives. To this end;

- i. Measures to prevent informal employment and to encourage additional employment will be taken.
- ii. Necessary arrangements will be made in order to reduce rigidities in labour market by deliberating with social partners.
- iii. Necessary amendments will be done in the fields of social dialogue, collective labour law, and subcontracting; and the enacted Act for Safety and Health at Work will be put into practice effectively.
- iv. Supporting policies towards groups that require specific policy in the labour market, particularly the youth, women and disabled, will be carried on by taking additional measures.

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 labour market is the main objective. To this end;

- i. In order to equip the labour force with the qualifications demanded by the market, coherence between the education system and the labour market will be strengthened through adopting an entrepreneurial viewpoint and equipping workforce with basic skills and capabilities within the perspective

of lifelong learning.

- ii. The share and quality of vocational education will be increased. Regulations will be made to provide active participation of private sector and business organizations both in the administrative and financial process of vocational education.
- iii. By preparing National Qualifications Framework, education and training programs will be updated and harmonized in accordance with the national occupational standards.

3. Improving Active Labour Market Policies

In order to facilitate finding jobs appropriate for individual qualifications, the main objective is raising quality of services towards increasing the effectiveness and dissemination of active labour market programs including job creation, trainings focused on increasing the competence of labour market and public employment services mainly related to vocational counselling. To this end;

- i. Active labour market programs will be expanded in line with the national, regional and sectoral labour demand surveys by considering the effects of those programs on the labour market.
- ii. In order to implement active labour programs efficiently, the studies for improving the institutional capacity of Turkish Employment Agency will be continued, and the collaboration with private sector and related vocational institutions will be strengthened.

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 with well-developed thinking, perceiving and problem-solving capabilities. They should also be open-minded, self-confident and responsible, loyal to democratic values, acquainted with their national culture, able to interpret different cultures, open to sharing and communication. Also they should have strong sense of arts and aesthetics and meet the requirements of the information society. Within the scope of a transition program that enhances the quality in the education system;

- i. A non-exam-oriented curriculum conversion program will be applied, in which school types are reduced and flexible transitions between programs are allowed, and sports, artistic and cultural activities are more included to improve students' mental and physical development.
- ii. Teacher training and development system will be restructured including a performance system based on teacher and student proficiency.
- iii. Education management will be restructured in order to increase quality, competition, productivity and equality of opportunity within the framework of a school centered budget and organization system.
- iv. Enrollment rates in all levels of education will be increased, hardware and physical

infrastructure will be developed, ICT will be used efficiently, and gender and regional imbalances in terms of access to education will be reduced.

- v. Alternative financing models in all levels of education will be developed; educational investments of private sector will be encouraged by focusing on quality.
- vi. International programs to increase the exchange and mobility of students and teachers in the secondary and higher education levels will be improved and participation will be extended.
- vii. Higher Education Council (YÖK) will be transformed into a body that is responsible for coordinating universities and auditing them by introducing quality standards. Competitiveness will be ensured in the higher education system by expanding administrative and financial autonomy of universities.
- viii. The need for academic staff caused by the growing number of universities and students will be met.

2. Improving Health System

The main objective of health policy is to ensure the participation of citizens in economic and social life as healthy individuals and to improve quality of their life. To this end;

- i. Accessibility, quality and effectiveness of health services will continue to be increased.

- ii. Preventive health services will be strengthened and made widespread.
- iii. In order to provide effective and rational use of drugs, activities for informing citizens and health service providers and required inspections will be increased.
- iv. Structural problems of university hospitals will be solved in a systematic and comprehensive manner.

3. Improving Income Distribution, Social Inclusion and Combating Poverty

The main objective is to improve income distribution, to upgrade the life quality of individuals and groups who are under the risk of poverty and social exclusion, and to secure their social integration by increasing their participation in economic and social life. To this end;

- i. Income distribution will be improved through sectoral policies and social transfers.
- ii. Accessibility of major services such as education, health, employment and social security will be increased for the disadvantaged groups, and social and environmental conditions will continue to be improved for a wider participation of the disabled in economic and social life.
- iii. Social assistance towards the poor who are employable will target preventing the formation of a culture of poverty and making the poor productive; those who are not employable will be supported through regular social assistance programs.

