



REPUBLIC OF TURKEY

**PRE-ACCESSION ECONOMIC
REFORM PROGRAM**

2019-2021

MARCH 2019

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REFORM PROGRAM
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**ANKARA
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Yayın No: 0004

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This publication is printed 300 copies.

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(2019-2021)**

**ANKARA
January 2019**

CONTENTS

1. POLICY FRAMEWORK AND OBJECTIVES	1
2. MACROECONOMIC OUTLOOK	5
2.1. Recent Economic Developments	6
2.1.1. Real Sector.....	6
2.1.2. Inflation, Monetary and Exchange Rate Policies	8
2.1.3. Financial Sector	12
2.1.4. Balance of Payments.....	13
2.2. Medium Term Macroeconomic Scenario	14
2.2.1. Real Sector.....	15
2.2.2. Inflation, Monetary and Exchange Rate Policies	20
2.2.3. Balance of Payments.....	21
2.2.4. Financial Sector	23
2.3. Main Risks in Projections	26
3. FISCAL FRAMEWORK	27
3.1. Fiscal Policy Strategy and Medium-Term Objectives	28
3.1.1. Revenue Policies.....	28
3.1.2. Expenditure Policies	29
3.1.3. Public Borrowing Policies	30
3.1.4. Public Financial Management and Audit.....	31
3.2. Budget Implementations in 2018.....	31
3.2.1. Developments in the Central Government Budget Revenues and Expenditures	31
3.2.2. Developments Regarding General Government Revenues and Expenditures	34
3.3. Medium Term Perspective.....	35
3.4. Structural and Cyclical General Government Balance	37
3.5. Debt Levels and Developments, Analysis of Below-the-Line Operations and Stock-Flow Adjustments	41
3.5.1. Current Situation.....	41
3.5.2. General Government Debt Stock Projections for 2019-2021 Period.....	43
3.5.3. Contingent Liabilities	43
3.5.4. Repayment Guarantee.....	45
3.5.5. Investment Guarantees.....	45
3.5.6. Debt Assumption Commitments.....	45
3.5.7. Treasury Receivables	46
3.6. Sensitivity Analysis and Comparison with the Previous Programme	46
3.7. Sustainability of the Public Finance	47
3.7.1. Public Finance Risks.....	47
3.7.2. Sustainability Analysis	47
3.8. Fiscal Governance and Budgetary Frameworks	48
4. STRUCTURAL REFORMS (2019-2021)	51
4.1. Identification of Key Obstacles to Competitiveness and Inclusive Growth	51
4.2. Summary of Reform Measures	53
4.3. Analysis by Area and Structural Reform Measures	55
4.3.1. Energy and Transport Markets	55
4.3.2. Sectoral Developments	59
4.3.3. Business Environment and Reduction of the Informal Economy	67
4.3.4. Research & Development and Innovation and Digital Economy	72
4.3.5. Trade-related Reforms	79
4.3.6. Education and Skills	81
4.3.7. Employment and Labor Markets	89
4.3.8. Social Inclusion, Poverty Reduction and Equal Opportunities	93
5. INSTITUTIONAL ISSUES AND STAKEHOLDERS INVOLVEMENT.....	95
ANNEX TABLES	96

TABLES

Table 2.1: GDP Growth by Sectors and Demand Components	6
Table 2.2: Labor Market Developments	8
Table 2.3: Demand Components of Growth	16
Table 2.4: Developments in Factors of Production.....	18
Table 2.5: Investment-Saving Balance	20
Table 2.6: Labor Market Developments	20
Table 2.7: Balance of Payments Forecasts	22
Table 3.1 Central Government Budget Balance 2018	31
Table 3.2: Central Government Budget Revenues 2018.....	32
Table 3.3: Central Government Budget Expenditures 2018	32
Table 3.4: Central Government Budget Balance	33
Table 3.5: General Government Revenues and Expenditures – 1.....	35
Table 3.6: General Government Revenues and Expenditures -2	36
Table 3.7: General Government Balance Analysis ¹	37
Table 3.8: EU Defined General Government Debt Stock.....	41
Table 3.9: Central Government Debt Stock.....	41
Table 3.10: Central Government Debt Stock by Interest Rate Type	42
Table 3.11: Average Time to Maturity of Central Government Debt Stock.....	42
Table 3.12: EU Defined General Public Debt Stock Estimations.....	43
Table 3.13: Projection of Treasury-Guaranteed Foreign Debt Service (*)	45
Table 3.14: Loans Subject to Debt Assumptions	45
Table 3.15: Stock of Treasury Receivables	46
Table 3.16: Sensitivity of the EU Defined General Government Debt Burden	47
Table 4.1: Summary of Reform Measures	54

FIGURES

Figure 2.1: GDP Developments	7
Figure 2.2: Industrial Productivity Indicators	7
Figure 2.3: Unemployment Rate and Labor Force Participation Rate (Percent)	8
Figure 2.4: Agriculture, Industry and Services Sector Employment (Thousand People)	8
Figure 2.5: Annual Inflation Targets and Realizations (CPI)	9
Figure 2.6: CPI and Core CPI (Annual Percentage Change)	9
Figure 2.7: Annual Loan Growth.....	13
Figure 2.8: Annual Loan Growth (Exchange Rate Adjusted).....	13
Figure 2.9: Developments in Exports and Real Exports	14
Figure 2.10: Contribution to GDP Growth	16
Figure 2.11: Value-Added by Sectors.....	17
Figure 2.12: Output Gap	19
Figure 2.13: Nonperforming Loans Ratio	23
Figure 2.14: Annual Loan Growth (Exchange Rate Adjusted).....	23
Figure 3.1: General Government Balance	39
Figure 3.2: Primary General Government Balance.....	40
Figure 3.3: Cyclical General Government Balance	40
Figure 3.4: Average Time to Maturity and Cost of Domestic Borrowing	43
Figure 3.5: Sustainability Scenarios	48

BOXES

Box 1.1: Developments on the Policy Guidance of May 2018 Economic and Financial Dialogue.....	3
Box 3.1: Central Government Budget Provisional Realizations (2018)	34

ABBREVIATIONS

ASDEP	Family Social Support Program
BIST	Borsa İstanbul
BREXIT	Act of Leaving by the United Kingdom from the European Union
BRSA	Banking Regulation and Supervision Agency
BOTAŞ	Petroleum Pipeline Company
CAR	Capital Adequacy Ratio
CBRT	Central Bank of the Republic of Turkey
CGF	Credit Guarantee Fund
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPI	Consumer Price Index
CU	Custom Union
DGRR	General Directorate of Railway Regulation
ECOFIN	Economic and Financial Affairs Council
ERP	Economic Reform Program
EU	European Union
ESA	European System of Accounts
EUROSTAT	Statistical Office of the European Communities
FED	Federal Reserve System
FTA	Free Trade Agreement
FTE	Full Time Equivalents
FX	Foreign Exchange Rate
GDP	Gross Domestic Product
GGB	General Government Balance
IACS	Integrated Administration and Control System
ICTA	Information and Communication Technologies Authority
ILO	International Labour Organization
IMF	International Monetary Fund
ISAS	Integrated Social Assistance System
ISGEM	Business Development Center
İŞKUR	Turkish Employment Organization
KOBİGEL	SME Development Support Program
KOSGEB	Small and Medium Enterprises Development Organization
LLW	Late Liquidity Window
MERCOSUR	Common Market of South America
MONE	Ministry of National Education
MPC	Monetary Policy Committee
MFLSS	Ministry of Family, Labor and Social Services
MTP	Medium Term Program
NGO	Non-governmental organizations
NPL	Non-performing loans
NPP	Nuclear Power Plant
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PISA	Programme for International Student Assessment
PPP	Public Private Partnership
ROM	Reserve Option Mechanism
R&D	Research and Development
SCT	Special Consumption Tax
SEEs	State Economic Enterprises
SMEs	Small and Medium Sized Enterprises
SOEs	State Owned Enterprises
TCDD	Turkish State Railways
TEKMER	Technology Development Center
TGNA	Grand National Assembly of Turkey
TFP	Total Factor Productivity
TIMMS	Trends in International Mathematics and Science Study
TL	Turkish Lira

TURKSTAT	Turkish Statistical Institute
USA	United States of America
VAT	Value Added Tax
WTO	World Trade Organization
YEKA	Renewable Energy Resources

1. POLICY FRAMEWORK AND OBJECTIVES

Turkey, as an acceding candidate country of European Union (EU), has been preparing the Pre-Accession Economic Reform Program (ERP-Formerly Pre-Accession Economic Program) and has been submitting to the European Commission since 2001, responding to the request of the Economic and Financial Affairs Council (ECOFIN Council) dated 26/27 November 2000. In line with the framework requested by European Commission, 2019 Pre-Accession Economic Reform Program has been prepared under the coordination of Turkish Presidency, Presidency of Strategy and Budget with the contributions of relevant ministries and institutions and approved by the President.

2019 Pre-Accession Economic Reform Program is based on the Medium Term Program (MTP) described in New Economy Program covering the 2019-2021 period. The macroeconomic framework of ERP 2019 was formed by taking into account recent domestic and external political and economic developments, risks and expectations. In the Program period, increased commercial tensions at the global level, geopolitical and political tensions, refugee problems, protectionist policies mainly customs tariffs, and upward movement in commodity prices constitute risks and uncertainties for the coming period.

ERP (2019-2021) is prepared to realize necessary progress for raising social welfare and provide steady growth path for the Turkish economy on a more competitive base. The main objective of ERP is to reestablish price stability and financial stability in the short term, balance the economy and ensure budget discipline, and achieve economic change towards a sustainable growth and a fair income distribution in the medium term.

A sustainable and high growth path and a healthy employment structure are needed to ensure macroeconomic stability. In this context, during the Program period strict monetary and fiscal policies will be carried out in coordination, permanent improvements in public finance will be ensured, financial stability will be maintained with strong public finance balance, the dependence of the economy on foreign savings will be permanently reduced, the ratio of the current account deficit to national income will be reduced, fragility against external shocks will be minimized by ensuring permanent price stability and keeping the external balance at manageable levels and the foundations of economic transformation based on localization in export, tourism and industrial products will be laid. The fast and efficient decision-making mechanism provided by the Presidential Government System and the more coordinated implementation of the economy will have significant advantages in this period.

In this context; increasing the export of high value added goods and services, reducing the import dependency of domestic production and exports, improving the business and investment environment, increasing the quality of public revenues and rationalizing public expenditures and increase its productivity, making the labor market more flexible, increasing the predictability in legal arrangements, struggling with informality, good governance, the completion of structural transformation and reforms initiated in local governments and regional development areas are important.

The Central Bank of the Republic of Turkey (CBRT) will continue to use all its instruments in line with the main objective of the price stability. Growth and employment

policies will be supported without contradicting price stability. The inflation targeting will be maintained as a main monetary policy regime. CBRT will continue its tight monetary policy stance until inflation reaches a path consistent with the targets.

The fiscal discipline in the ERP period will be the main supporter of the balancing process. Fiscal policy will be implemented in harmony with monetary policy targets, in a way to raise growth potential of the economy, to preserve economic stability, to keep current account deficit at sustainable levels and to support domestic savings and investments. During the program period, the share of public expenditures in national income will be limited and their efficiency will be increased. By increasing the share of tax revenues in total public revenues, public revenues will be obtained from healthy and sustainable sources and public sector borrowing requirement will be kept under control.

In ERP (2019-2021), as well as the recommendations contained in the outcome report of Economic and Financial Dialogue Meeting between EU and Western Balkans and Turkey in May 2018, the reforms in the direction of improving the business and investment environment, supporting research and development (R&D) activities and innovative production processes and improving the quality of the workforce are maintained.

In the second chapter of ERP (2019-2021), which has four main chapters, recent economic developments in the Turkish economy are evaluated by considering the developments in the world economy, and then the macroeconomic forecasts for the 2019-2021 period are presented. In the third chapter, fiscal policies are put forward together with forecasts and analyses regarding budget and debt management. In the fourth chapter, assessments on developments in structural reforms, budgetary impacts and reform agenda are provided.

Box 1.1: Developments on the Policy Guidance of May 2018 Economic and Financial Dialogue

Policy Guidance 1: “Lower external imbalances ..., promote domestic savings..., sufficiently tight fiscal stance over the medium term in light of external...”

- The main targets of this MTP (2019-2021) are to reestablish the price and financial stability in the short-run, to secure economic balancing and fiscal discipline, and to achieve economic transformation for sustainable growth and equitable distribution in the medium-run.
- Efforts have been continued to improve the compulsory individual pension system and to achieve a sustainable system in order to increase private savings.
- Financial support provided by the Turkish Eximbank was increased from \$39 billion in 2017 to \$44 billion in 2018 (a 17% increase in USD terms).
- In order to help increase exporters’ protection against risks associated with currency movements, measures were introduced to facilitate firms’ easier engagement in FX forwards and FX options.
- The coverage of SME definitions was widened in order to expand the coverage of SME support programs.
- A new Eximbank website was introduced and a Turkish Eximbank Export Support Services Center was established, aiming to help enable exporters reach information rapidly both regarding Eximbank programs and regarding their own firm-related business such as financing or credit insurance applications.

Policy Guidance 2: “... increase the prudence and transparency of fiscal policy...”

- In this context, the Citizens’ Guide to the Budget, which contains information regarding the macroeconomic assumptions used to prepare the budget, the distribution of budget expenditures, the reasoning of allocated appropriations as regards to education, health and agricultural sectors and social benefits and investments, as well as information regarding fees and tax revenues, has started to be issued along with year 2017 budget.
- Liabilities of PPP projects are periodically projected and projections for the coming three years are budgeted in MTP.
- T.R. Presidency, Presidency of Strategy and Budget and in case of debt assumption the Ministry of Treasury and Finance, monitors the central government institutions and SEEs transport projects if the projects have contingent liabilities.
- T.R. Presidency, Presidency of Strategy and Budget is responsible for monitoring the direct and contingent liabilities of the Build-Lease-Transfer projects. These liabilities are reported in Annual Programs and Investment Programs and are used as inputs in MTPs.
- All assets related to PPPs are accounted by Ministry of Treasury and Finance in line with IPSAS and GFSM criterias.

Policy Guidance 3: “...focus monetary policy on the pursuit of price stability...”

- Throughout 2018, the CBRT delivered a strong monetary tightening to support price stability in the face of deterioration in pricing behavior and risks to inflation. In June, the simplification process regarding the operational framework of the monetary policy was completed and thus, predictability of the monetary policy has increased. Accordingly, the policy rate of the CBRT has become the one-week repo rate. In the new operational framework, all of the CBRT funding started to be provided via weekly repo auctions.

Policy Guidance 4: “...improving the business environment...”

- With the Law No. 6728, bureaucratic procedures related to investments were facilitated, permission and approval periods were shortened and investment costs were reduced. Also with Law No. 7099, Turkey has made important amendments in regulations for ease of doing business.
- With the Law No. 7101, postponement of bankruptcy, which has been in effect since 2003, has been abolished completely. Instead of this, the concordat which is not preferred due to the bankruptcy postponement has been revised.
- With the Law No 7036, law on Labor Court, “conciliation as a cause of action” was introduced for the first time. According to records of the Ministry of Justice, 168 thousands of business conflicts were finalized via conciliation in 11 months. This corresponds to 67 percent of the all applications for conciliation.
- Training programs for 1420 civil court judges were organized by training center for judges and prosecutors in 2018 for increasing capacity of their knowledge and experience.

Policy Guidance 5: “...support of research and development...”

- The share of R&D expenditures in GDP increased from 0.94 % in 2016 to 0.96 % in 2017. While 54.2 % of the total R&D expenditure was realized by the private sector in 2016, this figure increased to 56.9 % in 2017. R&D programs have been initiated in order to support the activities of the platforms that will be formed in cooperation with private sector, university and research infrastructures. In addition, the Council for Science, Technology and Innovation Policies was established within the Presidency.

Policy Guidance 6: “...flexibility with security of labour market”

- Employment incentives of 2017 continued in 2018 by expanding the scope in the manufacturing and information technology sector. The upper limit of the wage for support in these sectors is determined to be above the minimum wage.
- In order to encourage youth employment, additional support was provided to small businesses and tradesmen if they provided additional employment in the 18-25 age group. According to this scheme, the state bimonthly subsidizes the wages of additional employees, utmost to the amount of minimum wage level and for a one year period.
- In 2018, additional elements of nursery support have been introduced in order to support women's labor force participation.
- In recent years, important regulatory steps have been taken to ensure flexibility and assurance in the labor market. With the Law No. 6715 implemented in 2016, it was made possible to work remotely through flexible working styles such as teleworking and homeworking. Furthermore, Private Employment Agencies were authorized to establish temporary employment relations.

2. MACROECONOMIC OUTLOOK

2018 was marked by more unbalanced global growth and rising trade tensions. As a result of protectionist measures taken by US at the beginning of 2018, discussions on how global trade and commodity prices will be affected have led to an increase in global risk perception. As a matter of fact, the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) lowered global economic growth forecasts for 2018 to 3.7 percent from 3.9 percent due to rising risks. The trade wars, which were on the agenda in 2018, were also topped the agenda of the G20 summit held in Argentina at the end of the year. The agreement between US and China to pause for three months on trade wars reduced the escalating tension.

The average growth rate of advanced economies that is proceeding at a more moderate pace is expected to be 2.4 percent in 2018. The Federal Reserve (FED) raised interest rates four times in 2018, a total of 100 basis points. Britain's decision to leave the European Union (Brexit) remains a major source of political uncertainty and also the slowdown in the German economy poses a risk for the Eurozone outlook. At the end of 2018, the Italian budget dispute with the EU Commission was resolved.

Emerging markets and developing economies, including Turkey, have faced tremendous currency depreciations against the dollar and significant capital outflows in 2018. Economic growth in China, the world's second largest economy, realized as 6.4 percent in the last quarter of 2018 which was 6.9 percent in 2017. The escalation of trade tensions with US and efforts to curb financial risks stemming from high indebtedness strained China's growth. Growth in emerging market and developing economies, which was 4.7 percent in 2017, revised 0.1 percentage point and 0.2 percentage point downward to 4.6 percent in 2018 and 4.5 percentage in 2019, respectively.. As a result of many emerging market economies are facing capital outflows and a weakening of their currencies, global trade growth is projected to ease from 5.3 percent in 2017 to 4 both in 2018 and in 2019.

While rising oil production in the US and the global slowdown, especially in China, have pushed oil prices downward, OPEC production cuts continue to pull prices upwards. Oil price forecast of IMF has been revised downwards to below 60 dollars in 2019.as

Downside risks to the global economic outlook have become more evident. Increasing trade barriers, reversing capital flows to emerging economies, weaker economic fundamentals and political uncertainties will continue to be risk factors for the forthcoming period. The fact that global financial conditions tightened unexpectedly due to increased trade tensions and political uncertainties, and that this led to a further decline in capital inflows to emerging markets with sharp exchange rate movements and with especially greater vulnerabilities is among the major downside risks.

2.1. Recent Economic Developments

2.1.1. Real Sector

2.1.1.1. Growth

Turkish economy grew by 7.4 percent in 2017. The contribution of total final domestic demand to growth was 6.7 percentage points. The contribution of net exports of goods and services to growth in 2017 was 0.1 point. The contribution of stock change to growth in 2017 was 0.6 percentage point.

The continuous growth process that has been observed since the last quarter of 2016 sustained its pace within the first three quarters of 2018 as well. In the first nine months of 2018, growth was 4.5 percent. During this period, while the domestic demand was supported by the efforts such as Treasury-backed credit guarantee scheme and tax cuts for certain sectors, the soaring exchange rate caused fragility and uncertainty in the economy even though it gave a significant boost to exports. With the realization of some measures to combat the exchange rate fluctuations, it recede to relatively low levels and the size of the fluctuation contracted.

In this period, while private consumption expenditures increased by 5.3 percent compared to the same period of the previous year, public consumption expenditures increased by 6.3 percent, thus total consumption expenditures increased by 5.5 percent. In the same period, total fixed capital investments increased by 2.4 percent. In the first nine months of 2018, exports of goods and services increased by 6.4 percent, while imports of goods and services decreased by 1.2 percent compared to the same period of the previous year. Thus, the contribution of net exports to growth was 1.7 percentage points.

Table 2.1: GDP Growth by Sectors and Demand Components

(Chained Volume, Annual Percentage Change)

	Annual		2017				2018			
	2016	2017	I	II	III	IV	I	II	III	9 Months
GDP	3.2	7.4	5.3	5.3	11.5	7.3	7.2	5.3	1.6	4.5
Agriculture	-2.6	4.9	5.0	7.0	3.6	6.1	5.6	-2.8	1.0	0.7
Industry	4.2	9.1	6.1	5.9	15.4	9.3	8.1	4.2	0.3	4.1
Manufacturing	3.8	9.1	5.6	5.9	16.8	8.8	8.7	4.5	0.6	4.5
Services ¹	3.4	7.8	5.8	5.3	12.5	7.7	7.2	6.4	2.4	5.3
Construction	5.4	9.0	5.1	5.1	18.8	6.5	6.7	1.0	-5.3	0.1
Total Consumption	4.7	5.9	5.4	2.2	9.8	6.2	8.0	6.6	2.2	5.5
Public	9.5	5.0	9.0	-1.8	7.6	5.9	3.5	7.8	7.5	6.3
Private	3.7	6.1	4.5	3.1	10.3	6.3	9.1	6.4	1.1	5.3
Gross Fixed Capital Form.	2.2	7.8	3.9	7.7	12.8	6.6	7.9	4.2	-3.8	2.4
Change in Stocks ^{1,2}	0.3	0.6	-2.0	-0.5	0.4	3.8	2.3	-1.8	-5.6	-2.0
Final Domestic Demand	4.0	6.4	5.0	3.7	10.6	6.3	8.0	5.9	0.4	4.6
Total Domestic Demand	4.4	7.2	3.1	3.4	11.0	10.3	10.7	4.3	-5.1	2.8
Exports of Goods and Serv.	-1.9	11.9	10.0	11.0	17.7	9.2	0.7	4.2	13.6	6.4
Imports of Goods and Serv.	3.7	10.3	0.9	2.2	15.0	22.8	15.4	0.2	-16.7	-1.2

Source: TURKSTAT

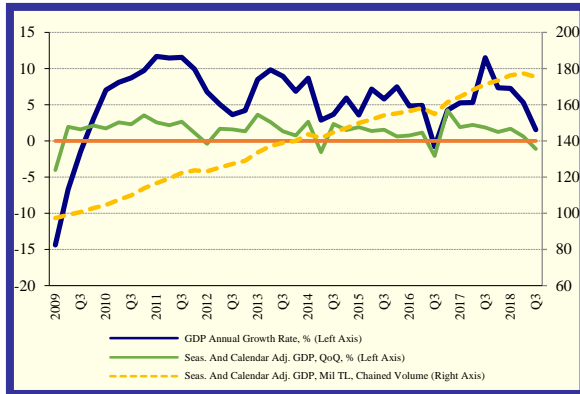
(1) The Presidency of Strategy and Budget Calculations

(2) Contribution to GDP growth

When the sectoral developments in the first three quarters of 2018 are examined, it is seen that the value added of agricultural sector increased by 0.7 percent and the value added of industrial sector increased by 4.1 percent. In the first three quarters of 2018, services sector value added increased by 5.3 percent.

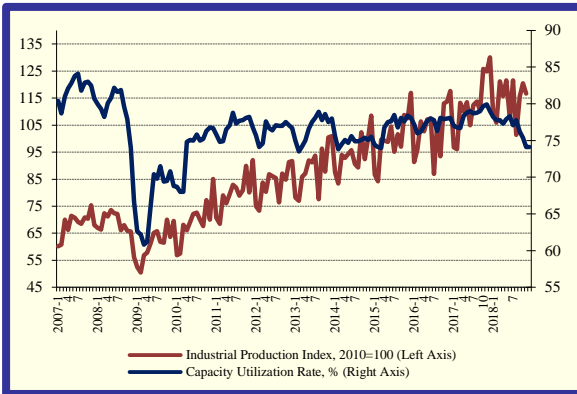
According to the leading indicators of growth, the industrial production index increased by 2.9 percent in the first 11 months of 2018 and the manufacturing industry capacity utilization rate declined by 1.7 percentage points to 76.8 percent in 2018 compared to the previous year (Figure 2.2).

Figure 2.1: GDP Developments



Source: TURKSTAT

Figure 2.2: Industrial Production Indicators



Source: TURKSTAT and CBRT

2.1.1.2. Labor Market

Unemployment rate in 2017, which was estimated as 10.8 percent in ERP (2018-2020), did not change compared to the previous year and was realized as 10.9 percent. The high rate of increase in labor supply and the start of 2017 with a high unemployment rate of 13 percent were effective in the failure of the unemployment rate despite high employment increases. With the contribution of the increase in female labor force participation, the labor force participation rate in 2017 was realized as 52.8 percent with an increase of 0.8 points compared to the previous year. In the same period, the employment rate increased by 0.8 percentage points to 47.1 percent due to the employment incentives implemented during the year.

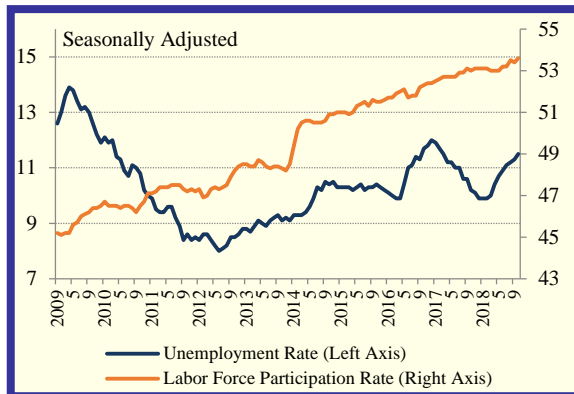
In the January-October period of 2018, it is observed that the upward trend in general participation rate continues, especially due to the increase in female labor force participation rate. As a matter of fact, the labor force participation rate for women in the January-September period of 2018 was realized as 34.2 percent with an increase of 0.7 percentage points compared to the same period of the previous year. In this period, the increase in total employment was observed due to the comparatively strong employment increases observed in the industry and services (excluding construction) sector, but remained below the increases in labor supply. Within the framework of these developments, the seasonally adjusted unemployment rate was 11.5 percent in October 2018 (Figure 2.3).

Table 2.2: Labor Market Developments

	(15+Age, People)								
	Annual		2017				2018		
	2016	2017	I	II	III	IV	I	II	III
Working Age Population	58,720	59,894	59,567	59,781	60,002	60,223	60,415	60,571	60,733
Labor Force Part. Rate, %	52.0	52.8	51.8	53.0	53.7	52.8	52.2	53.3	54.3
Labor Force	30,535	31,643	30,855	31,713	32,233	31,790	31,520	32,274	32,989
Employment	27,205	28,189	26,956	28,488	28,828	28,515	28,166	29,138	29,318
Unemployed	3,330	3,454	3,900	3,225	3,404	3,275	3,354	3,136	3,670
Employment Rate, %	46.3	47.1	45.3	47.7	48.0	47.3	46.6	48.1	48.3
Unemployment Rate, %	10.9	10.9	12.6	10.2	10.6	10.3	10.6	9.7	11.1
Non-Agriculture, %	13.0	13.0	14.8	12.2	12.8	12.2	12.5	11.6	13.2
Youth, %	19.6	20.8	23.3	19.8	20.6	19.3	19.0	17.8	20.8
Sectoral Distribution of Employment									
Agriculture	5,305	5,464	5,036	5,577	5,953	5,297	4,983	5,480	5,697
Non-Agriculture	21,900	22,725	21,920	22,911	22,876	23,218	23,182	23,658	23,621
Industry	5,296	5,383	5,251	5,386	5,437	5,470	5,627	5,669	5,730
Services	16,604	17,342	16,668	17,526	17,438	17,748	17,555	17,989	17,891

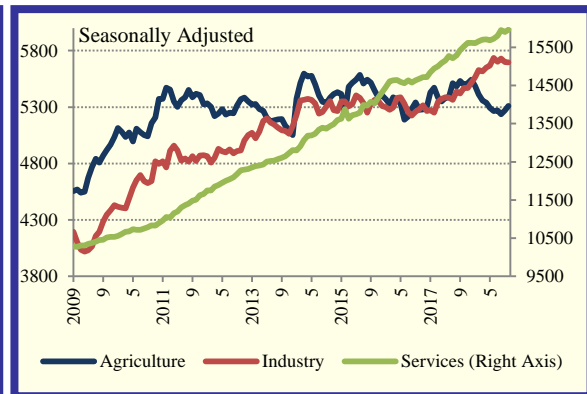
Source: TURKSTAT

Figure 2.3: Unemployment Rate and Labor Force Participation Rate (Percent)



Source: TURKSTAT

Figure 2.4: Agriculture, Industry and Services Sector Employment (Thousand People)



Source: TURKSTAT

Even though seasonally adjusted industrial sector employment improved in the beginning of 2018, due to the rebalancing process it has been lost its momentum in the rest of the year. Hence, it has been a moderate increase in industrial sector employment throughout the January-October 2018. Services sector (excluding construction) demonstrated comparatively strong performance in January-October period of 2018. The employment in the agricultural sector contracted in the January-October period of 2018 (Figure 2.4).

2.1.2. Inflation, Monetary and Exchange Rate Policies

2.1.2.1. Inflation

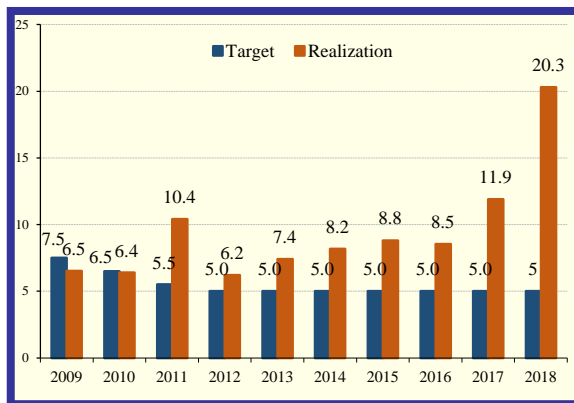
By the end of 2017, consumer inflation increased by 3.39 points year-on-year to 11.9 percent and remained above the uncertainty band around the inflation target (Figure 2.5). The rise in inflation was particularly driven by the depreciation of the Turkish lira, accompanied by import prices, unprocessed food prices and robust economic activity. In

2017, tax adjustments, unlike the preceding year, did not have a noticeable impact on inflation.

Annual inflation in the food group followed a fluctuating path in 2017 due to base effects. While the volatility in food inflation mainly stemmed from the unprocessed food group, primarily fresh fruit and vegetable prices, adverse supply-side shocks and the strong domestic and external demand in addition to the depreciation in the Turkish lira negatively affected the food inflation. After hitting 13.8 percent at the end of 2017, food inflation recorded a decline in the first four months of 2018, yet reached quite high levels in the subsequent period due particularly to cost pressures driven by exchange rate developments, adverse supply conditions in some products and the brisk course of tourism. In December 2018, food inflation stood at 25.1 percent.

