T.R.
MINISTRY OF DEVELOPMENT
INFORMATION AND DOCUMENT MANAGEMENT DEPARTMENT - 2013



REPUBLIC OF TURKEY
MINISTRY OF DEVELOPMENT

# MEDIUM TERM PROGRAMME
# 2014 - 2016

REPUBLIC OF TURKEY

# MEDIUM TERM PROGRAMME (2014-2016)

OCTOBER 2013

MINISTRY OF DEVELOPMENT
Necatibey Cad. No: 110/A, 06100 ANKARA /TURKEY
http://www.kalkinma.gov.tr • bilgi@kalkinma.gov.tr

Medium Term Programme (2014-2016), prepared by Ministry of Development was decided by issuing Cabinet Decree No. 2013/5444, 09.09.2013 and published in Official Gazette No. 28789, 08.10.2013.

# İÇİNDEKİLER

# INTRODUCTION

1. The Tenth Development Plan (2014-2018), that is prepared in accordance with 2023 goals, was adopted by the Grand National Assembly of Turkey on 2 July 2013. The Tenth Development Plan was designed to cover a high, stable and inclusive economic growth, as well as, topics such as the rule of law, information society, international competitiveness, human development, environmental protection and the sustainable use of resources.

2. The Tenth Development Plan, which is an important step for the society to achieve a high level of prosperity, consists of four main chapters, namely "Qualified People, Strong Society", "Innovative Production, Stable High Growth", "Livable Spaces, Sustainable Environment" and "International Cooperation for Development".

3. "Primary Transformation Programs" are developed to solve structural problems in 25 specific areas.

4. In the Tenth Development Plan period, format and content changes have been made for the Medium Term Programme (MTP), which starts the budget process and covers the period of 2014-2016. This new design exclusively covers main macroeconomic objectives, targets and policies. Sectoral, social and regional considerations are limited with policies that will contribute directly to the macroeconomic framework.

5. The MTP, which has a three-year perspective and is prepared on a yearly rolling basis, takes into consideration recent developments in the domestic and foreign markets along with the Development Plan's perspective.

6. The activities and projects related to the policies of the Development Plan for the year 2014, will take place in the 2014 Annual Programme.

# I. DEVELOPMENTS IN THE WORLD AND TURKISH ECONOMY

## A. WORLD ECONOMY

7. The US economy grew by 2.8 percent in 2012. Favourable developments in consumer confidence, employment, housing markets, tax revenues, other leading indicators from the first half of 2013 and GDP data for the first half of 2013 indicate that recovery trend has continued in the US economy. However, need for a significant fiscal consolidation in the US economy still continues. International Monetary Fund (IMF) has kept revising growth forecasts downside for the US economy since last year, and in July IMF estimated the US growth rate as 1.6 percent and 2.6 percent for the years 2013 and 2014, respectively.[1]

8. According to assessments of IMF, the quantitative easing policies of the US Federal Reserve Bank (Fed) led to a more than 1 percent increase in the world output. The expansionary monetary policies have prevented further deepening of the global financial crisis, reduced volatility in the financial markets and contributed to the revival of economic activity. Thus, policy-makers had time and maneuver room for implementing structural reforms. However, these policies have led to excessive growth of the Fed's balance sheet. Exit strategies from these policies have come to the agenda with the beginning of the economic recovery in the US.

9. On 22 May 2013, Fed announced to taper bond purchases if a steady growth in the economy is

[1] IMF World Economic Outlook Report, October 2013.

observed. Fed also stated that expansionary monetary policies would be continued until the unemployment rate falls to 6.5 percent and as long as the inflation rate and inflation expectations do not exceed 2.5 percent. The releases of Fed on dates 22 May and 19 June 2013 were perceived as an exit signal of expansionary monetary policy by markets. In this period, capital outflows surged from emerging economies, as well as bond interest rates have increased, stock markets and national currencies have depreciated.

10. The weak economic outlook in the Euro Area, which contracted by 0.6 percent in 2012, continues. Despite the unconventional monetary measures implemented by the European Central Bank and reform efforts, confidence in markets has not been achieved and financial stability has not been reestablished. Negative feedback mechanism among high public debt, low growth and weak banking sector in Euro Area, could not be eliminated. The economy has entered into a vicious cycle of fiscal consolidation, low growth, non-achieved fiscal goals and further fiscal consolidation. The delays in decision-making processes and the uncertainty regarding the future of the monetary union have negative impact on investments and growth in the region. The Euro Area growth forecasts have been revised downwards. In the second quarter of 2013, 0.3 percent quarter on quarter growth rate was recorded. Despite this, the Euro Area is expected to contract by 0.4 percent in 2013. By continuing the recovery trend that started in 2013, the growth rate in the Euro Area is estimated to be 1 percent in 2014.

11. The growth rates of the developing countries which were the driving force of world growth after the

global crisis have been slowing down since 2012. Declining export revenues, weak domestic demand, structural problems and macro-prudential policies have been effective in this development. In fact, in China, that gives a significant contribution to global growth, the growth rate of 7.7 per cent in 2012 was the lowest recorded rate since 1999. The structural problems of China which led to this economic slowdown may also adversely affect economic growth in its region and over the globe. China is expected to grow by 7.6 percent in 2013 and by 7.3 percent in 2014.

12. Despite the recorded moderate recovery in developed economies such as in the US and Japan, global economic activity remained weak in the first half of 2013. In this course, weak economic activity in the Euro Area and the slowdown of growth in developing countries especially in China have been decisive.

13. Following these developments in the world economy and the financial turmoil in developing countries after Fed announcements, international organizations have revised their growth forecasts downwards. The world growth rate forecasts for 2013 and 2014 were reduced to 2.9 percent and 3.6 percent respectively in October 2013 by IMF, which were estimated as 3.6 percent and 4.1 percent respectively in October 2012. Due to the improving economic outlook the world growth rate is expected to be 4.4 percent and 4.5 percent in 2015 and 2016, respectively. The growth forecasts of emerging markets and developing economies are revised from 5.6 percent to 4.5 percent for 2013, from 5.9 percent to 5.1 percent for 2014.

14. In this framework, the growth rate of world trade volume that was recorded as 2.7 percent in 2012 is estimated to be 2.9 percent in 2013 and 4.9 percent in 2014. The upward trend is expected to continue in the following years.

15. Unemployment rates have remained high in advanced economies. The lack of confidence into economic policies in most of the Euro Area countries causes low levels of production and demand and thus, affecting labour markets adversely. In the Euro Area, the unemployment rate, increased from 10.2 percent in 2011 to 11.4 percent in 2012. In the US, an improvement is recorded in employment due to better economic outlook and the unemployment rate, that was 8.9 percent in 2011, fell to 8.1 percent in 2012.

16. Inadequate job creation due to low economic growth, high rates of youth unemployment and talent loss of the unemployed have continued to be the main problem areas for many economies. A significant improvement in unemployment rates is not expected in global level because of weak economic activity in 2013. However, the improved economic outlook in the US led to an improvement in unemployment figures. But, the decline in labour force participation rates has been also effective in this development. The unemployment rate in the US is expected to decline to 7.6 percent while in the Euro Area it is expected to rise to 12.3 percent in 2013. In 2014, these rates are expected to be 7.4 percent and 12.2 percent, respectively.

17. Despite the expansionary monetary policies in developed countries, a serious inflationary pressure was not felt on global scale. The world trade prices of

goods and services, which increased by 11.1 percent in 2011, decreased by 1.8 percent in 2012 due to lower economic activity and weak global demand. The world consumer prices, which increased by 4.9 percent in 2011, increased by 3.9 percent in 2012. In this period, consumer price inflation in advanced economies decreased from 2.7 percent to 2 percent and it decreased from 7.1 percent to 6.1 percent in emerging markets and developing economies. The inflation rate at the global level, which was 3.9 percent in 2012, is estimated to be 3.8 percent in 2013 and 2014. In the forthcoming period, inflationary pressures are expected to be lower at the global level however inflation is expected to rise in a number of developing countries.

18. The weak global growth prospect stands out as the determining factor on commodity prices, particularly in the energy and industrial metals. The average price of Brent oil was realized as 112 dollars per barrel in 2012. While the downward trend in oil prices is estimated to continue in the medium term, geopolitical uncertainties may cause temporary price hikes.