- iv. Family training programs and supporting services will be made widespread, women will be empowered in economic, social and cultural areas, and violence against women and children will be combatted more intensely; quality of preventive, protective and rehabilitative services for vulnerable children will be increased. In the area of social assistance and services, a system with a comprehensive approach to the needs of the family will be established.
- v. To ensure the efficiency of social service delivery, the need for qualified personnel and intermediate staff will be met and the mechanisms to raise the voluntary participation of the citizens will be designed.
- vi. Social services towards the older people will be diversified and improved.

4. Increasing Efficiency of the Social Security System

The main objective is to make the social security system have a structure that covers the entire population, meet the changing needs of the society, financially sustainable and have an efficient control mechanism and provide high quality services. Within this framework;

- i. The IT infrastructure of the social security system will be strengthened; thereby, the system will have a structure which provides effective, accessible and sustainable services.
- ii. Financial sustainability of the social security

system will be improved by enhancing the linkage between the social assistance system and employment.

- iii. Complementary pension and health insurance models will be developed.

5. Protecting and Promoting Culture and Strengthening Social Dialogue

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

- i. Priority will be given to social research projects towards the determination of the social institutions and sources that foster the culture of solidarity, reconciliation and tolerance in our society and to reveal factors that weaken this culture.
- ii. In written and visual media, programmes such as TV series, documentaries and cartoons that emphasize the integrity and importance of the family and present the important figures, places and events of our history will be expanded.
- iii. Our domestic and overseas cultural heritage will be transferred to digital environment by making an inventory and studies will be carried out to protect and restore this heritage.

- iv. In order to strengthen the economic aspect of culture sector, culture tourism will be developed and the production of cultural products such as movies and documentaries will be promoted.
- v. Studies that emphasize the richness of Turkish Language and increase the recognition and dissemination of Turkish culture, art and literature all over the world will be supported.

6. Enhancing Youth Services and Sports Facilities

Ensuring active participation of young people in economic and social life and providing quality services for the youth are the main objectives. Providing a widely adoption of doing sports as a life-style, disseminating different sport branches, and training sportsmen to be successful in international competitions are the main objectives. To this end;

- i. The scope of services for young people will be expanded and the quality of these services will be improved according to the demands and needs of young people.
- ii. Activities will be carried out to increase the public interest in sports and to promote different sports branches.
- iii. Infrastructure and superstructure that are required for training sportsmen to be successful at an international level will be enhanced.

D. REGIONAL DEVELOPMENT AND REDUCING REGIONAL DISPARITIES

The main objective of regional development policies is to reduce the development disparities among the regions, to improve the minimum standard of living in rural areas and to maximize the contribution of regions to national development, competitiveness and employment by increasing regions' competitiveness.

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

- i. National Regional Development Strategy will be implemented to ensure national-level coordination for regional development and regional competitiveness, to strengthen harmony between spatial and socio-economic development policies and to establish a general framework for sub-scale plans and strategies.
- ii. Supreme Regional Development Council and Regional Development Committee, that has been set up to improve governance by ensuring coherence and coordination between national and regional development policies in terms of planning, implementation and monitoring will be operationalized.
- iii. Research, analysis and strategic studies required for preparations of NUTS-II level regional plans which will be parallel to the 10th National Development Plan period will be carried out under the coordination of development agencies.
- iv. Studies on improvement of the Development Agencies' Management System will be continued.

- v. Implementation of growth poles support programme will be continued by strengthening.
- 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.
- vii. EU funds to be provided in the field of economic and social cohesion will be managed effectively through established monitoring and coordination mechanisms.