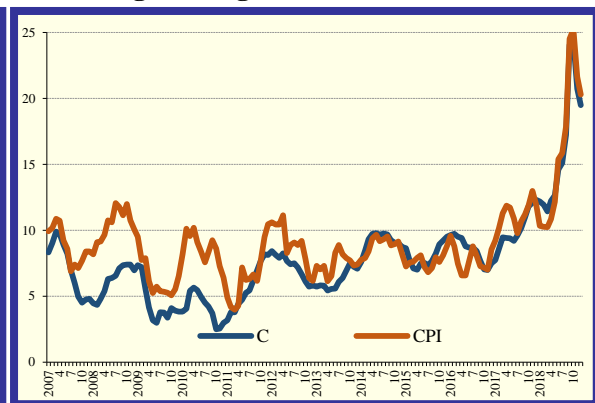
After hovering at low levels in the first three quarters of 2016, energy inflation climbed to 10.4 percent at the end of 2017 due to the rise in the exchange rate and oil prices. Energy inflation proved mild compared to the consumer inflation in the first quarter of 2018, but gained momentum in the coming months due to the depreciation in the Turkish lira and the uptrend in oil prices. In the August-October period, consecutive adjustments to electricity and natural gas among administered prices put pressure on the energy inflation, while the sliding-scale tariff that started to be applied to fuel products in mid-May contained a potentially more adverse outlook. Recently, the fall in oil prices and the appreciation in the Turkish lira led to a decline in annual energy inflation, which stands at 20.8 percent as of December.

Figure 2.5: Annual Inflation Targets and Realizations (CPI)



Source: CBRT, TURKSTAT

Figure 2.6: CPI and Core CPI (Annual Percentage Change)



Source: TURKSTAT

While exchange rate developments had noticeable repercussions on many items throughout 2018, the rise in core goods inflation led by the rise in durable goods inflation, which has high and relatively fast exchange rate pass-through, proved to be the main driver of inflation. Consumer inflation materialized at 20.3 percent in December, recording an increase by 8.4 points compared to end-2017. Of this increase, 2.8 points came from the core goods group. After hovering around 35 percent in September and October, annual inflation in this group declined significantly to 26.9 percent in November due to temporary tax reductions in durable goods. Annual core goods inflation realized as 24.7 percent in December. This decline was driven by the weak course of domestic demand as well as

exchange rate developments. After remaining elevated through the first half of 2018, annual services inflation has trended up since June due to the weaker Turkish lira, widespread backward indexation, stronger cost pressures on food and energy-related sectors and tourism-led demand-side effects. Annual services inflation declined to 14.5 percent in December. Accordingly, annual inflation rates in core inflation indicators B and C were 20.2 percent and 19.5 percent, respectively as of December. In sum, amid tax cuts, the appreciation in the Turkish lira, falling oil prices and demand-side effects caused by weaker economic activity, annual consumer inflation fell to 20.3 percent in December (Figure 2.6).

2.1.2.2. Monetary and Exchange Rate Policies

In 2017, the CBRT maintained a policy stance that was tight against the inflation outlook, stabilizing for the foreign currency liquidity and supportive of financial stability. Coordinated policy decisions taken in the first half of 2017 were intended to tame exchange rate-driven cost pressures on inflation without causing additional tightening in financial conditions. As high inflation and inflation expectations and developments in core inflation indicators posed risks to the pricing behavior, the CBRT pursued a gradual tightening between January and April, which remained in place for the rest of 2017. However, thanks to accommodative incentives and measures in 2017, economic activity remained robust throughout the year. Historically high loan growth stimulated domestic demand, causing more demand pressures on inflation and a delay in the effects of monetary policy. The predictability of the CBRT's monetary policy was significantly enhanced by consistently directing much of the Bank's funding through a single channel (late liquidity window) all year long in 2017.

In the Monetary Policy Committee (MPC) decisions of January and March 2018, the CBRT emphasized that the tight monetary policy stance would be maintained decisively until the inflation outlook displayed a significant improvement, independent of base effects and temporary factors, and became consistent with the targets. The CBRT implemented a measured monetary tightening in April, saying that high inflation and inflation expectations remained a risk to the pricing behavior that was aggravated by rising import prices. In this context, the Bank increased the late liquidity window (LLW) lending rate by 75 basis points to 13.50 percent.

In May, the Bank further tightened the LLW rate by 300 basis points to 16.5 percent in response to unhealthy price formations and risks posed by rising inflation expectations to the pricing behavior. In addition to this policy response, the CBRT announced in a press release on 28 May 2018 that the simplification process of the operational framework of monetary policy was complete, enhancing the predictability of monetary policy and strengthening the transmission mechanism. Accordingly, the policy rate of the CBRT became the one-week repo rate, which was matched to the LLW lending rate at 16.5 percent on that date. It was decided that the CBRT overnight borrowing and lending rates would be determined at 150 basis points below/above the one-week repo rate. Thus, the CBRT borrowing and lending rates formed a symmetrical corridor around the one-week repo rate. In the new operational framework, all of the CBRT funding started to be provided via weekly repo auctions.

In addition to the monetary policy decisions mentioned above, some other measures were taken regarding the markets after the April MPC meeting. Accordingly, the upper limit for the FX maintenance facility in the scope of the reserve options mechanism (ROM) was lowered to 45 percent from 55 percent and the tranches were rearranged. With this revision, banks were provided with foreign exchange liquidity, and Turkish lira liquidity conditions were tightened. Moreover, the auction amount at the daily Foreign Exchange Deposits against Turkish Lira Deposits auctions was increased. The CBRT announced in a press release on 25 May 2018 that the repayments of rediscount credits for export and foreign exchange earning services can be made in Turkish lira. The measures taken regarding FX and Turkish lira liquidity management coupled with the completion of the monetary tightening and simplification process in May were two major factors mitigating volatility in financial markets.

At the June MPC meeting, the CBRT decided to enhance monetary tightening citing high inflation and inflation expectations that remained a risk to the pricing behavior. Accordingly, the policy rate (one-week repo auction rate) was raised to 17.75 percent from 16.5 percent. At the July MPC meeting, the interest rates were left unchanged taking into account the deceleration in domestic demand conditions and the necessity to monitor the lagged effects of the monetary policy, whereas it was stated that the elevated levels of inflation and inflation expectations continued to pose risks for pricing behavior and it was assessed that it might be necessary to maintain a tight monetary stance for an extended period.

In early August, in response to the rapid depreciation of the Turkish lira due to excessive volatility in the market, the CBRT introduced several financial stability-oriented measures to ensure the effective functioning of markets. Accordingly, the upper limit for the FX maintenance facility within the ROM was lowered, liquidity was provided to the markets by reducing the TL and FX reserve requirement ratios, and banks' collateral conditions were eased. Moreover, the CBRT also changed its funding strategy, accordingly, weekly repo auctions were not opened between 13 August and 14 September 2018 and funding was carried out via CBRT lending rates on an overnight basis. In this period, amid elevated volatility in financial markets, cost-side pressures and their secondary effects adversely affected the inflation outlook. In this framework, the CBRT implemented a strong monetary tightening in September to support price stability in which the one-week repo rate was raised by 625 basis points to 24 percent and the entirety of funding started to be provided via weekly repo auctions again.

In 2018, in response to elevated exchange rate volatility and unhealthy price formations in the market, the CBRT expanded its instrument set and used it optimally to ensure the effective functioning of the markets and to support the transmission mechanism. Accordingly, the CBRT started to make Turkish lira-settled forward foreign exchange transactions with corporate and retail investors at the Derivatives Market (VIOP) operating under Borsa İstanbul (BIST). The Turkish Lira Currency Swap Market was opened in November. The aim of these steps was to contribute to the deepening of the Turkish derivatives market and indirectly to the corporate sector's foreign exchange risk management.

By 28 December 2018, the sum of the CBRT's official reserves was dollar 91.9 billion dollar. Gold reserves constituted 19.9 billion dollar of this sum and gross foreign exchange reserves accounted for 72 billion dollar. The total reserves decreased by 14.5 percent in 2018. The decrease was mainly driven by an array of measures taken by the CBRT to support FX liquidity management to ensure the effective functioning of the markets in response to fluctuations in financial markets. In this period, among financial stability-oriented efforts, reduction of the upper limit of the FX facility under the ROM, lowering of the FX required reserves and facilitation of the repayments of rediscount credits in Turkish lira played an important role in the decline in the CBRT's total reserves. Parallel to the floating exchange rate regime in effect, direct net FX purchases, export rediscount credits and the ROM have helped to increase gross FX and gold reserves since 2001. Seasonal fluctuations may appear in gross FX reserves. Currently, rediscount credits are the leading tools to increase reserves. FX sales through FX sales auctions have not been made since 28 April 2016. The CBRT will maintain its policy to increase reserves as long as the market conditions allow. The current level of the CBRT's reserves is sufficient in terms of the short-term risk criteria.

2.1.3. Financial Sector

In order to eliminate the impact of the depreciation of Turkish Lira on price stability in line with the tightening of the monetary policy in the developed countries, the CBRT tightened monetary policy in four of the MPC meetings held in 2018. As a result of these decisions, the weighted average funding rates of CBRT, which was 12.75 percent at the beginning of the year, increased by 1.125 basis points to 24 percent at the end of the year. In this period, the funding costs of banks have increased considerably. While the average interest rate applied to TL deposits was 12.3 percent in January 2018, it decreased to 22.2 percent by the end of October, the highest level of 24.1 percent at the end of October.

The deterioration in the general economic outlook and the tightening in the funding conditions also increased the loan interest rates. Consumer credit interest rates, which was at 18.6 percent in January 2018, increased to 33.1 percent at the year-end and commercial loan rates rose from 16.3 percent to 28.2 percent. On the other hand, due to the increase in risk perception in 2018, the increase in credit volume has been more moderate. This has led to a relatively limited increase in deposit interest rates, but also led to a higher level of loan-deposit interest rate margin.

In Turkish financial sector, the most of the financing is provided by banks, and gross bank loans to GDP rose from 69.6 percent in 2017 year-end to 74.8 percent in the third quarter of 2018. While increased exchange rate volatility compared to previous quarters decreased FX loans in newly extended loans, higher exchange rates increased the share of FX loans in GDP and the annual change in Loan/GDP ratio.

Exchange rate adjusted total loans, which recorded a 20.5 percent growth in 2017 year-end, increased 3.3 percent in 2018 year-end. While the average growth of exchange rate adjusted total loans are 13 percent for 2018, it is 13 percent for firm loans, 12 percent for consumer loans and 17 percent for credit cards. Meanwhile, housing, automobile and

personal finance loans (subtypes of consumer loans) grew by 9 percent, 5 percent and 15 percent on average, respectively.

Figure 2.7: Annual Loan Growth (%)

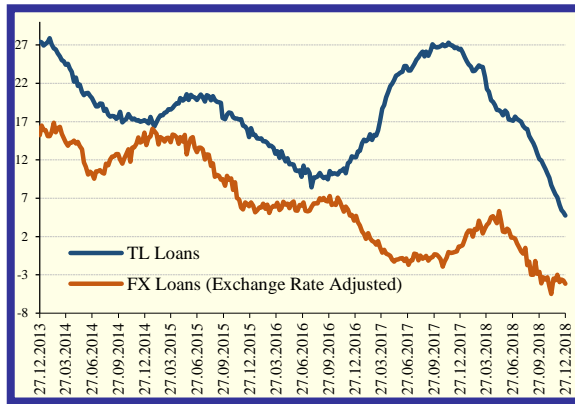
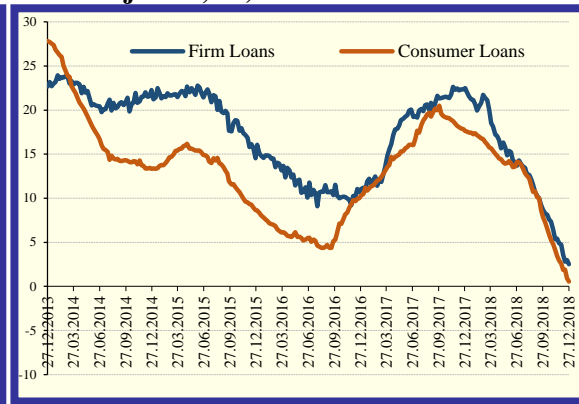


Figure 2.8: Annual Loan Growth (Exchange Rate Adjusted, %)



Source: CBRT, BRSA and PSB Calculations

In 2018, average annual growth became 17 percent in TL loans whereas it converged to 0 percent in FX loans (including FX-indexed loans). Banks' credit composition has changed in favor of TL as a result of weaker appetite for FX borrowing due to re-arrangement of FX loan utilization at firms and increased awareness of exchange rate risk management in May 2018. On the other hand, uncertainties in financial markets decreased in September, and the contracting effect of exchange rates on FX loan demand and supply abated.

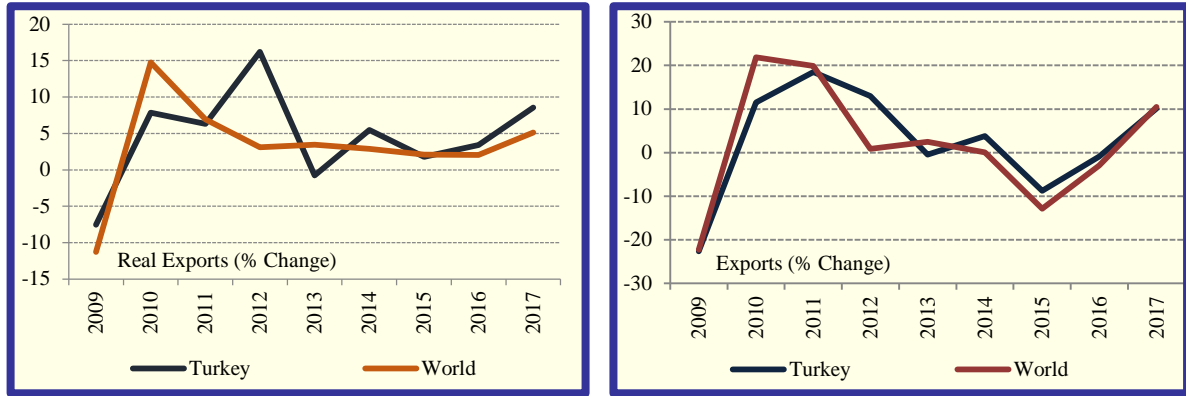
The deceleration in demand for bank loans was driven by both supply and demand-driven factors. The prominent demand-side factors are the slowdown in economic activity, stagnation in investment demand and the rise in loan rates while the supply-side factors are the rise in domestic and foreign funding costs and tightened credit conditions due to economic activity and credit risk. Also, the base effect generated by macroprudential measures loosened slightly in the third quarter of 2016 and increased credit volume owing to credit guarantee fund incentive in 2017 has pushed the credit growth down.

2.1.4. Balance of Payments

In the January-November period of 2018, exports increased by 7.7 percent compared to the same period of the previous year and amounted to 154.2 billion dollars, due to the increase in the EU's external demand and the impact of production and export support. The concerns of trade war in the global economy limit the increase in exports. In the same period, imports decreased by 2 percent and reached USD 206.5 billion. In addition to these developments, the annualized current account deficit as of November 2018 was realized as 33.9 billion dollars due to the improvement in the tourism sector.

In the January-November period of 2018, real exports increased by 5 percent while real imports decreased by 7.4 percent. In the same period, export prices raised by 2.9 percent, while import prices surged 5.9 percent.

Figure 2.9: Developments in Exports and Real Exports



Source: World Trade Organization, IMF, TURKSTAT

In the first eleven months of 2018, exports to the EU increased by 15 percent compared to the same period of the previous year and became 77.5 billion dollars due to the partial economic recovery in the EU countries. Russia, Germany and China maintain high levels of imports by country. While the share of imports from Russia in the first eleven months of 2018 increased with the effect of energy prices, the shares of other countries declined.

In the first eleven months of 2018, travel revenues increased by 14 percent compared to the same period of the previous year and were realized as 24.3 billion dollars. The number of tourists in the same period increased by 22.2 percent and was realized as 37.538 thousand people. Despite increase in number of tourists, average per capita expenditure decreased in 2018.

In 2017, capital inflows were realized through portfolio investments. In 2017, net inflows to portfolio investments were 24.5 billion dollars, while direct foreign investments and other investments were 8.2 billion dollars and 5.9 billion dollars, respectively.

In the first eleven months of 2018, net foreign direct investment inflows decreased by 730 million dollars compared to the same period of the previous year and was realized as 7 billion dollars. Regional political developments have been effective in this development. In this period of 2018, a net outflow from portfolio investments was recorded to 1.4 billion dollars. The net outflows from other investments amounted to 9.7 billion dollars. In the January-November period of 2018, reserve assets decreased by 10.8 billion dollars.

2.2. Medium Term Macroeconomic Scenario

In line with the MTP (2019-2021), the main objective of ERP (2019-2021) is to establish a rebalancing in the economy through macroeconomic policies focused on eliminating the risks arising from the inflation and current account deficit in 2019, and converging of economic growth to its potential level with the improvements to be achieved in the economy during the 2020-2021 period.

While preparing the MTP, ministries and institutions within the economy administration come together to discuss the necessary policies for macroeconomic targets and work on alternative scenarios. In order to create a coherent macroeconomic target set, demand-side medium-sized macroeconometric model that focus on consumption and

investment, supply-side macro-econometric model focusing on production and efficiency, as well as input output analysis and general equilibrium models that concentrate on monetary and fiscal policy are taken into account.

In this context, it is observed that 2018 year-end balancing process targets of the MTP (2019-2021) have been reached to a great extent. During the balancing process, fiscal policy timely intervenes against the possible strong demand contractions without deteriorating the budget balances. Throughout the program period, fiscal policy will continue to take necessary measures in a counter-cyclical manner against the possible risks that may arise in the economy, without disrupting the strong coordination between fiscal and the monetary policies

2.2.1. Real Sector

2.2.1.1. Composition of Growth

Expansionary fiscal policy and CGF-backed loans supported economic activity and domestic demand in 2017 strongly. However, with the Fed's decision to raise interest rates and remarkable deterioration in risk perception towards developing countries since the second quarter of 2018, the volatility in the financial markets in Turkey has increased and cost of financing have soared accordingly. Inflation pressures and the deteriorating current account deficit caused Turkish economy to become more vulnerable to possible shocks in exchange rates and import prices. Therefore, GDP growth in the first nine months of 2018 remained at 4.5 percentage points.

In 2018, Turkish economy is expected to grow by 3.8 percent, which is below the 5.5 percent forecast of the previous ERP. Contributions of domestic final demand, changes in stocks and net exports to the GDP growth will be 3.3 percentage points, -0.9 percentage point and 1.4 percentage points, respectively. Within the scope of MTP (2019-2021), it is expected that macroeconomic policies focused on eliminating the risks arising from the inflation and current account deficit in 2018 and 2019 will contribute to the rebalancing process. In line with the projected improvements in the economy, it is expected that economic growth will re-converge to its potential level after 2020. In the medium term, a more balanced growth structure, that does not create inflation and current account deficit and is based on investment and exports, is targeted.

In line with the expectations, economic growth was realized as 1.6 percentage point in the third-quarter of 2018. Leading indicators for industrial production and capacity utilization in the last quarter also point to a lower growth performance. It is expected that the slowdown in domestic demand will become more evident with the ongoing deceleration in consumption and investment spendings, and the positive contribution of net exports to growth will continue in this period.

Average annual GDP growth rate for the period of 2019-2021 is expected to realize as 3.6 percent. For this period, it is targeted that the rebalancing process in the economy continue in a controlled manner to decrease inflation and current account deficit to reasonable levels in compatible with the sustainable growth goal in Turkish economy.

Table 2.3: Demand Components of Growth

(2009=100 Chained Volume, Percentage Change)

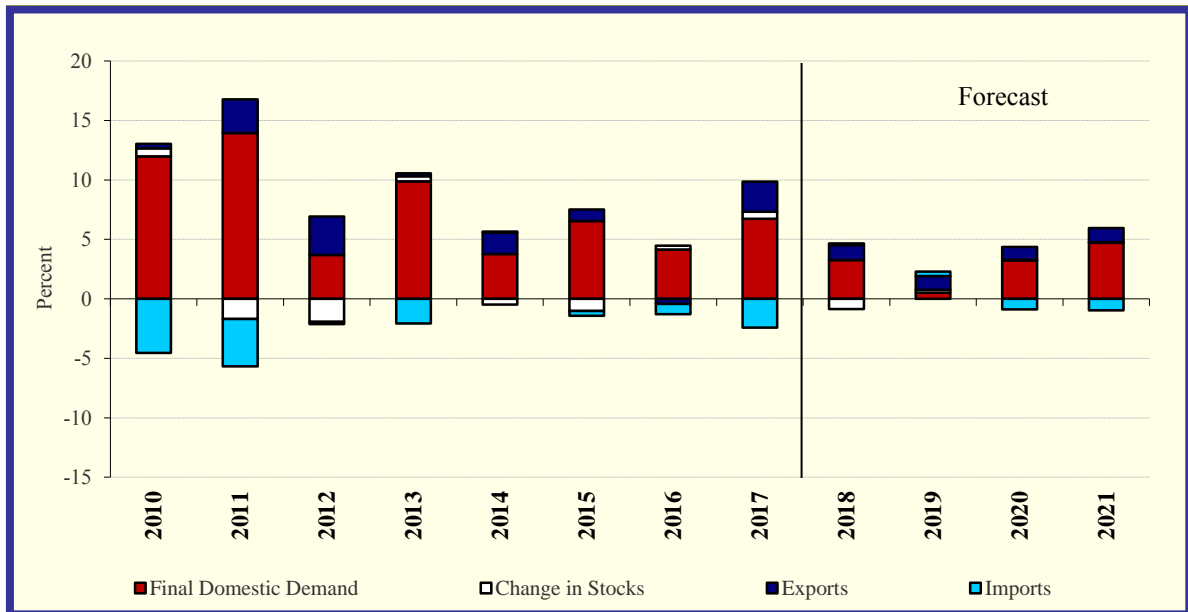
	2017	Forecast			
		2018	2019	2020	2021
Total Consumption Expenditure	5.9	3.7	1.9	2.5	3.9
Private	6.1	3.8	2.0	2.6	4.0
Public	5.0	3.5	1.4	1.6	3.0
Total Investment Expenditure	10.7	-1.2	-2.5	5.8	7.5
Gross Fixed Capital Formation	7.8	1.8	-3.1	5.1	6.7
Change in Stocks ¹	0.6	-0.9	0.2	0.0	0.0
Exports of Goods and Services	11.9	5.6	5.1	4.7	5.2
Imports of Goods and Services	10.3	-0.6	-1.7	4.0	4.4
Gross Domestic Product	7.4	3.8	2.3	3.5	5.0
Domestic Demand	7.2	2.4	0.8	3.3	4.8
Domestic Final Demand	6.4	3.2	0.5	3.2	4.7

Source: Realization TURKSTAT, Presidency of Strategy and Budget

⁽¹⁾ Contribution to GDP growth

Scrutinizing the demand components for the Program period; it is projected that, on annual average, private and government consumption will increase by 2.9 percentage point and 2 percentage point respectively. In the same period, total investment expenditures are expected to rise by 3.6 percent annually on average. Thus, domestic final demand is forecasted to increase by 2.8 percent. Domestic demand is expected to increase by 3 percent annually on average with the limited contribution of changes in stocks to the growth in the same period.

Figure 2.10: Contribution to GDP Growth



Source: Realization TURKSTAT, forecast Presidency of Strategy and Budget

Current account deficit performance is foreseen to improve with contributions of transformation programs especially in tourism and export areas. Thus, the exports of goods and services are expected to increase by 5 percent annually on average for 2019-2021 period. In line with domestic demand developments, imports of goods and services are forecasted to rise by 2.2 percent annually on average for the same period. Therefore, the

contribution of net exports to growth is expected to be limited for the Program period along with moderate developments in domestic demand.

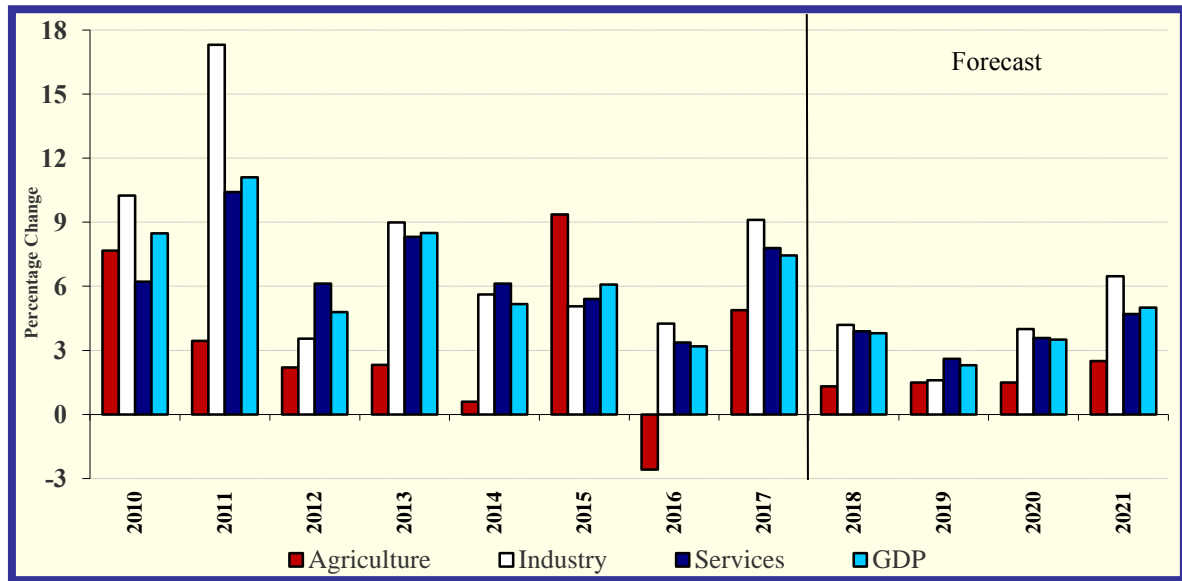
Scrutinizing GDP by sectors, it is expected that the value added of agriculture will increase by 1.3 percent in 2018 due to unfavorable climate conditions and increase by 1.8 percent annually on average in the period of 2019-2021.

It is predicted that the value added in industrial sector will increase by 4.2 percent in 2018. This forecast is also reinforced by the fact that the capacity utilization rate in manufacturing industry is limited to 76.8 percent in 2018. In the ERP period, the value added in industry sector is expected to increase by 4 percent annually on average.

The value added in the services sector is expected to increase by 3.9 percent in 2018 and by 3.6 percent annually on average in the period of 2019-2021.

Considering the shares of sectors in GDP, it is foreseen that the share of agriculture and industry sectors will increase in the Program period and it is projected to reach 6.3 percent and 21.3 percent as of 2021, respectively. On the other hand, the share of the services sector is expected to decline slightly to 60.7 percent by 2021.

Figure 2.11: Value-Added by Sectors



Source: Realization TURKSTAT, forecast Presidency of Strategy and Budget

2.2.1.2. Sources of Growth

Scrutinizing the sources of growth in Turkish economy, capital accumulation has been the main driver of growth while the contribution of employment to growth has displayed stable pattern. However, it is observed total factor productivity (TFP) has not contributed enough to growth except for the period between 2002-2007 (Table 2.4).

Domestic demand was strengthened due to the effect of expansionary fiscal policy and CGF incentives in 2017. Turkish economy, which has improved the performance based on this demand conditions, grew by 7.4 percent in 2017. Analyzing the production factors of this growth which was realized above its potential, a more balanced structure has observed compared to previous years. In this period, the contribution of capital accumulation to growth continued with the impact of strong investments supported by

capacity increase. Thanks to the new jobs created throughout the economy, especially in the industry and services sector, employment contributed to growth significantly. Total factor productivity contributed positively to growth unlike its recent trend. In this context, capital accumulation contributed 3.3 points to 7.4 percent growth, employment contributed 2.3 points and TFP contributed 1.8 points.

Economic activity, which increased by 6.2 percent on average in the first half of 2018, has started to stabilize on the grounds of relatively high inflation, exchange rate and interest rates as of third quarter of this year. It is estimated that this trend will continue in the rest of the year. Weak investments as a result of tightening in financial conditions and moderate increases in the employment market will be accompanied by the envisaged slowdown in economic activity. Despite partial losses in the contribution of capital accumulation and total factor productivity to growth, they are projected to contribute to growth positively in this period.

Table 2.4: Developments in Factors of Production

(2009=100 Chained Index, Percentage)

Period	Growth Rates					Contribution to Growth		
	GDP	Capital Stock	Capital Stock*	Emp.	TFP	Capital Stock	Emp.	TFP
1998-2017	4.6	6.9	6.7	2.0	0.8	55.2	27.7	17.0
2002-2017	5.8	7.3	7.9	2.5	1.3	51.4	26.7	21.9
2002-2007	7.1	7.5	9.9	1.0	2.8	52.3	8.4	39.3
2010-2017	6.8	7.4	9.6	4.0	0.7	52.9	36.5	10.6
2019-2021	3.6	5.8	5.9	2.6	-0.2	61.9	44.4	-6.3

Source: Presidency of Strategy and Budget calculations

* Capital stock increase corrected by capacity utilization rate.

Throughout the program period, economic activity weakened by rebalancing is expected to cause labor and productivity losses. However, in the long-term, a more balanced and strong growth performance will be achieved in line with the cyclical and structural policy steps to reduce fragilities. During this program period including the recovery after rebalancing, capital stock and employment are expected to increase by 5.9 percent and 2.6 percent while TFP is expected to contract by 0.2 percent annually on average. Within the framework of the projected macroeconomic structure, the contributions of capital stock, employment and TFP to growth are expected to be 61.9 percent, 44.4 percent and -6.3 percent on average, respectively, in the program period.

2.2.1.3. Potential Output and Output Gap

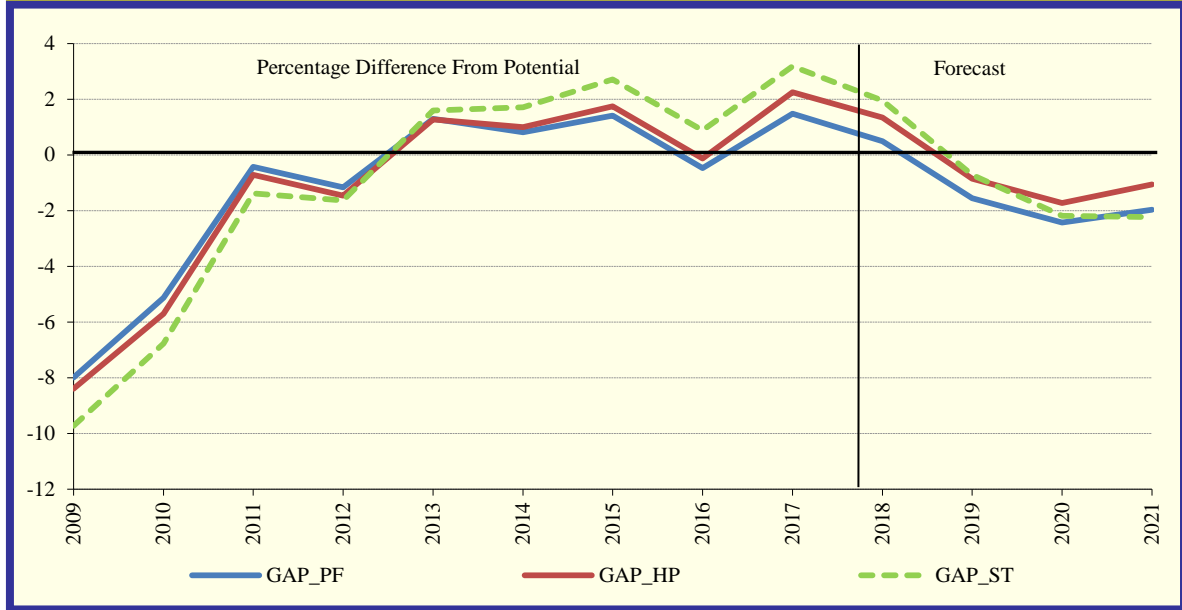
Losses in potential production caused by the 2009 global crisis alleviated by strong domestic demand and high investment and employment growth in the following years. The realized production level exceeded its potential. In 2016, production level receded below its potential level due to the slowdown in economic activity. In 2017, Turkish economy was overheated slightly with the effect of demand-increasing policies and there was an upward pressure on inflation.