19. Despite fiscal measures, public debts in developed countries are still at high levels. The general government gross debt stock to GDP ratio, which was 88 percent in the Euro Area in 2011, has increased to 92.8 percent by the end of 2012. This ratio increased from 99.4 percent to 102.7 percent in the US during the same period. The new stimulus package to boost the economy in Japan, in which the general government gross debt stock to GDP ratio has reached to 238 percent in 2012, indicates that this ratio may be much higher in the coming period.

20. Capital flows to developing economies follow a fluctuating course. The amount of these capital flows were approximately 221 billion dollars in 2012, yet, the expectation in 2013 is around 405 billion dollars and also near 363 billion dollars for the year of 2014.

21. Although the risks stemming from developed countries have reduced, these risks are still significant at the global level. Asset prices and money, finance and foreign currency markets have rebalanced as a result of developments in monetary policies. In this context, a number of risks concerning forthcoming periods become prominent.

22. In the short term the course of Fed's exit strategy and in the medium and long term how it will manage the process of increasing interest rate will be decisive on global liquidity conditions and capital flows. Although economic fundamentals are expected to be determinants of capital flows in the medium and long term, in short term uncertainties arising from monetary policies of developed countries may cause financial fluctuations.

23. Tapering of global liquidity may cause volatility in developing countries which have structural problems and may create pressure on national currencies of these countries.

24. Uncertainties regarding global economy and undergoing volatility in capital flows may narrow maneuver room of monetary policies in reaching inflation target.

25. A possible conjunctural hikes in oil prices might increase inflationary pressure and might directly

or indirectly affect current account deficit and risk premium of energy importing countries.

26. Briefly, thanks to the simultaneous monetary expansion and economic recovery packages, further deepening of crisis has been prevented. Moreover, reoccurrence possibility of a deep crisis both in Europe and in the US has been decreased and risk of a second collapse at the global level has been reduced. In this period, confidence indicators improved, a moderate recovery began in developed countries, public finance costs in problematic Eurozone countries decreased and malfunctioning of monetary transmission mechanism was partially fixed. Furthermore, improvements in financial conditions, low interest rates, increasing global liquidity and risk appetite increased the amount of short-term capital flows to developing countries. Nevertheless, due to decrease or reverse in capital flows to developing countries, to which was rising until the beginning of 2012, increased the fragility of these countries. In the wake of uncertainties on how and when monetary expansion will be finalized, a fluctuation process affecting developing countries has started as of mid-2013 and global economy entered into yet another phase.

27. The conjuncture in which global uncertainties increased and external financing conditions became more difficult, keeping prudent fiscal policies applied in recent years has critical importance in terms of protection of Turkish economy’s resilience. Maintaining structural reforms including improvement on quality of fiscal discipline, minimization of saving gap, management of resources to be used in the productive sectors, further

development of business and investment environment, increase on elasticity of labour markets and acceleration in transition to the registered economy will promote economic stabilization.

## B. TURKISH ECONOMY

28. After high growth rates observed in 2010 and 2011, the growth rate slowed down in 2012, because of measures taken to balance domestic and external demand.

29. Especially in the last quarter of 2012, although the contribution of net exports of goods and services to the growth was higher than expectations, due to sharp declines in private consumption and investment, 2012 growth rate which was estimated as 3.2 percent realized as 2.2 percent. In 2012, value added increased by 1.9 percent in industry, 2.4 percent in services and 3.1 percent in agriculture. The growth rates in industry and services remained below the expectations.

30. In the first half of 2013, domestic demand started to revive; growth stemmed from private and public consumption and public fixed investment. Due to acceleration in imports, the contribution of net exports was recorded as minus 1.8 points. After 3.7 percent growth in the first half of the year, in the second half of the year, similar to the first half, it is estimated that positive contribution of the final domestic demand and negative contribution of net exports will continue. In the third and fourth quarters of the year, it is projected that industrial production will preserve its increasing tendency, and the services sector will continue to make high contribution to the growth. Thus, assuming that effects of fluctuations in financial indicators on the real economy will be limited, it is expected that the growth rate will be 3.6 percent in 2013.

31. In 2012, contribution to the growth totally originated from capital stock and employment, which

increased at a high rate. Total factor productivity (TFP), which declined significantly, made negative contribution to the growth. In 2013, similar to 2012, it is estimated that main determinants of growth will be employment and capital stock thanks to increasing capacity utilization ratio. In 2013, contributions of the capital stock, employment and TFP will be 69 percent, 56.4 percent and -25.4 percent, respectively. Unlike the previous year, it is expected that the negative contribution of TFP will decline. In 2014 and beyond, it is projected that the contribution of TFP will be positive and thus growth will converge to the potential level.

32. As of June 2013, total employment in the last year increased by 742 thousand persons, with 570 thousand persons increase in services sector (including construction). Non-agricultural employment increased by 823 thousand persons. In this period, employment rate increased from 46.8 percent to 47.4 percent. Unemployment rate, in the same period, increased by 0.8 percentage point and realized as 8.8 percent. Despite the high increase in employment, the increase in unemployment rate mainly came from 1.1 percentage point increase in participation rate, in the mentioned period.

33. Because of the slowdown that began in the last quarter of 2011, imports declined in nominal terms and foreign trade deficit decreased from 105.9 billion dollars to 84.1 billion dollars in 2012. In this development, declines in imports excluding energy and gold exports were determinant factors. Thus, current account deficit, which realized as 75.1 billion dollars in 2011 declined to 47.8 billion dollars in 2012.

34. In 2013 foreign trade deficit, in nominal terms, excluding gold and energy is expected to be around that of 2012 level. However, due to deterioration in net gold trade, 2013 foreign trade is projected to reach to 98 billion dollars. Because of these developments in foreign trade, current account deficit to GDP ratio, which decreased to 6.1 percent in 2012, is expected to rise to 7.1 percent by the end of 2013. If gold trade is excluded, current account deficit to GDP ratio is estimated to decline from 6.8 percent to 6.1 percent.

35. The recovery and positive growth rates observed in the Euro-zone beginning from the second quarter of 2013 are promising developments for Turkey's external demand. The continuation of the moderate recovery in the EU would make positive contribution to Turkey's foreign trade; however, if the realization of a growth performance will be weaker than expected levels in the EU, it may affect Turkey's exports negatively in next year. In this context, it is important to continue to market diversification policy, which played an outstanding role in alleviating effects of global crisis on Turkey's export performance.

36. The acceleration of efforts aiming at ensuring the positive contribution of Transatlantic Trade and Investment Partnership Agreement between the European Union and the USA, which have the highest share in the world trade volume, to the foreign trade of Turkey has become an important agenda item.

37. In addition to decrease current account deficit in the short run, the need continues for reducing current account deficit to sustainable levels permanently in the medium and long term. For this purpose, a policy

framework has been constructed for reducing foreign trade deficit by decreasing dependency on imports and increasing exports of products with high value added, improving finance quality and furthermore increasing domestic savings.

38. To increase domestic savings, with an amendment in private pension scheme, a new system was introduced to ensure that all contributors would benefit from incentives and a new Capital Market Law was enacted to increase and protect corporate and household savings. Furthermore, awareness campaigns were arranged for preventing waste of resources and increasing saving consciousness, at the country level. From the end of 2012 to 27 September 2013, more than 740 thousand new persons participated in the private pension system and in the same period, fund magnitude surpassed 24.3 billion TL. Private pension system is expected to play an important role in increasing domestic savings in the medium term if it continues to perform the acceleration in 2013.

39. The private sector savings to GDP ratio, which was 11.6 percent in 2012, is expected to decline to 9.7 percent in 2013 because of sharp increase in private consumption. However, the public sector savings to GDP ratio, which was 2.9 percent in 2012, is expected to stay at the same level in 2013. Thus, the total domestic savings rate is estimated to be 12.6 percent in 2013 which implies 1.9 points decrease compared to the previous year's rate.

40. The private investment expenditures to GDP ratio, which was 16 percent in 2012, is expected to decline to 14.8 percent in 2013. In the same period,

the public investment to GDP ratio is projected to rise by 0.4 points and to reach 4.8 percent. Thus, the share of total investment is expected to be 19.6 per cent of GDP.

41. In recent years, excluding the years of low or negative growth, the saving-investment gap tends to increase. The main driver of this trend is the decline in private sector savings. The saving-investment gap to GDP ratio, which reached to 9.5 percent in 2011, decreased to 5.8 percent in 2012 as a result of macro-prudential measures. In 2013, despite the decrease in investments, the saving-investment deficit to GDP ratio is expected to increase up to 6.9 percent as a result of the significant decline in total savings.