2. Ensuring Development Based on Local Dynamics and Endogenous Potential

- i. Design and effective implementation of policies aiming at enhancing regional competitiveness in particular regional and sectoral incentive policies will be ensured. National Regional Development Strategy and regional plans will be the main reference documents for local projects and studies and spatial development perspectives.
- ii. Innovative clustering policies focusing on competitive sectors at the regional and national level and highlighting local initiatives will be developed, and within this context, a governance and support mechanism will be established. Principles for division of tasks and cooperation will be set by Regional Development Committee.
- iii. Regional innovation system will be developed as a model to be based on local specialization as well as university-business

co-operation.

- iv. Entrepreneurship, financing, business and organization models that take regional potential and local labour market characteristics into account and support economic transformation at the local level, starting with regional venture capital and the credit guarantee fund, will be developed.
- v. For existing sectoral strategies to achieve their targets, being especially the Industrial Strategy which will contribute to structural transformation of industry at the first place, infrastructure and potential for sectoral factors of production at the regional level will be determined and modelling and capacity development studies will be carried out.
- vi. Job descriptions will be re-defined for Investment Support Offices which were established within development agencies and regulations that will strengthen “one-stop-window” functions will be carried out.

3. Improving Institutional Capacity at the Local Level

- i. The number of metropolitan municipalities will be increased. Local governments will be restructured in those provinces having metropolitan municipalities.
- ii. Eastern Anatolia Project, Eastern Black Sea Development Project and Konya Plain Project Regional Development Administrations will be institutionalized. For these regions, action plans will be prepared and put into implementation; and their implementation

will be monitored and evaluated.

- iii. Inter-institutional coordination and decision-making processes at central and local levels will be supported, and the Provincial Coordination and Monitoring System (İKİS), which has been developed to strengthen information flow between central and local levels, will be disseminated.
- iv. Technical, financial and institutional capacities of local administrations and associations in development activities and programme/project implementation will be strengthened.
- v. Efficiency of regional development agencies in the use of funds to be allocated within the context of financial cooperation with the EU will be improved and preliminary work on preparing agencies to assume intermediary institution roles will be carried out.

4. Achieving Rural Development

- i. The design of the financial support programs and policy documents in rural areas will be realized according to the established cooperation and coordination between the relevant institutions as ensured in the Rural Development Plan (2010-2013).
- ii. Employment-oriented rural development projects designed in conformity with the priorities of the Rural Development Plan will be implemented more effectively within the framework of the regional development policies.
- iii. Public resources will be more efficiently

utilized by ensuring consistency and complementarity among agriculture and rural development financial support programmes implemented by different public institutions.

- iv. Rural-urban integration within spatial development and regional/local development policies will be supported by re-defining rural and urban areas in a manner to allow the monitoring of development in rural areas.
- v. Village Law will be renewed; implementation projects will be realized by completing other legislation studies on settlement and construction in rural areas.
- vi. For the citizens who had to leave their settlements, suitable conditions will continue to be created to enable them to sustain their lives either in their old or new settlements in line with their preferences.
- vii. Measures will be taken to improve and strengthen disadvantaged groups' conditions in rural areas.
- viii. Internet access will be improved and ICT will be used effectively in the development and delivery of services in rural areas.

E. IMPROVING THE QUALITY AND EFFECTIVENESS IN PUBLIC SERVICES

1. Enhancing Policy Making and Implementation Capacity

The main objectives are to sustain the public management reform process and the transformation necessitated by strategic management in public institutions, to shape administrative decisions with a

mid and long-term approach based on strategic plans, and to structure the budget in a way that indicates the performance of public administrations, by taking into consideration the cost of policies to be implemented, parties to be affected and the opportunity costs. To this end;

- i. Studies on preparation of more effective, efficient and feasible strategic plans in public administrations will be carried out, participation mechanisms will be strengthened.
- ii. Measurement, monitoring and assessment processes will be improved within the framework of strategic plans and performance programs in public management.
- iii. Administrative and human resources capacity of public administrations will be improved in terms of quality and quantity in line with the strategic management approach and programs will be implemented to adapt the administrative culture to the new structure.