Output gap estimates based on alternative methods point out that the economy will start to cool down as of the second half of 2018 and the output gap will be in the negative

region as of 2019. In this period, demand developments are expected to contribute positively to the disinflation process.

Throughout the ERP 2019 period, it is foreseen that the growth will be on a lower path at 3.6 percent on average as a result of rebalancing. Within the context of macroeconomic scenario, it is projected that negative output gap will not close even at the end of the program period depending on the estimated growth rate. In other words, demand-side pressure on inflation is not expected during the program period.

Figure 2.12: Output Gap



Source: Presidency of Strategy and Budget calculations
 GAP_PF: Output gap calculated by production function method
 GAP_HP: Output gap calculated by Hodrick-Prescott method
 GAP_ST: Output gap calculated by split-time linear method

2.2.1.4. Investment-Saving Balance

The precautionary fiscal policy framework and CGF subsidies implemented in 2017 effectively supported the domestic demand and accordingly Turkish economy achieved 7.4 percent growth rate during this period. As of the second quarter of 2018 there occurred a significant decline in the value of TL and in order to re-establish the macroeconomic stability the government has taken some specific measures. With this precautions, the saving-investment gap and external deficit are both expected to narrow. Within this scope, it is expected that the share of total fixed capital investment to GDP to realize as 29.7 in 2018 and the share of total investment to GDP to be 30.6. The share of total domestic savings is expected to rise to 25.9 percent of GDP.

In line with the rebalancing process assumed in MTP, the share of domestic savings to GDP is targeted to increase to 26.7 by the end of the program period. A prominent aspect of the current program is the prospective decline in the foreign saving need. Accordingly, in coherence with the declining current account deficit, the flow of foreign savings is expected to decelerate. Within the framework of current re-stabilization design; while the foreign saving requirement is aimed to fall steadily to 2.6 percent of GDP, it is also targeted to

preserve the current level of investment. In this manner, the domestic resources will become more prominent for the finance of investments.

Table 2.5: Investment-Saving Balance

(As a Share of GDP, Percent)

	2016	2017	Forecast			
			2018	2019	2020	2021
Total Investment	28.2	31.0	30.6	28.5	28.9	29.3
Fixed Capital Formation	29.3	30.0	29.7	28.3	28.8	29.2
Change in Stocks	-1.1	1.0	0.9	0.2	0.2	0.1
Total Savings	28.2	31.0	30.6	28.5	28.9	29.3
Domestic Savings	24.5	25.4	25.9	25.2	26.2	26.7
Foreign Savings	3.7	5.6	4.7	3.3	2.7	2.6

Source: Realization TURKSTAT, Presidency of Strategy and Budget Forecast

2.2.1.5. Labor Market

Analyzing the developments in the labor market, the high increases in labor supply in recent years are the main determinant factor. With this development, it is observed that high increases in non-agricultural employment continued.

Table 2.6: Labor Market Developments

(15+ Age)

	Realization		Forecast			
	2016	2017	2018	2019	2020	2021
Working Age Population (Thousand Person)	58,720	59,894	60,752	61,625	62,509	63,404
Labor Force Participation Rate (%)	52.0	52.8	53.2	53.7	54.2	54.7
Labor Force (Thousand Person)	30,535	31,643	32,339	33,112	33,899	34,701
Employment	27,205	28,189	28,677	29,116	29,877	30,952
Agriculture	5,305	5,464	5,307	5,260	5,260	5,260
Non-Agriculture	21,900	22,725	23,370	23,856	24,617	25,692
Unemployed	3,330	3,454	3,663	3,996	4,022	3,749
Employment Increase (%)	2.2	3.6	1.7	1.5	2.6	3.6
Agriculture	-3.2	3.0	-2.9	-0.9	0.0	0.0
Non-Agriculture	3.6	3.8	2.8	2.1	3.2	4.4
Employment Rate (%)	46.3	47.1	47.2	47.2	47.8	48.8
Unemployment Rate (%)	10.9	10.9	11.3	12.1	11.9	10.8

Source: Realization TURKSTAT, Presidency of Strategy and Budget Forecast

The increase in non-agricultural employment in 2019-2021 is expected to slow down with the economic balancing process and then converge to the long-term average again and it is expected to be 3.2 percent annually. Agricultural employment is expected to decline slightly in the upcoming period. It is estimated that the unemployment rate, which is expected to be in a decline process starting from 2020, will be 10.8 percent in 2021. The expectation that high increases in labor supply will continue, especially among women, limits the unemployment rate decline to some extent. The labor force participation rate, which is expected to be 53.2 percent at the end of 2018, is expected to reach 54.7 percent at the end of the Program period.

2.2.2. Inflation, Monetary and Exchange Rate Policies

Monetary policy of the CBRT is based on an approach focused on price stability. Monetary policy decisions are based on inflation expectations, pricing behavior and other

factors affecting inflation. The CBRT will continue to safeguard financial stability, as a supportive element of price stability.

In line with the primary objective of establishing and maintaining price stability, the inflation target has been set at 5 percent as per the agreement reached with the government. The uncertainty band around the inflation target has been kept at 2 percentage points in both directions, as in previous years. Monetary policy will be drawn so as to bring inflation closer to the target gradually. The updated forecasts in the CBRT's Inflation Reports will serve as reference for the disinflation process while inflation converges to the target over the medium term. Along this disinflation path, the first objective is to pull inflation down to single digits, and then gradually reduce it further to stabilize it around 5 percent. The final aim is to bring down the inflation rate to levels that are compatible with the Maastricht criteria.

One-week repo auctions will be used as the main funding tool. In 2019, the CBRT will continue to use all available instruments effectively in pursuit of the price stability objective. To contribute to the banks' TL and FX liquidity managements, the CBRT will remain as a stabilizing actor as required by the market conditions and supportive of financial stability as it did in 2018.

The CBRT will continue to implement a floating exchange rate regime. Under the current exchange rate regime, the foreign exchange supply and demand are mainly determined by economic fundamentals, the monetary and fiscal policies implemented, international developments and expectations. The CBRT has no nominal or real exchange rate target. Nevertheless, if the exchange rates are at odds with economic fundamentals or excessive volatility poses risk to financial stability, the CBRT will not remain indifferent to these developments. If the exchange rate movements permanently affect price stability, the CBRT will change its monetary policy stance and give the necessary reaction. The CBRT will continue to closely monitor exchange rate developments and any related risk factors and will take necessary measures and use the relevant instruments in order to make sure that the FX market operates efficiently.

Structural factors have a significant impact on inflation hovering above the target, which calls for a joint and holistic effort in the fight against inflation. Therefore, maintaining the implementation of structural reforms aiming to mitigate the inertia and volatility in inflation will contribute considerably to price stability and social welfare. In this context, the CBRT will maintain its efforts to analyze structural elements and to raise the public awareness in this regard.

2.2.3. Balance of Payments

Due to economic recovery in export partners, improving tourism revenues and advancing price competition by virtue of depreciation in Turkish Liras, exports are reach to 168.1 billion dollars in 2018. Even there has been a significant contraction in the last quarter, oil prices have remained high throughout the year. Hence it is foreseen that energy imports will increase to 43 billion dollars. Imports have been declining thanks to shrinking domestic demand due to exchange rate shocks in second half of the year. In this context, we

expect to push current account deficit down to 27 billion dollars, below MTP (2019-2021) projection in 2018.

We target to increase high value added exports consistently with efficient incentives aiming to improve the potential of Turkey. Within this scope, exports are forecasted to climb 182 billion dollars in 2019 and exceed 200 billion dollars at the end of the Program period.

Moreover, further efforts such as Project Based Incentive System to eliminate structural elements of current account deficits via reducing high tech imported intermediate goods which are crucial for industrial production and exports, will be continued. With the help of policies aiming to reduce dependency to imports and decline in demand for imported goods as a result of weakening domestic demand related to economic balancing process, imports are forecasted to reach 267 billion dollars in 2021.

Assuming the oil prices, highly volatile in 2018, will materialize around 70 dollars in the Program period, we believe that energy import will reach to 45 billion dollars in 2021. Tourism revenues have recovered in 2018 after poor performance in 2017. By taking into consideration that subsidies and incentives will continue, tourism revenues are expected to hit to 42 billion dollars in 2021.

Table 2.7: Balance of Payments Forecasts

(Billion Dollars)

	Realization		Forecast			
	2016	2017	2018	2019	2020	2021
Current Account	-33.1	-47.4	-36.0	-26.0	-23.5	-24.1
Balance on Goods	-40.9	-59.0	-55.2	-51.7	-55.3	-59.7
Total Exports	150.2	166.2	171.0	182.1	186.3	196.2
Exports (fob)	142.5	157.0	170.0	182.0	191.0	204.4
Total Imports	191.1	225.1	226.2	233.9	241.5	255.9
Imports (cif)	198.6	233.8	236.0	244.0	252.0	267.0
Balance on Services	15.3	19.9	26.8	33.4	39.4	43.4
Credit	37.4	43.7	54.6	62.7	69.2	75.7
Travel Revenues	18.7	22.5	29.0	34.0	38.0	42.0
Debit	22.1	23.7	27.8	29.3	29.7	32.3
Primary Income	-9.2	-11.1	-10.5	-10.9	-11.3	-11.6
Secondary Income	1.7	2.7	2.9	3.2	3.6	3.9
Workers' Remittances	0.6	0.4	0.5	0.6	0.7	0.8

Source: Realization CBRT, Presidency of Strategy and Budget Forecast

Lowering current account deficit gradually to sustainable levels with the help of policies and measures to abate dependency on imports, especially in energy and intermediate goods, is envisaged. Deficit is expected to narrow down with rebalancing process in economy next year. Additionally, we think that it will further go down in following period and regress to 2.6 percent as of GDP in 2021.

Share of emerging markets in global value chains and external financing resources has diminished in 2018 with the help of trade wars. Turkey has been witnessing severely

negative outcomes like any other developing countries from these unfortunate events. Slowdown in external financing has caused decrease in reserves which has been used heavily for financing current account deficit. In the Program period, our main priorities will be diversifying products and markets in exports, enhancing exports of high value added goods and services, inducing Turkish firms to be part of global value chains and reducing dependency on external financing.

2.2.4. Financial Sector

2.2.4.1. Risks towards Banking Sector

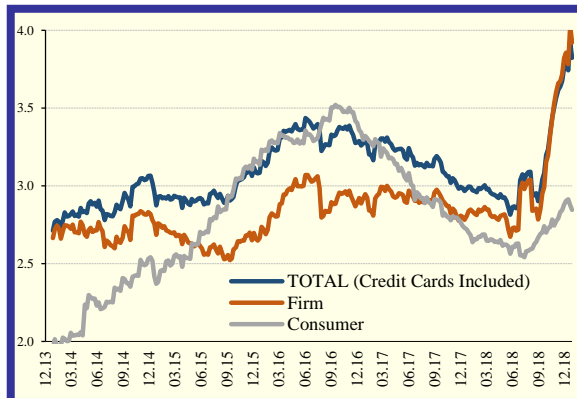
Credit Risk

Because of exchange rate developments and slowing economic activity, the recent additions to nonperforming loans (NPL) outpaced collections and the NPL balance increased. Additionally, due to the denominator effect of weaker loan growth, the NPL ratio was realized as 3.8 percent in December. As to subsectors, it inched up to 3.9 percent in firm loans while it has recently been flat at 2.8 percent in consumer loans and 5.3 percent in credit cards.

In 2018, banking sector’s closely monitored loans ratio has reached to 10.8 percent. This rise mainly stemmed from IFRS 9 accounting standard allowing banks to use their subjective internal credit risk models as well as banks' prudent stance in credit monitoring due to decreased volatility in financial markets in August 2018. This development has led to discrepancies in classification between banks as well. A limited portion of these loans are expected to pass into the NPL class.

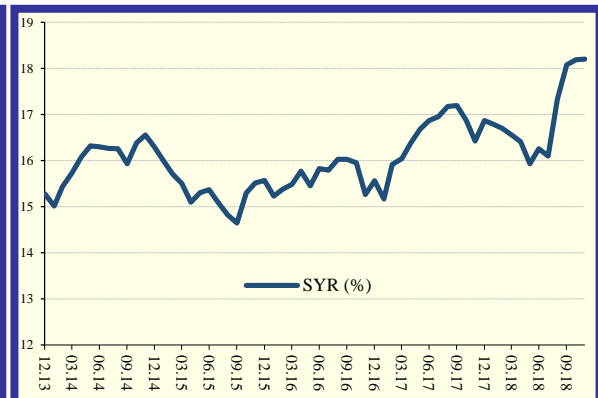
The increase in financing costs through exchange rates and interest rates and the course of the economic activity are likely to affect the credit quality of the banking sector in the upcoming period. According to the press release of the BRSA in 27 December, given that the positive effects of probable changes in asset structure of banks have been disregarded, the stress tests point out the NPL ratio might increase to 6 percent in 2019. However thanks to banks’ cautious stance, loan loss reserves can cover 70 percent of NPL and these reserves create a strong buffer against possible losses.

Figure 2.13: Nonperforming Loans Ratio (%)



Source: CBRT, BRSA and PSB Calculations

Figure 2.14: Annual Loan Growth (Exchange Rate Adjusted, %)



Capital Adequacy

Downward trend of capital adequacy ratio (CAR) since the last quarter of 2017 has been reversed due to BRSA's temporary regulations on exchange rate and fixed income securities in August 2018 as well as by the flat course of the profitability and the increase in the subordinated debts. In the meantime, the recent exchange rate and interest rate developments have supported the CAR. The capital adequacy ratio was realized as 18.2 percent in November 2018 and, based on the BRSA's stress test results it is predicted to decrease to 15.5 percent in 2019. Even this prediction is well above the limits required by both Basel Committee (8 percent) and the BRSA (12 percent).

Liquidity Risk

The liquidity coverage ratios (LCR), which measure the capacity of high-quality liquid asset stock of banks to meet their net cash outflows for 30 days, were 193 and 143 percent for total and FX in 2018, respectively.¹ Moreover, FX liquid assets of banks consisting of cash, unencumbered eurobonds, free accounts at correspondent banks, ROM and FX reserve requirements were totally 80.3 billion USD in September 2018, which is more than enough to cover all their FX-denominated external debts due in one year. FX deposit facility amounting to USD 50 billion provided to banks by the CBRT also limit their FX liquidity risk in the face of most adverse shocks.

As of the end of 2018, external debt due within six months and one year amounts USD 44 billion and USD 61 billion, respectively. Besides, due to the low risk appetite of banks and decreased loan demand, banks' external debt rollover ratio dropped below 100 percent recently. The liquidity buffers imply that banks can make short-term debt payments even if their external debt rollover ratio fall below 50 percent.

Interest and Exchange Rate Risk

The on balance sheet open FX position is extensively hedged by the banking sector by off-balance sheet transactions. Due to the decline in external debt in recent period, on balance sheet open position of banks have been narrowed. Compared to the end of 2017, banks' on balance sheet open FX position decreased by 15 billion USD and realized as 34 billion USD as of year-end 2018. The absolute value of the sector's net FX position to equity ratio was 4.9 percent in November 2018, remaining below the legal limit of 20 percent.

Sudden changes in interest rates affect banks primarily via the repricing channel since maturity structures of assets and liabilities differ, and the balance sheet channel since the value of securities in their trading portfolio changes as interest rates change. Based on the CBRT's Financial Stability Report, 5 percent (2 percent) positive interest rate shock exposure on TL (FX)-denominated on and off-balance sheet interest rate sensitive positions led to a probable loss of approximately 16 percent (3 percent) of capital. Imposing a likely interest rate hike of up to 5 and 2 percent to TL and FX-denominated securities respectively, the probable loss/capital ratio was estimated to be below 2 percent for both.

¹ The levels of LCRs in 2018 were 90 and 80 percent for total and FX respectively while they are 100 and 80 percent through 2019.

2.2.4.2. Private Sector Indebtness

Households²

As of September 2018, the growth of household liabilities decreased to 10.2 percent compared to the same month of the previous year. The ratio of household liabilities to household assets stands at 44.7 percent. Recently, the contraction in domestic demand, reduction of maximum maturities for general purpose consumer loans and financial conditions are considered to be effective in this slowdown. Turkey's household liabilities to GDP ratio stands at 15.5 percent in September 2018, which is below the similar developing countries (Mexico, Romania, Lithuania, Brazil, Chile, China and Malaysia in terms of per capita income) average of 30 percent.

Real Sector

Although the financial leverage of real sector firms keeps growing, the ratio of total corporate loans to GDP, which is 72.3 percent as of June 2018, was below the average of emerging economies (97.3 percent). The upward trend observed in the real sector FX open position until 2017 continues to follow a flat course in the following period as a result of exchange rate developments and market awareness for managing exchange rate risks. Moreover, surplus in the short-term FX position indicates that firms are resistant to exchange rate shocks in the short-term and have sufficient liquid foreign currency assets. Other factors which reduce the FX risk on real sector are that the majority of the FX financial liabilities are long-term and, these liabilities mostly concentrate on large-scale companies which have significant share in exports and the capacity to manage FX risks and on public-private partnership projects which have government purchase guarantees.

Although net foreign currency open position is a risk factor for the real sector, the related authorities has been taking measures in coordination to reduce this risk. As the first step, an amendment to the Decree No. 32 was calibrated which is effective since May 2018 for the non-financial companies having less than USD 15 million FX loans. The new regulation links FX revenue and loan utilization. The FX loan utilization is limited by excluding some of the exemptions with the sum of corporates' FX revenues generated in the past consecutive three years. In addition, FX indexed loan instruments were terminated. Big firms having more than 15 million dollar FX loan stock were exempted from this limit till a new regulation is introduced. We observe that both financial institutions and corporates successfully adjusted to the new framework along with increasing public awareness about FX risk management. Moreover, the CBRT has initiated a study involving extensive data collection from large companies in order to enhance financial stability and improve resilience of the economy against potential FX volatilities. With this study FX borrowing and FX risk management dynamics of real sector companies will be identified and after analyzing the outcome of this study a regulatory framework for big firms having more than 15 million dollars in their credit balance compatible with market dynamics will be established, if needed.

² Households' excessive borrowing is restricted through macroprudential measures such as loan/value ratio for mortgage and automobile loans, maturity limit for automobile and general purpose loans, installment and credit limit for personal credit cards. Also, households cannot borrow in terms of FX and at variable interest rates; thus, it restricts exchange rate and interest rate risks for households.

2.3. Main Risks in Projections

Medium term outlook in the Program carries some upward and downward risks based on the developments beyond the assumptions regarding global outlook. In this context:

- Discourses on increasing protectionist trade policies in many countries, especially in the USA, may negatively affect developed and developing countries. The extent and duration of the protective tariffs have been practiced by USA is crucial for the global trade. Furthermore, in the case of worldwide contamination or unsettlement of the looming trade war between US and China it will be possible to encounter with unpredictable fluctuations in the global trade.
- A possible slowdown in the US or European economies may create a downward pressure on export demand.
- In the case that Fed manages the monetary tightening in a more prudent and easy manner it's likely that the capital flows to developing countries to be positively effected.
- The revision of Customs Union agreement with EU would favorably influence foreign trade of Turkey by overcoming existing problems and removing asymmetric effects.
- The course of geopolitical events and problems in the Middle East, which is an important export market for Turkey, may create, positive or negative risks on Turkish economy especially via trade channel.
- Worsening predictions on developing markets might distort the expectations on them and might harm financial inflows. In such a scenario volatility in exchange rate is probable.
- In the case that OPEC preserves current supply level or sets it up at higher levels it is likely that the global economy get a boost.
- In the following period; financial costs and the extent and duration of the slowdown in the overall economic activity will become the main determinants of the asset quality of the banking sector.
- In the case of looming risks on financial stability due to the divergence of the exchange rate from economic fundamentals or an excessive volatility, the necessary actions will be taken. Furthermore, CBRT will give the necessary reaction by shifting it's monetary stance given that the excessive movements in the value of TL threatens the stability of domestic prices.

3. FISCAL FRAMEWORK

Thanks to structural reforms in public financial management and strictly followed fiscal discipline, Turkish public finance has become one of the strongest side of the Turkish economy with regard to the prominent role it plays in the decision making process of foreign investors and on the domestic economic activity. The main aim is to preserve strong public finance structure. In this context, the objectives of public finance policies are to restrain the GDP share of public expenditures and revenues, to increase their effectiveness, to obtain public revenues from steady and sound sources by increasing the share of tax revenues in total revenues and to keep public sector borrowing requirement under control.

In the Programme period, fiscal discipline will be pursued tightly. Fiscal policy which has been loosened in 2016-2018 period in line with macroeconomic developments will be tightened in the Programme period. To pursue fiscal discipline resolutely main strategies will be to confine public expenditures, to increase their effectiveness and to make savings from current expenditures. Quality of tax generation process will be improved.

Within the Programme period, savings measures will be taken to reduce expenditures and measures to increase revenues will be implemented. In this context, the 2019 budget was passed into law with the objective of taking 59.9 billion TL savings measures on expenditures and introducing 16 billion TL revenue-increasing measure.

Main fiscal aggregates in 2019 ERP regarding general government balance and central government budget were prepared based on the Medium-Term Programme covering 2019-2021 period which was announced within the scope of New Economic Program and 2019 Presidency Annual Programme.

The general government balance, produced by Presidency of Strategy and Budget, consists of central government budget, local governments, social security institutions and general health insurance funds, revolving funds and Unemployment Insurance Fund. When obtaining the total general government expenditure and revenue, SEEs are excluded, transactions are accounted in gross amounts and revenue and expenditure items are not subjected to any kind of netting operation.

Within the calculation process of expenditures and revenues of the sub-sectors of general government; a revenue item is accounted as income only in the accounts of unit that obtain the revenue at first hand, similarly it is accounted as expenditure only in the accounts of the unit that makes the final spending by applying this methodology, possible double counting problems in transfer transactions between sub-sectors are avoided. As a result of this operation, the balance figures of sub-units may differ from the originally reported amounts, but the consolidated general government balance is kept unchanged. Total general government expenditure and revenue figures are produced through consolidation of sub-units' expenditure and revenue amounts calculated by using this methodology.

While obtaining general government revenue and expenditure figures according to this methodology;

- The tax shares of local governments and funds from the general budget tax revenues and other transfers are deducted from the central government budget revenues and displayed in the balances of respective local governments or funds,
- The current transfers to the social security and general health insurance system from the central government budget are subtracted from both expenditures of the central government budget and revenues of social security and general health insurance system,
- The amounts transferred to the central government budget from revolving funds, extra budgetary funds and Unemployment Insurance Fund are deducted from the central government budget revenues and expenditures of relevant units respectively,
- Financial operations among other sub-sectors of general government except the central government budget are adjusted in a way to prevent double counting.

3.1. Fiscal Policy Strategy and Medium-Term Objectives

Fiscal policy, in conformity with monetary policy targets, will be implemented in a way that it contributes to increasing growth potential of the economy, preserving economic stability, keeping current account deficit at sustainable levels, increasing domestic savings and supporting investments. In this regard, main policy priorities in 2019-2021 terms are as follows:

3.1.1. Revenue Policies

- All the incentive mechanisms, tax and cash based in particular, will be reevaluated in order to make the system simpler, more efficient and holistic.
- Temporary revenue sources generated by cyclical fluctuations and one-offs will not be used to finance permanent spending programs.
- To broaden tax base, simplify tax system and enhance tax justice, ineffective exemptions, reductions and exceptions will be abolished gradually.
- Amnesty schemes will be avoided.
- By establishing Tax Data Analysis Center, informality will be reduced and efficiency in tax collection will be enhanced.
- Tax compliance will be increased with more effective Taxpayer Services Center, all tax related services provided online via Interactive Tax Office project and small taxpayers keeping all their tax records electronically.
- The list of luxury and mostly imported goods will be updated and taxation of these goods will be modified.
- New models will be used in value creation from the assets in privation portfolio and economic value based planning will be applied.

- Immovable asset inventory list will be completed by establishing immovable asset valuation system and taxation of immovable assets will be redesigned in a way that it ensures title deed fees and property taxes are imposed on fair values.
- Public sector will claim a fair share from the increase in value due to changes in zoning map and the gains will be redistributed equitably.

3.1.2. Expenditure Policies

- The main aims of the public finance are to decrease public expenditures and increase public revenues.
- Initiating permanent spending programs by using transient revenue sources will be avoided.
- Spending regarding housing, transportation and social facilities which are not directly related to public service delivery will be contained.
- Construction and leasing of new public administrative buildings will not be allowed.
- The projects that have not been tendered and which have been tendered but not started will be suspended. New and longer-term business plans will be developed for the ongoing projects that are convenient with regards to conditions of financing. Mega-infrastructure projects will be implemented through direct foreign investment and international financing. A framework will be established to make public private partnership practices more effective and financially efficient and it will be ensured that implementations will be carried out in a holistic approach.
- Protective and preventive health care services will be improved to reduce the health expenditures. The effectiveness of the primary health care services in healthcare system will be increased by strengthening those services. Projects that increase awareness, optimize drug use and reduce drug costs will be implemented.
- In the education system, training plans will be prepared in line with employment targets, employability will be increased, the resources allocated in education will be used efficiently and effective training programs will be designed. In order to improve justice in education system, a system approach will be adopted that will take the school to the center, to reduce the differences between the students, schools and regions in terms of financial resources, teachers, managers, educational facilities and achievements.
- The incentives provided to the agriculture sector will be designed and simplified to show an increase in efficiency in production, productivity, quality and producer income, consumer welfare. The National Unity Project in Agriculture will be put into practice thus the food value chain from seed to table will be restructured in the priority of food security and international competition.

3.1.3. Public Borrowing Policies

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

This Law establishes the principles of public debt and risk management as follows:

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

Net borrowing limit is described as the amount of difference between the initial budget appropriations and estimated revenues specified in the budget law of the relevant fiscal year. In line with the same article of the Law, this limit could be increased up to 5 percent within the year by considering the needs and developments in debt management. In the cases where such amount is not sufficient, an additional increase of five percent may be made only by President's decree.

Within the scope of accountable, transparent and sustainable borrowing policies which are compatible with the monetary and fiscal policies, ensuring the optimal cost target in the medium and long term at a reasonable risk level, strategic benchmarking policy has been continued since 2003. Depending on the cost and risk calculations, to manage the public debt efficiently against the liquidity, exchange rate and interest rate risks, the following strategic benchmarks and debt indicators will be the main pillars of the borrowing policy in 2019-2021 period.

- To borrow mainly in TL,
- To keep the share of debt maturing within 12 months and the share of debt stock with interest rate refixing period of less than 12 months at a certain level, by taking into account appropriate instrument and maturity composition to optimize interest payments,
- To keep a certain level of cash reserve in order to reduce the liquidity risk associated with cash and debt management.

In addition to the strategic benchmarking policy, within the scope of debt management policies:

- Switching and the buy-back auctions may be used to ensure a balanced debt redemption profile and to increase the price efficiency of secondary market.
- Policies towards ensuring an efficient secondary market yield curve and providing liquidity in trading of Government Domestic Borrowing Instruments through re-issuance strategy will continue to be implemented.

- In order to expand the investor base of the government borrowing instruments, efforts on development of new instruments will continue.
- Primary Dealership System practices will be continued.
- Information on borrowing such as financing programs, domestic borrowing strategies and procurement announcements will continue to be announced on a regular basis.

3.1.4. Public Financial Management and Audit

- Program based performance budgeting will be implemented which allows for a better monitoring of public spending efficiency and increases transparency and accountability.
- State owned enterprises (SOE) will be restructured in a way that their efficiency increases and their fiscal burden on public finance decreases.
- Revolving funds system will be reformed in a way to ensure that they operate under open, transparent and accountable administrative and fiscal structure.
- A standard for public private partnership practices will be prepared to ensure an integrated, operationally and fiscally effective system.
- Social insurance system will be restructured in order to ensure fiscal sustainability and reduce its burden on public finances.

3.2. Budget Implementations in 2018

3.2.1. Developments in the Central Government Budget Revenues and Expenditures

Due to macroeconomic and geopolitical developments and additional needs of public institutions in the course of the year, budget expenditures and revenues are expected to be above the figures presented in the Law. Budget deficit to GDP ratio is expected to be the same as its budget figure.

Table 3.1 Central Government Budget Balance 2018

	2018			
	(Billion TL)		(GDP Ratio, %)	
Central Government Budget	Budget	RE	Budget	RE
TOTAL EXPENDITURES	762.8	821.8	22.1	22.0
PRIMARY EXPENDITURES	691.1	745.4	20.1	19.9
INTEREST PAYMENTS	71.7	76.4	2.1	2.0
PROGRAMME DEFINED EXPENDITURES	691.0	745.4	20.1	19.9
TOTAL REVENUES	696.8	749.6	20.2	20.0
GENERAL BUDGET TAX REVENUES	599.4	630.5	17.4	16.9
OTHER REVENUES	97.4	119.1	2.8	3.2
PROGRAMME DEFINED REVENUES	671.9	707.2	19.5	18.9
BUDGET BALANCE	-65.9	-72.1	-1.9	-1.9
PRIMARY BALANCE	5.8	4.3	0.2	0.1
PROGRAMME DEFINED BALANCE	-19.1	-38.2	-0.6	-1.0

RE: Realization Estimate

Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

In 2018, budget revenues which is expected to be 52.8 billion TL above the budget target in nominal terms, is expected to be 20 percent of GDP, 0.2 points below the target.

General budget tax revenues are expected to be 16.9 percent by a 0.5 points decrease and non-tax revenues are expected to be 3.2 percent by a 0.4 point increase.

Increases in interest rate and wages are the main drivers of the increase in income tax while taxes on foreign trade increased due to exchange rate developments. On the other hand, subsidy to gasoline prices, temporary tax cuts on durable goods and expedited value added tax (VAT) rebate process contributed to the slowdown in revenue collection. Special consumption tax (SCT) collection has fallen down mainly due to price compensation system in oil prices and lower than expected motor vehicle sales.

Table 3.2: Central Government Budget Revenues 2018

2018				
	(Billion TL)		(GDP Ratio, %)	
	Budget	RE	Budget	RE
Central Government Budget Revenues	696.8	749.6	20.2	19.9
General Government Revenues	681.3	722.9	19.8	19.3
Tax Revenues	599.4	630.5	17.4	16.7
Income Tax Revenues	122.7	137.7	3.6	3.7
Corporate Tax Revenues	65.8	66.6	1.9	1.8
Taxes on Foreign Trade	107.8	132.9	3.5	4.0
Domestic VAT	66.0	60.3	1.9	1.6
SCT	146.5	140.7	4.3	3.6
Petroleum and Natural Gas	67.7	56.1	2.0	1.4
Motor Vehicles	23.3	20.7	0.7	0.6
Alcoholic Beverages	10.5	12.3	0.3	0.3
Tobacco	37.8	44.4	1.1	1.1
Other Beverages	1.0	0.8	0.0	0.0
Durable Goods and Others	6.2	6.3	0.2	0.2
Other Taxes	90.6	92.4	2.2	2.0
Nontax Revenues	81.9	92.4	2.4	2.5
Special Budget and Regulatory and Supervisory Ins.	15.5	26.7	0.4	0.7

RE: Realization Estimation

Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

Table 3.3: Central Government Budget Expenditures 2018

2018				
	(Billion TL)		(GDP Ratio, %)	
	Budget	RE	Budget	RE
Central Government Budget Expenditures	762.8	821.8	22.1	22.0
Interest Payments	71.7	76.4	2.1	2.0
Primary Expenditures	691.1	745.4	20.1	19.9
Personnel Expenditures	183.1	200.3	5.3	5.4
State Social Sec. Contributions	30.8	34.4	0.9	0.9
Current Expenditures	66.1	69.3	1.9	1.9
Current Transfers	299.4	323.1	8.7	8.6
Capital Expenditures	68.8	78.7	2.0	2.1
Capital Transfers	15.3	17.3	0.4	0.5
Lending	20.2	22.2	0.6	0.6
Reserve Appropriations	7.3	0.0	0.2	0.0

Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

In 2018, non-tax revenues have been higher than projections due to dividend payments by Central Bank, receipts from paid military service and zoning amnesty.