42. In 2012, the deceleration of domestic demand and the decline in non-oil commodity prices led to a slow-down in the annual rate of increase in prices of basic goods. The annual service prices increased slightly due to negative impact of the high rate of increase in the CPI on pricing behaviours and increased costs. In addition, in the course of core inflation, prices of basic goods have been decisive and in 2012, the annual growth rate of core inflation indicator Special CPI Aggregate-I (SCA-I) declined to 5.8 percent. In the last quarter of 2012, there had been a significant decline in the annual rate of increase in food prices, which fluctuated in the first three quarters of the same year. The annual growth rate of energy prices remained high throughout the year and accelerated in the last quarter of the year due to price adjustments. As a result of these developments, the annual growth rate of CPI fell to 6.2 percent in 2012, reaching to the lowest end-year rate in the last 44 years.

43. In January-September period of 2013, the cumulative growth rate of CPI realized as 5 percent by increasing 1.7 points over the same period of the previous year. Increases in unprocessed food prices in January and June and the adjustments of prices of tobacco products have been decisive in these developments. In addition, the depreciation of the Turkish Lira and the increase in oil prices led to acceleration in cumulative growth rate of CPI since June. Thus, the annual rate of increase in the CPI was 7.9 percent in September 2013. By the end of 2013, the annual growth rate of CPI is expected to be 6.8 percent taking into account the removal of the base effect on energy prices and the current structure of other factors affecting inflation.

44. In the second half of 2012, the CBRT gradually loosened its tight monetary policy stance, which had been implemented since the last quarter of 2011, because of the relative decrease in inflationary risks and possible acceleration of capital flows due to additional monetary easing implemented by central banks in developed countries in September and October 2012. In the second quarter of 2012, the CBRT lowered the upper limit of the interest rate corridor gradually from 11.5 to 9 percent and provided liquidity with lower costs to markets. Besides that, reserve option mechanism (ROM) has been introduced to reduce the sensitivity of loans to capital flows, to limit the appreciation pressure of Turkish Lira, to reduce the volatility of exchange rates, and to increase foreign exchange reserves. The CBRT had a policy stance against appreciation pressures of Turkish Lira until May of 2013. During this period, the

CBRT had carried out interest rate cuts, increased the reserve requirement ratio and taken steps to improve liquidity in foreign currency withdrawn from the market by ROM in order to balance risks to financial stability.

45. Despite the weak economic activity in the Euro zone, Turkish financial markets grew steadily and positively differentiated from those of other countries between the second half of 2012 until May of 2013 because of positive effects of increase in Turkey's credit rating, the improvement of the current account deficit and the expectations about the new credit increase. During this period, foreign portfolio inflows to Turkey had increased.

46. Fed's statements starting in May of 2013 on tapering the liquidity provided in the context of monetary expansion, increased uncertainties in the global economy. Thus, capital flows to developing countries started to fluctuate. As a result of these fluctuations in capital flows, as observed in many developing countries, the volatility of Turkish Lira and market interest rates increased. After these developments in the global economy the CBRT, began to implement policies in order to limit fluctuations in the Turkish Lira, to prevent the possible speculation about the Turkish Lira and to reduce the deterioration in expectations for inflation as of May 2013. In this regard, the CBRT has relatively increased the cost of the market liquidity by raising the upper limit of the interest rate corridor and implementing monetary tightening more frequently. In addition, taking into consideration the needs of the market to reduce the volatility of the Turkish Lira, the CBRT conducted foreign exchange selling auctions at various dates.

47. General government primary expenditures and general government revenues (excluding privatization proceeds) have been continuing their increasing trend as a ratio to GDP in 2012 and 2013.

48. General government deficit to GDP ratio increased by 0.7 points in 2012 comparing to the previous year, and realized at 1 percent. General government revenues to GDP ratio increased by 1.4 points, however 2.1 points increase in general government expenditures, especially through the increases in the current expenditures and transfers, played a major role on the rise of general government budget deficit. Central government budget is the main culprit in the increase of current expenditures and transfers. In 2012, central government budget personnel expenditures rose by 0.5 points and mainly due to transfers to household and social security institutions current transfers increased by 0.6 points. Main determinant of the increase in general government revenues was non-tax revenues.

49. In 2012, general government primary surplus (excluding privatization proceeds) realized at 2 percent of the GDP, and general government primary surplus (program definition) was 0.7 percent.

50. In 2013, general government total revenues to GDP ratio is expected to increase by 1.9 points, and realize at 39.7 percent. Increase in the indirect taxes with the help of collections from TEDAŞ and BOTAŞ as compensation to their past tax obligations, and increase in social security premiums played a major role in increasing general government revenues.

51. In 2013, general government expenditures to GDP ratio is estimated to be 40.8 percent with a 1.9 point increase comparing to the previous year; of which, 1.3 points stems from the current expenditures and transfers, 0,5 points stems from investments.

52. In 2013, general government deficit to GDP ratio is estimated to be 1 percent. General government primary surplus to GDP ratio (excluding privatization proceeds) is estimated to be 1.7 percent, and general government surplus on program definition is projected to be 0.8 percent.

53. According to these developments, public sector borrowing requirement to GDP ratio, which was 1 percent in 2012, is estimated to decrease to 0.8 percent, and general government debt stock to GDP ratio, which was 36.2 percent in the previous year, is projected to decrease to 35 percent in 2013.

# II. THE MAIN OBJECTIVE

54. The long-term development goal set by the Tenth Development Plan is “to upgrade the position of Turkey in the international area and enhance the welfare of citizens by structural transformations based on the principal social values and expectations of the nation in a reshaping world”.

55. In this context, the Plan aimed that Turkey becomes a country that have ascended to higher stairs in the hierarchy of value chain, ranked among high income countries, solved the absolute poverty problem and improved income distribution. In line with these targets, it’s foreseen that the growth performance of the country will be rendered to reach a higher, stable and sustainable structure and the welfare level and competitiveness will be increased.

56. In addition, the Plan aimed to accelerate capital accumulation and the process of industrialization, increase the productivity levels of production factors, transform the economy into lower import-dependent structure, increase the innovation capacity and transform the production structure by integrating innovations into the present production structure.

57. Towards achieving the main goal of the Tenth Development Plan, the main objective of the Medium-Term Program is on the one hand to reduce the current account deficit gradually while increasing the growth, on the other by minimizing the effects of global uncertainty on our country.

58. Increasing domestic savings, redirecting available resources to productive areas, raising productivity level of the economy, increasing employment, reducing inflation and maintaining the strong stance in public finance are the primary intervention areas of the Medium Term Programme.

59. To realize the objectives and priorities of the Development Plan and the Medium Term Programme, structural reforms will be continued.

# III. MACROECONOMIC OBJECTIVES AND POLICIES

## A. TARGETS AND INDICATORS IN THE PROGRAMME PERIODS

60. The MTP's macroeconomic framework has been prepared by taking into consideration the uncertainty environment caused by fluctuations in international financial markets since May 2013, expected developments in global liquidity conditions and political developments in neighbour countries. While determining objectives of the Programme period, it is assumed that global growth will increase gradually, our trading partners will grow moderately, foreign capital inflow will provide adequate contribution to financing of the growth and terms of foreign trade will improve partially.

### 1. Growth

61. GDP growth rate is estimated to be 4 percent in 2014. In 2015 and 2016, with a growth strategy that depends on productivity enhancement, is rather financed by domestic savings and is supported by investments directed to productive sectors, GDP growth rate is targeted to be 5 percent in both years.

62. Total factor productivity's (TFP) contribution to growth will be increased and transition to a more balanced growth structure by production factors will be maintained through policies aiming to enhance production efficiency especially in industrial sector. Besides, growth will be accelerated without triggering

any current account deficit problem, through enhancing competitiveness. In this context, contribution of TFP to growth, which was negative in 2012 and 2013, is expected to be positive in 2014 and to increase to 17 percent as of the end of program period.

63. In the program period, both private and public consumption expenditures are estimated to increase by 3.5 percent, private investment expenditure is estimated to increase by 7.7 percent, and public investment expenditure is estimated to increase by 3.3 percent in real terms on annual average.

64. Domestic savings rate, which has fallen sharply in recent years, is expected to reach 16 percent at the end of the Programme period. As achieving this goal, the increase in private savings rate will be the leading factor.

65. The saving investment gaps of public and private sectors are expected to narrow during the Programme period.

**2. Public Finance**

66. Public sector deficit to GDP ratio, which is estimated to be 0.8 percent in 2013, is targeted to decline to 0.5 percent at the end of the Programme period.

67. General government deficit to GDP ratio, which is expected to be 1 percent in 2013, is targeted to decline to 0.5 percent in 2016.