2. Developing Human Resources in the Public Sector

Main objective is to develop an effective human resources planning in public institutions, to employ personnel in accordance with the quality and quantity requirements of the services and to increase productivity by creating an efficient auditing and assessment mechanism towards civil servant. To this end;

- i. Studies on the establishment of public personnel information system will be carried out.

- ii. Arrangements to enhance human resource management in the public sector, to create performance based system and to disseminate in-service training will be made.

3. Dissemination of e-Government Applications

The main objective is to establish an e-government structure which provides citizens and businesses integrated services through various channels. Within this framework;

- i. e-Government policies and strategies will be formed in accordance with the Information Society Strategy.
- ii. e-Government projects and applications will be coordinated based on a holistic approach and information sharing among government agencies.
- iii. For effective implementation of the e-government applications, the basic databases, common infrastructure and services will be improved.
- iv. In moving the government services to electronic environment, business processes in public services will be improved to reduce administrative and financial burdens, eliminate duplications and ensure interoperability.
- v. In e-government applications, user-focus, customer satisfaction, security and privacy of personal information, participation and transparency will be ensured.
- vi. Policies regarding sharing and reuse of public sector information will be developed.

4. Improving the Judicial System

In the context of the rule of law and the supremacy of law, the main objectives are to provide legal services in a fairer, faster, efficient, reliable and proper way, to carry on efforts to increase the quality of judgment process and its main pillars and to enable legal rules to serve as means of protecting, improving and enhancing the economic and social order. To this end;

- i. In the judicial system legal and institutional arrangements will be made and human and physical infrastructure will be improved by taking EU implementations into consideration.
- ii. Judicial Reform Strategy and Action Plan will be updated and necessary legal and institutional arrangements will be put into practice within that context.

5. Enhancing The Effectiveness of Security

The main objective is to ensure provision of security services that protect democratic values and human rights through security for freedom approach with the support and participation of the society. To this end;

- i. Preventive and preclusive law enforcement and intelligence services will be strengthened, communication for security purposes and criminal infrastructure will be improved, and effective coordination among the security forces will be achieved.
- ii. Fight against, primarily terrorism and financing of the terrorist activities, illegal migration, organized and financial crimes, cyber-crimes, drugs using and trading

will be efficiently maintained. Activities on restructuring the border security management will also be continued.

6. 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. Institutional and legal arrangements will be made for the improvement of the national disaster management.
- ii. Settlements under natural disaster risk will be prioritized nationwide according to disaster risk levels, technical and financial studies to reduce the risk in a planned manner will be concluded and activities to increase public awareness will be undertaken.
- iii. Disaster insurance system will be disseminated nationwide by covering all disaster types and the necessary legal amendments will be completed.