Receipts from tax amnesty by Law No. 6736 have been 13.7 billion in 2016 and 12.4 billion in 2017. Similarly, receipts from tax amnesty by Law No. 7020 have been 2 billion in 2017. In 2018, Law No. 7143 has been adopted. Receipts from all three Laws have contributed to budget revenues in 2018.

In 2018, central government budget expenditures is expected to be exceed the appropriation in nominal terms while it is expected to be below the target by 0.2 percentage points as a ratio to GDP.

Table 3.4: Central Government Budget Balance

	(GDP Ratio, %)			
	2016	2017	2018*	2019**
Expenditures	22.4	21.8	22.0	21.6
Primary Expenditures	20.5	20.0	19.9	19.0
Personnel Expenditures	5.7	5.2	5.4	5.6
State Social Sec. Contributions	0.9	0.9	0.9	1.0
Current Expenditures	2.1	2.0	1.9	1.5
Current Transfers	8.6	8.7	8.6	8.8
Capital Expenditures	2.3	2.3	2.1	1.2
Capital Transfers	0.3	0.4	0.5	0.2
Lending	0.5	0.4	0.6	0.5
Reserve Appropriation	0.0	0.0	0.0	0.2
Interest Payments	1.9	1.8	2.0	2.6
Revenues	21.2	20.3	20.0	19.8
Tax Revenues	17.6	17.3	16.9	17.0
Non-Tax Revenues	3.0	2.5	2.8	2.3
Capital Revenues	0.5	0.4	0.3	0.3
Grants, Aids, and Special Revenues	0.2	0.2	0.1	0.1
Primary Surplus	0.8	0.3	0.1	0.8
Programme Defined Primary Surplus	-0.5	-0.6	-1.0	0.0
Borrowing Requirement	1.1	1.5	1.9	1.8

Source: Presidency of Strategy and Budget, Ministry of Treasury and Finance

* Realization Estimation

** Programme

Total personnel expenditures, composed of personnel expenditures, state premiums to social security institutions and reserve appropriations are expected to exceed appropriation at the end of 2018. In 2018, general wage and salary increases have been 4 percent and 3.5 percent in January and July respectively. In line with the inflation realizations public personnel had 1.69 percent and 5.15 percent additional increase in January and July respectively. Other drivers of the increase in personnel expenditures are the conversion of contract workers in the public sector into permanent government employees, unforeseen recruitments and compensations.

Realizations of expenditures on purchase of goods and services and lending are expected to be close to budget estimates as a ratio to GDP. Although transfers to social security system is expected to exceed budget appropriation due to inflation and two

bonuses offered to all pensioners, ratio of current transfers to GDP is expected to be close to the budget estimate.

Capital expenditures and capital transfers are expected to exceed initial appropriations due to additional allocations for various investment projects.

Box 3.1: Central Government Budget Provisional Realizations (2018)

As mentioned in the beginning of this chapter, central government budget figures for the ERP 2019 are based on the MTP (2019-2021) and 2019 Presidential Annual Program. However, the realizations of central government budget for 2017 were announced during the preparation of ERP (2019-2021). In this respect, central government budget expenditures and revenues have been 830.4 billion TL and 757.8 billion TL, respectively. The budget deficit which was foreseen as 65.9 billion TL in the budget of 2018 has been realized as 72.6 billion TL. The announced provisional budget realizations are summarized below.

	(Billion TL)
Total Expenditures	830.4
Primary Expenditures	756.5
Personnel Expenditures	200.9
Social Sec. Ins. Gov. Premium Exp.	34.4
Goods and Services Purchase Exp.	71.7
Current Transfers	323.1
Capital Expenditures	88.0
Capital Transfers	16.7
Lending	21.7
Interest Payments	74.0
Total Revenues	757.8
General Budget Revenues	729.1
Taxes	621.3
Property Income	26.1
Grants and Aids and Special Rev.	2.1
Interest, Shares and Fines	71.3
Capital Revenues	7.8
Collections from Loans	0.6
Special Budget Institutions	23.5
Regularity & Supervisory Institutions	5.2
Borrowing Requirement	72.6

3.2.2. Developments Regarding General Government Revenues and Expenditures

In 2017, general government revenues was 33.1 percent, 1.6 points lower than 2016 level. The reason for this decrease is the base effect of high restructuring receipts in 2016 and temporary tax cuts in 2017. Compared to 2016, general government expenditures also declined in 2017 by 1.1 points and had been 34.9 percent mainly because of the decrease in current expenditures. As a result, general government deficit has been 1.8 percent, 0.5 points higher than 2016 level.

Table 3.5: General Government Revenues and Expenditures – 1

(As a Share of GDP, Percent)

	2014	2015	2016	2017
Taxes	17.7	17.9	18.0	17.7
Direct	5.2	5.1	5.3	5.3
Indirect	11.9	12.2	12.1	11.8
Wealth	0.6	0.6	0.7	0.6
Non-Tax Revenues	1.9	1.8	1.8	1.5
Factor Incomes	4.9	4.8	5.0	4.7
Social Funds	8.8	9.1	9.5	9.0
Total	33.2	33.7	34.3	32.9
Privatization Revenues	0.6	0.5	0.4	0.2
Total Revenues	33.8	34.2	34.7	33.1
Current Expenditures	15.4	15.3	16.4	15.5
Investment Expenditures	3.3	3.5	3.5	3.7
Fixed Investment	3.3	3.5	3.5	3.7
Change in Stocks	0.0	0.0	0.0	0.0
Transfer Expenditures	15.7	15.5	16.2	15.8
Current Transfers	14.5	14.5	15.3	15.0
Capital Transfers	1.2	1.0	0.9	0.8
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Total Expenditures	34.3	34.3	36.1	34.9
Borrowing Requirement	0.5	0.1	1.4	1.8
Borrowing Req. Exc. Privatization Revenues	1.1	0.6	1.8	2.0
Primary Expenditures	31.8	31.9	34.0	33.0
Primary Borrowing Requirement	-2.0	-2.2	-0.6	-0.1
Programme Defined Primary Surplus	0.5	0.5	-1.0	-1.1

Source: Presidency of Strategy and Budget

In 2018, as a ratio to GDP, nontax revenues are expected to be higher than projections thanks to higher than projected dividend payments by Central Bank, receipts from paid military service and zoning amnesty. Indirect tax receipts, on the other hand, are expected to be lower than estimates due to various tax incentives and tax cuts, oil price compensation system and expedited value added tax rebate process. Total general government revenues are estimated to be lower than previous year while general government expenditures are projected to be higher due to raising debt service expenditures. General government deficit is expected to be 2.4 percent, by an increase of 0.5 points.

3.3. Medium Term Perspective

In the program period, general government revenues and expenditures are projected on the macroeconomic framework presented in MTP (2019-2021) and the following assumptions:

- To ensure fiscal discipline, public expenditures will be contained, its effectiveness will be enhanced and current expenditures will be restrained.
- Construction and leasing of new public administrative buildings will not be allowed.
- Wage and salary increases of public employees were determined as 4 percent and 5 percent respectively for January and July 2019 according to 4th Term Labor Agreement. Additionally, in the event that realized inflation exceeds wage and salary

increases in this period, the difference between raise and realized inflation would be reflected to wage increases.

- Incentive schemes will be prioritized in accordance with accountability, transparency, cost-effectiveness, flexibility, efficiency, clarity and predictability principles and steered towards job creating, high value added and export stimulating areas.
- Tax base will be broadened by taking measures against tax losses and evasion and reconsidering exemptions, reductions and exceptions.
- Sustainability of public revenues will be enhanced by increasing the share of tax revenues in total revenues.
- Initiating permanent spending programs by using transient revenue sources will be avoided.
- Amnesty schemes will be avoided.
- SOEs' prices will be determined in line with the program targets

Table 3.6: General Government Revenues and Expenditures -2

	(Percent of GDP)			
	2018	2019	2020	2021
Taxes	17.2	17.4	17.6	17.9
Direct	5.5	5.6	5.6	5.7
Indirect	11.1	11.2	11.3	11.5
Wealth	0.6	0.6	0.7	0.7
Non-Tax Revenues	1.9	1.6	1.6	1.6
Factor Incomes	4.5	4.3	3.7	3.5
Social Funds	8.9	8.6	8.5	8.4
Total	32.5	31.9	31.5	31.3
Privatization Revenues	0.2	0.2	0.4	0.3
Total Revenues	32.7	32.1	31.9	31.6
Current Expenditures	15.8	15.1	14.9	14.6
Investment Expenditures	3.6	2.4	2.2	2.2
Fixed Investment	3.6	2.3	2.2	2.2
Change in Stocks	0.0	0.0	0.0	0.0
Transfer Expenditures	15.7	16.2	16.4	16.4
Current Transfers	15.0	15.7	15.9	15.9
Capital Transfers	0.7	0.5	0.5	0.4
Stock Revaluation Fund	0.0	0.0	0.0	0.0
Total Expenditures	35.1	33.6	33.6	33.2
Borrowing Requirement	2.4	1.5	1.6	1.6
Borrowing Req. Exc. Privatization Revenues	2.6	1.7	2.0	1.8
Primary Expenditures	32.9	30.8	30.5	30.0
Primary Borrowing Requirement	0.2	-1.3	-1.4	-1.6
Programme Defined Primary Surplus	-1.8	-0.2	0.2	0.7

Source: Presidency of Strategy and Budget

In 2019, despite an expected increase in tax revenues, total general government revenues are estimated to be lower than its 2018 level. The reason is the base effect of high nontax revenues in 2018 such as dividend payments by Central Bank, receipts from paid

military service and zoning amnesty. General government expenditures are programed below its 2018 level. In 2019, transfer expenditures are expected to increase due to raising debt service expenditures whereas investment and current expenditures are projected to decrease due to austerity measures. As a result, general government deficit is expected to decrease by 0.9 points and be 1.5 percent as a ratio to GDP.

3.4. Structural and Cyclical General Government Balance

Structural general government balance was obtained with consolidation of the balances of central government budget, local administrations, social security institutions, general health-care insurance, extra-budgetary funds, revolving funds and unemployment insurance fund.

Unlike general government balance analyzed in public finance chapter, actual general government balance does not cover the privatization revenues and one-off revenues and expenditures. Revenues and expenditures of the actual general government balance also cover temporary effects resulted from economic fluctuations. Structural general government balance reflects the revenue and expenditure levels that would be under the assumption that economy was operating at potential level.

Table 3.7: General Government Balance Analysis¹

	Output Gap (Y/Y ^p) ²	General Government Balance / GDP		Primary General Government Balance / GDP		Cyclical Balance / GDP
		Actual Balance	Structural Balance ³	Actual Balance	Structural Balance ³	
2010	-5.12	-3.24	-1.87	1.05	2.20	-1.26
2011	-0.42	-1.67	-2.50	1.46	0.62	0.84
2012	-1.16	-1.58	-1.48	1.60	1.67	-0.08
2013	1.30	-1.94	-2.41	0.91	0.48	0.44
2014	0.82	-1.63	-1.95	0.90	0.59	0.31
2015	1.41	-1.77	-2.20	0.57	0.17	0.40
2016	-0.47	-3.17	-3.22	-1.14	-1.20	0.07
2017	1.49	-2.95	-3.49	-1.01	-1.52	0.48
2018	0.49	-3.74	-4.01	-1.56	-1.82	0.25
2019	-1.56	-2.44	-2.15	0.36	0.61	-0.26
2020	-2.42	-2.17	-1.64	0.87	1.32	-0.48
2021	-1.97	-1.90	-1.55	1.24	1.54	-0.32

¹ It refers to balance excluded public claims restructuring, 2B Revenues, privatization and other one-off revenues and expenditures.

² Percentage difference from potential. The potential output is calculated using production function method.

³ Structural balance is ratio of potential GDP.

In 2017, it is seen that the ratio of the actual and structural general government expenditures and revenues to GDP, excluding the privatization revenues and one-off revenues and expenditures, has decreased consecutively by 1.1 and 0.9 percentage points. The decrease in spendings stemmed from mainly budget interest payments and current expenditures, and excluding interest payments, it is observed that this decrease in expenditures remained more limited. On the other hand, regressive indirect taxes have a significant impact on budget revenue fall. Although balances of funds and local governments deteriorated to some extent, as a result of increase in their expenditures, the other institutions composed general government balance, lent support to this recovery process in budget balance. As a result of these developments, the actual general government deficit, as a share of GDP, was realized as 3 percent with 0.2 percentage

points amelioration, compared to previous year. Considering the developments on the structural general government balance calculated by eliminating impact of conjuncture, it is observed that the ratio of the structural general government deficit to potential GDP increased to 3.5 percent with 0.3 percentage points deterioration compared to previous year.

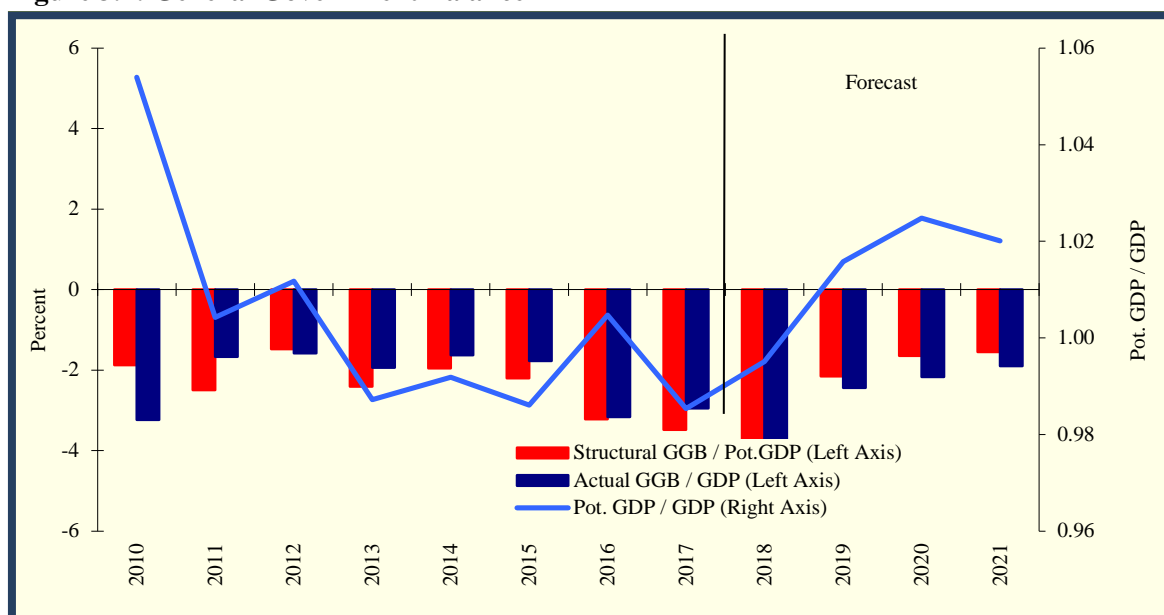
In 2018, the actual and structural general government deficit show an increase compared to previous year. This increase in deficit stemmed from mainly balances of local governments and central government budget. While increase in central government budget expenditures originated from basically interest payments, personal expenditures and lending, the main determinant of the budget deficit was tax revenues, especially indirect tax revenues. Along with decline in special consumption tax on petroleum and natural gas products, as a result of the 'échelle mobile' system, domestic value added tax and SCT revenues on motor vehicles, which decreased mainly because of the contraction in domestic market, were main reasons in tax revenues regression. On the other hand, VAT on imports increased due to exchange rate developments. The budget deficit increased compared to previous year, even examined by correcting the adverse impact of the 'échelle mobile' system.

When diminishing surplus of unemployment insurance fund compared to previous year and local government balance deterioration, as a result of regressive revenues due to real decrease in factor incomes, are added to this development in budget deficit, the ratio of actual general government deficit to GDP, calculated by eliminating impact of one-off revenues and expenditures, increased to 3.7 percent with 0.8 percentage points deterioration compared to previous year. It is seen that the effect of economic fluctuations on general government balance was relatively limited, however, the impact of the ratio of one-off measures to GDP, which increased compared to previous year, reached 1.4 percent as a substantial level. Thus, the ratio of the structural general government deficit to potential GDP is expected to realize as 4.0 percent with 0.5 percentage points amelioration.

In 2019, it is expected that the public balances will begin to ameliorate with the contribution of measures taken in the framework of tight fiscal policy. In this context, despite increase in interest payments and personal expenditures calculated by taking into account the effect of inflation, it is estimated that budget expenditures will decrease, as a consequence of declining investment and current expenditures, due to austerity measures. In the same year, total revenue impact on budget balance recovery is supposed to be limited, although fall in indirect tax revenues decreased, as a result of expectations for exchange rate and import. Correspondingly, compared to previous year, central government budget balance improved significantly. Social security balance, on the other hand, deteriorated to some extent, due to decline in its revenues. When improved local government balance, due to important decrease in its expenditures, is added to these developments, it is expected that the actual and structural general government balances, which are deteriorated in 2018, have started to display upward trend as from 2019, with

the contribution of measures taken. Thus, the ratio of actual and structural general government deficit to GDP and potential GDP consecutively, are expected to realize as 2.2 percent and 1.8 percent on average in the period of 2019-2021 (Figure 3.1).

Figure 3.1: General Government Balance



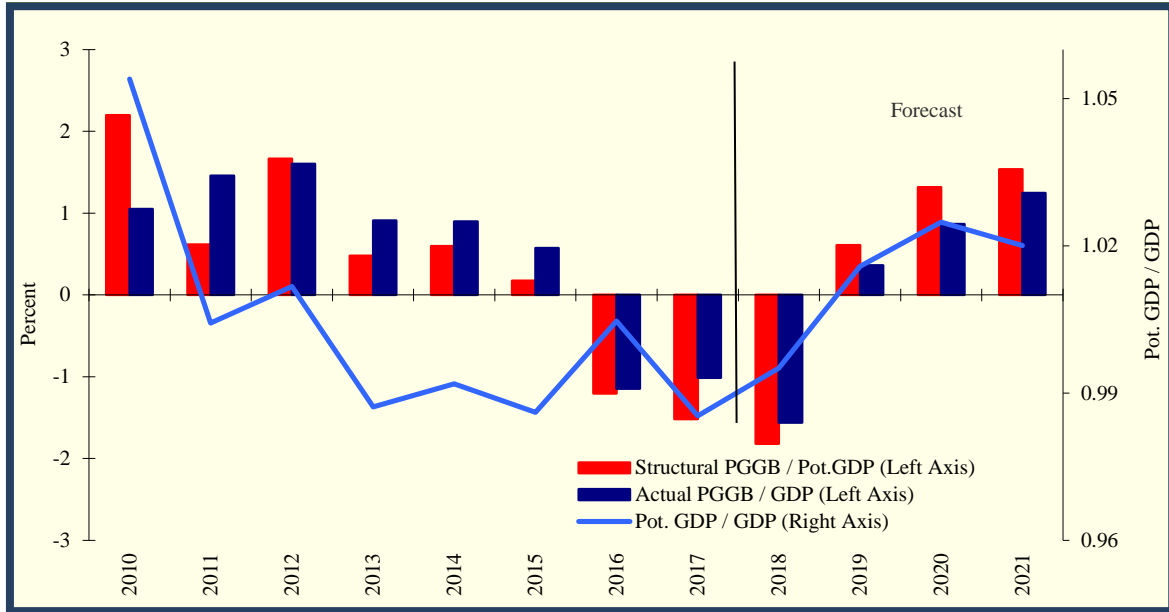
Source: Presidency of Strategy and Budget
GGB: General Government Balance
Pot. GDP: Potential GDP

In the context of a similar analysis excluding interest expenditures, it is expected that the actual and structural general government balance, which are turned into a deficit in 2016, will begin to ameliorate and will have a surplus again as from 2019 (Figure 3.2). Despite a negative effect of social security balance, deteriorated due to decreasing in its revenues, improvements in local governments and central government budget are one of the main reasons of the recovery began in 2019. Consequently, it is forecasted that both actual and structural primary general government surpluses to GDP and potential GDP, which were estimated to be 0.1 percent on average in the previous ERP period, will consecutively realize as 0.8 percent and 1.2 percent on average in 2019-2021 period.

Cyclical general government balance is calculated by subtracting the structural general government balance from the actual general government balance. Since the privatization revenues and one-off revenues and expenditures are excluded in the calculations of structural and actual general government balances, cyclical balance only reflects the impacts of conjunctural developments.

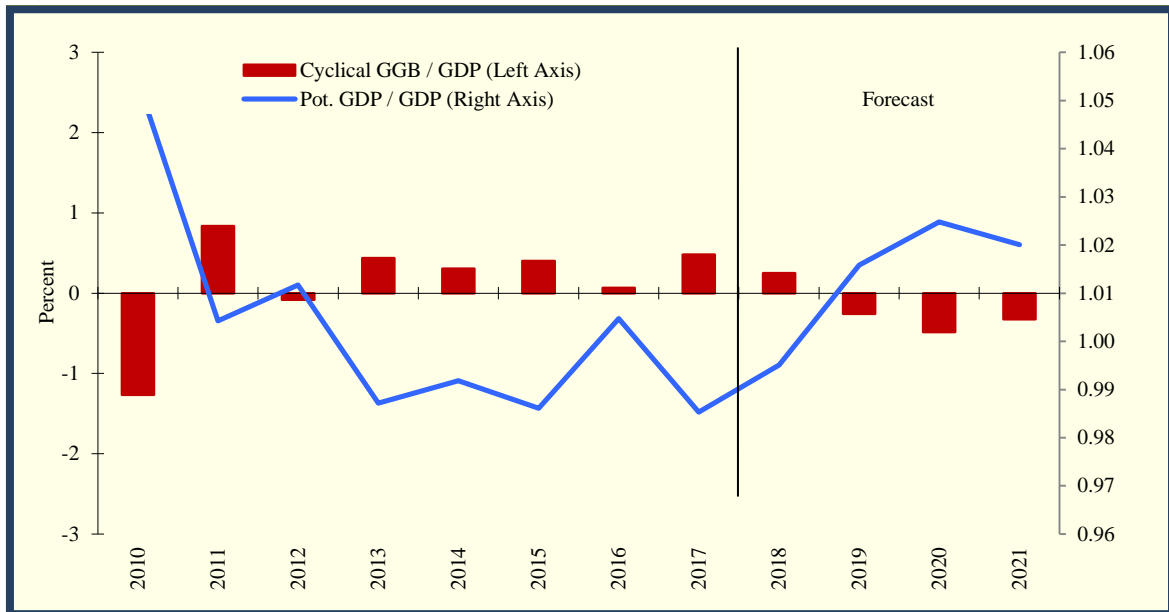
It is observed that the cyclical effect has declined as from 2009 where it was substantially high as a consequence of the divergence of GDP from its potential. Especially during the ERP period, the cyclical effect on general government is forecasted to decline remarkably together with the expected economic recovery (Figure 3.3).

Figure 3.2: Primary General Government Balance



Source: Presidency of Strategy and Budget
 PGGB: Primary General Government Balance
 Pot. GDP: Potential GDP

Figure 3.3: Cyclical General Government Balance



Source: Presidency of Strategy and Budget
 GGB: General Government Balance
 Pot. GDP: Potential GDP

3.5. Debt Levels and Developments, Analysis of Below-the-Line Operations and Stock-Flow Adjustments

3.5.1. Current Situation

As a result of the ongoing economic program, fiscal discipline and efficient borrowing strategies, considerable improvements were observed in the EU defined general government debt stock. The ratio of EU defined general government debt stock to GDP, which was 76.1 percent at the end of 2001, declined to 32.6 percent by the end of third quarter in 2018.

Table 3.8: EU Defined General Government Debt Stock

	(Percent of GDP)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018Ç3
EU Defined General	40.1	36.5	32.7	31.4	28.8	27.6	28.3	28.3	28.3	32.6

Source: Ministry of Treasury and Finance

Central government total debt stock increased by 190.3 billion TL compared to its 2017 level and reached 1,066.8 billion TL by the end of 2018. In line with the policies to decrease interest rate sensitivity of the debt stock, the ratio of fixed rate debt in the total stock increased by 1.6 points compared to its 2017 level and reached 75.3 percent in 2018.

Table 3.9: Central Government Debt Stock

	(Percent of GDP)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic Debt Stock	33.0	30.4	26.4	24.6	22.3	20.3	18.8	18.0	17.2	17.2
External Debt Stock	11.2	10.5	10.8	9.3	10.1	9.7	10.2	11.2	11.0	11.0
Total	44.2	40.9	37.2	33.9	32.4	30.0	29.0	29.1	28.2	28.2

Source: Ministry of Treasury and Finance

Compared to its 2017 level, central government domestic debt stock increased by 50.7 billion TL and reached 586.1 billion TL by November 2018. When the ratio of the respective stock to GDP is considered, it is seen that it descended to 17.2 percent in 2017, from 18 percent in 2016.

The central government external debt stock has been 480.6 billion TL in 2018. Considering the interest composition of external debt stock, the share of fixed rate debt has been 89 percent by the end of 2018.

Thanks to the decrease of short term securities' share in debt stock through their redemptions and issuance of long term securities in line with the strategic benchmarks, average time to maturity of central government debt stock increased from 3.6 year at the end of 2008 to 6.4 year in 2018.

Table 3.10: Central Government Debt Stock by Interest Rate Type

(Million TL)

	Domestic Debt Stock			External Debt Stock		Total Debt Stock			
	Fixed	Floating	Indexed to CPI	Fixed	Floating	Fixed	Floating	Indexed to CPI	Total
2009	155,076	137,270	37,658	81,264	30,781	236,340	168,051	37,658	442,049
2010	175,740	124,070	53,031	89,945	31,360	265,685	155,430	53,031	474,146
2011	192,358	112,118	64,302	115,172	35,120	307,530	147,237	64,302	519,070
2012	201,866	108,367	76,309	116,750	29,609	318,616	137,976	76,309	532,901
2013	212,007	94,760	96,239	148,477	34,708	360,484	129,469	96,239	586,192
2014	234,889	78,880	100,880	164,705	33,163	399,595	112,042	100,880	612,516
2015	256,394	84,281	99,450	202,236	35,884	458,630	120,165	99,450	678,245
2016	278,945	82,882	106,817	251,491	39,815	530,436	122,697	106,817	759,951
2017	348,401	67,482	119,564	298,328	42,717	646,729	110,200	119,564	876,493
2018 Nov	369,436	73,976	135,377	418,608	51,480	788,044	125,455	135,377	1,048,876

Source: Ministry of Treasury and Finance

(Share in Total Debt Stock, Percentage)

	Domestic Debt Stock			External Debt Stock		Total Debt Stock			
	Fixed	Floating	Indexed to CPI	Fixed	Floating	Fixed	Floating	Indexed to CPI	Total
2009	35.1	31.1	8.5	18.4	7.0	53.5	38.0	8.5	100.0
2010	37.1	26.2	11.2	19.0	6.6	56.0	32.8	11.2	100.0
2011	37.1	21.6	12.4	22.2	6.8	59.2	28.4	12.4	100.0
2012	37.9	20.3	14.3	21.9	5.6	59.8	25.9	14.3	100.0
2013	36.2	16.2	16.4	25.3	5.9	61.5	22.1	16.4	100.0
2014	38.3	12.9	16.5	26.9	5.4	65.2	18.3	16.5	100.0
2015	37.8	12.4	14.7	29.8	5.3	67.6	17.7	14.7	100.0
2016	36.7	10.9	14.1	33.1	5.2	69.8	16.1	14.1	100.0
2017	39.7	7.7	13.6	34.0	4.9	73.8	12.6	13.6	100.0
2018 Nov	35.2	7.1	12.9	39.9	4.9	75.1	12.0	12.9	100.0

Source: Ministry of Treasury and Finance

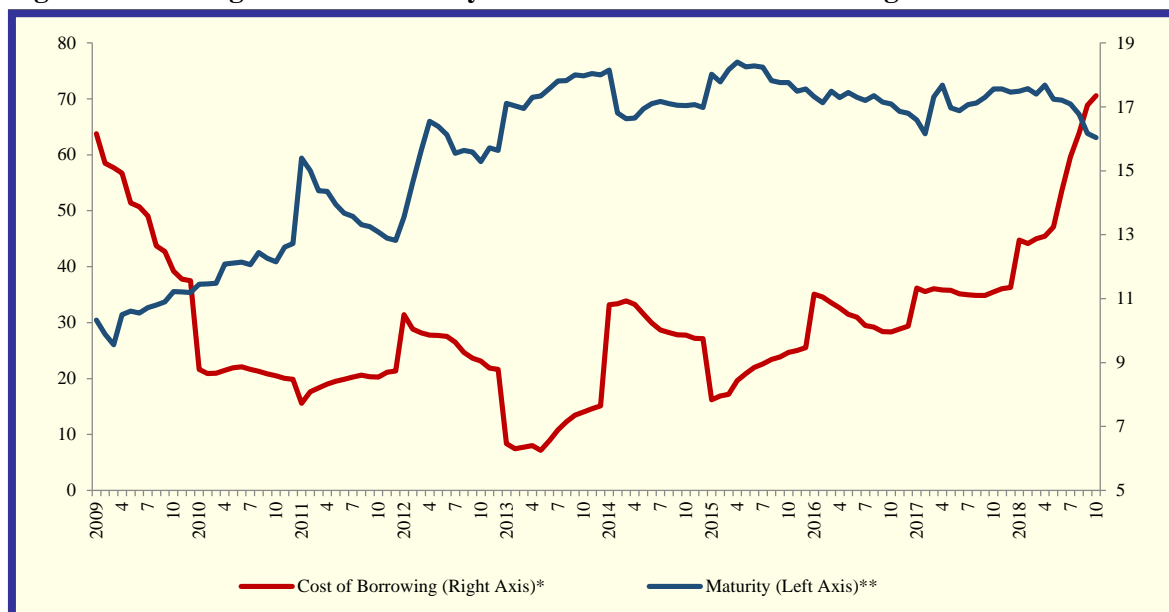
Table 3.11: Average Time to Maturity of Central Government Debt Stock

(Year)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic Debt Stock	2.0	2.6	2.6	2.8	3.9	4.6	4.6	4.3	4.2	3.9
External Debt Stock	7.9	8.8	9.0	9.4	9.3	9.5	9.5	9.4	9.9	9.6
Total	3.5	4.1	4.4	4.6	5.6	6.1	6.3	6.3	6.4	6.4

Source: Ministry of Treasury and Finance

In the period of January-October 2018, the average cost of fixed rate TL borrowing and the average maturity of cash domestic borrowing stood at 17.3 percent and 63 months, respectively.

Figure 3.4: Average Time to Maturity and Cost of Domestic Borrowing

Source: Ministry of Treasury and Finance

(*) Cumulative cost of fixed rate TL denominated borrowing is displayed.

(**) Cumulative maturity of cash domestic borrowing is illustrated.

3.5.2. General Government Debt Stock Projections for 2019-2021 Period

As a result of the prudent fiscal policies implemented, efficient borrowing strategies and strong growth performance in the last decade, the ratio of the general government debt stock to GDP has decreased significantly. General Government Debt Stock to GDP stood at 28.3 percent at the end of 2017. It is anticipated in the MTP (2019-2021) that the debt stock to GDP ratio will tend to decrease in the period of 2019-2021 and fall down to the level of 27.2 percent at the end of 2021.