68. Public sector surplus to GDP ratio (on program definition), which is expected to be 0.9 percent in 2013, is estimated to increase consistently and rise to 1.3 percent at the end of the Programme period.

69. General government expenditures and revenues to GDP ratios, which are estimated to be 40.8 percent and 39.7 percent in 2013 respectively, are projected to decline gradually to 38.2 percent and 37.7 percent respectively at the end of the Programme period.

70. Tax burden (including social security premiums and excluding tax rebates), which is expected to be 29 percent in 2013, is projected to decrease gradually to 28.3 percent at the end of the Programme period.

71. General government nominal debt stock to GDP ratio (EU definition), which is estimated to be 35 percent in 2013, is projected to decrease to 30 percent at the end of the Programme period.

72. It is targeted that State Economic Enterprise (SEE) system will operate without generating any financial deficit during the Programme Period.

**3. Balance of Payments**

73. Real exports and real imports are estimated to increase 8.1 percent and 6.2 percent respectively on annual average, in the Programme period.

74. Exports, which are expected to be 153.5 billion dollars in 2013, are estimated to reach 202.5 billion dollars, and imports, which are expected to be 251.5 billion dollars in 2013, are estimated to reach 305 billion dollars at the end of the Programme period. Thus, the foreign trade deficit, which is expected to be 98 billion dollars in 2013, will reach 102.5 billion dollars at the end of the Programme period.

75. Energy imports, which are expected to be 59 billion dollars in 2013, are expected to increase 64.5

billion dollars at the end of the Programme period taking into consideration the growth performance and oil price expectations.

76. A partial improvement is estimated in terms of trade.

77. Tourism revenues, which are expected to be 29 billion dollars in 2013, are estimated to reach 34.5 billion dollars at the end of the Programme period with an annual average increase rate of 6 percent.

78. With the contribution of policies aiming to increase domestic savings and decrease the high import dependency of production during the Programme period, the current account deficit to GDP ratio, which is expected to realize as 7.1 percent in 2013, is targeted to decrease to 5.5 percent at the end of the Programme period.

**4. Inflation**

79. During the Programme period, aggregate demand conditions is expected to continue to contribute in reducing inflation. In this period, food inflation is expected to fluctuate around 7 percent and Brent crude oil price is assumed to decrease gradually from 108.8 dollars per barrel in 2013 to 93.1 dollars per barrel at the end of the Programme period taking into account futures markets indicators. In this framework, the annual growth rate of CPI, which is estimated to be 5.3 percent in 2014, is expected to fall to 5 percent at the end of the Programme period.

**5. Employment**

80. During the Programme period, as a result of policies to be implemented to increase the labour force

participation and employment, nonagricultural sector is expected to employ an additional 1,809 thousand persons. During this period, with the limited effect of the increase in agricultural employment, the total employment is expected to increase 1,833 thousand persons.

81. The labour force participation rate, which is expected to be 51 percent at the end of 2013, is targeted to reach 51.9 percent at the end of the Programme period. With the implementation of policies, that harmonize work and family life, the labour force participation rate of women is estimated to reach to 32.7 percent by 1.3 points increase in 2013.

82. At the end of the Programme period, the employment rate, which is expected to be 46.2 percent in 2013, is expected to rise to 47.3 percent. Thus, a total of 27,525 thousand persons will be employed at the end of the Programme period.

83. The share of agriculture in the employment, which is expected to be 23.6 percent in 2013, is estimated to decrease to 22.1 percent at the end of the Programme period.

84. The unemployment rate, which is estimated to be 9.5 percent at the end of 2013, is expected to fall to 8.9 percent in 2016.

## B. MACROECONOMIC POLICIES

### 1. Growth

85. The Tenth Development Plan has determined structural policies for increasing the potential growth in the long run. In the Programme period, while continuing these structural policies, necessary short-run policies will be implemented to increase the growth rate to its potential levels.

86. In the Programme period, increasing the productivity and savings, enhancing the business and the investment climate, increasing the efficiency of job markets and stimulating private investments are crucial for ensuring high-growth. In addition to these, in the long run, channelling resources to productive areas and enhancing the industrialization are required to increase the potential growth. Thus, the current account deficit can be reduced to sustainable levels with stable productivity increases and a more competitive production structure. For an inclusive and sustainable growth, policies for enhancing labour markets and realizing the development potential of all regions are required.

87. In the Programme period, a more balanced growth will be targeted. In this framework, increasing contributions of employment and productivity to growth is essential. Thus, growth would be more inclusive and stable and all segments of the society would benefit from growth.

88. Monetary, financial, fiscal and incomes policies will be implemented in coordination to preserve and enhance macroeconomic stability.

89. In the medium term, measures will be taken to decrease the cost of productions such as energy, transportation and labour costs in the industry sector.

90. Efforts to increase the standard, quality and technological level of domestically produced intermediate goods will be supported.

91. The awareness and knowledge of consumers will be increased to make domestic goods more preferable.

92. Necessary policies will be adopted to transform natural resource abundance and agricultural diversity into production and competitive advantage by the help of technological advancements and services.

93. The use of information and telecommunication technologies in the services sector will be generalized to increase the share of high value added areas and exports in services sectors.

94. The studies for energy efficiency will be continued to decrease the energy intensity of the economy.

95. R&D based, innovative and high value added generating production will be supported. In this perspective, R&D and innovation activities will be increased with a private sector oriented approach, and commercialization and branding processes of their outcomes will be accelerated.

96. Public and private investments will be considered as complementary to each other with a holistic approach.

97. The current incentive mechanisms will be effectively continued to support new investments,

especially in manufacturing industry, to increase exports and technology level. Implementation outcomes and sectoral developments will be closely monitored and the current incentive framework will be revised in necessary areas.

98. Domestic and foreign direct investments will be increased by supporting the proper functioning of markets and competition environment, the protection of intellectual property rights and attractive and predictable business and investment climate. Activities concerning business and investment climate will be conducted focusing on common problem areas and in a more effective and result oriented manner.

99. Bureaucratic and legal processes regarding investments and businesses will be improved and legislation will be updated in line with international standards and best practices.

100. Proper land will be assigned to investors by provision of land, inventory of suitable land for investments will be compiled especially for public land and more efficient allocation processes will be designed.

101. At regional level, the approach for enhancing business and investment climate will be generalized and developed and investors will be supported.

102. Tangible public infrastructure investments such as transportation, logistics and energy will be planned and implemented to decrease the production costs in private sector, to generate new production capacity and thus to support development of a healthy and competitive production structure.

103. The attraction of non-productive investments will be decreased by differentiating tax and credit costs and savings will be channelled to investments in productive areas.

104. Privatization policy will be implemented in line with the policy of supporting new domestic investments in productive areas.

105. The contribution of domestic sources to financing of growth will be increased.

106. Structural and macro-prudential measures will be taken to support a consumption pattern coherent with the increase in disposable income and thus domestic savings.

107. Policies will be implemented to avoid waste of resources in both public and private sector.

108. Natural resources will be effectively used and wastes will be recycled.

109. Public procurements will be used as an effective tool for technologic advancement and increasing domestic production.

110. The internationalization of SMEs will be increased by developing their R&D, innovation and export capacity. Branding, institutionalisation and development of innovative business models for SMEs will be supported.

111. Organized industrial zone, technology development zone, small industrial site and industrial zone practices will be enhanced, quantity, quality and efficiency of incubator and business development centres and catalysts will be increased and clustering will be supported.

112. The transformation in the education system - which develops personalities and skills of individuals, enhances its harmonization with labour markets in the framework of lifelong learning, is based on equal opportunities and is quality oriented - will be continued.

113. Policies aiming at improving income distribution will be continued to provide the sustainability of growth.

114. With regional development policies, regional development disparities will be lessened, the competitiveness power of all regions will be increased and their contribution to growth will be maximized by utilizing their capacities.

115. Green growth will be supported by taking the opportunities regarding new business areas, revenue sources and technological advancements provided by environment friendly approaches.

116. In the urban renewal, value added sectors, creative industries, hi-tech, environment friendly and innovative production and energy efficiency will be supported.

**2. Fiscal Policy**

117. Fiscal policies will be implemented in line with the goals of supporting economic and financial stability, increasing domestic savings, curbing current account deficit, and raising growth potential of the economy.

118. Sustainability of public finances will be pursued by keeping public sector borrowing requirement at reasonable levels, and achievements in public finances will be continued in future periods.