Annex Table 1: Main Economic Indicators

	2012	2013	2014	2015
GROWTH				
GDP (Billion TL, Current Prices)	1.435	1.571	1.740	1.933
GDP (Billion Dollars, Current Prices)	799	858	919	998
GDP Per Capita (Dollars)	10.673	11.318	11.982	12.859
GDP Growth (1)	3,2	4,0	5,0	5,0
Total Consumption (1)	1,0	3,1	4,3	4,3
Public	3,9	3,6	3,4	3,3
Private	0,6	3,1	4,4	4,4
Total Fixed Capital Investment (1)	-0,5	6,8	6,7	6,2
Public	5,4	5,4	5,1	2,4
Private	-1,7	7,1	7,0	7,0
Total Domestic Savings / GDP (%)	14,3	15,0	15,7	16,7
Public	2,4	2,0	2,3	2,6
Private	11,9	13,0	13,3	14,0
Total Final Domestic Demand (1)	0,6	4,0	4,9	4,8
Total Domestic Demand (1)	-0,1	3,9	5,0	5,1
EMPLOYMENT				
Population (Midyear, Million)	74.885	75.811	76.707	77.601
Labour Force Participation Rate (%)	49,6	49,6	49,7	49,8
Employment (Million)	24.728	25.223	25.728	26.243
Employment Rate (%)	45,2	45,3	45,3	45,5
Unemployment Rate (%)	9,0	8,9	8,8	8,7
FOREIGN TRADE				
Exports (FOB) (Billion Dollars)	149,5	158,0	172,3	187,1
Imports (CIF) (Billion Dollars)	-239,5	-253,0	-272,2	-291,2
Energy Import (27th Chapter, Billion Dollars)	59,1	59,6	62,6	65,4
Foreign Trade Balance (Billion Dollars)	-90,0	-95,0	-99,9	-104,1
Tourism Revenues (Billion Dollars)	23,5	25,4	27,0	28,4
Current Account Balance (Billion Dollars)	-58,7	-60,7	-63,6	-64,7
Current Account Balance / GDP (%)	-7,3	-7,1	-6,9	-6,5
Foreign Trade Volume / GDP (%)	48,7	47,9	48,4	47,9
Export / Import (%)	62,4	62,5	63,3	64,3
Crude Oil Price (Dollars /Barrel)	112,1	110,0	110,0	110,0
INFLATION				
GDP Deflator	7,1	5,3	5,5	5,8
Consumer Prices (End of Year, % Change)	7,4	5,3	5,0	5,0

(1) Percentage change in fixed prices.

Annex Table 2: Public Sector General Balance

(In Billions of TL)

	2012	2013	2014	2015
Public Sector General Balance	-24,8	-23,4	-18,8	-17,3
General Government	-22,8	-23,6	-20,9	-17,8
Central Government Budget	-33,5	-33,9	-35,5	-34,3
Local Governments	1,1	-1,2	1,6	1,6
Extra Budgetary Funds	1,2	1,0	1,1	1,3
Unemployment Insurance Fund	8,0	10,3	11,7	13,4
Social Security Institutions	-0,4	-3,3	-5,5	-8,0
General Health Insurance	0,4	3,3	5,5	8,0
Revolving Funds	0,4	0,2	0,2	0,2
SEE's	-2,0	0,2	2,1	0,6
Public Sector Primary Balance (Program Definition)	7,7	12,9	17,8	22,0
Public Sector Primary Balance	26,1	31,7	38,3	42,3
Public Sector Balance Exc. Interest Exp. and Privatization Rev.	24,7	22,2	28,1	33,1

(As of GDP, %)

Public Sector General Balance	-1,7	-1,5	-1,1	-0,9
General Government	-1,6	-1,5	-1,2	-0,9
Central Government Budget	-2,3	-2,2	-2,0	-1,8
Local Governments	0,1	-0,1	0,1	0,1
Extra Budgetary Funds	0,1	0,1	0,1	0,1
Unemployment Insurance Fund	0,6	0,7	0,7	0,7
Social Security Institutions	0,0	-0,2	-0,3	-0,4
General Health Insurance	0,0	0,2	0,3	0,4
Revolving Funds	0,0	0,0	0,0	0,0
SEE's	-0,1	0,0	0,1	0,0
Public Sector Primary Balance (Program Definition)	0,5	0,8	1,0	1,1
Public Sector Primary Balance	1,8	2,0	2,2	2,2
Public Sector Balance Exc. Interest Exp. and Privatization Rev.	1,7	1,4	1,6	1,7
Tax Burden (Including Social Security Premiums)	27,2	28,2	27,9	27,5
Tax Burden (Excluding Social Security Premiums)	20,0	20,8	20,5	20,2