Table 3.12: EU Defined General Public Debt Stock Estimations

	(Percent of GDP)				
	2017	2018	2019	2020	2021
	Realization*		Forecast**		
EU Defined General Government Debt Stock	28.3	31.1	28.5	28.2	27.2

Source: Ministry of Treasury and Finance

*Ministry of Treasury and Finance

**Medium Term Programme (2019-2021)

3.5.3. Contingent Liabilities

Contingent liabilities refer to obligations of which timing and magnitude depend on the occurrence of some uncertain future event outside the control of the government. Treasury guarantees and debt assumption commitments provided in the context of Public-Private-Partnership projects are among the explicit contingent liabilities of the Treasury.

The Ministry of Treasury and Finance provides repayment guarantees for foreign borrowing of public institutions (defined in Law No. 4749, Article 3) in order to minimize the investment financing costs, ensure sustainable growth and meet funding requirements of multi-year investment projects of the mentioned institutions. Furthermore, based on and limited with the provisions of the relevant law, The Ministry of Treasury and Finance

provides investment guarantees within the scope of Built-Operate-Transfer, Built-Operate, Transfer of Operating Rights and similar financing models. As defined in Article 8/A of Law No. 4749, The Ministry of Treasury and Finance can also provide debt assumption commitments for Public Private Partnership projects. According to this mechanism, upon termination of the implementation contract and transfer of facilities to the relevant administration, the credit facilities provided for the project, including relevant financial obligations, can be undertaken.

Internal Credit Rating Model which considers the debt-receivable relationship between the institutions and the Treasury and financial statements of these institutions, was put into practice in 2006, in order to improve the management of contingent liabilities confronting The Ministry of Treasury and Finance . In this context, the limit for Treasury guarantees and on-lent foreign loans, guarantee and on-lent fees and partial guarantee ratios are calculated using this model based on the expected losses from organizations in order to alleviate risks arising from contingent liabilities.

In this context, the limit covering repayment guarantees, investment guarantees and on-lent foreign loans to be provided under the Law No. 4749 is set by Central Government Budget Law every year. The limit has been determined as 4,5 billion dollars for 2019. There is also a budgetary limit for the debt assumption commitments provided for certain PPP projects and it was determined as 4.5 billion dollars for 2019.

In order to compensate for the losses that stem from the guaranteed/on-lent credits and to share the risk with beneficiaries, a one-time guarantee/on-lent fee is applied up to 1 percent of the total credit amount. In the partial guarantee practice, credits except export credits obtained from the international and regional organizations, foreign government funds and foreign official export insurance agencies, are guaranteed up to 95 percent of the total liabilities. Moreover, in the case of termination of the implementation contract due to appointed company default, Treasury's debt assumption commitment is limited with 85 percent of senior loans provided for the project.

Risk Account has been set up in 2003 in order to eliminate the disruptions in the cash and debt management caused by the amounts paid by the Treasury due to Treasury guarantees and budget appropriation was started to be allocated every year as of this date. As the repayments to the Risk Account is sufficient for the undertakings realized from the account no budgetary allocations, which is one of the items of the revenues of the account, has been used since 2009.

In 2016 and 2017, there have been extensive amendments in the Treasury Supported Credit Guarantee System in order to provide easier access of SMEs to financing opportunities. Moreover, scope of the beneficiaries of the system has been broadened. During the period between July 2009 and October 2017, 208.9 billion TL credit has been provided.

3.5.4. Repayment Guarantee

The repayment guaranteed debt stock has remained same as it was in 2017 with 13.9 billion dollars by the end of the third quarter of 2018. Guarantees provided to public banks and investment and development banks have the highest share within the repayment guaranteed debt stock.

Despite an increasing guaranteed debt stock since 2007, the undertaking ratio has remained its low level with 1.3 percent as of 2018.

Taking into account the payment projection of the Treasury repayment guaranteed foreign debt stock, an increase in parallel with the disbursements is observed in the medium term.

Table 3.13: Projection of Treasury-Guaranteed Foreign Debt Service (*)

	(Million Euro)		
	Principal	Interest	Total
2018	375	67	442
2019	1.267	237	1.504
2020	1.444	227	1.671
2021+	8.924	1.462	10.386

Source: Ministry of Treasury and Finance

*Based on drawings; as of September 2018, provisional

3.5.5. Investment Guarantees

In addition to repayment guarantees, The Ministry of Treasury and Finance has provided investment guarantees to energy and infrastructure sectors. Since 1999 no investment guarantee has been provided by the Treasury. The liabilities of the current projects will finish by 2020 unless the Treasury grants a new investment guarantee.

3.5.6. Debt Assumption Commitments

As of October 2018, Treasury provided debt assumption commitments for the external loans provided for 7 PPP projects with an amount of 15.4 billion dollars. On the other hand, no obligation has been undertaken by Treasury due to these commitments.

Table 3.14: Loans Subject to Debt Assumptions

Project Name	PPP Model	Debt Assumption Agreement Date	Total Project Cost (Million USD)	Loan Amount (Million USD)
Eurasia Tunnel Project	Build-Operate-Transfer	11.12.2012	1,240	960
Odayeri-Paşaköy Section (including Third Bosphorus Bridge) of the Northern Marmara Motorway Project	Build-Operate-Transfer	13.05.2014	3,456	2,318
Gebze-Orhangazi-İzmir Motorway Project (including the İzmit Gulf Crossing and access roads)	Build-Operate-Transfer	11.03.2016	420	420
Northern Marmara Motorway Kınalı-Odayeri Section	Build-Operate-Transfer	05.06.2015	6,312	4,956
Northern Marmara Motorway Kurtköy-Akyazı Section	Build-Operate-Transfer	22.12.2017	1,335	1,040
Çanakkale-Malkara Motorway (including 1915 Çanakkale Bridge)	Build-Operate-Transfer	22.12.2017	2,212	1,634
Ankara-Niğde Motoway	Build-Operate-Transfer	16.03.2018	3,160*	2,800
		07.06.2018	1,460*	1,310
TOTAL			19,175	15,440

Source: Ministry of Treasury and Finance

*Million Euro

3.5.7. Treasury Receivables

The stock of Treasury Receivables has been realized 18.5 billion TL by the end of December 2018. The local administrations have 63.4 percent, SOE's has 17.8 percent and other institutions have 18.8 percent shares in the Treasury's receivables stock.

In January-December 2018 period, cash payments of the institutions have the highest share within the collections with 61.4 percent. Deductions from general budget tax revenues realized as 38.6 percent. . In the same period,.

Table 3.15: Stock of Treasury Receivables

	(Million TL)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018*	
Local Governments	14,682	15,082	14,519	13,036	11,349	12,163	12,329	11,605	11,750	
SOE's	6,019	4,842	3,282	3,168	2,129	2,375	2,432	2,744	3,307	
Other Institutions	4,587	4,551	3,970	3,789	3,221	3,197	2,831	3,151	3,796	
Total	25,288	24,474	21,771	19,994	16,699	17,734	17,593	17,500	18,596	

Source: Ministry of Treasury and Finance

(*) As of October 2018, provisional

3.6. Sensitivity Analysis and Comparison with the Previous Programme

Ministry of Treasury and Finance has executed debt and cash management by adopting risk based approach since 2003. In this regard, risk exposure of central government debt stock is regularly monitored and reported to the Debt and Risk Management Committee which is the highest decision making unit of debt management. Sustainability and sensitivity analyses are the most important tools for evaluation of the risk profile of the debt stock. While sustainability analysis projects the probable trajectory of the debt to GDP ratio under the changes in macroeconomic variables, sensitivity analysis puts forward the vulnerabilities of debt stock to the risks by considering the current debt structure.

As a result of debt and cash management policies based on strategic benchmarks, structure of debt stock has improved and thus the exposure of central government debt stock to exchange rate, interest rate and liquidity risk has significantly reduced. In sensitivity analysis, annual deviations of the EU defined general government debt stock to GDP level from the baseline scenario are computed under real interest rate, growth rate, exchange rate and primary balance shocks. Sensitivity of the general government debt burden to macroeconomic shocks has a downward trend since 2001 when the first sensitivity analysis was implemented. Borrowing by mainly in TL denominated with fixed rate instruments and extending the borrowing maturities have significantly contributed to reduce in sensitivity of debt burden to market risks. While 5 percent depreciation in TL would increase the general government debt to GDP ratio by 2.1 percentage points in 2001, due to improvement in the debt structure it would only increase by 0.5 percentage points in 2017. On the other hand, 500 basis points interest rate hike would increase general government debt to GDP ratio by 0.8 percentage points in 2017 whereas it would increase by 1.6 percentage points in 2001. Similarly due to decrease in debt stock to GDP

level, effects of growth shocks on EU defined general government debt stock to GDP are diminished significantly.

Table 3.16: Sensitivity of the EU Defined General Government Debt Burden

	2001	2017
Change in real exchange rate app/dep by 5 percent	+/- 2.1 points	+/- 0.5 points
Change in TL interest rate by 500 bp	+/- 1.6 points	+/- 0.8 points
Change in GDP growth rate by 2 percentage points	+/- 1.6 points	+/- 0.5 points

Source: Ministry of Treasury and Finance

3.7. Sustainability of the Public Finance

3.7.1. Public Finance Risks

Fundamental sustainability risks that might constitute obstacles to reach the determined objectives in the public finance in the 2019-2021 periods are summarized below.

- If macroeconomic targets including growth, foreign trade, employment and inflation are missed, central government revenue performance would be affected adversely, there would be upward pressure on expenditures and a possible increase in the financing requirement.
- If social security insurance premium collections will be lower than estimates due to lower than expected growth rate and health-care expenditures could not be taken under control, social security systems deficit and the transfers to the social security institutions from the central government budget will be higher than expected.
- Persistent upward trend of primary expenditures might both reduce the flexibility of the budget and narrow down the fiscal space that could be used for discretionary policies when required.
- Monetary policy changes of FED and ECB might cause an increase in public interest expenditures as well as a deviation of debt to GDP ratio from the projected levels due to interest rate and exchange rate fluctuations in local and international markets via capital flow reversals

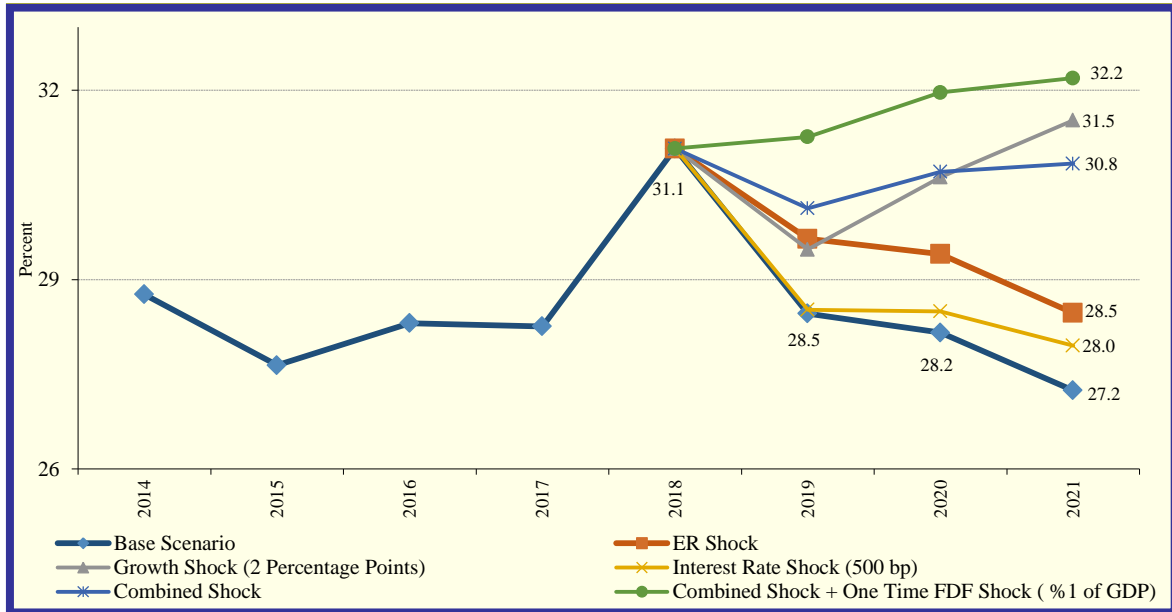
3.7.2. Sustainability Analysis

Sustainability analysis regarding the course of public debt burden against various macroeconomic shocks in the period of 2019-2021 is presented below.

Figure 3.5 illustrates medium term course of EU defined general government debt to GDP ratio under different scenarios. In these scenario analyses, impacts of 10 percent upward shift in the exchange rates, 2 points downward shift in the real growth rate and 500 basis points upward shift in the real interest rates over the analysis period have been separately and jointly assessed. Moreover, one time primary balance shock is applied to the first year of the analysis period in addition to the combined shock scenario. In this scenario, primary balance performs 1 percent lower than the baseline scenario as a share of GDP. By doing so, possible risks such as contingent liabilities, which may lead to increase the financing needs, are analyzed. Additionally, the interrelation between macroeconomic

variables has also been taken into account and secondary effects of each shock scenarios on other variables are reflected into the analysis. In this context, the impact of growth shock on primary balance and inflation, together with the effects of exchange rate shock on inflation have been reflected to the analysis. Examining the scenarios stated above, compared to the baseline scenario, it is evaluated that the debt burden will record an increase of 1.3 points under the exchange rate shock; 0.8 points under the interest rate shock and 4.3 points under the growth rate shock in 2021. In the combined shock scenario, in which all shocks are taken into consideration together, it is expected that the debt burden may increase by 3.6 points compared to the base scenario. When primary balance shock is added to the combined shock, the level of change rises to 5.0 points.

Figure 3.5: Sustainability Scenarios



Source: Ministry of Treasury and Finance

3.8. Fiscal Governance and Budgetary Frameworks

As a tool that enhances the quality of the public spending system, the implementation of strategic plans continues. Strategic plan and performance programs have been prepared and implemented by public administrations within the scope of central government, state universities, social security institutions, municipalities with population of over 50 thousand, special provincial administrations, and state-owned enterprises. The implementation of strategic plans and performance programs have been monitored by accountability reports. Strategic planning and performance program preparations for newly established public administrations and public universities are underway.

The Bylaw on Procedures and Principles for Strategic Planning in Public Administrations has updated and published in the Official Gazette dated 26 February 2018 and numbered 30344, in line with the experiences gained and public institutions' needs. Within the scope of the update of the second version of Strategic Planning Guide for Public Administrations, differentiated guidelines have been published for the central

administrations, universities, SEEs and made available to the public administrations. The Draft Strategic Planning Guide for Municipalities was shared with the municipalities and the relevant public administrations to take their remarks.

The central harmonization function of the strategic management components, such as strategic planning, performance program and annual report, previously under the responsibility of different ministries, was combined in the Strategy and Budget Directorate established by the Presidential Decree No. 13, published in the Official Gazette dated 24 July 2018 and numbered 30488.

Efforts are underway to strengthen the linkages of budgets with the policies in high level policy documents, the goals and objectives in the strategic plans and to change the budget structure that addresses public services with a program approach.

Achieving transparency and accountability, which are the basic principles of financial management, can only be possible if the policies to be implemented are disclosed to the public in a simple and understandable manner. In this context, the Citizens' Guide to the Budget, which contains information regarding the macroeconomic assumptions used to prepare the budget, the distribution of budget expenditures, the reasoning of allocated appropriations as regards to education, health and agricultural sectors and social benefits and investments, as well as information regarding fees and tax revenues, has started to be issued along with year 2017 budget.

Within the context of negotiation Chapter 32 Financial Control, Turkey has established a sound public internal financial control (PIFC) system which consists of three pillars: financial management and control, internal audit and central harmonisation units in these two areas. At present, the duty of central harmonization in the area of financial management and control is carried out by the Central Harmonization Unit for Financial Management and Control established within the Ministry of Treasury and Finance; and Internal Audit Coordination Board, which is affiliated to the same Ministry, serves as central harmonization unit in the field of internal audit. Each Central Harmonization Unit has three functions: drafting legislation, capacity building and monitoring.

The above-mentioned PIFC structure was established through the Public Financial Management and Control Law within the framework of EU accession negotiations.

A technical assistance project (project preparation facility) is being carried out to strengthen the financial management and control systems of local administrations through EU financial assistance.

In addition, there is an ongoing process to prepare a public enterprise risk management manual for the use of all public administrations. In this context, it is planned to update public internal control standards and public internal control manual in line with the framework of COSO 2013.

The Internal Audit Coordination Board, the central harmonization unit in the field of internal audit, has finalised the "Deepening the Implementation of Public Sector Internal

Audit Reforms Project”, which was conducted between the years 2016-2018, in order to determine the needs and demands in the field of internal audit and to determine the level of implementation of the reforms. Within the scope of the project which was carried out with the World Bank, a survey was conducted for internal auditors and several meetings were held with with top managers from the public and private sectors, with public internal auditors and managers of the Strategy Development Units of public administrations. Finally a comprehensive report on the problems and future of the internal audit activity was prepared as a result of all activities. Within the scope of the project, the legislation and regulations prepared by the central harmonization unit have been translated into English and the important guidance resources of the international organizations in the field of internal audit have been translated into Turkish and published on the site of the Internal Audit Coordination Board and a broad participation conference on the future of internal audit has been organized. Within the scope of the same project, a training program on enterprise risk management is organized and launched aiming to constitute an internal auditor trainer group on the field.

Activities planned in the field of Internal Audit during 2019-2021

- “Enterprise Risk Management and Moderating Training Program”, launched within the scope of the “Deepening the Implementation of Public Sector Internal Audit Reforms Project”, will be finalized and 50 internal auditors who completes the training will be supported for information sharing with all internal auditors by prospective trainings.
- The level of compliance of public administrations with Public Internal Auditing Standards will be increased.
- Since the internal audit and audit management activities will be carried out through the Internal Audit Software "İçDen", the Internal Audit Department will continue their activities to adopt the mentioned software in the newly established administrations.
- External evaluation activities of internal auditing in Public Administrations will continue.

4. STRUCTURAL REFORMS (2019-2021)

4.1. Identification of Key Obstacles to Competitiveness and Inclusive Growth

As a significant component of sustainable growth TFP contributed substantially high growth performance of the economy between 2002-2006 periods. However, its contribution and viability have perished since then. When we examine productivity difference in firm level, it is more apparent that productivity gap between large and small firm has been widening. One of the reason why TFP is low can be attributed to gap at which big firms are six times more productive than small firms.

Due to lack of producing productivity oriented policies, small sized firms cannot take a share in value chains and create economics of scale. Inadequate usage of technology in their production process results in underperforming and hence value added created by them cannot exceed a certain frontier. Therefore, they demand a lower quality workforce for their low level of value creation which leads them to be enclosed in an inefficiency cycle. In the official documents, this issue has been repeatedly expressed along with the importance of productivity gains. First priority transformation program of the 10th Development Plan is “Program for Enhancing Productivity in Manufacturing” which addresses strong and direct policy responses to productivity challenges Turkey has. Similarly, importance of productivity gains in the economy is strongly stated in MTP (2019-2021).

Financial flows to emerging markets has been slowing down, causing high exchange rate volatility and deterioration in confidence to economies. Turkey has been facing negative outcomes of these events since second half of 2018. In this high depress environment where interest rate hikes in USA and trade wars, Turkey’s, like any other EM economy, risk premia has boosted and TL has depreciated substantially. This situation makes import dependency and external financing needs, which are the constraints of growth, more important. In this regard, as it is stated in MTP (2019-2021) that improving business and investment environment and eliminating economic vulnerability such as chronic current account deficit would help to strengthen the robustness of competitiveness of Turkish economy.

Strengthening competitiveness depends on the development of R&D and innovation capacity. However, there is a need to increase commercialization activities and innovative entrepreneurship. In this regard, the source of funding, access to networks and commercialization are the most important constraints. Therefore, the creation of suitable ecosystems have a great importance. Accordingly, in Turkey, increasing the competitiveness with business and investment climate reforms, lowering the risks and costs of doing business, thus increasing employment and investment are among the most important issues. In this context, it is aimed to develop an investment environment in which public policies and regulations affecting private sector investments are transparent as well as administrative and legal regulations are consistent and predictable.

A high-quality and widespread infrastructure is required for economic growth and efficient investment. The new transportation demands that have come to the fore in the world have accelerated the development of transportation in recent years. Within the

framework of this development, the necessity to implement policies that focus the human factor and minimize the harm to the environment has emerged. Accordingly, Turkey's economy, considering the transportation market regulation as well as the import dependency and environmental factors, increasing the share of total production of indigenous and renewable energy and creation of a fully competitive energy market are as important targets.

The fact that the World Trade Organization (WTO) regulations failed to meet the needs of today and insufficient multilateral trade system in terms of new market expansions led the countries to make bilateral and regional trade agreements. On the other hand, the continuation of the postponement of the updating of the Customs Union agreement between European Union and Turkey, remains a major obstacle to competitiveness. The delays in updating such agreements, considering new era trade wars, imply an indirect support for policy holders who hinder competitiveness and co-operation. Nevertheless, Turkey will continue its efforts to expand and strengthen the scope of free trade agreements with other countries based on mutual benefit and cooperation.

Improving the physical conditions of educational environments, as well as the integration of teaching contents into information and communication technologies, continuously updating the curriculum according to changing conditions, ensuring that all children can benefit from pre-school education opportunities, strengthening the integration between vocational and technical education and labor market, are among the most important factors for achieving sustainable development in the medium term. A strong educational system, providing equality of opportunity, will educate individuals who are suitable for the needs of the labor market, can compete and renew themselves according to the conditions of the age. Thus, it will become one of the important dynamics of inclusive growth. Failure of education system to adapt to this transformation causes the economy to remain out of the new production systems and to lose its competitiveness and interrupt sustainable growth through productivity increases. In this context, providing quality and easily accessible education that will not exclude any individual, and establishing close ties between education and labor market will continue to be the main priority of public education policies.

Uncertainty in Middle East region, geopolitical risks stemming from Syria and terrorism potential cause limited resources planned for economic structural transformation to be relocated to defense expenses. Additionally, public resources allocated for Syrian citizens under temporary protection form another pressure on budget and deterioration in resource allocation. However, under the responsibility of being a social state, Turkey continues to play a pioneering role and responsibilities for all parties in order to ensure live under humane conditions for migrants who are also an important problem at international level. Turkey, in order to overcome the financial difficulties caused by this situation, continues its efforts to ensure the competitiveness with its limited funding allocation.

Labor supply is also supported by structural factors such as the rapidly increasing female labor force participation and social security reform. It is important for the labor market to be competitive and to operate in a healthy manner so that this potential is not

kept idle and to be used efficiently. In this context, a reform infrastructure which aims at a competitive and well-functioning structure of the labor market and also takes into account social inclusion, has been adopted. Therefore, it is aimed to harmonize the social assistance policies with the labor market dynamics and to support the disadvantaged groups in the labor market.

4.2. Summary of Reform Measures

Structural Reform measures in ERP (2019-2021) are reviewed in coordination with all institutions after the reorganization of ministries and institutions following the transition to Presidency system. Measures were re-evaluated and new measures were included in ERP just for this year instead of past measures. Moreover, measures are included in line with the new guideline.

Energy and Transport Markets Reform

1. Increasing share of renewable energy regarding electricity generation
2. Development of financial mechanisms regarding energy efficiency
3. Turkish Railway Transport Liberalization

Sectoral Developments

4. Increasing the capacity of improvement and evaluation in agricultural statistics data collection processes
5. Project proposal call and implementation within the scope of KOBIGEL-SME Development Support Program
6. Supporting domestic manufacturing of products with high import and strategic importance to reduce the current account deficit
7. Increasing tourism market share and brand value

Business Environment and Reduction of the Informal Economy

8. Supporting the cooperation between SMEs or SMEs and large enterprises
9. Establishment of SME Guidance and Counseling System
10. Increasing private sector investments by carrying out more effective support and promotion activities

Research & Development and Innovation and Digital Economy

11. Increasing the number and efficiency of business development, incubation and accelerator centers in order to support innovative entrepreneurship
12. Enhancing the R&D and innovation activities of SMEs
13. Supporting competent research infrastructures on a performance basis within the new legal framework

Trade-related Reforms

14. Update of Turkey-EU Customs Union

Education and Skills

15. Dissemination of Pre-School Education
16. Increasing the reading culture
17. Updating curricula and strengthening the implementation pillar of education

Employment and Labor Markets

18. Redirection of workable social assistance beneficiaries into active labor programmes in order to increase their productivity and allow them to a sustainable
19. Job Clubs

Social Inclusion, Poverty Reduction and Equal Opportunities

20. Social Assistance Plus (+)

Table 4.1: Summary of Reform Measures

Reform Measure	Basis	Institution
1. Increasing share of renewable energy regarding electricity generation	Presidency Annual Programme, Tenth Development Plan, MTP (2019-2021)	Ministry of Energy and Natural Resources
2. Development of financial mechanisms regarding energy efficiency	Presidency Annual Programme, Tenth Development Plan, MTP (2019-2021)	Ministry of Energy and Natural Resources
3. Turkish Railway Transport Liberalization	Presidency Annual Programme, Tenth Development Plan	Ministry of Transport and Infrastructure
4. Increasing the Capacity of Improvement and Evaluation in Agricultural Statistics Data Collection Processes	Tenth Development Plan	Ministry of Agriculture and Forestry
5. Project proposal call and implementation within the scope of KOBIGEL-SME Development Support Program	MTP (2019-2021)	Ministry of Industry and Technology, KOSGEB
6. Domestic manufacturing of products with high import and strategic importance will contribute to reduce the current account deficit	Presidency Annual Programme, MTP (2019-2021)	Ministry of Industry and Technology, KOSGEB
7. Increasing tourism market share and brand value	Presidency Annual Programme, Tenth Development Plan, MTP (2019-2021)	Ministry of Culture and Tourism
8. Supporting the cooperation between SMEs or SMEs and large enterprises	KOSGEB Strategic Plan (2019-2023)	Ministry of Industry and Technology, KOSGEB
9. Establishment of SME Guidance and Counseling System	MTP (2019-2021)	Ministry of Industry and Technology, KOSGEB
10. Increasing private sector investments by carrying out more effective support and promotion activities	Presidency Programme (2019-2023)	Presidency of Republic of Turkey Investment Office
11. Increasing the number and efficiency of business development, incubation and accelerator centers in order to support innovative entrepreneurship	Presidency Annual Programme, MTP (2019-2021), Tenth Development Plan	Ministry of Industry and Technology, KOSGEB
12. Enhancing the R&D and innovation activities of SMEs	Presidency Annual Programme, MTP (2019-2021), KOSGEB Strategic Plan (2019-2023)	Ministry of Industry and Technology, KOSGEB
13. Supporting competent research infrastructures on a performance basis within the new legal framework	Presidency Annual Programme	Ministry of Industry and Technology
14. Update Of Turkey-EU Customs Union	Brussels Turkey-EU Statement (2016)	Ministry of Trade, Ministry of Foreign Affairs
15. Dissemination of Pre-School Education	Presidency Annual Programme (2019), 2023 Education Vision Document	Ministry of National Education
16. Increasing the reading culture	Tenth Development Plan, MoE Strategic Document (2015-2019)	Ministry of National Education
17. Updating curricula and strengthening the implementation pillar of education	2023 Education Vision Document	Ministry of National Education
18. Redirection of workable social assistance beneficiaries into active labor programmes in order to increase their productivity and allow them to a sustainable	National Employment Strategy Document, Tenth Development Plan	Ministry of Family, Labor and Social Services, İŞKUR
19. Job Clubs	National Employment Strategy Document, Tenth Development	Ministry of Family, Labor and Social Services, İŞKUR
20. Social Assistance Plus (+)	MTP (2019-2021)	Ministry of Family, Labor and Social Services

4.3. Analysis by Area and Structural Reform Measures

4.3.1. Energy and Transport Markets

a. Analysis of Main Obstacles

Turkey attaches utmost importance and gives priority to realizing energy market reforms and adapting the national energy legislation fully with the EU energy legislation. In this context, fundamental sectoral laws were completed at great extent and efforts for establishing a fully competitive energy market are ongoing. Efforts to liberalize the energy market continued in 2018 as well.

The number of participants in Turkish energy market has increased as a result of the private sector investments associated with the liberalization policies for the sector. Electricity and natural gas markets were liberalized to provide the platform for the commercial transactions. In order to ensure supply and system security, Ancillary Service Market and Capacity Mechanism are included to electricity market activities.

Organized Wholesale Natural Gas Sales Market, allowing market stakeholders to conduct competitive, transparent and reliable gas trading, was launched in September 2018. Along with the Salt Lake Natural Gas Underground Storage project and Northern Marmara Natural Gas Storage Extension project, the total natural gas underground storage capacity, which is currently 3.4 billion m³, is expected to be increased to 10 billion m³ in 2023. In addition, with the underground storage capacity increase and other investments, total natural gas entry capacity of Turkey has exceeded to 303 mcm/day.

The dissemination of the Floating Storage and Regasification Units (FSRUs) is a significant step towards ensuring the diversity of resources and routes in natural gas markets. In this context, Hatay-Dörtyol terminal, which is second FSRU terminal of Turkey, has become operational by BOTAŞ in February 2018. Thus, the regasification capacity of the LNG has exceeded 117 mcm/day with the upgrades to the terminals. TANAP has become operational in June 2018 and has started to supply natural gas to Turkish natural gas transmission system. The gas flow to Europe will be accomplished by 2020.

As regards nuclear energy, on 3 April 2018, construction of the first unit of Akkuyu Nuclear Power Plant (NPP) was launched with the pouring of concrete for the sub-base foundation. The technical and economic feasibility studies for Sinop NPP are completed and assessment of the studies is continuing. Moreover, site selection procedure is going on for a third NPP Project.

Separation of the “regulation” and “research” activities of Turkish Atomic Energy Institution (TAEK) was ensured by the Statutory Decree No. 702 and the Nuclear Regulatory Authority (NRA) is established as a “related organization” associated with the Ministry of Energy and Natural Resources to carry out nuclear regulatory actions. Also, general issues are identified in decree regarding to nuclear safety, security and nuclear waste management.

General principles are identified in the context of spent fuel and radioactive waste management in accordance to EU framework directive 2011/70/EURATOM. The alignment studies based on of the Council Directive 2013/59/Euratom laying down basic safety standards for protection against the dangers arising from exposure to ionizing radiation (BSS Directive) are still in progress. Draft Law on Third Party Liability in the Field of Nuclear Energy has been prepared in accordance with the Paris Convention.

Although, Turkey's per capita energy consumption is lower than industrialized countries, Turkey's energy intensity is still high and this shows that Turkey has considerable amount of energy savings potential in energy sector. Turkey's primary energy density was 0.12 TEP per 1000\$ in 2017. Although this figure is lower than the world average of 0.18; it is higher than the OECD average of 0.11. The National Energy Efficiency Action Plan 2017-2023 aims to reduce the primary energy consumption of Turkey by 14 percent by 2023. The plan envisages a cumulative 23.9 MTEP savings by 2023 and an investment of 10.9 billion dollars for this savings.

Turkey aims to increase the share of domestic and renewable energy in the total power generation. Large-scale Renewable Energy Resources Zone (YEKA) has been introduced for this purpose. With the large-scale renewable energy resource zones model, renewable energy resources will be utilized more effectively and efficiently in the public and private property, renewable energy equipment will be manufactured locally, the technology transfer will be realized. In 2018, wind and solar YEKA auctions with a total capacity of 2.000 MW were announced.

Transport Market

High quality and widespread infrastructure investments are necessary for productive investments and thus economic growth. In addition to being essential for production, with the positive externalities created, infrastructure investments support economies of scale, which is one of the main drivers for increasing productivity and economic growth.