119. Primary expenditures will be constrained by prioritization of expenditure programs and increasing

efficiency. Fiscal space, which will be created through expenditure rationalization, will be used in infrastructure investments that will help bolstering the economic growth, subsidies, and R&D supports.

120. By taking into account the sensitivity of public finances to cyclical effects, policies will be implemented to increase the quality of public revenues in order to construct a stronger public finance. Policies depending on one-off revenues in financing permanent expenditure increases in the medium and long run will not be implemented.

**a. Public Expenditure Policy**

121. Public expenditure policy will be implemented in line with the policy priorities that were set within the multi-year budgeting framework. It is essential for public administrations to use their allocated appropriations efficiently.

122. In order to strengthen accountability and increase efficiency in resource management, before implementing new spending initiatives, pilot programs will be devised, impact assessments will be performed, and additionally existing programs will be reviewed in terms of effectiveness and efficiency.

123. In determining appropriations for current expenditures excluding personnel expenditures, zero-based budgeting approach shall be applied in the budgeting process.

124. Spending programs will be conducted in line with only their predefined objectives and their predefined timelines.

125. Compliance of institutional strategic plans with Development Plan objectives will be pursued. Strategic plan objectives will be reflected to budget preparation and implementation process more efficiently.

126. In order to strengthen implementation of public financial management reforms, a budget structure based on program approach will be adopted gradually.

127. Public-private partnership investments will be planned by taking into account the impact of contractual liabilities on public finances.

128. The effectiveness of existing policies related to procurement of services in the public sector will be evaluated via cost and benefit analysis.

129. Agricultural subsidies will be determined within the objectives of increasing efficiency, productivity and value-added.

130. In the allocation of public R&D expenditures, priority will be given to directing private investments to sub-sectors with high trade deficit.

131. Education will continue to be priority sector in allocation of public expenditures.

132. Deductions from the general budget tax share revenues of the local administrations on the account of their liabilities to the public sector will be made regularly.

133. Without compromising the quality of health services, in order to prevent unnecessary drug and service consumption, medicine and treatment expenditures will be rationalized.

134. Auditing models taking into account previous behaviours of health service providers will be developed.

Software, hardware and education infrastructure will be strengthened in risk analysis and data mining fields.

135. Measures will be taken to overcome the structural problems of university hospitals.

136. Efficiency of social programs will be assessed and multiple utilizations of these programs will be prevented.

137. Premium restructuring that threatens the actuarial balance of the social security system will not be allowed except extraordinary conditions such as economic crises and natural disasters.

138. Implementations that have negative repercussions on the financial sustainability of the social security system will be reviewed.

**b. Public Invesment Policy**

139. The main goal is to maximize the contribution of public investments for fostering economic growth, supporting private sector investments, enhancing regional development potential, increasing employment and welfare of the country.

140. Public investment appropriations will be directed towards infrastructure investments such as rail and maritime transport and logistic center supporting productive private sector activities.

141. Public investment projects will be prioritized by concentrating on projects that will be completed in short term and maintenance-replacement, maintenance-repair and rehabilitation expenditures will be emphasized in order to ensure maximum benefit from the existing capital stock.

142. Public and private sector investments will be addressed with a holistic approach and public investments will be intensified on economic and social infrastructure areas that could not be fulfilled by private sector.

143. Including PPP projects, in public investments education, health, drinking water and wastewater, science-technology, information technologies, transportation and irrigation sectors will be given priority.

144. Economic and social infrastructure projects that supporting private sector investments and human resource development projects and other projects within the action plans of the South Eastern Anatolian Project, Eastern Anatolian Project, Konya Plain Project and Eastern Black Sea Project plans will be carried on.

145. Works towards the preparation of a PPP strategy guide, drafting a framework law that embraces all PPP legislation and, improving the coordination of PPP policies and implementation will be initiated

146. The process of planning, implementation, monitoring and evaluation of the public investment projects will be enhanced; in this context the capacity of public institutions will be improved.

**c. Public Revenue Policy**

147. Securing the public revenues from buoyant and permanent sources is the main objective. Tax policy will be implemented in a way to improve income distribution, contribute to sustainable development and increase competitiveness of the economy and domestic savings. Predictability in taxation and stability in implementation of tax policies are essential.

148. Tax policy will be used as a tool to ensure efficient distribution of production factors, and to support employment and investments.

149. Studies on revision of the basic tax laws in order to make them simple and applicable for taxpayers will be continued in line with economic and social policies.

150. Implementation results of revenue policies will be disseminated to public regularly in details.

151. Necessary administrative and judicial measures regarding preventing the tax evasion in e-commerce will be put into practice.

152. In order to prevent unfair competition, enhance competitiveness in the economy and increase public revenues, an efficient struggle against informal economy will be waged. To this end, auditing capacity will be increased and audits will be made more efficient, implementation capacity and IT infrastructure of public institutions will be improved, combat against smuggling, collaboration among institutions and data sharing will be enhanced and public awareness against informality will become prevalent.

153. Transaction taxes on commercial activities will be reduced as public fiscal balances permitted.

154. The tax base will be expanded in a way that ensuring the taxation to be fairer and to serve properly in terms of its fiscal functions.

155. In the determination and implementation of tax policies, priorities concerning climate change and efficiency in energy consumption will be taken into account.

156. In order to use public immovable effectively, efficiently and economically, all alternatives including sales of assets will be taken into consideration.

157. In order to strengthen the fiscal capacity of local administrations, own revenues of local administrations, including the utilization of urban rents, will be raised.

**d. Public Borrowing Policy**

158. A sustainable, transparent and accountable debt management policy, which considers macroeconomic balances and consistent with monetary and fiscal policies, is essential. Public debt management policy will be carried out to meet the medium and long term financing needs at the lowest possible cost within the framework of risk level determined by domestic and external market conditions and cost factors.

159. Debt management policies based on strategic benchmarking will be continued. In this context, exchange rate and interest rate risks will be managed by borrowing mainly TL denominated and fixed interest rate instruments, and liquidity risks will be managed by extending the average maturity and holding reserves.

160. In order to ensure balanced distribution of debt service between terms and to increase the price efficiency in the secondary market, buy-back and switching auctions may be conducted.

161. In order to obtain a healthy yield curve and to provide liquidity in the secondary market, policies like re-issuing instruments in decreasing maturity and benchmark bond policy will be sustained.

162. In order to expand the investor base of domestic government bonds, efforts to improve new

borrowing instruments and investor relations will be continued.

163. Primary dealership system will be continued.

164. Efforts on improving bond markets will be continued.

**e. Public Financial Management and Audit**

165. Reform initiatives on public financial management and control, essentially based on the principles of enhancing transparency and accountability, that aims at ensuring effective, economic and efficient use of public resources have been mostly put into practice. Yet, in order to reap intended benefits of these reforms, it is important to increase the efficiency of implementation and avoid from regulations, exceptions and provisions which can be considered as deviations from these reforms. In this regard, strengthening consistency among strategic plans, budgets and performance programs, enhancing multi-year budgeting, ensuring efficient functioning of internal and external audit systems in coordination with each other and conducting internal control systems properly are targeted.

166. The compliance level of the public administrations' operations with the standards of internal control and internal audit will be increased.

167. Quality and quantity of public financial management human resources infrastructure will be strengthened.

168. In order to ensure an effective external audit in the public administrations, implementation capacity of Court of Accounts will be strengthened.

### f. State Economic Enterprises and Privatization

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

170. All corporate policies, especially pricing, of SEEs will be determined so as to attain the targets foreseen in the strategic plans and in the general investment and financial decrees, and implemented efficiently. SEEs' activities will be carried out without causing any negative effects on market mechanism.

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

172. Implementations towards improving the compliance of SEE activities with strategic plans and performance programs will be carried out.

173. The process of establishing efficient internal audit and internal control mechanisms will be completed in all SEEs and internal audit units will be activated.

174. SEEs will not be employed in activities that aim societal benefit and public good as long as it is not obligatory. On the other hand, if SEEs are assigned to such activities, their duty losses will be compensated in time.

175. In order to contribute to the stable high-growth, SEEs will focus on high value-added products via developing technological infrastructure and R&D activities. They will also benefit from domestic energy resources and will take advantage of new opportunities for exports.

176. Implementation of an efficient employment policy in SEEs will be continued.

177. Quality-cost balance in production of goods and services will be achieved in SEEs by improving outsourcing processes.

178. Exploration activities will be accelerated for oil and natural gas at home and abroad. Exploration and production activities for domestic resources such as lignite and geothermal fields will be maximized. Comprehensive research will be conducted towards shale gas and other new technologies.