Annex Table 3: General Government Balance

	2012	2013	2014	2015
REVENUES	530,7	595,3	647,2	706,8
Taxes	286,1	325,7	356,5	389,7
Non-Tax revenues	27,4	22,9	26,4	30,3
Factor Income	80,4	84,7	87,3	93,4
Social Funds	135,3	152,5	166,9	184,2
Privatization Revenues	1,4	9,5	10,1	9,2
EXPENDITURES	553,5	618,9	668,1	724,6
Current Expenditures	251,0	277,7	300,6	325,3
Capital Expenditures	49,8	53,2	61,3	67,1
Transfer Expenditures	252,6	288,1	306,2	332,3
Stock Revaluation Fund	0,0	0,0	0,0	0,0
GENERAL GOVERNMENT BALANCE	-22,8	-23,6	-20,9	-17,8
Interest Expenditure	50,5	54,6	56,5	59,1
Primary Balance	27,7	31,0	35,6	41,3
Balance Excluding Privatization Revenues	-24,2	-33,1	-31,0	-27,0
Balance Excluding Pri. Rev. and Int. Exp.	26,3	21,5	25,5	32,1

(As of GDP, %)

REVENUES	37,0	37,9	37,2	36,6
Taxes	19,9	20,7	20,5	20,2
Non-Tax revenues	1,9	1,5	1,5	1,6
Factor Income	5,6	5,4	5,0	4,8
Social Funds	9,4	9,7	9,6	9,5
Privatization Revenues	0,1	0,6	0,6	0,5
EXPENDITURES	38,6	39,4	38,4	37,5
Current Expenditures	17,5	17,7	17,3	16,8
Capital Expenditures	3,5	3,4	3,5	3,5
Transfer Expenditures	17,6	18,3	17,6	17,2
Stock Revaluation Fund	0,0	0,0	0,0	0,0
GENERAL GOVERNMENT BALANCE	-1,6	-1,5	-1,2	-0,9
Interest Expenditure	3,5	3,5	3,2	3,1
Primary Balance	1,9	2,0	2,0	2,1
Balance Excluding Privatization Revenues	-1,7	-2,1	-1,8	-1,4
Balance Excluding Pri. Rev. and Int. Exp.	1,8	1,4	1,5	1,7
EU Defined General Government Debt Stock	36,5	35,0	33,0	31,0

Annex Table 4: Central Government Budget Figures

(In Billions of TL)

	2012	2013	2014	2015
EXPENDITURES	362,7	404,0	436,8	471,2
Primary Expenditures	313,7	351,0	381,8	413,7
Interest Expenditures	49,0	53,0	55,0	57,5
REVENUES	329,2	370,1	401,4	436,8
General Budget Revenues	319,1	359,0	389,3	423,9
Tax Revenues	278,8	317,9	347,0	379,4
Revenues of Reg. and Sup. Agencies and Special Budget Institutions	10,1	11,1	12,1	13,0
BUDGET BALANCE	-33,5	-33,9	-35,5	-34,3
PRIMARY BALANCE	15,5	19,1	19,5	23,2

PROGRAM DEFINED EXPENDITURES	313,6	351,0	381,8	413,6
PROGRAM DEFINED REVENUES	316,2	359,0	391,5	427,6
PROGRAM DEFINED BALANCE	2,6	8,0	9,7	14,0

(As of GDP, %)

EXPENDITURES	25,3	25,7	25,1	24,4
Primary Expenditures	21,9	22,3	21,9	21,4
Interest Expenditures	3,4	3,4	3,2	3,0
REVENUES	22,9	23,6	23,1	22,6
General Budget Revenues	22,2	22,8	22,4	21,9
Tax Revenues	19,4	20,2	19,9	19,6
Revenues of Reg. and Sup. Agencies and Special Budget Institutions	0,7	0,7	0,7	0,7
BUDGET BALANCE	-2,3	-2,2	-2,0	-1,8
PRIMARY BALANCE	1,1	1,2	1,1	1,2

PROGRAM DEFINED EXPENDITURES	21,9	22,3	21,9	21,4
PROGRAM DEFINED REVENUES	22,0	22,8	22,5	22,1
PROGRAM DEFINED BALANCE	0,2	0,5	0,6	0,7