Prominences of global demands for more secure, punctual, fast, and comfortable transport have expedited development of transportation in recent years. In accordance with this, new policies are needed to be implemented that highlight development of productive and effective transport infrastructure by means of facilitating integrated operation of transportation modes, focus on human factor and minimize environmental damage.

With respect to railway sector, operating on a single-track rail line, low-standard rail infrastructure and disregarding freight transport reduce the effectiveness of rail transport and prevent the creation of a competitive transport market.

With the Law No. 6461 related to Turkey Railway Transport Liberalization, restructuring process towards opening TCDD rail network to private operators and establishing a competitive market was initiated.

General Directorate of Railway Regulation (DGRR), functions as the national railway safety and regulatory authority in Turkey. Besides, the Turkish State Railways

(TCDD) was restructured as railway infrastructure manager and TCDD Taşımacılık A.Ş was established as a railway operator as of 1 January 2017 according to the Law No. 6461 on the Liberalization of Railway Transport of Turkey.

The studies related to the “By-law on Interoperability of the Rail System” and “Assignment Communique for Notified Bodies” for assignment of notified bodies (NoBo), designated bodies (DeBo) and independent safety organizations supervising the compliance of the railway infrastructure and railway vehicles with the interoperability principles are completed. Regulations were sent to the Commission by the Ministry of Economy at the end of January 2018 and comments are expected. Also studies related to the “By-law on Public Service Obligation in Railway Passenger Transport” are completed and the by-law is at the stage of publication.

With the Law No. 6461 related to Turkey Railway Transport Liberalization, secondary legislation studies are proceeded in order to establish an efficient railway transport market with the participation of the private sector, decrease costs to a sustainable level and enhance competitiveness. Since the liberalization of the sector, 3 railway passenger transport undertakings and 3 railway freight transport undertakings have obtained licences. 72 companies have received organizer authorization certificates. 8 companies have been authorized as entity in charge of maintenance (ECM).

b. Reform Measures

Measure 1: “Increasing share of renewable energy regarding electricity generation”

1. Description of measure: A new support mechanism is planned to be implemented in order to increase the share of electricity generation based on renewable energy sources. Necessary legislative arrangements will be made within this scope. Large scale YEKA will be created.

i. Activities planned for 2019: Legislative preparatory work for the establishment of a renewable energy support mechanism will be carried out. YEKA will be held with a minimum capacity of 1,000 MW. Legislation on licensed and unlicensed electricity generation will be updated depending on the implementation and developments.

ii. Activities planned for 2020-2021: A new renewable energy incentive mechanism will be established by the end of 2020 and necessary changes will be made to the Electricity Market Law No. 6446 and secondary legislation.

2. Expected Impact on Competitiveness: The current competitive environment in the renewable energy sector is expected to improve further.

3. Key Performance Indicators:

➤ Enactment of the legislation by publishing in the Official Gazette.

4. Estimated Cost of the Activities and the Source of Financing: The cost is not foreseen as it is directed to regulatory procedures.

5. Expected Impact on Employment and Gender: The regulations will positively affect employment. This measure is neutral in terms of gender equality.

6. Potential Risks: There may be difficulties in the integration of renewable energy into the transmission system.

Measure 2: “Development of financial mechanisms regarding energy efficiency”

1. Description of Measure: It is planned to make legislative arrangements regarding the development and implementation of financial mechanisms for the purpose of increasing energy efficiency.

i. Activities Planned in 2019: Legislation preparation

ii. Activities Planned in 2020: Legislation preparation

iii. Activities Planned in 2021: Implementation of the legislation and monitoring

2. Expected Impact on Competitiveness: It is aimed to increase energy efficiency with new financial models. Thus, it is expected that the reduction of unit energy input costs and improvement in the price-based competition environment for the final products will be achieved.

3. Key Performance Indicators:

➤ Enactment of the legislation by publishing in the Official Gazette.

4. Estimated cost of the Activities and the Source of Financing: The cost is not foreseen as it is directed to regulatory procedures.

5. Expected Impact on Employment and Gender: The regulations will positively affect employment. This measure is neutral in terms of gender equality.

6. Potential Risks: There is a risk that necessary coordination cannot be established with all stakeholders and no necessary contributions can be made in preparing legislation.

Measure 3: “Turkish Railway Transport Liberalization”

1. Description of Measure: The secondary regulations will be completed under the Law No. 6461 on the Liberalization of Railway Transport of Turkey.

i. Activities Planned in 2019: Following the positive opinion of the European Commission, the “By-law on Interoperability of the Rail System” and “Assignment Communique of Notified Bodies” will be published.

The railway sector statistics portal will be launched by the DGRR and the statistical studies will be started.

ii. Activities Planned in 2020: By-law on Entity in Charge of Maintenance will be published. By-law on Tendering Procedure of Public Service Obligation in Railway Passenger Transport will be published.

2. Expected Impact on Competitiveness: It is aimed to increase the share of railway transport and reduce transport costs by making necessary regulations for private

sector to take place in the railway transport market. Thus, it is foreseen to increase the competitiveness of our country.

3. Key Performance Indicators:

Indicator Name	Current Situation	2019	2020	2021
Number of adopted legislation	12	2	2	-

4. Estimated Cost of the Activities and the Source of Financing: With respect to institutions, implementation of the measure will entail no additional cost, since the measure includes regulatory activities that will be conducted in the course of the regular activities of the relevant authorities.

5. Expected Impact on Employment and Gender: Employment is expected to increase as a result of private sector's ability to conduct infrastructure management and train operation activities.

6. Potential Risks: Since the liberalization studies in the railway sector affect many stakeholders, any deficiency in the regulations relevant to general functioning of the sector may pose risks.

4.3.2. Sectoral Developments

a. Analysis of Main Obstacles

Main objective of agricultural policy is to create an agricultural sector that takes sufficient and balanced nutrition of society as a priority, increases international competitiveness by its demand driven production structure based on advanced technology, by diminishing infrastructural problems, and by maintaining effective organization and high productivity, as well as sustainable use of natural resources. It is aimed to maximize producer and consumer satisfaction in the food and agricultural sector, and to transform Turkey into an important actor in its region and in the world.

Further, to ensure food security for next generations by taking farmer income and agricultural products market into account; efficient stock management, reduction of losses in the production- marketing-retail chain, enhancing administrative and technical capacity for market regulation and effective use of foreign trade tools are other targets.

To ensure a growing agricultural sector for improving food security, a wide variety of work on; reduction of land fragmentation, effective use of scales of agricultural holdings, improvement of producer organizations, enhancement of marketing infrastructure, supply and consumption of safe food, transformation of support system to a more product-region-producer oriented structure while considering water resources and conservation of stability in the agricultural markets.

In this context, there are several ongoing projects on crop production, animal husbandry, fisheries, food safety, phytosanitary and veterinary services to comply with the EU acquis. In order to reinforce the official control system in the fields of agriculture and

food, investments are made to modernize of laboratories' infrastructure and to develop human resources as well as works to apply new analysis methods and accreditation efforts for laboratories are carried out. Efforts to build risk analysis system and to improve food safety information network are carried on. Investments and works to improve food and feed sampling procedures within the context of the official controls and to reinforce the infrastructure of safety monitoring of live animals and animal products are ongoing.

Moreover, within the context of EU Financial Cooperation, Establishment of Integrated Administration and Control System (IACS) Project, and IACS Procedures Training for Ministry Staff Project were completed. Project on Harmonization of Cross Compliance Rules was completed in April 2018 and the Project on Regulatory Impact Assessment for Decoupled Agricultural Support was completed in November 2018. The Training Project on IACS Software, On-Site Controls and Risk Analysis started in August 2017 and will last for 24 months. The Technical Assistance for Development of Strategy for Alignment with Common Market Organization Requirements was completed in November 2018. Project on Capacity Building for "Advisory Services" Measure under IPARD II Programme in Turkey is in the tender process.

In fisheries, Project on Implementation of Stock Assessments in Fisheries Activities that consists of two components as supply and technical assistance, and has total budget of 6,290,000 Euro is in the tender process. Project on Capacity Building for Fisheries Producer Organisations and Provincial Agricultural Directorates in line with CMO of CFP was approved. The project consists of two components: Twinning and Technical Assistance. The project has total budget of 1,600,000 Euro. The project is expected to start in the first quarter of 2019.

The Project on Increasing the Awareness of Farmers and Food Processors about EU Hygiene and Environmental Standards and Related IPARD Supports is ongoing. Project on Control and Prevention of Lumpy Skin Disease (LSD) that consists of technical assistance and supply components and has total budget of 13,747,500 Euro is in the tender process. The contract of the Project on Oral Vaccination Against Rabies, as a supply project with a budget of 14,850,000 Euro, has been signed. Twinning Project on Improvement of Capacity Regarding Official Controls, Animal Welfare, Zoonoses and Animal Products ended in November 2018. Project on Strengthening Implementation Capacity of Risk Management and Control Activities of Agriculture and Rural Development Support Institution and Project on Farm Accountancy Data Network (FADN). Target 2020 is in pre-tendering process.

Data regarding annual, perennial, greenhouse plants production, animal production produced in the whole country, and agricultural equipment are compiled as districts based by provincial and district agriculture and forestry directorates, the costs of plant products are calculated, and this information is published by TURKSTAT. However, those collected data cannot be verified vigorously. To ensure the data accuracy, there is a need to develop a new data collection methodology.

In this context, within the scope of the Project on Agricultural Statistics Improvement in Data Collection Processes and Evaluation Capacity Enhancement, which is financed by national budget resources, it is aimed to develop a new data collection and evaluation methodology according to scientific methods in accordance with international commitments and Eurostat.

The manufacturing industry is critical in terms of factors such as rapid and stable growth, outflow from the middle income trap, reduction of the current account deficit, permanent employment creation, technological development and innovation. Looking at the global developments in the manufacturing industry, it is seen that the international competition conditions became more difficult as technological transformation, digitalization and innovation capacity increased.

In recent years, there has been a tendency towards a transformation to the medium level technology sectors in the production structure of the manufacturing industry. However, in the upcoming period, the need to continue the transformation of the manufacturing industry into a higher value-added structure with a focus on technology, design and branding and to increase investments in the medium-high and high-tech sectors continue. In the competitiveness of manufacturing industry; being close to the markets, fast and small-party production based on flexible production structure is of great importance.

In manufacturing industry structural issues such as; development of corporate governance structures of firms, dissemination of clustering models where large-scale enterprises, SMEs and universities have developed more effective cooperation, improvement of supplier skills, prevention of informality, increased control system, supplying higher-skilled workforce and development of technology generation, use of advanced technology and dissemination of Industry 4.0 applications remain important.

Low production and export capacity of SMEs in value-added and high-tech sectors. SMEs cannot access to finance for investment in value-added and high-tech sectors. Furthermore, skill levels of SMEs in not sufficient to operate in respective sectors. The low technology and traditional manufacturing structure of SMEs limits the development of international competitiveness.

Small and medium-sized enterprises have limited technological production of strategic products with high import, therefore the domestic input utilization rate used in production is low. Imported products are preferred in strategic sectors due to low production costs and low technological production capabilities of small and medium-sized enterprises. Low technological production capabilities of small and medium-sized enterprises and the fact that strategic products cannot be produced locally cause an increase in the current account deficit and a negative impact on the general economic indicators.

In Turkey, share of the mining sector in GDP was 0.9 percent in 2017. Total exports were 3.5 billion dollars and total imports were 26 billion dollars in 2017. Bulk of the exports consists of metals other than iron (zinc, chromium, lead, copper), natural stone,

boron and feldspar minerals. While the bulk of the imports were crude oil, natural gas, hard coal and iron.

In order to reduce dependency on foreign energy and meet the raw materials demand of the industry, resources allocated for explorations of mines, fossil fuels, and geothermal resources have been increased considerably. In this context, total funds allocated to the General Directorate of Mineral Research and Exploration (MTA) for minerals and geothermal explorations and the funds allocated to Turkish Petroleum (TPAO) for oil and natural gas exploration were 4,688 million TL in 2018. Turkish drilling vessel Fatih has conducted its first deep-sea drilling operation in the Mediterranean as of October 2018. Second deep-sea drilling vessel will also join our fleet to carry out exploration activities in the Black Sea.

In recent years, remarkable improvements have been achieved in subsectors of the services sector. In tourism sector, a steady increase has taken place in international tourism market and Turkey has been visited by an increasing number of tourists since the beginning of 2000s. Although number of tourist arrivals in 2015 and 2016 declined due to the events emerging recently in our region and political tensions between Turkey and our source market countries, it started to increase again in 2017. According to the data provided by the United Nations World Tourism Organization (UNWTO), in 2017 Turkey ranked 8th in terms of number of tourists and 14th in terms of revenues globally. Turkey's share, in terms of tourist entries is 2.8 percent in the international tourism market and 5,6 percent in the European tourism market in the same year. In terms of tourism revenues, these shares were realized as 1.7 percent and 4.3 percent respectively. As of 2017, tourism revenues, which accounted for 17 percent of export revenues and 3.1 percent of gross domestic product, closed the foreign trade deficit by 34 percent.

Turkey is an internationally recognized tourism destination with sea-sand-sun tourism, but Turkey's competitive advantage in the tourism sector is maintained on a low price basis. For this reason, the increase in tourism income stays behind the increase in the number of visitors, this situation affects the sustainability and service quality of the sector. On the other hand, it is possible to develop other types of tourism with the existing historical, cultural and natural values, but the diversity of tourism product supply has not yet reached the desired level. This situation leads to different tourist segments and prevents visitors from high income groups from visiting our country.

b. Reform Measures

Measure 4: "Increasing the Capacity of Improvement and Evaluation in Agricultural Statistics Data Collection Processes"

1. Description of Measure: In order to contribute to the establishment of more effective agricultural policies for increasing competitiveness, agricultural statistical data should be collected according to scientific methods in accordance with international commitments. Currently, agricultural data are collected from the field by non-scientific methods (with expert opinion). This situation leads to a negative impact on the right

decision-making processes and disruptions in the implementation of policies. Within the scope of the Project on Agricultural Statistics Improvement in Data Collection Processes and Evaluation Capacity Enhancement, it is aimed to develop a new data collection and evaluation methodology in accordance with Eurostat.

In relation of the issue with top policy documents and sector strategy documents, it is related to policy measures included in paragraphs 373 and 765 of The Tenth Development Plan and to the Statistical Information Infrastructure Development Program which is among the Priority Transformation Programs.

i. Activities planned in 2019:

- The current situation will be determined in the field of agricultural statistics in our country and in the world.
- A new data collection and evaluation methodology will be established in line with country needs.
- Field testing and revision works of the new methodology will be carried out.
- Implementation of the new methodology will begin at the end of 2019.

ii. Activities planned in 2020:

- Monitoring results of the project activities will be evaluated and the need for updating will be determined.

2. Expected Impact on Competitiveness: There is a need for reliable information, which has been obtained by scientific means, in determining public policies to assess and increase the competitiveness of the stakeholders of the sector in the value chain ranging from producer to consumer in the agricultural sector. Up-to-date and reliable data will be gained, and the competitiveness of any stakeholder or the whole sector can be made analyzed vigorously through improvement of the data collection and evaluation process.

3. Key Performance Indicators:

Indication Name	Current State	2019	2020	2021
Current situation analysis and surveys		1	---	---
Establishment of data collection methodology and its operation		1	---	---

4. Estimated cost of the activities and the source of financing: With the 2019 Investment Programme, it is planned to allocate 285,873 Euro to the project that is conducted within the framework of this reform measure.

2019: 285,873 Euro

5. Expected impact on employment and gender: The measure is neutral in terms of gender discrimination. The information to be obtained will guide the relevant measures.

6. Potential Risks

- During the assessment of the current situation, the stakeholders' inefficient cooperative approach to sharing information, especially farmers' resistance to give information due to the tax concerns and etc.
- Possible negative effect of the economic fluctuation on agricultural sector investment budget of the MoAF.

Measure 5: "Project proposal call and implementation within the scope of KOBIGEL-SME Development Support Program"

1. Description of Measure: The relation of the measure with policy documents and national strategic documents is as follows:

- Measure 97 in the New Economic Program (2019-2021): Training and consultancy services will be organized in order to enable SMEs to become branded, institutionalized, increase productivity and access to international markets, and projects will be implemented to develop innovative business models.
- Action number 6.15 in the National Employment Strategy (2014-2023): Services for the provision of guidance services to SMEs will be increased.

i. Activities planned in 2019-2021: Supporting SMEs within the scope of KOBIGEL-SME Development Support Program.

2. Expected Impact on Competitiveness: Within the scope of the reform measure; SMEs will be supported by regional, sectoral, scale and business-specific support models, especially in the areas of value-added and high-tech areas. This measure will contribute to the increase of the competitive power of SMEs.

3. Key Performance Indicators

Indicator Name	Current Situation	2019	2020	2021
Number of enterprises supported within the scope of KOBIGEL Support Program	1,400	1,500	1,500	1,500
The share of the support payment provided to the enterprises operating in the medium-high / high technology areas within the scope of the KOBIGEL Support Program in total SME support program payments (%)	40	40	45	45
Number of calls for proposals by region, scale or sector	1	1	1	1

*The annual targets of the indicators are not cumulative; for each year is set separately.

4. Estimated Cost of the Activities and the Source of Financing: The total cost is 97,731,110 Euro. The budget allocation for years is as follows:

2019: 31,382,487 Euro

2020: 32,972,062 Euro

2021: 33,376,561 Euro

5. Expected Impact on Employment and Gender: There is an expectation in terms of employment increasing in SMEs supported via the project. However, due to the reform measure does not have any additional impact on the gender context, the measure is impartial in terms of gender discrimination.

6. Potential Risks

- The problems that may occur during the process of call for proposal determination
- Inability of SMEs to propose a project in line with project proposals

Measure 6: “Supporting domestic manufacturing of products with high import and strategic importance to reduce the current account deficit”

1. Description of Measure: It is to promote the investments that will contribute to the reduction of the current account deficit through the domestic production of strategic products with high imports by increasing the technological production capabilities of small and medium enterprises and by using higher domestic inputs in production. The relationship of the measure with the major policy documents / national strategic documents is as follows:

- Circular numbered 2018/1 has been published in Official Gazette dated January 24, 2018 in order to form the Executive Board of Nationalisation and products to be nationalised will be determined by the Board established under the Circular.
- 2019-2023 Strategic Plan of KOSGEB in accordance with the new road map has general goals including decreasing the current account deficit by domestic production and nationalizing strategic products with high imports.
- Action No.96 in the New Economic Program (2019-2021)
- Measure No.284 in the Presidential Program of the Year 2019
- The targets stated in 10th Development Plan and Priority Transformation Programs and the priorities in strategic documents were taken into account.

i. Activities planned in 2019-2021: SMEs will be supported with the Strategic Product Support Program.

2. Expected Impact on Competitiveness: It is aimed to increase the competitiveness of SMEs and to contribute to inclusive growth by increasing domestic production by supporting the manufacturing of products with high import causing the current account deficit.

3. Key Performance Indicators

Indicator Name	Current Situation	2019	2020	2021
Number of products supported by domestic production	92	71	79	84

*The annual targets of the indicators are not cumulative; for each year is set separately.

4. Estimated Cost of the Activities and the Source of Financing: Total costs amount to 105,331,355 Euro. The budget allocation for years is as follows:

2019: 33,830,511 Euro

2020: 35,537,549 Euro

2021: 35,963,294 Euro

5. Expected Impact on Employment and Gender: It is expected that the measure will contribute to job creation and it is not foreseen to have a direct effect on gender.

6. Potential Risks:

- Products are outdated
- Deterioration in cooperation
- Economic fluctuations

Measure 7: “Increasing tourism market share and brand value”

1. Description of Measure: In order to make our country an international brand, Tourism Master Plan will be prepared to provide transformation in the tourism sector. Providing skilled labor, increasing service quality, diversifying tourism products and services, and extending season and per capita expenditure in tourism are among the objectives of this Plan.

This measure is related to the Article 872 of the Tenth Development Plan and Article 368 of the 2019 Presidential Annual Program. This measure is also included in the New Economy Program (2019-2021).

i. Activities planned in 2019-2021: Preparatory work will be carried out for the establishment of the Tourism Master Plan and with the participation of relevant stakeholders to ensure the transformation of the sector plan text and the Action Plan will be introduced.

2. Expected Impact on Competitiveness: This measure is expected to increase the income gathered from the global tourism sector, increase the share of tourism revenues in the gross national product, contribute to the foreign trade balance and decrease the current account deficit.

3. Key Performance Indicators: Within the scope of the measure, the performance indicator cannot be defined because only a sector-specific document and implementation plan will be introduced.

4. Estimated Cost of the Activities and the Source of Financing: There is no cost is required to implement the reform measure.

5. Expected Impact on Employment and Gender: Tourism sector is a sector where disadvantaged women groups are employed more than any other sectors. Preparing and successfully implementing the intended Tourism Master Plan will contribute to employment, especially among women employees.

6. Potential Risks: There is no risk preventing the preparation of the Tourism Master Plan.

4.3.3. Business Environment and Reduction of the Informal Economy

a. Analysis of Main Obstacles

Investments are one of the most important elements of economic growth. In Turkey, the main objectives of business and investment climate reforms are enhancing competition in the market and lowering the cost of doing business and the risks. Thus, it is aimed to increase investment and employment. In this context, it is aimed to ensure transparency, stability and reliability in public policies and regulations affecting private sector investments and to develop an investment environment in which administrative and legal regulations are consistent and predictable.

In 2018, in order to increase private sector investments and direct them to productive areas, activities were continued to improve the investment environment, to attract foreign capital and to support investment. With the Law No. 6728, bureaucratic procedures related to investments were facilitated, permission and approval periods were shortened and investment costs were reduced. Also with Law No. 7099, Turkey has made important regulations to rank to higher places in the World Bank's Ease of Doing Business Index. As a result of these developments, Turkey ranked as 43 in World Bank Doing Business Index in 2018.

Staying away from cooperation with enterprises is an important obstacle for improving investment environment. The current program has been abolished by taking into account the reports created as a result of the audit of the Cooperation Collaboration Support Program by the Turkish Court of Accounts and the experience gained during the implementation of the Program. The Cooperation Support Program was designed and put into effect. Through the cooperation of the enterprises, resource savings will be provided and the competitiveness of enterprises will be increased.

There are no guides and advisors authorized to enable SMEs to reach the guidance and consultancy services they need in a qualified and sustainable manner. Through the SME Guidance and Consultancy System to be established, production and management skills of SMEs will be improved. Their competitiveness will be increased by enhancing their productivity and export levels.

With the Law No. 7101, postponement of bankruptcy, which has been in effect since 2003, has been abolished completely. Instead of this, the concordat which is not preferred due to the bankruptcy postponement has been revised.

One of the other substantial obstacles to the business and investment environment is informality. Informality has a significant impact on the competitiveness and it prevents the healthy functioning of the public finance structure. Fighting against informality is of great importance in order to prevent unfair competition in the economy, to pursue sound economic developments and to establish a sound social security structure.

While the estimated size of the informal economy to GDP in Turkey was 32.4 percent in 2002, this ratio was measured as 26.8 percent in 2016 and the studies for 2017 measurement are in progress. As a result of the policy and strategy implemented decisively, there has been a decrease by about 6 points in the estimated size of informality to GDP.

The action plan of the Program for Reducing Informal Economy in the period of 2015-2017 was implemented successfully. The positive results of some actions in the action plan have begun. The positive results of other actions will emerge in the period of 2019-2021 and thus their effects will be measured.

Some important studies conducted within the scope of fighting against informal economy are as follows:

- It has been developed alternative payment channels in order to fulfill the payment obligations of our taxpayers quickly and easily.
- Tax Regulations have been implemented to support investment, production and employment, to increase the competitiveness of the economy, to encourage the voluntary compliance of taxpayers and spreading of the tax on the tax base.
- Annual audit plans have been prepared and implemented in order to prevent tax loss and evasion.

In addition to these developments, studies for the action plan covering 2019-2021 period within the scope of the fight against informality are ongoing and the draft action plan has been completed by 50 percent. Aforementioned action plan will have 5 components as follows:

- Measuring the size of the informal economy through taking into account economic conditions specific to Turkey,
- Establishing follow-up systems for risky sectors and transferring the data received from follow-up systems to e-audit,
- Improving inter-agency data sharing,
- Prevention of tax loss by means of practices developed within the Revenue Administration,
- Emphasizing the importance of the formal economy through visual/written media and trainings and thus increasing the social sensitivity.

During the preparation of the action plan, meetings were held on various dates with all the ministries, public institutions and NGOs (Chambers of Industry, Chambers of Commerce, etc.). Actions proposed for the action plan have been evaluated and draft action plan studies are in progress.

With the positive results of the completed action plan and implementation of the new action plan, the size of the informal economy will be reduced further in the period 2019-2021. In the medium term, the target is to decrease the informality rate to European Union average.

b. Reform Measures

Measure 8: “Supporting the cooperation between SMEs or SMEs and large enterprises”

1. Description of Measure: This measure will contribute to the development of a working culture of SMEs with each other or with large enterprises and establishing mutual benefit and competitive advantage.

i. Activities Planned in 2019-2021: Supporting SMEs within the scope Cooperation Collaboration Support Program.

2. Expected Impact on Competitiveness:

- Increasing sales of SMEs by benefiting from the market advantages of large enterprises
- Increasing the number of SMEs in value chains of large enterprises
- Reduction of imports due to the production of imported products by SMEs
- Increasing survival duration and rates of SMEs
- Increasing the number of growing SMEs
- Increasing number of exporter SMEs
- Increasing competitive power of SMEs

3. Key Performance Indicators:

Indicator Name	Current Situation	2019	2020	2021
Number of enterprises supported within the scope of Cooperation Support Program	0	350	380	420
Number of established operator organization within the scope of Cooperation Support Program	0	15	18	20
Number of SMEs cooperating with large enterprises within the scope of Cooperation Support Program	0	50	60	80

* The annual targets of the indicators are not cumulative; for each year is set separately.

4. Estimated Cost of the Activities and the Source of Financing: The total cost is 36.425.230 Euro. The budget allocation for years is as follows:

2019: 11,689,023 Euro

2020: 12,294,667 Euro

2021: 12,441,540 Euro

5. Expected Impact on Employment and Gender: It is expected that employment will increase due to the employment of the personnel required by the project in the operator organization and project partners. There is no gender discrimination on the reform measure and the measure is impartial in terms of gender discrimination.

6. Potential Risks: Insufficient support budget due to high demand. However, the probability of this risk is considered very low.

Measure 9: “Establishment of SME Guidance and Counseling System”

1. Description of Measure: Under the reform measure, it will be provided that analysing the current situation of SMEs, finding solutions to their problems, identifying their needs, developing their skills and capabilities, thus they will be able to compete in domestic and foreign markets.

The relationship of the measure with the major policy documents / national strategic documents is as follows:

- “SMEs will receive training and consultancy services in order to ensure branding, institutionalization, increase in productivity and access to international markets, and projects will be implemented to develop innovative business models” action No.97 included in the New Economic Program (2019-2021).
- “Training and consultancy services for increasing the qualifications of SME employers and employees are generalised” action No.1.4.3. mentioned in the SME Strategy and Action Plan (2015-2018).
- “Consulting System will be established” action No.6.5.8. involved in the Entrepreneurship Strategy and Action Plan (2015-2018).

i. Activities Planned in 2019: The preparation of the regulation and sub-legislation on SME Guidance and Technical Consultancy Services will be completed and put into effect. In this context, SME guidance and technical consultants will be authorized and SMEs benefiting from the services will be supported.

ii. Activities Planned in 2020-2021: SME guidance and technical consultants will be authorized and SMEs benefiting from the services will be supported.

2. Expected Impact on Competitiveness: The impact of the reform measure on the competitiveness power is expected to be high, and the performance indicators determined to measure this impact are the same as the key performance indicators of the reform measure and they are listed in the table below.

3. Key Performance Indicators:

Indicator Name	Current Situation	2019	2020	2021
Number of enterprises with support payments under guidance and consultancy services	0	150	500	750
Number of Authorized SME Guides	0	25	75	100
Number of Authorized Technical Consultants	0	150	1,000	1,250

*The annual targets of the indicators are not cumulative; for each year is set separately.

4. Estimated Cost of the Activities and the Source of Financing: Total costs amount to 708.254 Euro. The budget allocation for years is as follows:

2019: 138,490 Euro

2020: 277,189 Euro

2021: 292,575 Euro

5. Expected Impact on Employment and Gender: An effect of the reform measure is not foreseen in the context of employment and gender. Therefore, the measure is impartial in terms of employment and gender discrimination.

6. Potential Risks:

- Due to the fact that it will be the first SME Guidance and Technical Consultancy System to be implemented in our country, it is not possible to intervene in time for the problems that may occur in the system
- Stakeholders do not fulfill their responsibilities in order for the system to be put into operation and sustainable
- Low demand for the system because SMEs' guidance and consultancy service culture has not developed sufficiently

Measure 10: “Increasing private sector investments by carrying out more effective support and promotion activities”

1. Description of Measure: Investment opportunities offered to the private sector will be promoted by the Presidential Office within the country and abroad.

i. Activities Planned in 2019: 65 investment environment promotion activities will be organized for investors. In addition, 150 investment projects will be supported by the Investment Office.

ii. Activities Planned in 2020: 70 investment environment promotion activities will be organized for investors. In addition, 165 investment projects will be supported by the Investment Office.

iii. Activities Planned in 2021: 80 investment environment promotion activities will be organized for investors. In addition, 180 investment projects will be supported by the Investment Office.

2. Expected Impact on Competitiveness: With the studies to be carried out within the scope of the reform measure, private sector investments in Turkey will be increased and more foreign capital will be attracted.

3. Key Performance Indicators:

Indicator Name	Current Situation	2019	2020	2021
Number of promotional activities realized	55	65	70	80
Number of investment projects supported by the Investment Office	112	150	165	180

4. Estimated Cost of the Activities and the Source of Financing: Total costs amounted to 13,412,221 Euro. The budget allocation for years is as follows:

2019: 3,970,460 Euro

2020: 4,470,806 Euro

2021: 4,970,955 Euro

5. Expected Impact on Employment and Gender: Through the investments to be implemented, employment will be increased.

6. Potential Risks: The negative impact of the global macroeconomic environment and the emergence of regional political and security problems may be a significant risk.

4.3.4. Research & Development and Innovation and Digital Economy

a. Analysis of Main Obstacles

Strengthening the competitiveness of our country depends on development of R&D and innovation capacity. The policies implemented to strengthen the capacity increased the resources allocated to R&D and R&D expenditures along with the number of researchers working in private sector. Thus, the share of R&D expenditures in GDP increased to 0.96 percent in 2017 which was 0.94 percent in 2016. 56.9 percent of these expenditures were realized by the private sector. Furthermore, as of 2017, the number of R&D personnel in terms of full time equivalent (FTE) increased by 12 percent compared to the previous year and was realized as 153,552. 57.3 percent of the personnel is employed in the private sector.

In addition, new programs have been developed by TÜBİTAK (The Scientific and Technological Research Council of Turkey) to support R&D activities of the platforms that is established in cooperation with research infrastructures, private sector and universities. Besides, it is necessary to increase commercialization activities and innovative entrepreneurship.

Telecommunications market size, which was 9.6 billion dollars in 2004, increased to 14 billion dollars as of 2017 thanks to competition.

As of December 2018, 798 authorizations were granted for 450 operators by ICTA. 146 of these authorizations are in the infrastructure provision and operators are making

significant contribution towards ensuring the prevalence of infrastructure in the country by building their own infrastructure.

The effectiveness of alternative infrastructure operators in the market and coverage of their fiber optic networks have been rising lately. The total length of fiber optic cables owned by alternative operators reached 71,563 km in September 2018, while this number was 9,216 km at the end of 2008. The total length of fiber optic cables owned by incumbent operator reached 273,712 km in September 2018, while this number was 107,659 km at the end of 2008.