179. The restructuring of Turkish State Railways will be completed, and private sector will be allowed to enter freight and passenger transportation by railways. The fiscal burden of Turkish State Railways on the treasury will be reduced to a sustainable level.

180. TÜLOMSAŞ, TÜDEMSAŞ and TÜVASAŞ will be restructured in a way that will meet the market expectations, which occurred after new legislative arrangements in the railway sector.

181. The restructuring of PTT as a corporation will be completed.

182. Privatization implementations will continue based on a program within the framework of macroeconomic policies and long term sectoral priorities. Public offerings will be heavily utilized in privatization implementations.

**3. Balance of Payments**

183. In order to ensure stable growth, it is essential for the current account deficit to be reduced to a

sustainable level and to be financed by foreign direct investments and long term sources to a possible extent.

184. Despite the prevention of excessive appreciation of Turkish Lira recently, increasing dependency on imported inputs restrain current account from declining to desired levels. In the forthcoming period, within the framework of relatively limited foreign resources facilities, the importance of domestic savings rises. On the other hand, increasing productivity and accelerating micro reforms for high value added production in industry will have importance.

185. Targeted and priority countries will be determined to ensure increasing goods and services exports by diversifying export markets. At the same time, Turkey's exports to the traditional markets will be increased.

186. Studies will be conducted to facilitate market entry in export markets, especially in targeted and priority countries.

187. By assuming a more effective role in Customs Union, increasing export market share in EU countries and strengthening trade and investment relations with EU will be top priority.

188. Within the framework of Input Supply Strategy (ISS), actions for procurement of more efficient and low cost inputs in export oriented production, decreasing dependency of production and exports on intermediate goods imports and thus contributing sustainable and competitive advantage in exports will be initiated.

189. The compliance with the terms of competition in strategic sectors of production as well as export-oriented production and the procurement at reasonable costs of strategic raw materials and inputs, which could not be

produced in our country, will be provided by investing abroad.

190. The activities of the original design of products will be encouraged in consumption exports, training of qualified designers will be provided, patent registration and creation of international trademark will be supported and supports related to marketing and promotion will be developed according to the needs of exporters.

191. With the aim of exporting products of quality and quantities appropriate to foreign demand conditions, support programs will be implemented by taking into account manufacturing process.

192. Considering effectiveness of export subsidies, sectors with potential for development will be supported with priority.

193. Free trade agreements including services and investments will be top priority.

194. Inward Processing Regime procedures will be re-evaluated in terms of domestic production conditions and foreign trade policies.

195. Required mechanisms will be developed for e-Commerce to contribute to the exports, but not to the imports of consumption goods.

196. Measures will be taken to reduce the cost of exporters in customs operations.

197. In order to contribute to increase Turkish exports, technical assistance will be provided to countries in need and Turkey's effectiveness will be improved on a global and regional scale within the scope of Turkey's bilateral and multilateral cooperation activities.

198. In electricity production the use of domestic coal and renewable energy sources will be given a priority, nuclear power plant investments will be continued without delay; energy production based on domestic resources will be increased by performing rehabilitation of power plants.

199. Imported products will be safe and suitable for technical regulations by increasing the efficiency of market monitoring and supervision system in imports.

200. With the aim of raising awareness for prefering high domestic value-added products, encouraging measures will be taken.

201. Domestically produced goods and products using domestic inputs will be preferred in public procurements.

202. In important areas of production and consumption, logistic centers will be established to meet regional and global needs and to support the competitiveness of main export sectors.

203. In order to ensure the achievement of export goals by facilitating foreign trade, large-scale port capacity will be created and railway and highway connections of ports will be completed.

204. Investors' rights will be guaranteed and protected in foreign countries.

205. In tourism sector a structure will be built up which increases the quality of the service, targets high income groups through diversifying marketing channels and emphasizes the types of tourism that have comparative advantage.

206. Tourism investments will be diversified by shifting them from developed regions with intensive demand to other areas and policies will be adopted to spread tourism-oriented activities to the entire year.

207. To increase overseas contracting services revenues, activities, which increase the quality of overseas contracting services and increase the export potential of constructing material, will be supported and weight will be given to highly qualified and knowledge-intensive projects abroad.

208. In the construction sector, the efficiency of technical consulting services abroad will be increased.

209. Retailing activities by opening stores abroad and the sale of high value-added products of high quality in these stores will be supported.

**4. Monetary Policy**

210. The main objective of the monetary policy is to establish and to sustain the price stability.

211. Monetary policy will be implemented in accordance with the inflation targeting regime and financial stability, as a supportive objective, will also continue to be taken into consideration.

212. Besides the usage of short term interest rates as the main monetary policy tool, the complementary instruments such as reserve requirements and interest rate corridor and Turkish Lira and foreign exchange liquidity applications will continue to be practiced together.

213. Inflation targets will be determined by the Government and Central Bank for three year periods.

214. In cases which inflation realizations exhibit excessive deviations from the target or when any probable risk of deviation emerges, to ensure accountability and transparency of the monetary policy, the Central Bank will declare in written form to the government and announce to the public the reasons of the deviation from the target and measures that should be taken in order to converge to the original target again.

215. The operational framework of monetary policy enabling a flexible and efficient liquidity management will continue to be followed in the Programme period.

216. The floating exchange rate policy will continue to be pursued in the Programme period.

217. Foreign exchange selling auctions may be started if unhealthy price formation or excess volatility occurs as a result of loss of depth in exchange market. Moreover, in case of speculation depending on loss of market depth, the foreign exchange market can be intervened directly.

218. In 2013 collateral requirements of export rediscount loans has been eased for use and in this context the limit of rediscount loans granted to exporters raised from 6 billons dollars to 12 billons dollars and the maturity of corresponding loans has been extended. Within the framework of this limit increase and provided ease of use for loans it is expected that the use of export rediscount loans and the contribution of these loans to foreign exchange reserves will increase proportionally in the Programme period.

219. Using reserve option mechanism as an automatic stabilizer against fluctuations in capital flows will be continued.

220. Channels of communication concerning monetary policy tools and decisions will be strengthened.

## 5. Financial Markets

221. The main objective is strengthening the effectively and transparently operated financial system which can meet the needs of the real economy. In this context, it is primarily aimed to have a financial system with low transaction costs, strong technological infrastructure and human resources in which all types of financial instruments that contribute to economic growth can be issued.

222. The regulation and supervision of the banking sector will be developed by considering the country conditions and compliance with international standards.

223. Policies to reduce the impact of the business cycles will be carried out by considering financial stability.

224. By accelerating the progress of Istanbul being an international financial center, financial sector exports will be increased.

225. Interest free financial instruments will be expanded and diversified, to raise awareness necessary actions will be taken.

226. Financial education which leads to healthy functioning of financial markets, enables individuals to take right decisions across a variety of financial products and contributes to the increase in domestic savings will be expanded.

227. To resolve disputes concerning financial markets quickly and effectively arrangements will be made and the application will be strengthened.

228. Necessary regulations will be made to shift the savings to long-term financial instruments.

229. The access to finance for SMEs and entrepreneurs will be facilitated by extending the possibilities of private equity, venture capital, loan guarantee funds, micro-credit, and capital market.

**6. Employment Policies**

230. Despite the recent developments in indicators such as labour force participation, unemployment, informal employment, education level and productivity of the labour force, the importance of the need for further progress in these areas as well as addressing structural problems such as rigidities in the labour market, severance pay and subcontracting persists. In this context, the main objective is to create a more competitive labour market where the employment opportunities are improved with a sustainable and inclusive growth approach, the labour market is enhanced and the labour force is better qualified.

231. Individuals will be equipped with the fundamental and vocational skills compatible with the demands of the labour market, work and family life will be harmonized and active labour market policies will be implemented on the basis of impact assessments.

232. Labour force participation and employment rates of particularly women, youth and the disabled will continue to be increased through an efficient and integrating employment policy.

233. The number of private employment agencies will be increased and their fields of activity will be extended to include temporary employment relationship.

234. Subcontracting practice will be reconsidered with a view to take into account the labour rights and the competitiveness of the economy.

235. In dialogue with the social partners, a severance payment system to be utilized by all workers based on individual accounts will be advanced.

236. In order to solve the unemployment problem that has different dynamics at the regional level, the labour market will be analysed in detail and region-specific strategies will be developed.

237. In order to increase the employability of the poor and facilitate their transition to a productive position, the connection between social assistance and employment will be strengthened.