As a result of the increased competition, there is a significant increase in the number of fiber subscribers. The number of fiber broadband subscribers increased to 2.6 million as of September 2018, from 100,000 subscribers as of June 2010.

As of September 2018, fixed telephone, mobile telephone and broadband subscriber penetration rates are 14.3 percent, 99.8 percent and 91.3 percent in Turkey, respectively. Meanwhile there are 1.23 million cable TV subscribers and 883,000 cable internet subscribers.

The Auction for IMT Services and Infrastructures Authorization (known as 4.5G in Turkey) was held by ICTA on 26 August 2015. IMT services have been launched by 3 operators since 1 April 2016. The number of LTE subscribers reached to 69.3 million in Turkey as of September 2018.

National broadband strategy, which determines minimum broadband access speed across the country, high-speed internet access targets for households as well as policies and actions to be implemented, is published on 21st of December, 2017 on Official Gazette.

In addition to this, to decrease the tax burden on communications sector, pre-existing rates of 25 percent special communication tax (SCT) for mobile services, 15 percent SCT for fixed services and 5 percent SCT for internet services are all determined at a single rate of 7.5 percent for all communication services.

There has been one project proposal call in the scope of the International Incubation Center and Accelerator Support Program, which came into force in 2016, and support has been given for the establishment and operation of two International Incubation Centers in the United States. In addition, 6 accelerator programs were organized within the scope of the International Accelerator Support Program and SMEs with technological ideas and products were supported by KOSGEB. SMEs, universities, technology development zones and technology transfer offices can benefit from the said program.

In line with the know-how and experience gained within the scope of International Incubation Center and Accelerator Support Program, İŞGEM / TEKMER Support Program studies have been initiated and are planned to be finalized as soon as possible. In this respect, the activities to be carried out by entrepreneurs and SMEs within the national incubators will be supported.

Nowadays, the two most important factors needed to transform the ideas of technological and innovative entrepreneurs into products and services are finding the source of finance and access to required networks.

Source of finance consists government incentives, investors, tax exemptions and exceptions. However, it is necessary to develop models to meet investors with entrepreneurs and convince them to ensure that they become partners of the companies. Although the ecosystem in our country has reached a certain stage, it needs to be further developed.

Although financing is important for the realization of ideas or the development of products or services, access to networks is also important for commercialization of these products. In this regard, it is also required to organize events for access to networks such as finding customers and meeting with company representatives who have experienced these processes before. In this way, the number of companies that provide value to the country's economy will be increased with the help of well executed projects.

The process of entrepreneurs meeting with national and international investors and develop their products / services means the growth of the companies as competitive enterprises and the growth of the country's economy as well. In this way, it is expected that developing enterprises will have a positive effect on the number of employment.

Other barriers to the development of R&D and innovation capacity are the following:

- Human resources as of researchers need to be developed in terms of quality and quantity. It is important to develop cooperation between actors in R&D projects.
- The commercialization of new products resulting from R&D and innovation activities in the priority technology areas is relatively low.
- Small and medium-sized enterprises have low technological production capabilities.

Measure 11: “Increasing the number and efficiency of business development, incubation and accelerator centers in order to support innovative entrepreneurship”

1. Description of Measure: Quantity and quality of Incubators, Business Development Centers and Accelerators will be increased. In this regard, support models will be developed in collaboration with public sector, private sector and NGOs.

With the implementation of the International Incubation Center and the Accelerator Support Program, the support process will start in 2019, it is aimed to establish or increase the efficiency of 10 incubation centers. Within the scope of this target, it is planned that the support program will be discussed with the relevant stakeholders, promotional activities will be realized, support applications will be received and applications will be evaluated.

Within the scope of the relationship with the upper policy documents / national strategic documents; the priorities in the 10th Development Plan, New Economy Program, Priority Transformation Program and strategic documents were taken into account. In addition, in order to involve technology intensive start-up enterprises in advanced

entrepreneurship ecosystems, their participation to acceleration programs will be ensured and thus R&D and innovation projects will be carried out in a healthy manner which will help them to transform into enterprises that provide value to the country's economy.

i. Activities planned for 2019:

- Legislation studies will be completed within the scope of İŞGEM/TEKMER Support Program.
- In order to provide better service to the target group of İŞGEM/TEKMER Support Program, software studies will be completed in order to carry out all processes in electronic environment.
- In addition to face-to-face interviews with potential target groups, promotional activities will be carried out within the scope of promotional activities related to İŞGEM/TEKMER Support Program and International Incubation Center and Accelerator Support Program.
- İŞGEM/TEKMER Support Program will be put into effect.

ii. Activities planned for 2020:

- The support process for the İŞGEM/TEKMER Support Program and the International Incubation Center and the Accelerator Support Program will continue.
- Monitoring and evaluation system will be established.

iii. Activities planned for 2021:

- The support process for the İŞGEM/TEKMER Support Program and the International Incubation Center and the Accelerator Support Program will continue.

2. Expected Impact on Competitiveness: As a result of the interaction between entrepreneurs and SMEs, the culture of doing business together will be facilitated. Also, introducing entrepreneurs to investors will increase their chance to access direct financing. Furthermore, consultancy, training and mentoring services will be provided to all kinds of activities that will contribute to the development of products / services.

In this context enterprises will go into digital transformation processes resulting reduction in their costs and they will have a competitive position in international markets.

Increasing quality and quantity of incubation centers, highlighting entrepreneurship concept with R&D and innovation activities and strengthening public-private-NGO partnerships will be ensured.

3. Key Performance Indicators

Indicator Name	Current Situation	2019	2020	2021
Number of Newly Established TEKMERs	0	5	5	4
Number of Newly Established İŞGEMs	3	1	--	1
Number of supported enterprises in the scope of International Incubation Center and Accelerator Support Program	18	15	20	25

*The annual targets of the indicators are not cumulative; for each year is set separately.

4. Estimated Cost of the Activities and the Source of Financing: Total cost will be 3,329,345 Euro. The budget allocation and financing for years are as follows:

2019: 1,068,053 Euro (Financed by central budget)

2020: 1,123,658 Euro (Financed by central budget)

2021: 1,137,634 Euro (Financed by central budget)

5. Expected Impacts on Employment and Gender: Within the scope of these support programs, personnel wages are supported for managers, experts, technicians, janitors and security personnel to be employed in incubation centers. The effect of the reform measure on gender is not foreseen. Therefore, the measure is impartial in terms of gender discrimination.

6. Potential Risks

- Worldwide economic fluctuations
- Lower number of applications than expected level

Measure 12: “Enhancing the R&D and innovation activities of SMEs”

1. Description of Measure: With the SME Technological Product Investment Support Program, high technology will be spread to the base by SMEs, technological product investments and commercialization projects will be supported.

Within the scope of the relationship with the upper policy documents/national strategic documents;

- In KOSGEB 2019-2023 Strategic Plan, it is aimed to ensure the spread of high technology to the base through SMEs and to accelerate the technological entrepreneurship.
- Action number 96 in the New Economy Program (2019-2021)
- Measure 284 in the 2019 Presidential Program
- The objectives set in the 10th Development Plan and the Priority Transformation Programs and the priorities in the strategic documents were taken into account.

i. Actions Planned for 2019-21: With the SME Technological Investment Support Program, SMEs will be supported to invest in technology.

2. Expected Impacts on Competitiveness: It is aimed to commercialize new products resulting from R & D and innovation activities in the priority technology fields, to create added value for the national economy and to increase the export of technological products by having a competitive position in international markets. It is aimed to increase the competitiveness of SMEs and contribute to inclusive growth by supporting the investments of the products or services they will produce.

3. Key Performance Indicators

Indicator Name	Current Situation	2019	2020	2021
Number of products in medium-high and high technology areas	73	60	66	71
Number of products in medium-low and low technology areas	60	60	71	71

*The annual targets of the indicators are not cumulative; for each year is set separately.

4. Estimated Cost of the Activities and the Source of Financing

Total costs amount to 99,667,775 Euro. Budget allocation and financing according to years are given below.

2019: 32,013,630 Euro (Financed by central budget)

2020: 33,622,413 Euro (Financed by central budget)

2021: 34,031,731 Euro (Financed by central budget)

5. Expected Impacts on Employment and Gender: The measure is expected to contribute to job creation and it is not foreseen that the measure will have a direct impact on gender.

6. Potential Risks

- Economic fluctuations in markets
- Increase in cost of production inputs

Measure 13: “Supporting competent research infrastructures on a performance basis within the new legal framework”

1. Description of the measure: In the context of the Law No. 6550 on Supporting Research Infrastructures, research infrastructures that have been certificated under the Law will continue to be supported in a performance-based system and studies will be carried out to introduce new research infrastructures into the system.

- This measure is related to measure 255 in the Presidential Annual Program 2019.
- As of the relevant measure included in 2018 Economic Reform Program, certificated research infrastructures continued to be supported. In addition, competency evaluations of new research infrastructures were made.

- i. Activities Planned for 2019:** In addition to 4 certificated research infrastructures, 4 new research infrastructures are planned to be introduced to the system.

ii. Activities Planned for 2020: It is planned that the total number of certificated research infrastructures will be realized as 11, and these infrastructures will continue to be supported upon monitoring their performance.

iii. Activities Planned for 2021: It is planned that the total number of certificated research infrastructures will be realized as 14, and these infrastructures will continue to be supported upon monitoring their performance.

2. Expected Impacts on Competitiveness: It is aimed to improve the financial and managerial capacities of the research infrastructures at universities where qualified researchers are planned to be employed and so develop innovative products at these infrastructures and thus increase the exports of technological products in international markets for the country's economy by creating added value through commercialization of these products.

The certification period for the research infrastructures under the Law No. 6550 encompasses a 5-year time. The qualifications of the infrastructures considered appropriate for continuation can be renewed for the same period. Therefore, the full emergence of the results under this measure is expected to increase in 5 years and beyond as of the completion of the institutional capacities for these infrastructures.

3. Key Performance Indicators

Indicator Name	Current Situation	2019	2020	2021
Number of research infrastructures supported under Law No. 6550	4	4	3	3

*The annual targets of the indicators are not cumulative; for each year is set separately.

4. Estimated Cost of the Activities and the Source of Financing: Allocated budget and financing sources are given below.

2019: 25,000,000 Euro (Financed by central budget)

2020: 40,000,000 Euro (Financed by central budget)

2021: 45,000,000 Euro (Financed by central budget)

5. Expected Impacts on Gender and Employment: The measure is expected to contribute to job creation but it is not foreseen that the measure will have a direct impact on gender.

6. Potential Risks

- Adequate researchers may not be employed in research infrastructures in terms of quality and quantity
- Increase of input costs
- General issues related to product commercialization

4.3.5. Trade-related Reforms

a. Analysis of Main Obstacles

The EU-Turkey Customs Union will be updated with a view to resolving structural problems for the better functioning of the Customs Union and extending the EU-Turkey preferential economic and commercial relations to new areas such as public procurement and services.

The instances that the World Trade Organization regulations do not meet the needs of today and the multilateral trade order is insufficient in terms of new market openings have led the countries to make bilateral and regional trade agreements. On the other hand, under the Customs Union, Turkey aligns its commercial policy with the EU's Common Commercial Policy. This alignment concerns both the autonomous regimes and preferential agreements with third countries. Turkey, in line with the tendency in the world for negotiating FTAs and its Custom Union obligation, negotiates and concludes free trade agreements with third countries, in parallel with the EU.

Also, Turkey has been conducting negotiations to extend the scope of its existing FTAs with an aim to update and deepen their scope. To this extent, the negotiations with EFTA, Serbia, Bosnia and Herzegovina and Montenegro are concluded and the negotiations with Georgia and Malaysia will be finalized in the near future. Moreover, it is aimed to start negotiations with Moldova, Macedonia and Albania for updating the existing FTA.

Meanwhile, there are 17 countries/country blocs that Turkey has started FTA negotiations. Turkey has been actively engaged in negotiations with 10 of them; namely Peru, Ukraine, Indonesia, Colombia, Ecuador, Mexico, Japan, Thailand, Pakistan, Djibouti. Turkey continues its efforts to speed up the process for our remaining ongoing FTA negotiations with Dem. Rep of Congo, Cameroon, Chad, Seychelles, Gulf Cooperation Council, Libya and MERCOSUR.

Lastly, Turkey has established a Working Group with the United Kingdom due to Brexit in order to sustain the current bilateral market access structure in the short term, and to establish a deep and comprehensive FTA in medium-long term.

The EU-Turkey Customs Union will be updated with a view to resolving structural problems for the better functioning of the Customs Union and extending the EU-Turkey preferential economic and commercial relations to new areas such as public procurement and services.

b. Reform Measures

Measure 14: "Update Of the Turkey-EU Customs Union"

1. Description of Measure: The Customs Union entered into force as a transitional arrangement prior to Turkey's full membership to the EU. However, Turkey's prolonged full-membership process has rendered the CU's flaws such as Turkey's absence from the EU's decision-making bodies pertaining to the CU, Turkey's difficulties in adopting the

EU's Free Trade Agreements (FTAs) and the road transport quotas that preclude Turkey from being a full beneficiary of the CU, as structural problems.

On the other hand, due to the changing conditions in the world economy, the Customs Union remains insufficient to meet expectations of the Parties. Both Turkey's and the EU's new generation FTA's include trade related areas such as services and public procurement that encourage both sides to improve their economic and commercial relationship based on this trend.

This situation brought the necessity for the update of the Customs Union. Accordingly, the formal negotiations are expected to be initiated in 2019 after the European Commission gets the mandate from the Council.

i. Activities planned for 2019: Negotiations will be initiated. The Ministry of Trade, together with the related government bodies, is responsible for the launch of update of the Customs Union negotiations.

ii. Activities planned for 2020: Negotiations will be carried on and concluded if possible. The Ministry of Trade, together with the related government bodies, is responsible for the conduct of update of the Customs Union negotiations.

iii. Activities planned for 2021: Negotiations will be concluded and the agreement will enter into force if possible. The Ministry of Trade, together with the related government bodies, is responsible for the conclusion of update of the Customs Union negotiations.

2. Expected impact on competitiveness: Further liberalization and bilateral market opening in the areas of agriculture, services and public procurement are expected to increase competitiveness in Turkish economy.

2. 3. Key performance indicators: Within the scope of the measure, there are no performance indicators followed.

4. Estimated cost of the activities and the source of financing: The reform measure is mainly directed to regulatory procedures. However, the total cost of travel and travel costs is estimated as 179,948 Euro. Budget allocation according to years is given below.

2019: 63,527 Euro (Central Budget)

2020: 59,611 Euro (Central Budget)

2021: 56,811 Euro (Central Budget)

5. Expected impact on employment and gender: A shift of labour force from agriculture to industry and to services is expected.

6. Potential risks: The negotiations will be initiated after the European Commission gets the mandate from the Council. Please note that by nature of negotiations, it is not possible to give a concrete timetable.

4.3.6. Education and Skills

a. Analysis of Main Obstacles

The main objective of our education system is to provide quality education to all individuals, so that there is no one out of the education system. In line with this aim, significant progress has been made in the provision of more qualified, more common and easily accessible education services especially in the recent period. Thanks to the resources allocated to education, many new schools have been built, significant progress has been made in access to education, a significant increase in teacher employment has been achieved, and inequalities between gender, regions and schools have been tried to be eliminated.

In the coming period, individuals who can compete in accordance with the needs of the labor market and can renew themselves according to the conditions of the era will form the basic building blocks of economic growth. For this reason, improving the physical conditions of educational environments, continuously updating the curriculum according to changing conditions by ensuring the integration of teaching contents into information and communication technologies, ensuring that all children can benefit from pre-school education opportunities, strengthening the integration between vocational and technical education and the labor market, increasing the competencies of education leaders and teachers, and ensuring the applicability and continuity of the data based policies are among our main priorities for sustainable development.

b. Reform Measures

Measure 15: “Dissemination of pre-school education”

1. Description of Measure: Early childhood is a critical period in which the concept of self-concept begins to form, the speed of neurobiological development reaches its peak and social norms and values are formed. The institutions that give this education are considered as “the best start to life”. Due to this importance; many projects have been carried out by the Ministry of National Education to increase enrollment rates in pre-school education, transfer of resources to disadvantaged children, new kindergartens and nursery classes opened, the education service has been provided free of charge for children who receive only education service and whose nourishment is not provided from school.

The primary objective of the Ministry of National Education is to ensure that each child receives at least one year of pre-school education before compulsory education. In the 2023 Education Vision of Ministry of National Education “Early childhood education will be expanded” and in the Presidential Annual Program (2019) “In the upcoming period, early childhood education will be compulsory for 5 years of age and common quality standards will be developed for the quality of this education level.” targets are given for pre-school education. In line with these objectives, alternative education models should be introduced for school access.

Sub-Project 1: Mobile Caravan Nursery Classes

Especially in densely populated settlements, children cannot attend pre-school education since there are not enough classrooms and land for classrooms. Similarly, children in seasonal agricultural workers, immigrant children and children in rural areas without schools cannot enroll this training since lack of built classrooms. There is a target in 2023 Educational Vision on this issue namely “In the context of community-based early childhood services, centers, workshops and mobile bus classes will be introduced.” Mobile bus classes are still being implemented. However, reasons such as vehicle maintenance, automobile insurances, inspection, fuel costs and driver expenses and the age of the vehicle are important factors preventing the sustainability of this method. It is thought that the same service will be supplied by a caravan with designed for this purpose instead of the bus, and the vehicle that will pull the caravan, can be covered by service procurement annually. These caravan classes will be much more suitable both functionally and economically.

Sub-project 2: Repair of nursery classes of transport center - restoration of suitable spaces to the nursery classes

In the 2023 Educational Vision “Flexible timed and alternative early childhood education models for children in rural and low-density settlements will be implemented.” is targeted. In rural areas where there are not enough children to form a group preschool so children in there cannot be schooled. The transfer of preschool children to a school at a long distance causes children to get up early and do not have breakfast and so decrease the quality of the education process. For this reason, it will be more functional to move children in at least two settlements without schools to a transport center to be established at the center of these settlements. In order to serve this purpose, the inactive building in the relevant settlement should be repaired and transformed into the nursery class. In addition, the existing buildings / areas in many settlements and schools will be repaired and used as nursery class.

Sub-Project 3: Supporting unfavorable children and their families

The cost of pre-school education in a family budget has a serious obstacle for accessing school. In line with the targets in the 2023 Education Vision "In early childhood education, poor households will be provided with basic materials to support child development." and "Children in unfavorable households will meet the need for equipment in early childhood education." materials for families will be developed, online system will be designed and the basic equipment for children in unfavorable households will be provided.

Sub-Project 4: Reducing the cost to the family and increasing the quality of education

Pre-school education costs to families are higher than other education levels. In the current situation, dues are determined by the governorships and a large part of these dues are used in the employment of auxiliary personnel in schools. Due to the sensitivity of the

age, it is essential to employ auxiliary personnel in the classes of these children. However, there is almost no permanent employment in these schools. Even though auxiliary personnel in some schools are provided by İŞ-KUR, the quality of such personnel is not suitable to serve in these schools. In these schools, not only cleaning, but also the need for staff to support children's development is needed. (cleaning, toilet, dressing, nutrition, helping with activities, etc.) For this reason, qualified personnel who is graduated from at least vocational high school in the field of child development, should be employed in these schools. This employment should also be provided through İŞ-KUR.

i. Activities planned in 2019:

Project:

- Determination of implementation settlements and models for access to education
- Conducting the needs analysis for the identified models (cost, technical specifications, tender document etc.)
- Completion of required purchases and repairs, and delivery
- Beginning of training in the model class

Sub-Project 1:

- Determination of the settlements which need caravan
- Determination of the standards and technical specifications of the caravan class to be designed and to prepare the tender documents
- Completion of service procurement and procedures of vehicles which will carry caravan
- Beginning of training in mobile classroom

Sub-Project 2:

- Determination of settlements which need to be renovated, and their respective approximate costs
- Completion of the necessary planning and sending allowances, starting the renovations.
- Completion of renovations, supplying of equipment
- Start training in renovated classes

Sub-Project 3:

- Identifying settlements and schools where poor households are dense, educational materials to be given to the school and identification of the basic materials that can be given to the household
- Provincial and district-based calculations are made and necessary appropriation is prepared, the lists of allowances and equipment are sent to provinces and districts.
- Starting the preparation process of materials to be given to the family
- Establishing committee, workshops and meetings in this context

- Completion of purchasing for the necessary education tools and equipment for the designated schools in the provinces and districts
- Completion of the design of materials for the family and setting online system
- Delivery of educational tools and equipment to associated schools
- Starting pilot implementation of materials developed for the family

Sub-Project 4:

- Agreeing a protocol on this issue with IS-KUR
- Identification of the list of institutions to be recruited and number of staff to be employed
- Determination of qualifications and recruitment processes of the personnel to be employed in these institutions
- Initiation of recruitment procedures
- Initiate recruitment of hired personnel

ii. Activities planned in 2020:

Project / Sub-Project 1 / Sub-Project 2

- Maintenance of the projects by making necessary purchases and renovations in required places

Sub-Project 3

- Continue the distribution of educational materials to schools with poor families
- Distribution of the materials prepared for the families to the poor families

Sub-Project 4

- Continuing personnel employment in designated schools

iii. Activities planned in 2021:

Project / Sub-Project 1 / Sub-Project 2 / Sub-Project 3 / Sub-Project 4

- Maintenance of the project by making necessary purchases and renovations in required places
- Continue the distribution of educational materials to schools with poor families
- Distribution of the materials prepared for the families to the poor families
- Continuing personnel employment in designated schools

2. Expected impact on competitiveness:

Project

- Growing up of children as an individual supported by all areas of development by taking pre-school education

Sub-Project 2

- Utilization of real estate with full capacity by using the existing inert areas.

Sub-Project 3

- Raising awareness of poor families

3. Key performance indicators:

Indicator	Current Status	2019	2020	2021
Schooling rate, 5 years old, %	66.88	70	80	90

4. Estimated cost of the activities and the source of financing:

Cost:

2019: 17,629.1 thousand Euro (wages, equipment to be installed, caravan, purchase and repair, training equipment, materials and auxiliary personnel)

2020: 102,009 thousand Euro (wages, equipment to be installed, caravan, purchase and repair, training equipment, materials and auxiliary personnel)

2021: 102,330 thousand Euro wages, equipment to be installed, caravan, purchase and repair, training equipment, materials and auxiliary personnel)

Financing:

2019-2021: Total 221,968.1 thousand Euro (Central budget)

5. Expected impact on employment and gender:

Project

- Teachers and auxiliary staff will be employed in traveling classrooms and renovated classes.

Sub-Project 1

- Teachers and auxiliary staff will be employed in traveling classrooms and renovated classes.

Sub-Project 2

- Teachers and auxiliary staff will be employed in the renovated classes.

Sub-Project 3

- 21 thousand of jobs will be provided for females annually.

6. Potential risks:

- Due to the subcontractor law, there may be problems in the employment of auxiliaries.
- The number of personnel support requested may not be provided by İŞ-KUR.
- There may be problems in the net determination of poor households.

Measure 16: “Increasing the reading culture”

1. Description of measure: Social and cultural development of students will be supported by developing the reading habit among students at an early age. Article 308 of the 10th Development Plan (2014-2018) states that “The reading habit will be expanded and culture and art education will be provided at early childhood”. In the MONE Strategic

Plan (2015-2019); the reading habit concept is included under the theme of Quality in Education and Teaching and in this context, to gain habit of reading at early age has been one of the development areas.

i. Activities planned in 2019: The number of schools with z-library, where the students can make social, artistic and cultural activities in order to support their social and cultural development and to gain the reading habit will be increased. Studies that will increase the contribution of the school library to develop the reading habit, will be carried out. Social and cultural activity-based use of the school library will be expanded.

ii. Activities planned in 2020: The measures will be taken to reach the average reading skills international tests (such as PISA) score of OECD and European Union countries. The reading activities will be diversified and disseminated in school libraries.

iii. Activities planned in 2021: The school community will be informed about the reading culture/habit. Collaboration with school teachers and joint teaching activities will be developed for reading culture and use of the library.

2. Expected impact on competitiveness: It's expected to approach average reading skills scores of European Union countries in OECD PISA and TIMMS tests.

In order to determine the level of education in the country, the deficiencies that need to be eliminated and the necessary measures to be taken and to increase the level of education, international test results provide important information.

Reading skill is expected to be an effective factor on competitiveness with European Union countries in terms of improving the knowledge and potential of the students and also by more effective participation and contribution of the students to the society.

3. Key performance indicators:

Indicator	Current status	2019	2020	2021
Number of events performed in z-libraries	20,000	30,000	40,000	50,000

4. Estimated cost of the activities and the source of financing:

Cost:

2019: 4,765 thousand Euro (products and services / Z-library establishment)

2020: 4,620 thousand Euro (products and services / Z-library establishment and in-service training for teachers)

2021: 4,403 thousand Euro (products and services / Z-library establishment and advertising services for public awareness)

Financing:

2019-2021: Total 13,788 thousand Euro (Central Budget)

5. Expected impact on employment and gender: The measure is neutral in terms of gender discrimination.

6. Potential risks: The measure is limited to z-libraries established by Ministry and activities carried out in these libraries.

Measure 17: “Updating curricula and strengthening the implementation pillar of education”

1. Description of measure: The curriculum will be ensured to comply with the standards to be established in accordance with the skill sets, skills and qualification definitions. In this context, the curricula will be updated by identifying students' skills and needs according to school and program types, compulsory and elective courses will be structured in line with the needs, weekly course schedules will be organized by making flexible arrangements related to the course hours.

In addition, 54 field and 199 teaching program branches in vocational and technical Anatolian High Schools and 23 independent teaching program branches in vocational training centers are applied. These programs will be updated in 2019. Updating of the materials of the program will also be carried out. These measures are included in the 2023 Education Vision Document.

In order to realize a more effective learning process, interactive applications related to reading, listening and writing of the textbooks of foreign language courses in Science, Social Sciences and Anatolian High Schools will be realized and textbooks will be made interactive with digital content. These actions include arrangements to eliminate the need for supplementary textbooks by means of textbooks that will be interactive to achieve the goal of transforming academic knowledge into skills within the scope of the 2023 Education Vision document.

In addition, design and skills laboratories will be established in order to strengthen the practice of learning and enable students to transform academic knowledge into skills. Theoretical knowledge will become practical thanks to design-skill workshops.

i. Activities planned in 2019:

- Creation of talent and skill sets (General Directorate of Religious Education, General Directorate of Lifelong Learning, General Directorate of Vocational and Technical Education, General Directorate of Secondary Education, General Directorate of Special Education and Guidance Services, General Directorate of Private Education Institutions, General Directorate of Basic Education)
- Updating the vocational and technical secondary education curriculum
- Reorganization of teaching materials according to changes in curriculum by reviewing them
- Organizing 6 workshops in 9 different branches to make the textbooks interactive with digital content
- Establishment of design-skill workshop in 7 high schools

ii. Activities planned in 2020:

- Monitoring and evaluation studies (General Directorate of Religious Education, General Directorate of Lifelong Learning, General Directorate of Vocational and Technical Education, General Directorate of Secondary Education, General Directorate of Special Education and Guidance Services, General Directorate of Private Education Institutions, General Directorate of Basic Education)
- Reorganization of teaching materials according to changes in curriculum by reviewing them
- Organizing 6 workshops in 9 different branches to make the textbooks interactive with digital content
- Establishment of design-skill workshop in 291 high schools

iii. Activities planned in 2021:

- Revision of the curricula according to the results of monitoring and evaluation studies (General Directorate of Religious Education, General Directorate of Lifelong Learning, General Directorate of Vocational and Technical Education, General Directorate of Secondary Education, General Directorate of Special Education and Guidance Services, General Directorate of Private Education Institutions, General Directorate of Basic Education)
- Reorganization of teaching materials according to changes in curriculum by reviewing them
- Organizing 6 workshops in 9 different branches to make the textbooks interactive with digital content
- Establishment of design-skill workshop in 2377 high schools

2. Expected impact on competitiveness: The skills and competencies expected from the educated individual, in terms of science and technology and changes in the global trends of education, are important topics for Turkey. It is expected that taking this issue into consideration and reflecting it to the curriculum will have an impact on the country's competitiveness and inclusive growth.

3. Key performance indicators:

Indicator	Current status	2019	2020	2021
Program rate completed according to class level (Establishment of basic competences and standards)	--	25%	25%	50%
The suitability ratio of the developed curricula to the basic competencies and standards, (%)	--	50%	20%	30%
Number of programs revised in vocational training	--	77	54	54
Number of materials updated in vocational training	--	300	300	300
Number of interactive books and e-content	--	60	60	58
Number of design-skill workshops established	--	7	291	2377

4. Estimated cost of the activities and the source of financing:

Cost:

2019: 355 thousand Euro (fees-material update-design skill workshop)

2020: 3,659 thousand Euro (fees-material update-design skill workshop)

2021: 27,189 thousand Euro (fees-material update-design skill workshop)

Financing:

2019-2021: Total 31,203 thousand Euro (31,114 thousand Euro, Central budget – 89 thousand Euro IPA funds)

5. Expected impact on employment and gender: Gender inequality and discriminatory elements that might have existed in education programs and textbooks will be identified and eliminated. Unemployment is expected to decrease with the employment of graduates from more qualified revised programs.

6. Potential risks:

- Failure to employ the required field expert in the curriculum development and review process
- Development of legislation after the transition to the Presidential System and the possibility of delay in the approval process
- Failure of information systems designs according to the required framework
- Possibility of expert staff and sector nonparticipation to commission work for various reasons
- Changes of commission members during organization process
- Program approval process delaying
- Suggestions and opinions from stakeholders that can negatively affect the approval process of the programs

4.3.7. Employment and Labor Markets

a. Analysis of Main Obstacles

The Turkish Economy has achieved a high and stable growth momentum. This trend has brought a high employment expansion and an intense job creation process with it. During that period the labor supply has been invigorated by institutional factors such as rapidly expanding women participation and the social security system reform as well as the driving force of the strong economic growth. For this potential to not to stay idle and be utilized efficiently it's crucial that the labor market works in a competitive and healthy way. On the other hand, the promotion and creation of the job opportunities that will provide an acceptable standard of living for the entire society and the assistance of the disadvantaged groups in the labor market is also a priority. In this context, a reform infrastructure aiming to reach a competitive and well-functioning labor market is adopted while also taking the social inclusion into account. In line with this objective, the

harmonization of social assistance system with labor market dynamics and the elevation of disadvantaged groups are desired.

The social assistance officers working in 1,002 Social Cooperation and Solidarity Foundations distributed around each city and district of Turkey conduct around 3 million household visits each year. Accordingly, the socio-economic data of nearly 3.2 million households has been recorded in the Integrated Social Assistance System (ISAS). It will be ensured that the beneficiaries that are available for work will be directed to active labor force programs in order to enhance their productivity and to allow them to earn sustainable livelihood. In this way, the strengthening of the tie between social assistance system and the employment and the utilization of the workable population at maximum capacity is aimed.