238. Through combating with informal employment and undeclared wages, the premium base will be extended and the number of registered employees will be increased.

# Annex Table 1: Main Economic Indicators

| | 2012 | 2013 (1) | 2014 (2) | 2015 (2) | 2016 (2) |
|---|---|---|---|---|---|
| **GROWTH** | | | | | |
| GDP (Billion TL, Current Prices) | 1.416 | 1.559 | 1.719 | 1.895 | 2.095 |
| GDP (Billion Dollars, Current Prices) | 786 | 823 | 867 | 928 | 996 |
| GDP Per Capita (Dollars) | 10.497 | 10.818 | 11.277 | 11.927 | 12.670 |
| GDP Growth (3) | 2,2 | 3,6 | 4,0 | 5,0 | 5,0 |
| Total Consumption (3) | 0,2 | 4,3 | 3,2 | 3,8 | 3,6 |
| Public | 6,4 | 7,8 | 3,0 | 3,3 | 4,2 |
| Private | -0,5 | 3,8 | 3,2 | 3,8 | 3,5 |
| Total Fixed Capital Investment (3) | -2,2 | 3,1 | 3,6 | 8,6 | 8,1 |
| Public | 10,5 | 19,5 | -3,5 | 9,9 | 3,9 |
| Private | -4,8 | -0,8 | 5,7 | 8,2 | 9,2 |
| Total Domestic Savings / GDP | 14,5 | 12,6 | 13,8 | 14,9 | 16,0 |
| Public | 2,9 | 2,9 | 2,4 | 3,0 | 3,4 |
| Private | 11,6 | 9,7 | 11,4 | 11,9 | 12,7 |
| Total Final Domestic Demand (3) | -0,4 | 4,0 | 3,3 | 5,0 | 4,7 |
| Total Domestic Demand (3) | -1,8 | 5,1 | 3,2 | 5,0 | 4,8 |
| **EMPLOYMENT** | | | | | |
| Population (Midyear, Thousands) | 74.855 | 76.055 | 76.911 | 77.770 | 78.632 |
| Labor Force Participation Rate (%) | 50,0 | 51,0 | 51,3 | 51,6 | 51,9 |
| Employment (Thousands) | 24.821 | 25.692 | 26.257 | 26.901 | 27.525 |
| Employment Rate (%) | 45,4 | 46,2 | 46,5 | 46,9 | 47,3 |
| Unemployment Rate (%) | 9,2 | 9,5 | 9,4 | 9,2 | 8,9 |
| **FOREIGN TRADE** | | | | | |
| Exports (fob) (Billion Dollars) | 152,5 | 153,5 | 166,5 | 184,0 | 202,5 |
| Imports (cif) (Billion Dollars) | 236,5 | 251,5 | 262,0 | 282,0 | 305,0 |
| Crude Oil Price-Brent (Dollars / Barrel) | 112,0 | 108,8 | 103,2 | 97,6 | 93,1 |
| Energy Imports (Billion Dollars) | 60,1 | 59,0 | 61,0 | 62,0 | 64,5 |
| Foreign Trade Balance (Billion Dollars) | -84,1 | -98,0 | -95,5 | -98,0 | -102,5 |
| Exports / Imports (%) | 64,5 | 61,0 | 63,5 | 65,2 | 66,4 |
| Foreign Trade Volume / GDP (%) | 49,5 | 49,2 | 49,4 | 50,2 | 50,9 |
| Tourism Revenues (Billion Dollars) (4) | 25,7 | 29,0 | 31,0 | 32,0 | 34,5 |
| Current Account Balance (Billion Dollars) | -47,8 | -58,8 | -55,5 | -55,0 | -55,0 |
| Current Account Balance / GDP (%) | -6,1 | -7,1 | -6,4 | -5,9 | -5,5 |
| Current Account Balance Excl. Gold / GDP (%) | -6,8 | -6,1 | -6,1 | -5,6 | -5,2 |
| **INFLATION** | | | | | |
| GDP Deflator | 6,8 | 6,3 | 6,0 | 5,0 | 5,3 |
| Consumer Prices Index (End of Year, % Change) | 6,2 | 6,8 | 5,3 | 5,0 | 5,0 |

Note: Sum of numbers may not be accurate due to rounding.
(1) Estimation (2) Programme (3) Percentage changes in fixed prices. (4) As shown in balance of payments

# Annex Table 2: Public Sector General Balance (1)

| | | | MTP | | |
|---|---|---|---|---|---|
| | 2012 | 2013 (2) | 2014 | 2015 | 2016 |
| | (In Billions of TL) | | | | |
| **Public Sector General Balance (PSGB)** | **-14.0** | **-12.9** | **-17.9** | **-14.8** | **-10.5** |
| **General Government** | **-14.7** | **-15.9** | **-19.5** | **-15.5** | **-10.6** |
| Central Government Budget | -29.4 | -19.4 | -33.2 | -29.5 | -23.0 |
| Local Governments | 0.1 | -2.0 | 0.8 | -0.2 | -3.4 |
| Extra Budgetary Funds | 6.5 | -4.3 | 2.4 | 2.4 | 2.7 |
| Unemployment Insurance Fund | 7.6 | 8.5 | 9.6 | 10.8 | 11.9 |
| Social Security Institutions | -0.1 | -6.0 | -6.7 | -10.1 | -13.6 |
| General Health Insurance | 0.0 | 6.0 | 6.7 | 10.1 | 13.6 |
| Revolving Funds | 0.6 | 1.4 | 0.9 | 1.0 | 1.2 |
| **SEE's** | **0.7** | **3.0** | **1.6** | **0.7** | **0.1** |
| **Public Sector Primary Balance** | **36.3** | **39.7** | **36.4** | **40.7** | **43.3** |
| **PSGB Exc. Interest Exp. and Privatization Rev.** | **29.9** | **30.1** | **26.7** | **33.2** | **39.3** |
| | (As of GDP, %) | | | | |
| **Public Sector General Balance (PSGB)** | **-1.0** | **-0.8** | **-1.0** | **-0.8** | **-0.5** |
| **General Government** | **-1.0** | **-1.0** | **-1.1** | **-0.8** | **-0.5** |
| Central Government Budget | -2.1 | -1.2 | -1.9 | -1.6 | -1.1 |
| Local Governments | 0.0 | -0.1 | 0.0 | 0.0 | -0.2 |
| Extra Budgetary Funds | 0.5 | -0.3 | 0.1 | 0.1 | 0.1 |
| Unemployment Insurance Fund | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 |
| Social Security Institutions | 0.0 | -0.4 | -0.4 | -0.5 | -0.6 |
| General Health Insurance | 0.0 | 0.4 | 0.4 | 0.5 | 0.6 |
| Revolving Funds | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| **SEE's** | **0.1** | **0.2** | **0.1** | **0.0** | **0.0** |
| **Public Sector Primary Balance** | **2.6** | **2.5** | **2.1** | **2.1** | **2.1** |
| **PSGB Exc. Interest Exp. and Privatization Rev** | **2.1** | **1.9** | **1.6** | **1.8** | **1.9** |

(1) Public sector includes; central government budget, local governments, unemployment insurance fund, social security institutions, SEE's, revolving funds, extra-budgetary funds and general health insurance scheme.

(2) Realization estimate

# Annex Table 3: Public Sector General Balance (Program Definition) (1)

| | 2012 | 2013 (2) | MTP 2014 | MTP 2015 | MTP 2016 |
|---|---|---|---|---|---|
| | (In Billions of TL) | | | | |
| **Public Sector** | **10.8** | **14.6** | **16.5** | **22.1** | **27.3** |
| **General Government** | **10.4** | **11.7** | **15.0** | **21.4** | **27.2** |
| Central Government Budget | 3.8 | 13.3 | 8.7 | 15.2 | 20.7 |
| Local Governments | 1.0 | -2.9 | -0.7 | -1.5 | -2.0 |
| Extra Budgetary Funds | 1.6 | -3.8 | 2.1 | 2.4 | 2.6 |
| Unemployment Insurance Fund | 3.7 | 3.9 | 4.1 | 4.6 | 4.8 |
| Social Security Institutions | -0.1 | -6.0 | -6.7 | -10.1 | -13.6 |
| General Health Insurance | 0.0 | 6.0 | 6.7 | 10.1 | 13.6 |
| Revolving Funds | 0.3 | 1.2 | 0.6 | 0.8 | 1.0 |
| **SEE's** | **0.4** | **2.9** | **1.5** | **0.8** | **0.2** |
| | (As of GDP, %) | | | | |
| **Public Sector** | **0.8** | **0.9** | **1.0** | **1.2** | **1.3** |
| **General Government** | **0.7** | **0.8** | **0.9** | **1.1** | **1.3** |
| Central Government Budget | 0.3 | 0.9 | 0.5 | 0.8 | 1.0 |
| Local Governments | 0.1 | -0.2 | 0.0 | -0.1 | -0.1 |
| Extra Budgetary Funds | 0.1 | -0.2 | 0.1 | 0.1 | 0.1 |
| Unemployment Insurance Fund | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| Social Security Institutions | 0.0 | -0.4 | -0.4 | -0.5 | -0.6 |
| General Health Insurance | 0.0 | 0.4 | 0.4 | 0.5 | 0.6 |
| Revolving Funds | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| **SEE's** | **0.0** | **0.2** | **0.1** | **0.0** | **0.0** |