Subgroups that require specialized policies are generally people who face with various barriers for participation to labor force and to achieve a sustainable employment. The barriers such as lack of experience and unrealistic expectations of the youth; the biologic, economic and social hardships the women face; and the physical and social constraints disabled people encounter with constitute a problem for an healthy labor market. At this point, it is aimed to ensure the entry of these disadvantaged people into the workforce by harnessing the “Employment Clubs”. “Employment Clubs” seeks rapid adaptation of subgroups that need special policies such as women, youth, disabled, Gypsy citizens, long-term unemployed, immigrants and unemployment beneficiaries to the labor market.

b. Reform Measures

Measure 18: “Redirection of workable social assistance beneficiaries into active labor programmes in order to increase their productivity and allow them to a sustainable income”

1. Description of the Measure: It will be ensured that the social benefit holders who are available to work are benefit effectively from the active labor force programs that will allow them to gain productivity and achieve a sustainable income. Thus, the enhancement of the link between social assistance and the employment is intended. This measure is contained in the Tenth Development Plan, Priority Transformation Programs and National Employment Strategy.

i. Activities Planned for 2019:

130,000 social assistance beneficiaries are planned to be redirected to İŞKUR in order to direct them to employment. The employer’s insurance contribution will be compensated by the MFLSS.

ii. Activities Planned for 2020:

140,000 social assistance beneficiaries are planned to be redirected to İŞKUR in order to direct them to employment. The employer’s insurance contribution will be compensated by the MFLSS.

iii. Activities Planned for 2021:

155,000 social assistance beneficiaries are planned to be redirected to İŞKUR in order to direct them to employment. The employer's insurance contribution will be compensated by the MFLSS.

2. Expected Impact on Competitiveness:

By reducing the counter-initiative effects of the social benefits on the labor force participation to a minimum, it's aimed to prevent the emergence of disruptive side effects on supply side competitiveness in the labor market. With the strengthening supply structure the number of applications to firms will arise and the diversity of the portfolio of employees will enhance. Stronger human resources will positively affect the competition power of the firms.

3. Key performance indicators:

Measure	Current Status	2019	2020	2021
The Number of Beneficiaries That Are Redirected to TEA to be Employed		130,000	140,000	155,000

4. Expected Cost and Finance of the Planned Activity: Assuming an approximate amount of 400 TL premium support per employee and 20,000 would be beneficiaries to be placed into employment by İŞKUR, the prospective premium supports of 12,700,000, 12,000,000 and 11,500,000 Euro for the years of 2019, 2020 and 2021 will be assumed by MFLSS

5. Expected Impact on Employment and Gender: This measure is designed to enhance the employability of the beneficiaries.

6. Potential Risks: There are no risks expected to encounter with during the implementation of the measure.

Measure 19: "Job Clubs"

1. Description of the measure: Job Clubs are institutions specialized in provision of motivation and methodological support to the subgroups that require special policies such as women, youth, disabled, Gypsy citizens, long-term unemployed and unemployment insurance beneficiaries via consultancy services. In 32 cities and 37 districts the job clubs has already been maintaining their activities (Ankara, İstanbul (Beyoğlu, Bayrampaşa, Başakşehir, Büyükçekmece, Ümraniye), İzmir, Bursa, Adana, Mersin, Trabzon, Sakarya, Elazığ, Diyarbakır, Konya, Kırıkkale, Burdur, Isparta, Zonguldak, Denizli, Eskişehir, Yozgat, Çanakkale, Manisa, Aydın, Kayseri, Samsun, Antalya, Hatay (İskenderun Provincial Directorate and Service Center), Yalova, Erzurum, Sivas, Adıyaman, Van, Edirne and Mardin).

The activities for the establishment of further job clubs will continue to proceed during 2019 and 2020.

i. Activities Planned for 2019: During 2019, it is aimed that job clubs will be established in 20 additional cities. The maintenance and modifications of the assigned spaces for these clubs will be ensured and necessary inventories will be provided. The prospective job club leaders and job and career consultants will be provided with the “job club leader training”. Also, there are arrangements for a workshop for information and experience sharing. In addition to these, various training activities will be organized to raise the quality of job club leaders.

ii. Activities Planned for 2020: During 2020, it is aimed that the job clubs will be established in 29 additional cities. The maintenance and modifications of the assigned spaces for these clubs will be ensured and necessary inventories will be provided. The prospective job club leaders and job and career consultants will be provided with the “job club leader training”. Also, there are arrangements for a workshop for information and experience sharing. In addition to these, various training activities will be organized to raise the quality of job club leaders.

iii. Activities Planned for 2021: The established labor clubs will continue to fulfill their duties.

2. Expected impact on competitiveness: The disadvantaged groups consist of the people who face with hardships to integrate into labor market and maintain their jobs. Accordingly, the consultancy services provided to these individuals are fine tuned to motivate them to develop a positive opinion on participation to labor market.

In the case of successful implementation of the measure, the number of people who are aware of their qualities will increase and a significant human resource will emerge for firms to benefit.

3. Key Performance Indicators :

Indicator	Current Status	2019	2020	2021
Number of Recently Established Job Clubs	37	30	19	-
Number of Job Club Participators	13,311	37,791	54,375	67,875

*The Job Clubs Project will finalize in 2020 and from this date on established job clubs will continue to fulfil their duty.

4. Estimated cost of the activities and the source of financing: The budget estimated for the Project is 317,500 Euro for 2019 and 745,000 Euro for 2020.

5. Expected impact on employment and gender: Increase in the LFP of disadvantaged groups such as women, youth, disabled, long-term unemployed, ex-convicts, drug addicted, Gypsy citizens is aimed.

6. Potential risks:

- Insufficient number of employees in some cities may hinder the efforts of employment and job consultants.

- In the establishment process of job clubs the cooperation with local public institutions is crucial. Accordingly, inadequate cooperation with local institutions in some cases might hinder the successful establishment of job clubs.
- Insufficient promotion of established job clubs may result in a weak demand for the services provided by job clubs.

4.3.8. Social Inclusion, Poverty Reduction and Equal Opportunities

a. Analysis of Main Obstacles

The absolute poverty rate has decreased significantly in the last decade in Turkey. The headcount ratio below 3.2 dollars per day has dropped to 1.8 percent in 2016 from the level of 6 percent in 2008. The relative poverty rate - the share of the number of people who fall below 60 percent of the median income in the total population- has dropped to 20.1 percent in 2017 from 23.4 percent in 2007. On the other hand, the Gini coefficient is recorded as 0.40 in 2017. The ratio of the share that the richest 20 percent quantile gets from the total disposable income to that of the lowest 20 percent quantile realized as 7.5 in 2017 which constitutes an improvement in the same period.

In order to prevent intergeneration transmission of poverty, priority has given to the education and health related social assistance programs. The share of social assistance to GDP has increased in the last decade. On the other hand, the need for social services and assistance still continue due to migration, urbanization, population growth, transformation in the family structure and unemployment problems. In this perspective, the share of local and central government's social assistance expenditures to GDP realized as 1.03 percent in 2017 (institutions like Ministry of Family, Labor and Social Services (MFLSS), Ministry of Education, General Directorate of Foundations, YURTKUR and municipalities).

Parallel to significant increase in public social assistance expenditures, the activities to improve the efficiency of the social assistance system still continue. Social assistance and inquiry officers, who work in 1,002 Social Assistance and Solidarity Foundations (SASFs) founded in every provinces and sub-provinces of Turkey, are making house visits to almost 3 million households in every year. Within this scope, all socio-economic data of almost 3.2 million households benefiting from social assistances are included in the Integrated Social Assistance System (SAIS). After the integration of SAIS and Family Information System, which is continuing to be studied by the MoFLSS, ASDEP personnel will see the household information through the Integrated System and they will provide guidance for disadvantageous people living in these households for accessing social services and other public services such as nursing, rehabilitation and psychological support. Therefore, it is targeted to remove the obstacles of social assistance beneficiary households accessing the other public services.

b. Reform Measures

Measure 20: “*With the period of Social Assistance Plus (+), access of the social assistance beneficiaries to other public services (social service, employment, education, health etc.) will be strengthened*”

1. Description of Measure: Disadvantageous individuals living in poor households will be enabled to access social services and other public services such as nursing, rehabilitation and psychological support. The measure is included as action in the Youth and Society title under the New Economy Programme.

i. Activities planned in 2019

- To operationalize the information infrastructure to be used within the scope of the measure.
- To determine the people who need access to public services by making database queries.

ii. Activities planned in 2020-21: To direct people determined to the relevant services by ASDEP personnel and to provide them consultancy service.

2. Expected impact on competitiveness: In order to provide equality for opportunities, the social protection system- considering social-economic and local conditions- will be transformed into a structure that covers the whole population, that is efficient, that integrates disadvantaged groups into the society, and minimizes the social exclusion and poverty risks by assigning responsibilities to all part of the society.

3. Key performance Indicators: The number of social assistance beneficiaries who are directed to social services and other public services.

Indicator	Current status	2019	2020	2021
Number of household visits carried out under ASDEP	1,155,554	1,000,000	2,000,000	3,000,000
The number of social assistance beneficiaries	-	-	15,000	20,000

4. Estimated cost of the activities and the source of financing: The cost for the implementation of this measure is estimated to be 238,227 Euro in 2019, 223,540 Euro in 2020 and 141,864 Euro in 2021, with the exception of current expenditures.

5. Expected impact on employment and gender: The measure does not have any direct impact on employment and gender.

6. Potential risks: No risk is anticipated in order for putting the measure into effect.

5. INSTITUTIONAL ISSUES AND STAKEHOLDERS INVOLVEMENT

ERP (2019-2021) was prepared in compliance with the main policy documents by taking the contributions of all relevant public institutions and organizations under the coordination of the Turkish Presidency Strategy and Budget Presidency and submitted to the Commission after its approval by the President. The macroeconomic prospects and policy framework in the ERP 2019 was prepared in line with the MTP (2019-2021) and 2019 Presidential Annual Program which was put into effect as Presidential Decision and the budget proposal for 2019 which was sent to TGNA. These two policy documents were prepared with the participation of all relevant public institutions and organizations.

In addition to the current policy making and implementation process, the ERP Guidelines updated by the Commission each year, the Commission's assessment documents on the previous ERP, and the comments and suggestions at the meetings between the Strategy and Budget Presidency and the Commission as ERP coordinator, are shared with the relevant institutions.

In this context, after the publication of the 2019 Presidential Annual Program on October 27, 2018, an official letter, including the new guidance note, last year's ERP evaluation and last year's policy recommendations, was sent to the relevant ministries at the beginning of November and ERP (2019-2021)'s preparations were started. Each line ministries were asked to set a coordinator for ERP. In November 2018, a meeting was organized with more than 60 people from line ministries and related institutions to introduce the new guidance of the ERP (2019-2021) that was sent by the Commission. Among the ERP coordinators and some experts who will contribute to ERP attended this meeting. The focus of the meeting was the changes in Structural Reform part and the questions regarding the changes were all answered. Moreover, coordinators from the Strategy and Budget for each structural reform item were shared with the institutions. After the meeting communication with the institutions were provided through these coordinators and all questions regarding the ERP were answered.

The contributions of the institutions, including past realizations and commitments for the future within the framework of the basic policy documents, were all submitted to the TR Presidency Strategy and Budget Presidency as an ERP coordinator in the aftermath. In this way, all related institutions are actively involved in the ERP process and monitoring and evaluation of commitments.

ANNEX TABLES

Table 1.a: Macroeconomic Prospects

	ESA Code	2017	2017	2018	2019	2020	2021
		Level (Mil. TL)	Rate of Change				
1. Real GDP, Chained volume	B 1 * g	1,693.7	7.4	3.8	2.3	3.5	5.0
2. GDP, at current prices	B 1 * g	3,106.5	19.1	20.4	19.0	15.7	11.5
Components of Real GDP (Chained volume, Percentage Change)							
3. Private Consumption Expenditure	P3	1,023.7	6.1	3.8	2.0	2.6	4.0
4. Public Consumption Expenditure	P3	230,5	5.0	3.5	1.4	1.6	3.0
5. Gross Fixed Capital Formation	P51	502,1	7.8	1.8	-3.1	5.1	6.7
6. Changes in Inventories and Net Acquisition of Valuables*	P52+P53	---	0.6	-0.9	0.2	0.0	0.0
7. Exports of Goods and Services	P6	374,4	11.9	5.6	5.1	4.7	5.2
8. Imports of Goods and Services	P7	406,3	10.3	-0.6	-1.7	4.0	4.4
Contribution to Real GDP Growth (Percentage Points)							
9. Final Domestic Demand	---	---	6.7	3.3	0.5	3.2	4.7
10. Changes in Inventories and Net Acquisition of Valuables	P52+P53	---	0.6	-0.9	0.2	0.0	0.0
11. External Balance on Goods and Service	B11	---	0.1	1.4	1.5	0.2	0.2

* Contribution to growth

Table 1.b: Price Developments

Percentage Change, Yearly Average	ESA Code	2017	2018	2019	2020	2021
1. GDP Deflator	---	10.8	16.0	16.3	11.8	6.2
2. CPI	---	11.1	16.3	18.4	13.3	7.9

Table 1.c: Labor Market Developments

	ESA Code	2017	2017	2018	2019	2020	2021
		Level	Rate of Change, Percent				
1. Population (Thousand, Mid-year)	---	80,313	1.3	1.3	1.3	1.2	1.2
2. Working Age Population (Thousands)	---	59,893	2.0	1.4	1.4	1.4	1.4
3. Labor Force Participation Rate (%)*	---	52.8	0.8	0.4	0.5	0.5	0.5
4. Employment, Persons (Thousands) **	---	28,189	3.6	1.7	1.5	2.6	3.6
5. Unemployment Rate (ILO Definition)	---	3,454	10.9	11.3	12.1	11.9	10.8
6. Labor Productivity Growth	---	---	3.7	2.0	0.8	0.9	1.4

* Represents percentage point increase with respect to the previous year.

** 15+ years-old.

Table 1.d: Balance of Payments

Percentage of GDP	ESA Code	2017	2018	2019	2020	2021
1. Current Account	---	-5.6	-4.7	-3.3	-2.7	-2.6
- Balance of Goods	---	-6.9	-7.2	-6.5	-6.4	-6.4
- Balance of Services	---	2.3	3.5	4.2	4.6	4.7
- Balance of Primary Income	---	-11.1	-10.5	-10.9	-11.3	-11.6
- Balance of Secondary Income	---	2.7	2.9	3.2	3.6	3.9
2. Capital and Financial Account (Including Reserves)	---	5.6	4.7	3.3	2.7	2.6
Statistical Discrepancy	---	0.0	2.3	0.0	0.0	0.0

Source: Realization CBRT, forecast Presidency of Strategy and Budget

Table 1.e: GDP, Investments and Gross Value-Added

	ESA Code	2017	2018	2019	2020	2021
GDP, Current Prices, Billion TL	B 1 * g	3,106.5	3,740.5	4,450.3	5,149.6	5,742.3
Investment Ratio, Percentage of GDP, %	---	31.0	30.6	28.5	28.9	29.3
Value-Added by Sectors (Chained Volume, Percentage Change)						
1. Agriculture	---	4.9	1.3	1.5	1.5	2.5
2. Industry	---	9.1	4.2	1.6	4.0	6.5
3. Services	---	7.8	3.9	2.6	3.6	4.7

Table 2: General Government Budgetary Prospects

(Percent of GDP)	ESA Code	2017	2018	2019	2020	2021
Net Lending (B9) by sub-sectors*						
1. General Government	S13	1.8	2.4	1.5	1.6	1.6
2. Central Government	S1311	1.0	1.4	0.9	1.0	0.6
3. Funds	S1311	0.1	0.0	-0.1	-0.3	-0.2
4. Local Administration	S1313	0.6	0.7	0.2	0.2	0.2
5. Social Security Fund	S1314	0.7	0.7	1.1	1.2	1.3
6. Revolving Funds	S1311	-0.1	0.0	0.0	0.0	0.0
7. Unemployment Fund	---	-0.4	-0.3	-0.5	-0.5	-0.3
General Government (S13)						
8. Total Receipts	TR	33.1	32.7	32.1	31.9	31.6
9. Total Expenditures	TE	34.9	35.1	33.6	33.6	33.2
10. Net Lending	EDP.B9	1.8	2.4	1.5	1.6	1.6
11. Interest Payments	EDP. D41+FISIM	1.9	2.2	2.8	3.0	3.1
12. Primary Balance	---	0.1	-0.2	1.3	1.4	1.6
Components of Revenues						
13. Taxes	---	17.7	17.2	17.4	17.6	17.9
14. Social Funds	D61	9.0	8.9	8.6	8.5	8.4
15. Factor Incomes	D4	4.7	4.5	4.3	3.7	3.5
16. Other	---	1.7	2.1	1.9	2.0	1.9
17. Total Receipts	TR	33.1	32.7	32.1	31.9	31.6
Components of Expenditures						
18. Total Consumption	P32	15.5	15.8	15.1	14.9	14.6
19. Total Social Transfers	D62+D63	7.2	7.0	7.3	7.4	7.5
20. Interest Payments	EDP. D41+FISIM	1.9	2.2	2.8	3.0	3.1
21. Subsidies ⁽¹⁾	D3	0.6	0.5	0.5	0.5	0.4
22. Gross Fixed Capital Formation	P51	3.7	3.6	2.4	2.2	2.2
23. Other	---	6.1	6.0	5.6	5.5	5.3
24. Total Expenditures	TE	34.9	35.1	33.6	33.6	33.2

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

(1) Includes agricultural support, duty losses of SEEs and Support and Price Stability Fund.

Table 3: General Government Debt Developments

	ESA Code	2017	2018	2019	2020	2021
Percentage of GDP						
1. Gross Debt	---	28.3	31.1	28.5	28.2	27.2
2. Change in Gross Debt	---	---	2.8	-2.6	-0.3	-1.0
Contributions to Change in Gross Debt						
3. Primary Balance	---	-0.1	0.2	-1.3	-1.4	-1.6
4. Interest Expenditure	EDP D.41	1.9	2.2	2.8	3.0	3.1
5. Current GDP Growth	---	-5.4	-6.3	-5.4	-4.4	-3.1
6. Other	---	3.5	6.8	1.3	2.5	0.6

Table 4: Cyclical Developments*

	2017	2018	2019	2020	2021
1. Real GDP Growth (2009=100 Chained Volume, %)	7.4	3.8	2.3	3.5	5.0
2. Net Lending of General Government / GDP (%) ^{1**}	1.8	2.4	1.5	1.6	1.6
3. Interest Expenditure / GDP (%)	1.9	2.2	2.8	3.0	3.1
4. One-off and Other Temporary Measures / GDP ²	1.1	1.4	1.0	0.6	0.3
5. Potential GDP Growth (%)	5.4	4.8	4.4	4.4	4.5
6. Output Gap (Percentage Difference from the Potential)	1.5	0.5	-1.6	-2.4	-2.0
7. Cyclical Budgetary Component / GDP (%) **	-0.5	-0.2	0.3	0.5	0.3
8. Cyclically-adjusted Balance / Potential GDP (%) (2-7)**	2.4	2.6	1.2	1.1	1.2
9. Cyclically-adjusted Primary Balance /Pot. GDP (%) (8-3) **	0.4	0.4	-1.5	-1.9	-1.9
10. Structural Balance / Potential GDP (8+4)**	3.5	4.0	2.2	1.6	1.5

* General Government

** (+) refers to deficit, (-) refers to surplus.

¹ Public Claims Restructuring, 2B Revenues and Other One-off Revenues and Expenditures Included General Government Balance² (+) A plus sign means deficit-reducing one-off measures.**Table 5: Divergence from Previous Update**

	2017	2018	2019	2020	2021
GDP Growth (Percent)					
Previous Update	5.5	5.5	5.5	5.5	---
Latest Update	7.4	3.8	2.3	3.4	5.0
Difference	1.9	-1.7	-3.3	-2.0	---
General Government Net Lending (Percentage of GDP)					
Previous Update	2.4	1.9	1.9	1.3	---
Latest Update	1.8	2.4	1.5	1.6	1.6
Difference	-0.6	0.5	-0.4	0.3	---
General Government Gross Debt (Percentage of GDP)					
Previous Update	28.5	28.5	28.0	27.5	---
Latest Update	28.3	31.1	28.5	28.2	27.2
Difference	-0.2	2.6	0.5	0.7	---

* Realization

Table 6: Basic Assumptions on the External Economic Environment Underlying 2019 Pre-Accession Economic Reform Program Framework

	2017	2018	2019	2020	2021
Exchange Rates					
Parity (\$/Euro)	1.13	1.18	1.12	1.12	1.14
Real Exchange Rate (Percentage Change)*	-11.7	-16.4	-1.3	-4.1	-1.6
GDP Growth					
Euro Area (Real, Percentage Change) ***	2.4	1.8	1.6	1.7	--
EU (Real, Percentage Change)**	2.7	2.2	2.0	1.8	1.7
World Trade (In Real Terms)***					
World Trade Volume Increase (Percent)	5.3	4.0	4.0	4.0	--
International Prices					
EU CPI (Percentage Change)**	1.7	1.9	1.9	1.9	2.0
US CPI (Percentage Change)**	2.1	2.4	2.1	2.3	2.2
Oil Prices (\$/Barrel)**	52.8	69.4	68.8	65.7	63.1

* (+) refers to appreciation, (-) refers to depreciation.

** IMF, World Economic Outlook, October 2018

*** IMF, World Economic Outlook, January 2019

Table 7a: Costing of structural reform measures

(Euro)

Year	Fees	Products and Services	Subsidies and Transfers	Capital Expenditures	Total
Measure 4- “ Increasing the Capacity of Improvement and Evaluation in Agricultural Statistics Data Collection Processes ”					
2019				Tender	285,873
2020					
2021					
Measure 5- “ Project proposal call and implementation within the scope of KOBIGEL-SME Development Support Program.”					
2019			31,382,487 ¹		31,382,487
2020			32,972,062 ²		32,972,062
2021			33,376,561 ³		33,376,561
Measure 6- “ Supporting domestic manufacturing of products with high import and strategic importance to reduce the current account deficit”					
2019		2,223,455	33,828,288 ¹		33,830,511
2020		2,235,394	35,535,314 ²		35,537,550
2021		2,130,400	35,961,164 ³		35,963,294

1) In 2019 budget, 11,530,205 Euro as reimbursable and 19,852,281 Euro non-reimbursable is planned.

2) In 2019 budget, 12,145,641 Euro as reimbursable and 20,826,421 Euro non-reimbursable is planned.

3) In 2019 budget, 12,299,797 Euro as reimbursable and 21,076,764 Euro non-reimbursable is planned.

4) In 2019 budget, 9,926,141 Euro as reimbursable and 23,902,147 Euro non-reimbursable is planned.

5) In 2019 budget, 10,461,644 Euro as reimbursable and 25,073,670 Euro non-reimbursable is planned.

6) In 2019 budget, 10,580,990 Euro as reimbursable and 25,380,174 Euro non-reimbursable is planned

Year	Fees	Products and Services	Subsidies and Transfers	Capital Expenditures	Total
Measure 8- “Supporting the cooperation between SMEs or SMEs and large enterprises”					
2019			11,689,023 ¹		11,689,023
2020			12,294,667 ²		12,294,667
2021			12,441,540 ³		12,441,540
Measure 9- “Establishment of SME Guidance and Counseling System”					
2019		19,376 ¹	119,114		138,490
2020		8,942 ²	268,247		277,189
2021		8,522 ²	284,053		292,575
Measure 10- “Increasing private sector investments by carrying out more effective support and promotion activities”					
2019		3,970,460			3,970,460
2020		4,470,806			4,470,806
2021		4,970,955			4,970,955
Measure 11- “Increasing the number and efficiency of business development, incubation and accelerator centers in order to support innovative entrepreneurship”					
2019			1,068,053		1,068,053
2020			1,123,658		1,123,658
2021			1,137,634		1,137,634

1) For the year 2019, 6,924,476 Euro reimbursable and 4,764,548 Euro grant support is planned to provide.

2) For the year 2020, 7,302,287 Euro reimbursable and 4,992,380 Euro grant support is planned to provide.

3) For the year 2021, 7,385,389 Euro reimbursable and 5,056,151 Euro grant support is planned to provide.

4) In 2019, it is planned to make a total payment of 9,847 Euro for the preparation of the training curriculum and 9,529 Euro for the commission members.

5) The amount to be paid to the commission members in 2020 and 2021 and is stated in the Products and Services column.

Year	Fees	Products and Services	Subsidies and Transfers	Capital Expenditures	Total
Measure 12- “ Enhancing the R&D and innovation activities of SMEs ”					
2019		1,906	32,011,725 ¹		32,013,630
2020		2,086	33,620,327 ²		33,622,413
2021		2,130	34,029,601 ³		34,031,731
Measure 13- “ Supporting competent research infrastructures on a performance basis within the new legal framework”					
2019		25,000,000			25,000,000
2020		40,000,000			40,000,000
2021		45,000,000			45,000,000
Measure 14- “Update of Turkey-EU Customs Union”					
2019		63,527			63,527
2020		59,611			59,611
2021		56,811			56,811

1) In 2019 budget, 9,388,065 Euro as reimbursable and 22,623,660 Euro non-reimbursable is planned.

2) In 2020 budget 9,887,893 Euro as reimbursable and 23,732,434 Euro non-reimbursable is planned.

3) In 2021 budget 10,012,883 Euro as reimbursable and 24,016,717 Euro non-reimbursable is planned.

Year	Fees	Products and Services	Subsidies and Transfers	Capital Expenditures	Total
Measure 15- "Dissemination of Pre-School Education"					
2019	4,765,000	100* 23,800=2,382,000 (100 caravan) 794,000 (Vehicle transportation expenses) 100*7,900=794,100 (100 class repair and equipment) 5,559,000 (Caravan class expenses) 3,335,000 (Education and family materials)			17,629,100
2020	4,471,000	894,000 (Caravan class expenses) 894,000 (100 class repair and equipment) 5,961,000 (Mobile teacher class expenses) 3,726,000 (Children and family materials) 21,000 *10*410= 86,063,000 (21,000 auxiliary personnel 10 month payment)			102,009,000

Year	Fees	Products and Services	Subsidies and Transfers	Capital Expenditures	Total
2021	7,101,000	994,000 (Caravan class expenses) 5,681,000 (Mobile teacher class expenses) 3,551,000 (Children and family materials) 21,000 *10*400 Euro= 85,003,000 (21,000 auxiliary personnel 10 month payment)			102,330,000
Measure 16- “ Increasing the reading culture”					
2019		Z-library establishment 4,765,000			4,765,000
2020		Z-library establishment 4,471,000 Inservice training for teachers 149,000			4,620,000
2021		Z-library establishment 4,261,000 Advertising services 142,000			4,403,000

Year	Fees	Products and Services	Subsidies and Transfers	Capital Expenditures	Total
Measure 17- “Updating curricula and strengthening the implementation pillar of education”					
2019	9*10*198*6= 107,000	159,000 (Material update) 7*12.700=89,000 (Design skill workshop)			355,000
2020	9*10*186*6= 101,000	89,000 (Material update) 291*11,900= 3,469,000 (Design skill workshop)			3,659,000
2021	9*10*177*6= 96,000	85,000 (Material update) 2,377* 11,400=27,008,000 (Design skill workshop)			27,189,000
Measure 18- “Redirection of workable social assistance beneficiaries into active labor programmes in order to increase their productivity and allow them to a sustainable					
2019		12,700,000			12,700,000
2020		12,000,000			12,000,000
2021		11,500,000			11,500,000
Measure 19- “Job Clubs”					
2019		317,500			317,500
2020		745,000			745,000
2021					
Measure 20- “Social Assistance Plus (+)”					
2019			238,227		238,227
2020			223,540		223,540
2021			141,864		141,864

Table 7b: Financing of structural reform measures

(Euro)

Year	Central Budget	Local Budget	Other National Public Finance Resources	IPA Funds	Other Grants	Project Loans	To be determined	Total
Measure 4- “Increasing the Capacity of Improvement and Evaluation in Agricultural Statistics Data Collection Processes”								
2019	285,873							285,873
2020								
2021								
Measure 5- “Project proposal call and implementation within the scope of KOBIGEL-SME Development Support Program”								
2019	31,382,487							31,382,487
2020	32,972,062							32,972,062
2021	33,376,561							33,376,561
Measure 6- “ Supporting domestic manufacturing of products with high import and strategic importance to reduce the current account deficit”								
2019	33,830,511							33,830,511
2020	35,537,550							35,537,550
2021	35,963,294							35,963,294
Measure 8- “Supporting the cooperation between SMEs or SMEs and large enterprises”								
2019	11,689,023							11,689,023
2020	12,294,667							12,294,667
2021	12,441,540							12,441,540
Measure 9- “Establishment of SME Guidance and Counseling System”								
2019	138,490							138,490
2020	277,189							277,189
2021	292,575							292,575

Year	Central Budget	Local Budget	Other National Public Finance Resources	IPA Funds	Other Grants	Project Loans	To be determined	Total
Measure 10- “Increasing private sector investments by carrying out more effective support and promotion activities”								
2019	3,970,460							3,970,460
2020	4,470,806							4,470,806
2021	4,970,955							4,970,955
Measure 11- “Increasing the number and efficiency of business development, incubation and accelerator centers in order to support innovative entrepreneurship”								
2019	1,068,053							1,068,053
2020	1,123,658							1,123,658
2021	1,137,634							1,137,634
Measure 12- “ Enhancing the R&D and innovation activities of SMEs ”								
2019	32,013,630							32,013,630
2020	33,622,413							33,622,413
2021	34,031,731							34,031,731
Measure 13- “ Supporting competent research infrastructures on a performance basis within the new legal framework,”								
2019	25,000,000							25,000,000
2020	40,000,000							40,000,000
2021	45,000,000							45,000,000
Measure 14- “ Update of the Turkey-EU Customs Union”								
2019	63,527							63,527
2020	59,611							59,611
2021	56,811							56,811

Year	Central Budget	Local Budget	Other National Public Finance Resources	IPA Funds	Other Grants	Project Loans	To be determined	Total
Measure 15- “Dissemination of Pre-School Education”								
2019	17,629,100							17,629,100
2020	102,009,000							102,009,000
2021	102,330,000							102,330,000
Measure 16- “ Increasing the reading culture”								
2019	4,765,000							4,765,000
2020	4,620,000							4,620,000
2021	4,403,000							4,403,000
Measure 17- “Updating curricula and strengthening the implementation pillar of education”								
2019	266,000			89,000				355,000
2020	3,659,000							3,659,000
2021	27,189,000							27,189,000
Measure 18- “ Redirection of workable social assistance beneficiaries into active labor programmes in order to increase their productivity and allow them to a sustainable								
2019	12,700,000							12,700,000
2020	12,000,000							12,000,000
2021	11,500,000							11,500,000
Measure 19- “Job Clubs”								
2019	317,500							317,500
2020	745,000							745,000
2021								
Measure 20- “Social Assistance Plus (+)”								
2019	238,227							238,227
2020	223,540							223,540
2021	141,864							141,864

Table 8: Reporting on the Implementation of the Structural Reform Measures of ERP (2018-2020)

Year	Name of Measure	Stage of reform implementation (1-5)*
Actions planned for 2018	The “By-law on Interoperability of the Rail System” and “Assignment Communiqué of Notified Bodies” will be published.	4
Information about implementation	The regulations were sent to the Commission by the Ministry of Economy at the end of January 2018 and comments are expected.	
Actions planned for 2018	Competent research infrastructures will be supported on a performance basis within the new legal framework.	4
Information about implementation	4 research infrastructures that were certificated under the Law No. 6550 continued to be supported. In addition, competence evaluations of new research infrastructures were carried out under the Law.	
Actions planned for 2018	Turkey aimed to start formal negotiations for the Update of the EU-Turkey Customs Union in 2018.	2
Information about implementation	Turkey has carried out necessary internal consultation and preparation processes with the aim of starting the update of the EU-Turkey Customs Union negotiations in 2018. On the EU side, the European Commission, which will conduct negotiations on behalf of the EU, asked the Council for a mandate on 21 December 2016 for the launch of formal negotiations. However, since the Commission has not received the mandate yet, formal negotiations could not be started. The formal negotiations are expected to be initiated in 2019 after the European Commission gets the mandate from the European Council.	

*: 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

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March 2019
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Phone: +90 (312) 294 50 00 • Faks: +90 (312) 294 52 98
ISBN NO : 978-605-7519-20-7

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