(1) Excluding interest payments and revenues, privatization revenues, dividends from public banks and some specific revenues and expenditures.
(2) Realization estimate

# Annex Table 4: Other Indicators Corcerning Public Sector

| | 2012 | 2013 (2) | MTP 2014 | MTP 2015 | MTP 2016 |
|---|---|---|---|---|---|
| | (As of GDP, %) | | | | |
| Public Disposable Income | 14.5 | 14.9 | 14.4 | 14.7 | 15.1 |
| Public Consumption | 11.6 | 12.0 | 12.0 | 11.8 | 11.7 |
| Public Saving | 2.9 | 2.9 | 2.4 | 3.0 | 3.4 |
| Public Investment | 4.4 | 4.8 | 4.5 | 4.7 | 4.6 |
| Public Saving-Investment Gap | -1.5 | -1.9 | -2.0 | -1.7 | -1.3 |
| Public Sector Privatization Revenues | 0.5 | 0.6 | 0.6 | 0.4 | 0.2 |
| Tax Burden (Including Social Security Premiums) (1) | 27.4 | 29.0 | 28.6 | 28.6 | 28.3 |
| Tax Burden (Excluding Social Security Premiums) (1) | 20.2 | 21.4 | 20.9 | 20.8 | 20.6 |
| EU Defined General Government Debt Stock | 36.2 | 35.0 | 33.0 | 31.0 | 30.0 |

(1) Excluding rebates
(2) Realization estimate

# Annex Table 5: General Government Balance (1)

| | 2012 | 2013 (2) | MTP 2014 | MTP 2015 | MTP 2016 |
|---|---|---|---|---|---|
| | | (In Billions of TL) | | | |
| **Revenues** | **535.8** | **619.5** | **660.3** | **722.6** | **789.3** |
| Taxes | 285.7 | 333.7 | 358.6 | 394.3 | 430.1 |
| Non-Tax Revenues | 30.2 | 29.7 | 30.7 | 34.6 | 40.9 |
| Factor Income | 80.9 | 89.5 | 86.7 | 93.1 | 101.2 |
| Social Funds | 132.6 | 157.0 | 174.6 | 193.0 | 213.1 |
| Privatization Revenues | 6.4 | 9.7 | 9.7 | 7.6 | 4.0 |
| **Expenditures** | **550.5** | **635.4** | **679.8** | **738.1** | **799.9** |
| Current Expenditures | 247.8 | 283.8 | 310.6 | 334.1 | 363.8 |
| Capital Expenditures | 49.8 | 62.3 | 62.5 | 72.4 | 79.1 |
| Transfer Expenditures | 252.9 | 289.2 | 306.8 | 331.6 | 357.0 |
| Stock Revaluation Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **General Government Balance** | **-14.7** | **-15.9** | **-19.5** | **-15.5** | **-10.6** |
| **Interest Expenditure** | **50.0** | **52.3** | **53.9** | **55.1** | **53.3** |
| **Primary Balance** | **35.2** | **36.4** | **34.4** | **39.5** | **42.7** |
| **Balance Excluding Privatization Revenues** | **-21.1** | **-25.5** | **-29.2** | **-23.1** | **-14.6** |
| **Balance Excluding Pri. Rev. and Int. Exp.** | **28.8** | **26.7** | **24.7** | **32.0** | **38.7** |
| | | (As of GDP, %) | | | |
| **Revenues** | **37.8** | **39.7** | **38.4** | **38.1** | **37.7** |
| Taxes | 20.2 | 21.4 | 20.9 | 20.8 | 20.5 |
| Non-Tax Revenues | 2.1 | 1.9 | 1.8 | 1.8 | 2.0 |
| Factor Income | 5.7 | 5.7 | 5.0 | 4.9 | 4.8 |
| Social Funds | 9.4 | 10.1 | 10.2 | 10.2 | 10.2 |
| Privatization Revenues | 0.5 | 0.6 | 0.6 | 0.4 | 0.2 |
| **Expenditures** | **38.9** | **40.8** | **39.6** | **39.0** | **38.2** |
| Current Expenditures | 17.5 | 18.2 | 18.1 | 17.6 | 17.4 |
| Capital Expenditures | 3.5 | 4.0 | 3.6 | 3.8 | 3.8 |
| Transfer Expenditures | 17.9 | 18.5 | 17.8 | 17.5 | 17.0 |
| Stock Revaluation Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **General Government Balance** | **-1.0** | **-1.0** | **-1.1** | **-0.8** | **-0.5** |
| **Interest Expenditure** | **3.5** | **3.4** | **3.1** | **2.9** | **2.5** |
| **Primary Balance** | **2.5** | **2.3** | **2.0** | **2.1** | **2.0** |
| **Balance Excluding Privatization Revenues** | **-1.5** | **-1.6** | **-1.7** | **-1.2** | **-0.7** |
| **Balance Excluding Pri. Rev. and Int. Exp.** | **2.0** | **1.7** | **1.4** | **1.7** | **1.8** |

(1) General government includes central government budget, local governments, unemployment insurance fund, social security institutions, revolving funds, extra-budgetary funds and general health insurance scheme.
(2) Realization estimate

# Annex Table 6: Central Government Budget

| | 2012 | 2013 (1) | MTP 2014 | MTP 2015 | MTP 2016 |
|---|---|---|---|---|---|
| (In Billions of TL) | | | | | |
| **Expenditures** | **361.9** | **406.6** | **436.3** | **465.7** | **496.7** |
| Primary Expenditures | 313.5 | 356.1 | 384.3 | 412.7 | 445.7 |
| Interest Expenditures | 48.4 | 50.5 | 52.0 | 53.0 | 51.0 |
| **Revenues** | **332.5** | **387.2** | **403.2** | **436.2** | **473.7** |
| General Budget Tax Revenues | 278.8 | 325.1 | 348.4 | 379.0 | 413.3 |
| Other Revenues | 53.7 | 62.0 | 54.8 | 57.2 | 60.4 |
| **Budget Balance** | **-29.4** | **-19.4** | **-33.2** | **-29.5** | **-23.0** |
| **Primary Balance** | **19.0** | **31.1** | **18.8** | **23.5** | **28.0** |
| **Program Defined Expenditures** | **313.5** | **356.1** | **384.3** | **412.6** | **445.6** |
| **Program Defined Revenues** | **317.3** | **369.3** | **393.0** | **427.9** | **466.3** |
| **Program Defined Balance** | **3.8** | **13.3** | **8.7** | **15.2** | **20.7** |
| (As of GDP, %) | | | | | |
| **Expenditures** | **25.6** | **26.1** | **25.4** | **24.6** | **23.7** |
| Primary Expenditures | 22.1 | 22.8 | 22.4 | 21.8 | 21.3 |
| Interest Expenditures | 3.4 | 3.2 | 3.0 | 2.8 | 2.4 |
| **Revenues** | **23.5** | **24.8** | **23.5** | **23.0** | **22.6** |
| General Budget Tax Revenues | 19.7 | 20.9 | 20.3 | 20.0 | 19.7 |
| Other Revenues | 3.8 | 4.0 | 3.2 | 3.0 | 2.9 |
| **Budget Balance** | **-2.1** | **-1.2** | **-1.9** | **-1.6** | **-1.1** |
| **Primary Balance** | **1.3** | **2.0** | **1.1** | **1.2** | **1.3** |
| **Program Defined Expenditures** | **22.1** | **22.8** | **22.4** | **21.8** | **21.3** |
| **Program Defined Revenues** | **22.4** | **23.7** | **22.9** | **22.6** | **22.3** |
| **Program Defined Balance** | **0.3** | **0.9** | **0.5** | **0.8** | **1.0** |

(1) Realization estimate